



Progress Report on Tranche Release

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Socialist Republic of Viet Nam: Subprogram II of the
Small and Medium Enterprise Development Program
Cluster

CURRENCY EQUIVALENTS

(as of 7 January 2009)

Currency Unit	–	dong (D)
D1.00	=	\$0.00005727
\$1.00	=	VND17,460

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
ASMED	–	Agency for SME Development
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
FDI	–	foreign direct investment
GDP	–	gross domestic product
GSO	–	General Statistical Office
KfW	–	Kreditanstalt für Wiederaufbau Entwicklungsbank
MONRE	–	Ministry of Natural Resources and Environment
MOF	–	Ministry of Finance
MOJ	–	Ministry of Justice
MOST	–	Ministry of Science and Technology
MPI	–	Ministry of Planning and Investment
MPS	–	Ministry of Public Security
NBIN	–	National Business Information Network
NEL	–	New Enterprise Law
NRAST	–	National Registration Authority for Secured Transactions
SBV	–	State Bank of Vietnam
SDPL	–	SME Development Program Loan
SEDP	–	Socio-Economic Development Plan
SMEs	–	small and medium-sized enterprises
SMED	–	SME development
SMEDP	–	Five Year SME Development Plan 2006–2010
STAMEQ	–	Directorate for Standards and Quality
TA	–	technical assistance
VLAP	–	Viet Nam land administration project

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. There is consensus among the Government of Viet Nam, the Asian Development Bank (ADB), and other development partners on the need to support the development of small and medium-sized enterprises (SMEs) to sustain economic growth and progressively reduce the incidence of poverty in Viet Nam. SME support programs are increasingly emphasizing the creation of an enabling business environment. To foster an enabling business environment in Viet Nam, the ADB Board of Directors approved the SME Development Program Loan (SDPL) cluster concept, and subprogram I¹ of the SDPL, on 21 October 2004. The SDPL cluster was ADB's first policy loan in Viet Nam specifically designed to focus on the SME sector as a key means of poverty reduction. The main objective of the SDPL is to support the Government's efforts to create an environment that is conducive to economic growth and employment generation via development of SMEs.

2. To continue the reforms initiated in subprogram I, the ADB Board of Directors approved subprogram II² on 12 December 2006. The objective of SDPL subprogram II is to support the Government's efforts to: (i) improve the current business registration and licensing systems; (ii) establish the Government's policy and institutional framework for SME development; (iii) enhance access by SMEs to financial and physical resources; and (iv) enhance access by SMEs to international markets.

3. SDPL subprogram II comprises a loan of SDR13,533,000 to be drawn from the Asian Development Fund and cofinanced by Agence Française de Développement (AFD) of France for €13 million and by Kreditanstalt für Wiederaufbau Entwicklungsbank (KfW) of Germany for €6 million. The AFD and KfW cofinancing are disbursed with the ADB disbursement and according to the same schedule and conditions. The loan was declared effective on 5 June 2007, with funds to be released in a single tranche upon the completion of all policy conditions. The Ministry of Planning and Investment (MPI) is the executing agency for subprogram II; the implementing agencies are the Ministry of Natural Resources and Environment (MONRE), Ministry of Finance (MOF), Ministry of Justice (MOJ), Ministry of Science and Technology (MOST), and State Bank of Vietnam (SBV).

4. ADB technical assistance (TA)³ for Preparing the Small and Medium-Sized Enterprise Development Program—Subprogram II is designed to support the Government's SMEs development program through the effective design and implementation of SDPL subprogram II. The TA was therefore implemented in two phases. The first phase involved a diagnostic assessment of the progress made under subprogram I, including the identification of major challenges and the most effective policies. The second phase focused on implementation of subprogram II, which is supported through the provision of (i) technical support, (ii) capacity-building activities, and (iii) support for consensus building, including donor agency coordination. In addition, KfW also provided additional TA to the State Bank of Vietnam (SBV) on the securitization of leasing receivables. The AFD also supported MOST with TA to develop a plan

¹ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan to the Socialist Republic of Viet Nam for the Subprogram I of the Small and Medium Enterprise Development Program Cluster*. Manila.

² ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan to the Socialist Republic of Viet Nam for the Subprogram II of the Small and Medium Enterprise Development Program Cluster and Progress of Subprogram I*. Manila.

³ ADB. 2006. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Small and Medium Size Enterprise Program (Subprogram II)*. Manila (TA 4781-VIE).

to separate the administrative and commercial activities of the Directorate for Standards and Quality (STAMEQ).

5. Progress in meeting the tranche release conditions under SDPL subprogram II has been reviewed in detail in October 2007, November 2007, February 2008, and again in May 2008. Appendix 1 contains an overview of compliance with all 18 tranche release conditions, justifying the release of SDR 13,533,000 equivalent.

II. MACROECONOMIC AND SME SECTOR ISSUES AND DEVELOPMENTS

A. Macroeconomic Development

6. Viet Nam's accession to the World Trade Organization in 2007 and a surge of new foreign direct investment (FDI) and portfolio inflows highlight impressive economic reforms, particularly in trade and investment liberalization. These reforms have led to very strong economic performance: annual growth averaged 7.8% during 2002–2006, while the real gross domestic product (GDP) grew by 8.5% in 2007, the highest rate since 1996. On the supply side, the strong real GDP growth was driven by rapid expansion of industry, construction, and services. High demand-side growth was supported by private consumption, investment and exports. However, there were increasing signs that the economy was overheating, threatening sustained economic growth over the medium term. The current account deficit widened from 0.4% of GDP in 2006 to 9.6% in 2007, driven by a surge in imports of capital and intermediate goods. The current account deficit was financed by strong inflows of foreign capital, including FDI and official development assistance.

7. Surging inflation has been a major concern since early 2008, but it is expected to ease quickly. Inflation accelerated rapidly to over 25% in mid-2008, after remaining below 10% in recent years. Factors contributing to the increase in inflation included (i) on the supply side, a rise in world prices of food products and many other commodities, domestic supply disruptions as a result of an unusually cold winter in the northern provinces, floods in central provinces, and outbreaks of cattle and poultry diseases; and (ii) on the demand side, a rapid expansion of credit by the banking system, an expansionary fiscal policy, including investments by state-owned enterprises, and a surge in FDI.

8. The Government has recognized these challenges and has implemented a stabilization package to correct economic imbalances. The policy package included the following elements.

- The SBV mopped up the excess liquidity with the sale of D20.3 trillion in compulsory bonds. It also increased the reserve requirement for banks from 10% to 12%, and raised the prime interest rate from 8.75% to 14% in early June. Credit growth throughout the banking system was capped at 30%. The daily trading band for the dong was widened from $\pm 0.75\%$ to $\pm 2\%$ to allow greater scope for monetary policy.
- The Government postponed non-priority spending, required state agencies to reduce recurrent expenditures by 10%, and urged ministries, provinces and SOEs to improve the efficiency of their spending.
- Administered prices were frozen and new contracts for exports of rice were suspended. However, the suspension of new rice contracts was reversed following a bumper harvest and fuel prices were adjusted in July.

Viet Nam: Country Economic Indicators
(as of 8 January 2009)

Item	2003	2004	2005	2006	2007	2008
A. Income and Growth						
1. GDP per capita (\$, current)	489.9	553.0	637.5	722.7	818.1	1052.7
2. GDP Growth (% , in constant prices)	7.3	7.8	8.4	8.2	8.5	6.2
a. Agriculture	3.6	4.4	4.0	3.4	3.4	3.8
b. Industry	10.5	10.2	10.7	10.4	10.6	6.3
c. Services	6.5	7.3	8.5	8.3	8.7	7.2
B. Saving and Investment (current market prices, % of GDP)						
1. Gross Domestic Investment	35.4	35.5	35.6	36.8	41.7	—
2. Gross National Saving	30.5	32.0	34.5	36.4	32.1	—
C. Money and Inflation (annual % change)						
1. Consumer Price Index (previous year=100)	3.1	7.8	8.3	7.5	8.3	23.0
2. Total Liquidity (M2)	24.9	29.5	29.7	33.6	46.1	11.2 ^a
D. Government Finance (% of GDP)						
1. Revenue and Grants	25.8	27.8	28.4	29.7	27.6	30.7 ^b
2. Expenditure and Onlending	30.8	29.1	32.1	30.9	33.1	30.0 ^b
3. Overall Fiscal Surplus (Deficit)	(5.0)	(1.3)	(3.6)	(1.2)	(5.5)	0.3 ^b
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	(6.5)	(5.0)	(4.4)	(5.1)	(14.6)	(14.7) ^c
2. Current Account Balance (% of GDP)	(4.9)	(3.5)	(1.1)	(0.4)	(9.6)	(9.0) ^c
3. Merchandise Export Growth (% change)	20.6	31.5	22.5	22.7	21.9	29.5
4. Merchandise Import Growth (% change) ^d	28.0	26.6	21.3	22.1	38.3	28.3
F. External Payments Indicators						
1. Gross Official Reserves (including gold, end of period)						
a. In \$ billion	5.6	6.3	8.6	11.5	21.0	23.0 ^c
b. In weeks of current year's merchandise imports	12.9	11.4	12.8	14.0	18.5	15.7 ^c
2. External Debt Service (% of exports of goods and services)						
3. Total External Debt (% of GDP)	34.4	33.5	31.8	30.2	33.4	—
G. Memorandum Items						
1. GDP (current prices, VND trillions)	613.4	715.3	839.2	973.8	1143.4	1478.7
2. Exchange Rate (VND/\$, average)	15,479	15,704	15,818	15,965	16,127	16,314
3. Population (million)	80.9	82.0	83.1	84.2	85.6	86.1

— = not available, ADB = Asian Development Bank, GDP = Gross Domestic Product, IMF = International Monetary Fund, VND = Viet Nam Dong.

^a Annualized rate for January-September 2008

^b For January-September 2008

^c ADB staff estimate

^d On the cost-insurance-fright basis

Source: Government of Viet Nam, IMF, and ADB staff estimates.

9. The stabilization policies have delivered the desired effects. Inflation peaked at 28.3% year-on-year in August 2008 and eased to 19.9% year-on-year in December 2008. Credit growth in the first 10 months eased to 19%, compared with 30% in 2007. Economic growth remains resilient. After weakening from 7.5% in the first quarter (Q1) to 5.8% in Q2, economic growth rebounded to 6.5% year-on-year in Q3, because of a stronger performance by the agriculture and industry sectors. The current account deficit narrowed significantly in the second half of 2008 and is projected to have declined to about 9% of GDP at the end of the year.

10. The global financial crisis has generated new policy challenges for the Government. After monetary policy tightening to reduce inflationary pressures, the Government now faces the prospect of an economic slowdown. Responding to the global financial crisis and the domestic liquidity situation, the SBV reduced the prime lending rate from 14% to 13% in October and then to 12% in early November. The compulsory reserve ratios to deposits dropped by 1% in dong and 2% in US dollars. In addition, the daily trading band for the US dollar–dong exchange rate widened to $\pm 3\%$ against the interbank rate to add more flexibility to the dong rate. Commercial banks have responded to these policies by reducing their deposit and lending rates by 2-3%.

11. Over the medium term, Viet Nam will need to maintain high growth while keeping inflation under control. To this end, the Government needs to strengthen the institutional capacity for macroeconomic policy management, improve prudential regulation and supervision of the banking system, and manage continued strong inflows of foreign capital. Market-oriented reforms should continue at a consistent pace, including privatization of state-owned enterprises and commercial banks. In addition, future growth will require an greater supply of skilled labor, removal of infrastructure bottlenecks, and more efficient public investment. With the Government's strong commitment to sound economic management and reform, Viet Nam has good prospects for sustained growth and poverty reduction in the medium term.

