

164. Business support services (BSS) include training, consultancy and advisory services, marketing assistance, research, technology development and transfer, and business linkage promotion. BSS are designed to help enterprises reduce costs, improve efficiency, access new markets, increase sales, enhance productivity and grow. As detailed in section B 1 above, the BSS market in Viet Nam is largely underdeveloped, representing an estimated 1-2 percent¹³⁸ of GDP.

165. The underdevelopment of the sector is due to limitations in both supply and demand. On the supply side, there are only a small number of private BSS providers, and the SOEs that dominate the market lack are largely subsidized by the government and have few incentives to develop their market. Even the more active business associations lack the resources to provide value-added services to their members. On the demand side, the general perception among the SME community is that available BSS are expensive and of limited added value. Moreover, SMEs tend to consider BSS services as more tailored to the needs of large enterprises than the specific challenges of SMEs. Purchasers of BSS are predominantly SOEs and FIEs in the manufacturing sectors.

166. The development of the BSS market is also constrained by an incomplete legal and regulatory framework. Firms have difficulty deducting BSS expenses from taxable income, consultants cannot offer services without operating within a consulting firm, and legal contracts are difficult to enforce. As business standards are raised throughout the country (e.g. technology, disclosure), and competition intensifies with accession to the WTO, the demand for BSS is expected to grow. Addressing the legal and regulatory constraints to the development of the market will be essential to providing Viet Namese companies with higher-quality BSS. In tandem with these reforms, the SOEs operating in the sector should be corporatized and placed on more equal competitive footing with private providers, this will facilitate the emergence of more efficient BSS providers thereby lowering costs to the consumer.

IV. OTHER AID AGENCIES' ACTIVITIES IN SUPPORT OF PRIVATE SECTOR

167. A large number of aid agencies and NGOs are active in promoting private sector development in Viet Nam. A recent study conducted by the Mekong Private Sector Development Facility¹³⁹ found that 58 projects are in progress and/or recently completed, with a total funding commitment of nearly US\$840 million over a ten-year period of 2001-2010. Out of these, 26 (45%) were new projects that were launched in 2004 and 2005. In this study, PSD activities are defined as those that fall into three categories:

(i) *Business Enabling Environment (BEE)*: legal/regulatory environment, government capacity, and business culture/entrepreneurship

(ii) *Access to Finance (ATF)*: short/medium/long-term credit, microfinance, equity finance, and other non-banking financial services such as leasing, guarantees, insurance, etc.

(iii) *Business Development Services (BDS)*: business services (legal, accounting, finance, marketing, IT, etc.), consulting, training, business linkages (clusters, associations, incubators, and other types of groupings to achieve economies of scale), information on domestic market, information on foreign markets (trade promotion), and technology transfer.

The following paragraphs summarize the main findings of the report, to which is added a short profile of work being conducted in two critical related areas: (i) Judicial reform and (ii) SOE

¹³⁸ CIEM, Vision and Associates Ltd, and Deacons Viet Nam. 2003.

¹³⁹ Nhu-An Tran, "Private Sector Development in Viet Nam: An Analysis of Potential Gaps and Conflicts in Donor Interventions" MPDF, May 2005

reform¹⁴⁰. A complete listing of the projects underway is included in Appendix III.

A. Projects by Technical Area

168. In general, donors are taking an increasingly integrated approach to private sector development support, with more emphasis on addressing shortcomings in the legal and regulatory frameworks than was true in the past, and a broader view of financial sector development, including the role of non-banking financial services for SMEs. Specific gaps by technical area include:

