



Viet Nam: Second Small and Medium-Sized Enterprises Development Program - Subprogram I

Project Name	Second Small and Medium-Sized Enterprises Development Program - Subprogram I		
Project Number	41360-013		
Country / Economy	Viet Nam		
Project Status	Closed		
Project Type / Modality of Assistance	Loan		
Source of Funding / Amount	Loan 2680-VIE: Second Small and Medium-Sized Enterprises Development Program - Subprogram I		
	Asian Development Fund	US\$ 40.00 million	
Strategic Agendas	Inclusive economic growth		
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Private sector development		
Sector / Subsector	Industry and trade / Small and medium enterprise development Public sector management / Economic affairs management		
Gender	Some gender elements		
Description	1. I submit for your approval the following report and recommendation on (i) a proposed program cluster, and (ii) a proposed loan for subprogram 1, both to the Socialist Republic of Viet Nam for the Second Small and Medium-Sized Development Program. 2. The program will support the government's key reform priorities aimed at achieving sustainable high economic growth, supported by an increased contribution from small and medium-sized enterprises (SMEs) and the private sector. The reform priorities include efforts to improve the policy framework for SME development, strengthen business competitiveness, and enhance SME access to finance. The design and monitoring framework is in Appendix 1. The development policy letter is in Appendix 3. The program has a medium-term focus. Appendix 4 presents the policy matrix and medium-term direction and goals for subprogram 1, and triggers as well as milestones for subprogram 2.		

Project Rationale and Linkage to Country/Regional Strategy	<p>3. The government's Socio-Economic Development Plan 2006 2010 (SEDP 2006 2010) emphasizes the importance of increased private investment in generating economic growth and employment. Since SMEs represent more than 97% of enterprises in Viet Nam, the government places SME development as one of the key pillars of its efforts to transform the economy from government-led to private sector-led. 1 The government recognizes that sustainable development of SMEs requires a consistent policy framework, supported by a sound policy, legal, and institutional environment. Therefore, integrated with the SEDP is the government's SME Development Plan (SMEDP) 2006 2010 to promote SMEs. The Asian Development Bank (ADB) has directly supported the government's SME development policy reforms through loans for the first SME Development Program, also prepared as a program cluster.2 The ADB country strategy and program identifies SME development as a key priority. In addition, ADB has been supporting Viet Nam's economic transformation through program clusters for state-owned enterprise restructuring, microfinance developments, and inclusive growth.</p> <p>4. Reforms implemented under the SEDP and SMEDP have produced significant results. Time required to process business registration has been reduced significantly from about 50 days in the early 2000s to about 10 working days in 2010. This has facilitated a large increase in the number of new enterprises, averaging 20% 30% annually since 2006. Bank credit to SMEs and the private sector has expanded by about 34% annually since 2005. SME access to land has improved significantly, as has access to international markets, with domestic sector exports expanding by about 25% annually during the last 4 years before the global financial crisis. With improvement in the business environment, investment has expanded rapidly, led by nonstate and foreign direct investment. As a result, employment generated by the domestic private sector increased rapidly and its share expanded from 29% in 2000 to more than 53% in 2007.</p> <p>5. Mixed progress and continuing challenges. Despite significant progress, some challenges remain. The project completion report for the first SME Development Program recommends two continued priorities to improve effectiveness and sustainability of policy reforms to support SME development: (i) improving the business environment and regulatory framework, and (ii) enhancing access to finance. These areas of reforms are confirmed by the Central Institute for Economic Management (CIEM)-Institute of Labour Science and Social Affairs (ILSSA) survey, which identifies four areas where the government could best help in removing enterprises' constraints for growth: (i) enhancing access to finance, (ii) improving access to land and premises, (iii) enhancing SME policies, and (iv) reducing bureaucratic impediments.7 The review of implementation of the first SME Development Program also finds that improved dialogue between government and stakeholders contributed significantly to developing and improving policies to support SMEs and the private sector. The government intends to strengthen these activities by institutionalizing the framework and improving the participation of provincial stakeholders and the role of women as owners of businesses.</p> <p>6. Business environment and regulatory framework. Although the government is giving high priority to developing supportive business-related regulations, the lack of clarity and inconsistencies in the increasing volume of implementing regulations still generate significant problems for business. With gradually increasing decentralization, local governments are responsible for the issuance, implementation, and/or enforcement of many regulations that impact the private sector. This adds significant cost and uncertainties to SMEs and the business sector. While business registration procedures have been significantly streamlined, other administrative procedures for some key business activities such as making tax payments, dealing with customs, and completing land use rights remain complicated. With uneven progress in business environment reforms, international comparisons tend to show that Viet Nam has been lagging in improving its business environment in relative terms. Consolidation of effort and a comprehensive framework is needed to achieve maximum results.</p> <p>7. Access to finance. Despite significant progress achieved in improving SMEs' access to finance in the last 5 years, a number of surveys still find that access to finance remains the top constraint for business growth. This is in part explained by the large increase in new enterprises during this period. In the next 5 years, the government targets to double the number of new enterprises. These new entrants face collateral and other traditional access constraints. In addition, existing enterprises are constrained by the lack of medium-term credit for investment and innovation. The CIEM-ILSSA survey finds that more than 65% of enterprises in the manufacturing sector depend on retained earnings to support their investment. The heavy reliance on self-financing for investment partly explains the relatively slow graduation of enterprises from micro to small and from small to medium size. Because constraints across different sizes of SMEs are not uniform, a more comprehensive approach is needed to meet their different financing needs. In this context, significant efforts are still required to enhance SME access to medium-term credit, nonbank financing, credit guarantees for longer-term investment loans, and equity financing for larger SMEs.</p> <p>8. New approach to reflect the new environment. The project completion report for the first SME Development Program reiterates the importance of making SMEs more efficient, productive, and competitive by addressing key institutional and structural impediments affecting SME development. The key challenge is to anticipate future needs, including continued efforts to simplify national and provincial administrative procedures. From this perspective, the priority for Viet Nam is to sustain high economic growth to create productive jobs for an estimated 1.7 million young workers entering the labor market annually. The experience in the last 2 years suggests that this task has become more difficult. Economic overheating and the global financial crisis presented significant challenges to the SME sector. The government provided extensive temporary measures to assist SMEs to cope with the impacts of the crisis. At the same time, the government recognizes that, over the medium-term, creating sufficient jobs will require accelerated reforms to address existing constraints. This will require a stronger policy response to enhance the business environment and improve the country's competitiveness. In this context, the draft SEDP 2011 2015 includes a number of key steps, including policies to (i) systematically simplify business-related procedures, (ii) implement a robust process of controlling the quality of laws and regulations, (iii) introduce new custom and tax payment systems, and (iv) enhance implementation of the Law on Competition.</p>
Impact	Increased contribution of SMEs and the private sector to support sustainable high economic growth
Project Outcome	
Description of Outcome	Improved business environment for more competitive SMEs and private sector operation
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	1. Policy and institutional framework for SME development improved 2. Business competitiveness strengthened 3. SME access to finance enhanced
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	
Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C
Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	
Business Opportunities	
Consulting Services	None