12. Notwithstanding the short-term challenges, Viet Nam's medium- and long-term economic prospects are sound. Despite the adverse internal and external economic developments in recent months, FDI inflows are expected to remain strong and economic growth is likely to rebound after a moderate, short-term slowdown.

B. Government's Development Strategy

13. The Government's development goals and poverty reduction strategy are articulated in the Socioeconomic Development Plan 2006–2010 (SEDP), sectoral strategies, and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The SEDP envisions Viet Nam as "an industrialized country by 2020", moving out of a low income country status, and increasing average GDP per capita from about \$622 in 2005 to \$1,050–\$1,100 by 2010. The SEDP is also Viet Nam's national poverty reduction strategy. The SEDP views business development, increased private investment, and increased international economic integration as crucial to providing the jobs and resources needed to reduce poverty and improve living standards.

14. In October 2006 the Prime Minister signed Decision no. 236, approving the Five Year SME Development Plan 2006–2010 (SMEDP), which is integrated with the SEDP. The SMEDP presents a vision, principles, and specific targets for SME development. The Government realizes that SME sustainable development requires a consistent policy framework, supported by a sound policy, legal and institutional environment. The main objectives of the SMEDP include boosting SME development (SMED), creating an environment for healthy competition to enable SMEs to contribute more to national economic growth, and to strengthen national

competitiveness. More specific objectives of the SMEDP include (i) increasing the number of SME establishment by 22% per year; (ii) increasing the number of newly established SMEs in disadvantaged provinces by 15% by 2010; (iii) increasing direct exports by SMEs to 3%–6% annually; and (iv) creating 2.7 million new jobs during 2006–2010 through SMEs.

15. The Government's SME development objectives articulated in the SMEDP and SMED fit well with ADB priorities. Subprogram II will support the Government's efforts to: (i) improve current business registration and licensing systems; (ii) establish the Government's policy and institutional framework for SME development; and (iii) enhance access by SMEs to financial and physical resources, and international markets.

C. Sector Description and Analysis

16. In Viet Nam, the current SME Decree defines SMEs as businesses and production establishments that have: (i) a registered capital of VND10 billion (about \$625,000) or less; or (ii) an annual average of 300 or fewer permanent employees. According to the latest available data (December 2006) from the General Statistical Office (GSO), there were 131,332 formal and operational enterprises in Viet Nam, up from 51,680 at the end of 2001. Since the Enterprise Law was promulgated in 2000, the number of formal enterprises operating in Viet Nam has been growing by around 19% per year. Based on ownership, less than 3% of registered companies were state-owned enterprises, and slightly over 3% were foreign-invested enterprises; the majority of enterprises (94%) were privately-owned domestic firms.

17. SMEs dominate the corporate landscape of Viet Nam. At the end of 2006, about 97% of operational enterprises had 300 or fewer employees; 87.1% had capital of less than VND10 billion, and could therefore be defined as SMEs. About 57% of formal enterprises in Viet Nam were small (with less than 10 employees), while less than 1% of enterprises had more than 1,000 employees, and just 8.8% had registered capital in excess of VND10 billion.

18. The SME sector has gained increasing recognition for its contribution to Viet Nam's economic development, most notably in terms of job creation, in a country where more than 1.5 million young people join the labor force each year. Many companies, including SMEs, tend to pursue diverse business activities, and will typically provide a long list of potential activities on their business registration form, making it difficult to provide a meaningful breakdown of SMEs by business sector. However, it appears that about 40% of all registered companies in Viet Nam are principally focused on trading activity, with some 20% focused on manufacturing. The breakdown of SMEs by sector is broadly similar, with around 46% focused on trading, 22% on manufacturing, and 15% principally involved in construction.

19. Official figures suggest that the average company in Viet Nam is an SME, employing 14 permanent staff, with legal capital of VND7 billion (\$438,000). However, most statistics pertaining to companies in Viet Nam need to be treated with some caution, as (i) business registration figures include companies that do not subsequently become operational, (ii) companies that later close or suspend operations are not recorded, (iii) business registration figures include "shelf" companies that may serve an alternative purpose, and (iv) existing companies are subdivided into multiple smaller companies.

	2004		2005		2006	
		Share (percent)		Share (percent)		Share (percent)
By legal capital:						
Total number of very large firms (>VND200 billion)	1,143.0	1.2	1,399.0	1.2	1,653.0	1.3
Total number of large firms (>D10 billion)	12,336.0	13.4	14,718	13.0	16,992.0	12.9
Total number of SMEs (>D10 billion)	79,420.0	86.6	98,232.0	87.0	114,340.0	87.1
SMEs with less than D1 billion in capital	39,378.0	42.9	47,121.0	41.7	37,716.0	28.7
By employee numbers:						
Total number of very large firms (>1,000 employees)	820.0	0.9	871.0	0.8	945.0	0.7
Total number of large firms (>300 employees)	3,524.0	3.9	3,614.0	3.2	3,732.0	2.8
Total number of SMEs (<300 employees)	88,222.0	96.0	109,336.0	96.8	127,600.0	97.2
SMEs with less than 5 employees	17,977.0	19.6	23,188.0	20.5	16,834.0	12.8
SMEs with 5–9 employees	26,459.0	28.8	34,632.0	30.7	57,980.0	44.1
SMEs with 10–49 employees	32,443.0	35.4	38,957.0	34.5	39,366.0	30.0
SMEs with 50–299 employees	11,343.0	12.4	12,599.0	11.1	13,420.0	10.2
SMEs by Sector (based on employees)						
Trading	35,878.0	45.2	44,453.0	45.3	52,310.0	45.7
Agriculture, Forestry, and Fishery	2,221.0	2.8	2,288.0	2.3	2,262.0	2.0
Manufacturing	18,434.0	23.2	21,840.0	22.2	24,553.0	21.5
Construction	11,668.0	14.7	14,638.0	14.9	17,200.0	15.0

D = Viet Nam Dong, SME = small and medium-sized enterprise.

Source: General Statistical Office.

20. The figures presented in Table 2 suggest that the SME sector in Viet Nam has continued to flourish from 2004 to 2006, broadly in line with trend growth seen since 2000. That said, the broad profile of the SME sector is gradually changing. Based on legal capital criteria, the proportion of small companies with capital of less than VND1 billion (around \$625,000) has declined from 43% in 2004 to 29% in 2006. This suggests that larger SMEs are taking shape, at least at the bottom end of the capital size spectrum. However, the number of large companies with capital over VND10 billion has remained broadly static, at around 13% in the same period, suggesting few SMEs are able (or want) to grow to the point they are no longer SMEs.

21. The employee size criteria provides a similar picture. The proportion of SMEs employing five or fewer employees has declined from 19.6% in 2004 to 12.8% in 2006, while the proportion of SMEs employing between five and nine employees has increased from 28.8% to 44.1%. This may suggest that the smallest SMEs are starting to expand. However, the proportion of SMEs among firms with larger numbers of employees has declined: SMEs account for 30% of enterprises with between 10 and 49 employees, down from 35%, and for 12% of firms with between 50 and 299 employees, down from 12%. Furthermore, the proportion of large firms with over 300 staff declined from 3.9% of all enterprises to 2.8%. Again, these figures suggest that while Viet Nam has been successful in increasing the number of SMEs in aggregate terms, there may be some factors that are cumulatively serving to constrain the development of larger SMEs, and thwarting larger SMEs from growing beyond SME status.

22. Nonetheless, official GSO statistics suggest that Vietnamese enterprises as a whole are gradually becoming more robust, as measured by various performance figures. Between 2004 and 2006: (i) the average legal capital of firms rose from VND24 billion to VND26 billion; (ii) the average fixed assets of firms per employee also rose, from VND129 million to VND216 million;

(iii) average net turnover per employee rose from VND303 million to VND409 million; (iv) average earnings to capital rose from 4.85% to 4.94%; and (v) profits to turnover rose from 5.99% to 6.12%.

III. PROGRAM IMPLEMENTATION

A. Status of Policy Action for Tranche Release of SDPL Subprogram II

23. The Government has demonstrated its commitment to foster an enabling business environment in Viet Nam by carrying out actions in a number of key policy areas in line with the objectives of SDPL subprogram II. The detailed status of implementation of policy conditions is presented in Appendix 1. The Government's successful compliance with all 18 conditions associated with the tranche release under subprogram II is summarized below.

B. Review of Progress in Implementation

1. Improving the Current Business Registration and Licensing Systems

24. The promulgation of the New Enterprise Law (NEL) in November 2005 laid the foundation for fundamental licensing reform in Viet Nam. Article 7 of the NEL, among others, requires that new and existing business licenses be reviewed and evaluated for regulatory merit, and will allow the Government to exercise greater control over the quality and number of license requirements. The NEL also establishes the policy framework for fundamental licensing reform.

25. **Condition 3-1 (complied with).** To ensure continuous monitoring and improvements of the business regulatory systems, condition 3-1 requires that the Task Force on Enterprise Law and Investment Law Enforcement undertake a regulatory review of existing as well as proposed new business licenses, as stated in Articles 7 and 172 of the Enterprise Law, including: (a) publication of all effective business licenses, and (b) stakeholder-initiated regulatory reviews.

26. The Prime Minister's Decision No. 1267/2006/QD-TTg (dated 25 September 2006) established the Task Force on Enterprise Law and Investment Law. The decision stipulates that the taskforce coordinate with all related authorities, Government bodies, the Viet Nam Chamber of Commerce and Industry, and other business associations to review regulations on the business registration certificates and other business licenses. In addition, Decision No. 1073/2006/QD-BKH (dated 17 October 2006) of the minister of MPI (i) specifies the task force's operating procedures for implementing the Unified Enterprise Law and Common Investment Law; and (ii) stipulates that the task force shall use the public media to discuss any problems, issues and constraints in implementing the Enterprise Law and Investment Law, and shall receive proposals and recommendations from all stakeholders. The Task Force will coordinate with the enterprise associations, clubs, organizations and individuals who are interested in reviewing, assessing and proposing amendments and supplements to the regulations regarding investment and business conditions.

27. **Condition 3-2 (substantially complied with).** The lack of a vertically integrated registration organization and supporting information system has fragmented the business registration process. The NEL addresses this weakness by calling for greater information sharing between business registration offices. To support this process, condition 3-2 requires MPI to (i) prepare a detailed plan to implement the feasibility study for expansion of the National Business Information Network (NBIN) to all provincial and district business registration offices;

(ii) pilot the new system and uniform business registration process in at least five provinces; and
 (iii) based on the pilot results, make the necessary regulatory adjustments and roll out the system nationwide.

28. MPI issued Decision No. 679/2007/QD-BKH (dated 29 June 2007) to approve the technical design of NBIN under the MPI State Administration Computerization Project. The implementation scope of project includes pilot implementation of the online registration system in the five central cities of Hanoi, Ho Chi Minh City, Hai Phong, Dang Nang, and Can Tho. Expansion and nationwide rollout of the uniformed business registration process contemplated under NBIN has been incorporated into a more advanced and fully integrated one-stop registration system established under an inter-ministerial circular.⁴ The internet-based one-stop registration system consolidates the application and registration process for obtaining the tax code, business seal and business registration, and is accessible from any provinces or district and from abroad.