- *BEE: Business Culture/Entrepreneurship.* Most of the current projects focus on assisting provincial authorities with the implementation of appropriate policies and regulations for the private sector. However, none of these projects focus on: (a) sensitizing the private sector on the importance of legal compliance; and, (b) helping the private sector meet the requirements of these regulations.
- *ATF: Non-bank financial services.* Several donors are investing in leasing companies geared towards SMEs. However, ADB, through a loan co-finance with AFD and KfW, is the only one working to improve the legal and regulatory environment to facilitate the growth of the leasing sector and to develop other non-financial instruments.
- *BDS: Information on domestic market.* Current projects in this technical area seem to focus more on export-oriented businesses, rather than enterprises interested in serving the domestic market. In the coming years, as donors increase their presence in the provinces, the provision of domestic market information is expected to play a greater role.
- *Judicial Reform:* Current projects are focused on increasing the transparency of the courts, building the capacity of the Ministry of Justice to draft Laws, and supporting the development of a civil judgment enforcement code; no projects currently have the resources or scope to provide training to key enforcement institutions at the national or provincial level
- *SOE Reform:* an estimated \$35 million has been allocated to projects in support of SOE corporatization, equitization, corporate governance reform and in developing enhanced systems for SOE management. Ongoing programs focus on case-by-case restructuring of SOEs and support to the Debt Asset trading Company and State Capital Investment Corporation, but little support is available for implementation of corporate governance reforms, in particular those that impose hard budget constraints on SOEs and impose more transparency regarding government interventions in their activities.

169. Specific overlaps or conflicts by technical area include:

- *Credit Lines.* There are eight credit lines being supported by 7 donors amounting to a total of US\$337 million. Of these credit lines, 5 are for rural enterprise finance and the other 3 are for SME finance, with 4 of the rural finance credit lines being channeled through one bank, VBARD. Greater donor coordination on these financing schemes might result in a more uniform approach and potentially wider coverage.
- *Support Center for SMEs.* Several donors are establishing government-run support centers for SMEs at the national and provincial level. Collaboration between donors and ASMED

¹⁴⁰ These are not included in the 58 project count cited above

would minimize the danger that government-supported SME centers compete directly with private providers, or undercut the existing market by providing subsidized services.

B. Projects by Location

170. Donors are starting to fund more PSD activities at the provincial level, focusing particularly on assisting local authorities with the implementation of laws and regulations enacted at the national level. While the majority of projects (69%) are still concentrated in the major urban areas, there does not seem to be any glaring gap when it comes to project locations, although mountainous and more remote regions such as the North West, the Central Highlands, and the South East, comprise less than 10% of all projects.

C. Projects by Beneficiaries

171. SMEs are the focus of 50% of donor PSD activities. Half of the projects inventoried also include a capacity building component for government agencies. Rural non-farm SMEs have not received focused donor support in the same way that urban SMEs have in the past. Household enterprises and those in the semi-formal/informal sector have also been overlooked as beneficiaries. Most credit lines are being channeled to only a handful of financial institutions, most of whom are state-owned or government affiliated. This concentration of resources has the potential to reinforce the existing government dominance in the banking sector and crowd out private players.

D. Projects by Sector

172. Of the 58 PSD projects inventoried in this study (not including Judicial and SOE reform projects), only a quarter target a specific sector or economic activity. Conversely, 80% of sector-specific projects are focused on export-oriented businesses and activities. Even within the services industry, interventions in the tourism, hotels and restaurant sector are focused more towards the external market, rather than the domestic market. Three sectors were mentioned by donors as potential areas for further support:

- *Services.* The field of Information and Communications Technology (ICT) is one area that has a lot of potential and the tourism industry could also use additional support.
- *Agriculture.* Assistance in growing quality rice is another gap that was mentioned by donors during interviews.
- *Manufacturing.* The manufacturing of furniture is a growing industry and could benefit from additional donor inputs.

173. The above review shows that there is a significant – though not always systematic – presence of external assistance sources in the area of PSD. Policy dialogue on wide-ranging PSD issues has mainly been supported by multilateral agencies (World Bank, IMF, ADB), USAID (under the STAR project) and most recently by Japan under the New Miyazawa initiative. Funds for long term credit have been provided on a fairly large scale, but perhaps without enough attention to diversification of channels and mechanisms. There is a rich variety of initiatives in the areas of microcredit, business services, training in small business management and entrepreneurial development, but the results have not been systematized into an approach replicable on a large scale.

V. SUMMARY OF THE ANALYSIS AND IMPLICATIONS FOR ADB STRATEGY

174. The principal findings of this private sector assessment can be summarized as follows: