



Report and Recommendation of the President to the Board of Directors

Project Number: 41360
September 2010

Proposed Program Cluster and Loan for Subprogram 1 Socialist Republic of Viet Nam: Second Small and Medium-Sized Enterprises Development Program

CURRENCY EQUIVALENTS

(as of 11 August 2010)

Currency Unit	–	dong (D)
D1.00	=	\$0.000052
\$1.00	=	D19,090

ABBREVIATIONS

ADB	–	Asian Development Bank
CGS	–	credit guarantee system
CIEM	–	Central Institute for Economic Management
CRA	–	core reform area
ILSSA	–	Institute of Labour Science and Social Affairs
MOF	–	Ministry of Finance
MOLISA	–	Ministry of Labor, Invalids and Social Affairs
MPI	–	Ministry of Planning and Investment
RIA	–	regulatory impact assessment
SBV	–	State Bank of Vietnam
SEDP	–	Socio-Economic Development Plan
SMEDP	–	Small and Medium-Sized Enterprises Development Plan
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
UPCoM	–	Unlisted Public Company Market
VCA	–	Vietnam Competition Authority

NOTE

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

Vice-President	C. Lawrence Greenwood, Jr., Operations 2
Director General	K. Senga, Southeast Asia Department (SERD)
Director	J. Ahmed, Financial Sector, Public Management and Trade Division, SERD
Team leader	E. Ginting, Senior Country Economist, Indonesia Resident Mission, SERD
Team members	J. L. Gomez Reino, Public Sector Management Specialist, SERD R. Hattari, Economist (Fiscal Management), SERD S. Kawazu, Counsel, Office of the General Counsel J. Mendez-Santos, Administrative Assistant, SERD C. Minh, Financial Sector Officer, Viet Nam Resident Mission, SERD B. Nguyen, Senior Evaluation Specialist, Independent Evaluation Department
Peer reviewers	D. Kertzman, Director, Financial Sector, Public Management and Trade Division, Central and West Asia Department M. E. Khan, Principal Economist, Economics and Research Department

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PROJECT AT A GLANCE

1. Project Name: SME Development Phase II		2. Project Number: 41360													
3. Country: Viet Nam, Soc Rep of		4. Department/Division: Southeast Asia Department Financial Sector, Public Management and Trade Division													
5. Sector Classification:	Sectors	Primary	Subsectors												
	Public sector management	✓	Economic and public affairs management												
	Industry and trade		Small and medium-sized enterprise development												
6. Thematic Classification:	Themes	Primary	Subthemes												
	Private sector development	✓	Policy reforms												
	Economic growth		Promoting macroeconomic stability												
	Governance		Economic and financial governance												
6a. Climate Change Impact:		6b. Gender Mainstreaming:													
Adaptation		Gender equity theme													
Mitigation		Effective gender mainstreaming													
		Some gender benefits													
		No gender elements													
7. Targeting Classification:		8. Location Impact:													
General Intervention	Targeted Intervention														
	Geographic dimensions of inclusive growth	Millennium Development Goals	Income poverty at household level												
			✓												
		Rural Urban National Regional													
		High													
9. Project Risk Categorization: Low															
10. Safeguard Categorization:															
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Involuntary resettlement	C														
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Total			40.0												
12. Cofinancing:															
No Cofinancing available.															
13. Counterpart Financing:															
No Counterpart Financing available.															
14. Aid Effectiveness:															
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Parallel project implementation unit	No														
Program-based approach	Yes														

I. THE PROPOSAL

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.

II. THE PROGRAM

A. Rationale

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 more than 97% of enterprises in Viet Nam are SME and more than 98% of total enterprises are private enterprises, the government's increasing efforts in SME development also supports private sector growth.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.³

4. Reforms implemented under the SEDP and SMEDP have produced significant results.⁴ Time required to process business registration has been reduced significantly from about 50

¹ The current definition of SMEs in Viet Nam is relatively loose. Based on Decree 56/2009, enterprises with from 10 to 300 employees and less than D100 billion of capital belongs to the SME category. For enterprises operating in the commerce and service sector, the capital requirement and number of employees are lower; D50 billion for capital and from 10 to 100 for the number of employees.