29. **Condition 3-3 (complied with).** To support further efforts to simplify the business application process, condition 3-3 requires MPI, in coordination with the MOF and Ministry of Public Security (MPS), to: (i) issue circulars specifying the standard, consolidated application process and form for business registration, tax code, and business seal data; and (ii) implement the consolidated application procedure in all provinces. The inter-ministerial (MPI, MOF, and MPS) Circular No. 02/2007/TTLT/BKH-BTC-BCA (dated 27 February 2007) provides guideline and coordination mechanisms among agencies processing business registration, tax registration, and business seals, and is applicable to provincial and municipal offices of MPI, the Tax Department, and MPS.

2. Establishing the Policy and Institutional Framework for SME Development

30. **Condition 3-4 (complied with).** SME development needs an effective medium-term policy framework to coordinate and integrate diverse Government policies and plans. To support this effort, condition 3-4 requires MPI to submit to the Prime Minister for approval the inter-ministerial SME development action program (SMEDP), which was completed and approved by the Government on 23 October 2006 (Prime Minister's Decision No. 236/2006/QD-TTg).

31. **Condition 3-5 (complied with).** To monitor progress in implementing the SMEDP, Condition 3-5 requires MPI to produce an annual *State of the SME Sector* report in order to review the progress and needs of the SME sector. MPI completed the first report on 25 August 2008.

32. **Condition 3-6 (complied with).** To facilitate information sharing between stakeholders on SME-related regulations and Government programs, condition 3-6 calls for MPI to establish and maintain the SME information website. MPI's Agency for SME Development (ASMED) launched a SME information-business portal website on 8 February 2007 (www.business.gov.vn). The website has been well maintained.

3. Enhancing Access by SMEs to Financial and Physical Resources

33. Access to finance remains one of the most frequently cited binding constraints to SME growth. Subprogram II supports the Government's in reducing the cost and risks of lending by addressing bottlenecks SMEs face in preparing financial information and providing collateral to

⁴ Inter-Ministerial Circular No. 02/2007/TTLT/BKH-BTC-BCA, dated 27 February 2007 (see condition 3-3 for details).

lenders. In addition, Subprogram II supports development of an alternative channel for SME financing, such as leasing.

34. **Condition 3-7 (complied with).** To reduce the burden SMEs face in complying with accounting regulations and enhancing the reliability of their financial records, condition 3-7 calls for the MOF to issue a decision on an SME accounting system based on Vietnamese and international accounting standards, which includes a simplified chart of accounts. MOF issued Decision No. 48/2006/QD-BTC (dated 14 September 2006) promulgating an SME accounting system containing a simplified chart of accounts and based on Vietnamese and international accounting standards..

35. **Condition 3-8 (complied with).** To promote the effective use of the SME accounting system, condition 3-8 requires MOF to issue user guidelines with instructions on: (i) simplified chart of accounts, (ii) systems of accounting books, and (iii) formats for the financial reporting requirements. MOF issued user guidelines with instructions on these three topics on 14 September 2006 (MOF Decision No. 48/2006/QD-BTC).

36. To facilitate implementation of the SME accounting system, support was provided through subprogram II and ADB TA for MOF and the Vietnamese Accounting Association to jointly conduct training programs for SMEs and business associations. MOF and the Vietnamese Accounting Association developed and produced manuals to conduct the trainer training program on the SME accounting system. Two trainer training programs were delivered in Hanoi and Ho Chi Minh City in October 2006. The programs were attended by staff from stakeholders, including MPI, provincial finance and tax departments, universities, business associations and audit firms. In addition, the participants of the programs have conducted a number of provincial practitioner training programs. These trainings comply with **condition 3-9**.

37. **Condition 3-10 (complied with).** Bank lending to SMEs in Viet Nam typically requires high levels of collateral. Land use rights are often the only assets SMEs can collateralize, but issuance of land use rights certificates has been slow. Condition 3-10 requires MONRE, in preparation for a full expansion of the registration system, to approve a plan for the national roll-out of the uniform land registration system—including a capital and operational budget and timetable for the expansion. MONRE completed a pre-feasibility study for the completion and modernization of the Viet Nam land administration project (VLAP) in September 2007. MONRE Decision No. 236/2008/QD-BTNMT, dated 5 February 2008, approved the roll-out of VLAP with funding assistance from the World Bank. However, due to financial and capacity constraints, MONRE decided to phase in nationwide implementation of the land registration system, beginning with nine provinces. MONRE has dispatched official letters to all the remaining provinces to inquire about the budgetary implications of and capacity building needs for the next implementation phase of the land registration system.

38. **Condition 3-11 (complied with).** To support further development of leasing activities, subprogram II includes efforts to amend the legal framework to allow the expansion of sale of lease receivables to any institution. The amendment of the legal framework is based on the assessment of the pilot project activity. SBV Circular No 09/2006/TT-NHNN, issued on 23 October 2006, provides instructions regarding the sale of receivables from financial leasing contracts without discrimination against non-pilot financial leasing companies, and complies with condition 3-11.

39. **Condition 3-12 (complied with).** The current National Registration Authority for Secured Transactions (NRAST) has a number of significant flaws and is not easy to use, as it

remains paper-based. To address these shortcomings, Subprogram II supported submission by the MOJ to the Government of a draft implementing decree for the ordinance on registration of secured transactions that simplifies and increases the transparency and provision of information. The draft decree (i) permits anyone to obtain free, non-certified search reports through an internet-based search of NRAST records; (ii) permits frequent registrants to register online; and (iii) limits required data to identification and description of collateral, which may be general, except for vehicle serial numbers. The MOJ decided to issue a Law on Registration of Secured Transactions to replace the ordinance that was initially envisaged under subprogram II. The MOJ submitted the draft law to the Government on 28 May 2008. The draft law is detailed enough to address condition 3-12 (a), (b), and (c), and its submission to the Government therefore complies with condition 3-12.

40. **Condition 3-13 (complied with).** To support the implementation of an online secured transaction registration system, condition 3-13 calls for the MOJ to (i) issue implementing legal normative document(s) that enable(s) an e-government service delivery model to be operated by NRAST for the purposes of secured transactions; and (ii) issue a detailed implementation plan for NRAST that includes (a) a detailed budget for the development of an online secured transaction registration system, (b) planned activities to increase public awareness, (c) capacity-building activities for the system operators, and (d) a detailed project roll-out schedule.