Procurement Loan proceeds will be used to finance the foreign currency expenditures for the reasonable cost of imported goods required during the program produced and procured in ADB member countries, excluding ineligible goods and those financed by credits from official international or bilateral aid agencies.

Responsible ADB Officer	Lam, Jacqueline
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SERD
Executing Agencies	Ministry of Planning and Investment 6 B Hoang Dieu street, Ba Dinh district, Hanoi, Viet Nam

Timetable	
Concept Clearance	20 Jul 2009
Fact Finding	25 Jun 2009 to 03 Jul 2009
MRM	30 May 2009
Approval	18 Oct 2010
Last Review Mission	-
PDS Creation Date	05 Feb 2009
Last PDS Update	27 Oct 2010

Loan 2680-VIE

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
18 Oct 2010	24 Dec 2010	26 May 2011	31 Mar 2011	31 Dec 2011	15 Jul 2011

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	40.00	Cumulative Contract Awards			
ADB	40.00	17 Jun 2022	42.16	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	17 Jun 2022	42.16	0.00	100%

Project Page	https://www.adb.org/projects/41360-013/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=41360-013
Date Generated	06 June 2023

ADB provides the information contained in this project data sheet (PDS) solely as a resource for its users without any form of assurance. Whilst ADB tries to provide high quality content, the information are provided "as is" without warranty of any kind, either express or implied, including without limitation warranties of merchantability, fitness for a particular purpose, and non-infringement. ADB specifically does not make any warranties or representations as to the accuracy or completeness of any such information.