² The program comprised two back-to-back subprogram loans to be drawn from the Asian Development Fund. ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Cluster and Technical Assistance Grant to the Socialist Republic of Viet Nam for the Small and Medium-Sized Enterprise Development Program*. Manila (Loan 2095-VIE [\$60 million] and TA 4418-VIE, approved on 21 October 2004 and became effective on 6 April 2005). ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for Subprogram II of the Small and Medium Enterprise Development Program Cluster and Progress of Subprogram I*. Manila. (Loan 2284-VIE [\$20 million], approved on 12 December 2006 and became effective on 5 June 2007). In addition to the ADB financing, Agence Française de Développement and German development cooperation through KfW cofinanced the program. Agence Française de Développement provided a total of €35 million—€22 million for subprogram 1 and €13 million for subprogram 2. KfW provided €20 million—€14 million for subprogram 1 and €6 million for subprogram 2.

³ ADB. 2006. *Country Strategy and Program: Viet Nam, 2007–2010*. Manila.

⁴ Sector Assessment (Summary): Small and Medium-Sized Enterprise and Private Sector Development (Appendix 2).

days in the early 2000s to about 10 working days in 2010.⁵ 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.

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.⁶ 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.

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.⁸ 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.⁹ Consolidation of effort and a comprehensive framework is needed to achieve maximum results.

⁵ In Ho Chi Minh City, it was reduced to 3 days for paper-based applications and 1 day for online applications.

⁶ ADB. 2009. *Project Completion Report: Small and Medium Enterprise Development Program Cluster, Subprograms I and II*. Manila.

⁷ A longitudinal survey conducted by CIEM and ILSSA funded under the Danish International Development Assistance's Business Sector Programme Support.

⁸ See a recent review of the implementation of the Enterprise Law and Investment Law: Nguyen Dinh Cung. 2008. *Implementation of Vietnam's Enterprise Law and Investment Law: A Regulatory Reform Perspective*. *Vietnam Economic Management Review*. Ha Noi.

⁹ The most recent international comparative indexes of the business environment such as the World Bank's Doing Business Index and the World Economic Forum's Global Competitiveness Index suggest that the pace of Viet Nam's reforms in improving the business environment has declined relative to that of other countries. With regard to the overall measure of ease of doing business, Viet Nam's ranking slipped by one position in 2009. Viet Nam's ranking in the 2009 Global Competitiveness Index fell to 75th from 70th the previous year, although this may have been predominately due to the deteriorating macroeconomic environment in 2008.

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.¹⁰ 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.

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.

B. Impact and Outcome

9. The impact of the Second SME Development Program is to increase the contribution of SMEs and the private sector in achieving sustainable high economic growth. The outcome will be an improved business environment to support more competitive SMEs and the private sector. An expanding SME sector will generate more and better jobs, and contribute to sustainable poverty reduction.

C. Outputs

10. The Second SME Development Program supports the government's efforts in three core reform areas (CRAs): (i) improve the framework for promoting SME development, (ii) strengthen the framework for competition policy, and (iii) enhance SME access to finance.

¹⁰ Based on the draft Social and Economic Development Plan 2011–2015 being finalized by the government.

1. Improve the Framework for Promoting SME Development (CRA1)

11. An enabling environment for SME and private sector development requires a supportive framework of legal, labor, fiscal, and monetary policies that promote the foundations for competitive markets by fully involving all stakeholders. An effective medium-term policy framework is required to coordinate and integrate government priorities, policies, and plans in creating competitive markets essential for the SME sector. The first subprogram supports the government's agenda to strengthen the framework for promoting SME policy formulation and coordination. The government published the first SME white paper summarizing key issues and policies implemented to address key constraints in SME development. It issued Decree 56/2009 to redefine the state's support for SME development and identify the roles of state agencies in implementing SME development policies in areas such as access to finance, land access, technology adoption, and dissemination of information related to SMEs. The government reviewed implementation of the SMEDP 2006–2010 to inform the way forward.