41. The Law on E-Transactions passed in November 2005 and implemented on 1 March 2006 paves the way for any government ministry or agency to transition into the e-commerce or e-government service delivery model where appropriate, as long as they meet the provisions under the law. The scope of the e-transaction law appears to be broad enough to support the transition of the NRAST into an organization based on an e-government service delivery model, and contains provisions based on international best practices; it therefore complies with clause (i) of condition 3-13. The Government approved the budget for the development of an online NRAST (Decision No. 907/2008/VPCP-KTTH, dated 14 February 2008). Following the issuance by the Prime Minister of Decision No. 25/2008/QD-TTg (dated 7 January 2008), MOJ approved Decision No. 376/2008/QD-BTP on 10 April 2008 specifying task assignment plan for MOJ subordinate agencies, which includes the remaining provisions of condition 3-13.

4. Enhancing SMEs' Access to International Markets

42. The requirements related to standardization, metrology, testing, accreditation and quality assurance can also become a regulatory burden for SMEs. Therefore, subprogram II supports the Government's efforts to improve its legal framework on technical standards and product quality. The institutional framework for certification and accreditation also requires reform to foster a more competitive environment and allow for greater participation by SMEs. In this context, the Government has issued the following regulations:

- **Condition 3-14 (complied with).** The Law on Standards and Technical Regulations as required under condition 3-14 was submitted to the National Assembly and approved on 29 June 2006.
- **Condition 3-15 (complied with).** The National Assembly passed the Law on Quality of Products and Goods on 20 November 2007. The implementing decree on product quality to support implementation of the law as required under condition 3-15 was issued on 31 December 2008.

- **Condition 3-16 (complied with).** The Government approved Decree 127/2007/ND-CP for implementing certain provisions under the Law on Standards and Technical Regulation on 01 August 2007. Following the Decree, MOST issued Decision 24/2007/QD-BKHCHN on 28 September 2007, Decision 26/2007/QD-BKHCHN on 31 October 2007 and Circular 27/2007/TT-BKHCHN on 31 October 2007, requiring that certification bodies operating in Vietnam be accredited by (i) Vietnam's Board of Accreditation, or (ii) an accreditation body that is a signatory of a mutual-recognition-agreement of international or regional accreditation bodies. The decree, decision and circular noted above comply with condition 3-16.

43. **Condition 3-17 (complied with).** STAMEQ currently has a conflict of interest, as it acts as both an accreditation body and a service institution providing certification in competition with private providers. Subprogram II, with the support of AFD TA, has assisted MOST to prepare a detailed implementation plan and timetable for the separation of STAMEQ's commercial and state administrative activities. As required under condition 3-17, MOST submitted a draft Decision to the Government on Function, Responsibility, and Organizational Structure of STAMEQ on 16 September 2008. Under the new organization structure of STAMEQ stipulated in the draft Decision, the Bureau of Accreditation is no longer be part of STAMEQ effective 15 days after the signing of the Decision by the Prime Minister.

44. **Condition 3-18 (complied with).** To promote public-private partnerships and ensure that SMEs are represented in standards development, subprogram II supports private SME representation (through members of business associations) on MOST's National Committee on Technical Standards and its various subcommittees. Article 16 of the Law on Standards and Technical Regulations stipulates the establishment, representation and duties of the Technical Committee for National Standards. Ninety three technical committees and 37 technical subcommittees have been established in line with Article 16 of the Law on Standards and Technical Regulations. The establishment or need for subcommittees is related to the range and magnitude of standards and technical related issues affecting an industry. SMEs are represented in the relevant committees by the enterprises' representatives.

IV. CONCLUSIONS

45. The Government has made significant progress in implementing reforms and enhancing the business environment for SMEs under the SDPL subprogram II. The commitment of relevant government agencies to implement subprogram II was clearly evident throughout the implementation period and justifies the release of the single tranche of SDR13,533,000.00.

V. THE PRESIDENT'S DECISION

46. In view of the solid progress made in implementing SDPL subprogram II, as evidenced by the full compliance with all 18 tranche release conditions, the President is satisfied with the overall implementation of SDPL subprogram II, and notes that the necessary conditions for the release of the tranche have been fulfilled. In accordance with the established procedures, the release of the single tranche in the amount of SDR13,533,000.00 equivalent under SDPL subprogram II will be effective not less than 10 working days from the date of circulation of this progress report to the ADB Board of Directors.

POLICY MATRIX
Small and Medium Enterprise Development Program Loan Subprogram II
(Status of Tranche Release Conditions)

A. SME Sector

Development Objective	Tranche Release Conditions	Current Status
Improving the Current Business Registration and Licensing Systems	3-1. To ensure continuous monitoring and improvements of the business regulatory systems, the Government is to assign the Task-Force on Enterprise Law and Investment Law Enforcement to undertake a regulatory review of existing as well as proposed new business licenses, as stated in Articles 7 and 172 of the Enterprise Law, including: (a) publication of all effective business licenses, and (b) stakeholder-initiated regulatory reviews.	<p>Complied with. The Prime Minister's Decision No. 1267/2006/QD-TTg (25/09/2006) established the Task Force on Enterprise and Investment Law stipulating that it directly coordinate with the related authorities, government bodies, and business associations to review regulations on business registration certificates and other business licenses. The decision also recommended:</p> <ul style="list-style-type: none"> (i) abrogating unnecessary regulations or regulations that conflict with the Enterprise Law and Investment Law; (ii) amending and supplementing regulations which are unreasonable, unclear, and insufficiently detailed; (iii) changing the licenses by using other more suitable and effective management forms that do not require the issuance of paper copies; and (iv) promulgating new regulations on business conditions if needed to meet government management requirement for enterprises. <p>Decision No. 1073/2006/QD-BKH of the Ministry of Planning and Investment (MPI) promulgates the operating procedures of the task force for implementation of the Enterprise Law and Investment Law. Information regarding business licenses required to conduct business activities in Viet Nam is published on the web site of the Agency for SME Development:</p> <p>www.business.gov.vn/regulation.aspx?LangType=1033.</p>
	3-2. The MPI to (a) prepare a detailed plan to implement the feasibility study for National Business Information Network (NBIN) expansion to all provincial and district business registration offices, (b) pilot the new system and uniform business registration processes in at least five provinces, and (c) based on the pilot results, make necessary regulatory adjustments and roll out the system	<p>(Substantively) Complied with. MPI issued Decision No 679/2007/QD-BKH (29 June 2007) approving the technical design of the NBIN under MPI's State Administration Computerization Project. The technical design document, dated 24 May 2007 (Part 1, Item 1.4, Sub-item 1.4.4), specifies NBIN implementation scope, including: (i) pilot implementation of the online registration system in 5 central cities of Hanoi, Ho Chi Minh City, Hai Phong, Dang Nang,</p>