2. Strengthen the Framework for Competition Policy (CRA2)

12. The government recognizes the need to put in place a comprehensive approach for developing a competitive business environment. Although the approach is not formally announced as a national competition policy as in other countries, the government has put in place many important elements of national competition policy. The first element is trade policy. With Viet Nam's accession to the World Trade Organization in 2007, the average tariff rate has been reduced to around 14%. The current focus of trade policy is to improve trade facilitation through customs modernization. The second important element of competition policy is to increase efficiency of the business environment by simplifying administrative procedures, keeping close control of the promulgation of new regulations, and implementing regulatory impact assessments (RIAs) for all new regulations. This component of policy consolidates previous efforts at regulatory simplification, and embeds the policy focus in a comprehensive framework for measuring the costs and benefits of regulatory proposals as well as for their elimination. The third element of the policy is to enhance implementation of the Competition Law and to strengthen the capacity of the Vietnam Competition Authority (VCA) to ensure fair competition among all economic participants. Other policy efforts such as upgrading labor market regulations and labor relations, and addressing infrastructure constraints will be important for improving competitiveness. The latter, however, is beyond the scope of the program.

13. The first subprogram supports the government's agenda to advance reforms in areas of critical significance, including implementation of administrative procedure review, RIAs, customs reform, enterprise registration simplification, and improved labor market relations.

14. **Administrative procedure.** The government has assessed all ministerial and provincial administrative procedures, which are published in the website. The government issued a resolution requiring line ministries and other relevant agencies to review around 250 priority procedures using a standard cost module to identify costs and benefits to the economy. About 40% of these priority procedures are business-related procedures, including custom, tax, land-use right, and building procedures. Simplification of these procedures is expected to save about 30%–40% of the time and cost of compliance for businesses. To control administrative procedures, the government issued Decree 63/2010 to provide guidelines for issuing new procedures, and mechanisms for reviewing existing ones based on necessity, user friendliness, and legality.

15. **Regulatory impact assessment.** The government reviews every law and regulation after 5 years of implementation. To support the government's efforts to improve the quality of laws and regulations, the Law on Promulgation of Legal Normative Documents was amended in June 2008. The government issued implementing regulations for the law (Decree 24/2009/ND-CP and Prime Minister Decision 636/2009) requiring responsible ministries and agencies to prepare and submit an RIA when proposing new legislation to be included in the annual legislative plan. To support this effort within the Ministry of Justice, the government amended existing regulations to include provisions for the reorganization of the ministry and assignment of the department responsible for law preparation and RIA evaluation and enforcement.

16. **Competition policy.** Viet Nam is gradually developing the institutional capacity needed to address restraints to trade and competition. The government established two agencies to implement the law: the VCA with investigative powers and the Vietnam Competition Council with adjudicative powers.¹¹ The VCA initiated a review of the effectiveness of current regulatory and institutional arrangements for competition and the need for reforms to ensure more effective promotion of competition in the economy.¹²

17. **Customs and tax administrations.** The Ministry of Finance (MOF) implemented the pilot e-custom program in 10 provinces and completed a master plan for the Association of Southeast Asian Nations' single window. It implemented an on-line tax application service on a pilot basis in four cities and/or provinces, and then rolled out the service to other provinces and other types of taxpayers in the first half of 2010. The service will be implemented across the country over the medium term. In addition, the government has established a link and cooperation among related agencies (tax, state treasury, customs, and finance department) in 34 provinces to support implementation of the new tax payment method. In large localities, MOF has started pilot implementation of tax payment using ATMs, bank accounts, and other measures through the commercial bank system.