Development Objective	Tranche Release Conditions	Current Status
	nationwide.	and Can Tho, thus complying with clauses (a) and (b) of Policy Action (3.2). Expansion and nationwide roll-out of the uniformed business registration process contemplated under NBIN has been incorporated into the more advanced and fully integrated one-stop registration system established under the Inter-Ministerial Circular No: 02/2007/TTLT/BKH-BTC-BCA dated 27 February 2007 (see condition 3-3 for details). The web-based one-stop registration system consolidates the application and registration process for obtaining the tax code, business seal and business registration, and is accessible from any province or district, and even from abroad.
	3-3. MPI, in coordination with the Ministry of Finance (MOF) and Ministry of Public Security (MPS), to simplify the business application process by (a) issuing circulars specifying the standard, consolidated application process and form for business registration, tax code, and business seal data; and (b) implementing the consolidated application procedure in all provinces. <i>[New Condition]</i>	Complied with. The Inter-ministerial (MPI, MOF and MPS) Circular No: 02/2007/TTLT/BKH-BTC-BCA, dated 27 February 2007, on one-stop registration simplified the business application process and forms for obtaining a business registration, tax code and business seal. The simplified process became effective in all provinces 15 days after publication of the circular in the Official Gazette.
Establishing the Government's policy and institutional framework for SME development	3-4. MPI to submit to the Prime Minister for the approval of the interministerial SME development action program ("SME Development Five-Year Plan 2006-2010").	Complied with. The Prime Minister' issued Decision No. 236/2006/QD-TTg dated 23 October 2007 to approve the Government's SME Development Five-Year Plan (2006-2010).
	3-5. To review the progress and needs of the SME sector, MPI to produce an annual <i>State of the SME Sector</i> report.	Complied with. The MPI team, assisted by Asian Development Bank (ADB) consultants, is currently preparing the annual <i>State of the SME Sector</i> report. MPI's Agency for SME Development (ASMED) completed the first Annual Report on SME Sector on 25 August 2008.
	3-6. MPI to establish and maintain the SME information website.	Complied with. ASMED launched an SME information-business portal website in 8 February 2007. The portal has been well maintained. (www.business.gov.vn).
Enhancing SMEs' access to financial and physical resources	3-7. To reduce their burden to comply with the accounting regulations and to enhance reliability of their financial records, MOF to issue a decision on a SME accounting system based on Vietnamese and International Accounting Standards, which includes simplified chart of accounts	Complied with. MOF's Decision 48/2006/QD-BTC dated 14 September 2006 promulgated the SME accounting system that is based on Vietnamese and international accounting standards. The SME accounting system contains a simplified chart of accounts.
	3-8. To promote the effective use of the accounting system by SMEs, MOF to issue user-guidelines with	Complied with. MOF issued user-guidelines for implementing its Decision 48/2006/QD-BTC, dated 14

Development Objective	Tranche Release Conditions	Current Status
	instructions on: (a) simplified chart of accounts; (b) system of accounting books; and (c) formats for the financial reporting requirements.	September 2006, including instructions on: (i) simplified chart of accounts, (ii) system of accounting books, and (iii) formats for the financial reporting requirements.
	3-9. To enhance capacity of SMEs and increase their understanding of the formal SME accounting system, MOF and the Vietnamese Accounting Association to jointly conduct training programs (and produce training manuals) for SMEs and business associations.	Complied with. MOF and the Vietnamese Accounting Association have developed and produced training manuals used to conduct the trainer training programs on the SME accounting system. Trainer training programs were delivered in Hanoi and Ho Chi Minh City in October 2006. Each 2-day training program was attended by staff members of various entities, including MPI, provincial finance and tax departments, universities, business associations and auditing firms. In addition, provincial practitioner training programs on the SME accounting system have been conducted by some trainer training program participants.
	3-10. To prepare for a full expansion of the registration system, MONRE to approve a plan for the national rollout of the uniform land registration system—including a capital and operational budget and timetable for the expansion.	Complied with. In September 2007, MONRE completed the pre-feasibility study for the completion and modernization of the Viet Nam Land Administration Project (VLAP). The World Bank board of directors approved the loan for implementation of VLAP in February 2008. MONRE Decision No. 236/2008/QD-BTNMT, dated 5 February 2008, approved rollout of VLAP. The program provides for a uniform land registration system and includes a capital and operational budget, as well as the implementation timetable. However, due to financial and capacity constraints, MONRE decided to phase in nationwide implementation of the land registration system, beginning with nine provinces: Thai Binh, Hung Yen, Ha Tay, Quang Ngai, Binh Dinh, Khanh Hoa, Vinh Long, Ben Tre, and Tien Giang. MONRE has dispatched official letters to all the remaining provinces to inquire about the budgetary implications of and capacity building needs for the next implementation phase of the land registration system.
	3-11. Based on the assessment of the pilot project, the Government to allow the expansion of sale of lease receivables to any institution, and if necessary, to amend the legal framework to allow this activity.	Complied with. State Bank of Vietnam Circular No. 09/2006/TT-NHNN, dated 23 October 2006, provides instructions on the sale of receivables from financial leasing contracts without discrimination against non-pilot financial leasing companies.
	3-12. To simplify and increase the transparency and provision of information on secured transactions, MOJ	Complied with. The MOJ submitted the draft Law on Registration of Secured Transactions to replace the