18. **Business registration.** To improve the business registration system, the government introduced a new web-based national business registration system to simplify and unify business registration processes in all 63 provinces, and consolidate provincial business registration information into a national database searchable throughout the country. The government has also developed a user support training program to improve the capacity and service quality of provincial business registration offices with the support of the United Nations Industrial Development Organization.

19. **Labor market regulations and labor relations mechanism.** Prior to the global financial crisis, the escalation of illegal and/or disruptive labor disputes was a pressing concern for investors, especially foreign investors. The government established a center to support the development of harmonized and stable industrial relations. The government also introduced unemployment insurance, in accordance with the Social Insurance Law.¹³

3. Enhance SME Access to Finance (CRA3)

20. While access of SMEs to finance has improved considerably in the last 5 years, access to finance remains the top constraint. As constraints across SMEs are not uniform, the challenge is to ensure the availability of various products to meet their various needs. Smaller

¹¹ Established under Decree 05/2006/ND-CP 9 January 2006.

¹² <http://english.vietnamnet.vn/biz/2009/09/868843>.

¹³ ADB. 2004. *Technical Assistance to Viet Nam for Developing the Social Security System*. Manila.

SMEs and new entrants are more constrained by collateral and capacity to borrow. Therefore, simplification of procedure to obtain land user rights, development of the leasing industry, and enhanced financial institutions in dealing with SMEs would help improve access to financing for this segment of enterprises. The government enacted new regulations aimed at increasing SME access to leasing finance.¹⁴ The newly introduced nationwide credit guarantee system (CGS) designed to specifically support commercial bank investment lending to SMEs will play an important role in easing part of this constraint. However, the CGS, provided through the Vietnam Development Bank, offers a guarantee of up to 100% of the original loan and accrued interest. International experience on credit guarantees suggests that a partial guarantee provides a more balanced incentive for each party to ensure sustainability of the system. Vietnam Development Bank conducted an assessment of the design based on initial implementation of the CGS for SMEs, and provided MOF with recommendations on more appropriate sharing of credit risks and collateral with the 38 participating commercial banks. This review should foster the establishment and operation of a sustainable national credit guarantee scheme.

21. One of key constraints for enterprises moving from micro to small and from small to medium is lack of access to larger financing as most enterprises rely on retained earnings to finance business expansion. Equity finance is another viable option for larger SMEs. Currently, about 1,000 larger SMEs are accessing the grey equity market. The Unlisted Public Company Market, launched in June 2009, permits the entry of any public company with 100 or more external shareholders and chartered capital of D10 billion or more, and thus is open to SMEs. In addition, the current interest rate cap on commercial bank loans to businesses helps reduce interest rate costs for some eligible enterprises.¹⁵ At the same time, however, it constrains banks in pricing the risks for smaller and new enterprises. The State Bank of Vietnam issued Circular 07/2010/TT-NHNN to allow credit institutions and their clients to negotiate lending rates to enhance medium- and long-term lending to ease constraints on investment financing.

22. **The second subprogram.** The program recognizes that achieving its intended outcome will require a coherent medium-term reform strategy. Key features of the program include (i) two single-tranche operations, with a well-defined, medium-term framework specified at the outset and including completion of key reforms prior to consideration by ADB's Board of Directors; (ii) a limited number of well-targeted policy actions aimed at achieving key outcomes; and (iii) triggers for the subsequent subprogram to support continuity of dialogue with the government, development partners, and other stakeholders on the same core policy areas. In this way, the program supports a coherent medium-term reform strategy with two discrete but linked subprograms and a strong emphasis on performance. The next phase focuses on implementing steps to strengthen the framework to promote SME development, improve business competitiveness through continued administrative simplification and better regulations, and enhance SME access to finance. The decision on whether to proceed with the next subprogram is contingent on overall satisfactory performance of the triggers. The program also recognizes the necessity for flexibility in the reform measures for subprogram 2 given that the government is finalizing the 2011–2015 SEDP. The design of the subsequent program will incorporate lessons from implementation of the first subprogram and respond to changes in the external environment. The indicative cost of reforms for subprogram 2 is \$80 million. The loan to support reform under subprogram 2 is expected to be \$60 million. Continued technical assistance (TA) will be required to support implementation of the proposed reforms and ADB will coordinate with other development partners in this effort.