Development Objective	Tranche Release Conditions	Current Status
	to submit to the Government a draft implementing decree to the ordinance on registration of secured transactions which (a) permits anyone to obtain free non-certified search reports through an Internet-based search of NRAFT records, (b) permits frequent registrants to register online, and (c) limits required data to identification and description of collateral, which may be general, except for vehicle serial number.	ordinance initially envisaged under Policy Action 3.12 on 28 May 2008. The law is scheduled to be promulgated by the National Assembly by December 2008. The draft law is detailed enough to address 3-12 (a), (b), and (c); submission of the draft law to the Government will constitute compliance with the policy action.
	3-13. MOJ to (i) issue implementing legal normative document(s) that enable(s) an e-Government service delivery model to be operated by NRAFT for the purposes of secured transactions; and (ii) issue a detailed implementation plan for NRAFT that includes (a) a detailed budget for the development of an online secured transaction registration system, (b) planned activities to increase public awareness, (c) capacity-building activities for the system operators, and (d) a detailed project roll-out schedule.	Complied with. The Law on E-Transactions was passed on November 2005 and implemented on 1 March 2006. This law enables any government ministry or agency to transition into an e-commerce or e-government service delivery model where appropriate, as long as they meet the law's provisions. The e-transaction law appears broad enough in its scope to support adoption of an e-government service-delivery model by NRAFT and contains provisions based on international best practices, thereby complying with clause (i) of condition 3-13. The Government issued Decision No. 907/2008/VPCP-KTTH to approve the budget for the development of an online NRAFT, thereby complying with clause (ii) (a) of condition 3-13. Following the issuance of the Prime Minister's Decision No. 25/2008/QD-TTg, dated 7 January 2007, the MOJ approved Decision No. 376/2008/QD-BTP (10 April 2008) to specify a task assignment plan for MOJ subordinate agencies, which includes components (b), (c) and (d) of policy action 3-13.
Enhancing SMEs' access to international markets	3-14. The Government to submit the Law on Standards and Technical Regulations to the National Assembly.	Complied with. The National Assembly approved the Law on Standards and Technical Regulations on 29 June 2006.
	3-15. To support the implementation of the Law on Quality of Products and Goods, the Government to issue the implementing Decree on Product Quality. <i>[New Condition]</i>	Complied with. On 20 November 2007, the National Assembly passed the Law on Quality of Products and Goods; the Government issued the implementing decree on the Law on Quality of Products and Goods on 31 December 2008.
	-16. To enhance public confidence in the certification institutions, MOST to issue a decision requiring that any certification body operating in Viet Nam must be accredited by an accreditation body that is a signatory of mutual-recognition-agreement of international or	Complied with. The Government approved Decree 127/2007/ND-CP for implementing certain provisions under the Law on Standards and Technical Regulation on 01 August 2007. Following the Decree, MOST issued Decision 24/2007/QD-BKHCN on 28 September 2007, Decision

Development Objective	Tranche Release Conditions	Current Status
	regional accreditation bodies, or by Viet Nam's Board of Accreditation.	26/2007/QĐ-BKHCHN on 31 October 2007 and Circular 27/2007/TT-BKHCHN on 31 October 2007, requiring all certification bodies operating in Vietnam to be accredited by an accreditation body that is a signatory of a mutual-recognition-agreement of international or regional accreditation bodies, or by Vietnam's Board of Accreditation.
	3-17. MOST to submit a detailed implementation plan and timetable to the Government for the separation of the STAMEQ's commercial and state administrative activities.	Complied with. With technical assistance, MOST prepared a detailed implementation plan and timetable for the separation of STAMEQ's commercial and state administrative activities. MOST submitted a draft Decision to the Government on Function, Responsibility, and Organizational Structure of STAMEQ on 16 September 2008. Under the new organization structure of STAMEQ stipulated in the draft Decision, the Bureau of Accreditation is no longer be part of STAMEQ effective 15 days after the signing of the Decision by the Prime Minister.
	3-18. To promote public-private partnership (and ensure that SMEs are represented in standards development), MOST to have private SME representation through members of business associations at the National Committee on Technical Standards and at its subcommittees on the industry technical standards.	Complied with. Article 16 of the Law on Standards and Technical Regulations stipulates the establishment, representation (members) and duties of the Technical Committee for National Standards. In accordance with Article 16 of the Law on Standards and Technical Regulations, the Technical Committees for National Standards shall comprise representatives from government agencies, scientific and technological organizations, associations, enterprises, and other related organizations, as well as consumers and experts. Ninety three technical committees and 37 technical subcommittees have been established under Article 16 of the law. The establishment or need for subcommittees is related to the range and magnitude of standards and technical related issues affecting an industry. SMEs are represented in the relevant committees by enterprises' representatives.

ADB = Asian Development Bank, AFD = Agence Française de Développement, ASMED = Agency for SME Development, MOF = Ministry of Finance, MOJ = Ministry of Justice, MONRE = Ministry of Natural Resources and Environment, MOST = Ministry of Science and Technology, MPI = Ministry of Planning and Investment, MPS – Ministry of Public Security, NBIN = National Business Information Network, NRAST = National Registration Authority for Secured Transactions, SMEs = small and medium-sized enterprises, STAMEQ = Directorate for Standards and Quality, VLAP = Viet Nam Land Administration Project
Sources: Government of Viet Nam and ADB