¹⁴ Decree 95/2008/ND-CP (August 2008), which came into effect in late September 2008.

¹⁵ The lending rate cannot exceed 150% of the base rate of the State Bank of Vietnam.

23. **Technical assistance.** The ongoing ADB project preparatory TA is assisting the Ministry of Planning and Investment (MPI) in implementing Decree 56/2009 and enhancing the framework for promoting SME development. Part of the TA will be used to support related training to improve SME access to finance. The Japan International Cooperation Agency has been and will continue providing support in the area of access to finance, competition policy, and capacity building to MPI. The European Union and the Australian Agency for International Development will assist in implementing competition policy through their post-World Trade Organization assistance.

24. **Triggers and key milestones for subprogram 2.** Eight triggers are unidentified for subprogram 2 (Appendix 4): two are under CRA1, five under CRA2, and one under CRA3.

25. **Triggers under CRA1.** The key objective under this policy area is to develop comprehensive and achievable medium-term policies to support SME development. The first trigger is for MPI to organize public consultations, including with provincial governments and representatives of women business associations, to prepare the second 5-year SMEDP for 2011–2015. The second trigger is the issuance of the second 5-year SMEDP based on the SEDP 2011–2015. One key milestone supporting these efforts is the improvement of data and SME statistics.

26. **Triggers under CRA2.** The first trigger under the second policy area is the establishment of a national agency responsible for implementing the Decree 63/2010 on Administrative Procedure Control. The second trigger is to support efforts to institutionalize RIAs by developing guidelines and a manual for implementing RIAs to support sustainable improvement of the quality of laws and regulations. The third trigger is to develop a road map for full implementation of the e-custom system based on pilot implementation. The fourth trigger is for MOF to introduce a new system to reduce the time needed for tax payment. The fifth trigger relates to the Law on Competition. To support efforts in creating equal opportunities and improving competition, the government will submit a revised draft Law on Competition to the National Assembly. One key milestone is the completion of an RIA on the revision of the Law on Competition. In addition, although most complaints received by VCA are from SMEs, a recent survey suggests that 80% of enterprises are not aware of the role of VCA. Therefore, VCA needs to enhance its advocacy role.

27. **Triggers under CRA3.** The one trigger for subprogram 2, to support efforts in improving access to finance, is the issuance of a revised legal framework for the CGS that includes more appropriate credit risk and collateral sharing with participating commercial banks.

D. Program Costs and Financing

28. The size of the loan for the first subprogram is based on considerations of several factors required to support implementation of program reforms.¹⁶ These include: (i) the importance of the sector to the economy, the weight and benefits of the reform program; (ii) the direct administrative and/or adjustment costs involved in design and implementation of specific reforms, and (iii) the need to conform to the overall financing requirement for the current country partnership strategy. Quantifiable key benefits of the program include (i) cost saving for business from business procedures simplification (D6 trillion, \$300 million); (ii) increase SME access to finance through the CGS (D12 trillion in 2009); and (iii) increase SME access to equity finance through UPCoM (D8 trillion). The sustainable reforms supported by the program also

¹⁶ ADB. 2010. Program Lending. *Operations Manual*. OM D4/BP. Manila (para. 28).

have other benefits such as reduced uncertainties, widened tax base, and improved business climate. The major administrative or adjustment cost of reforms is estimated to be about \$70 million in aggregate, arising from (i) initial investment cost to set up the national CGS, disseminate CGS processes to enterprises, and train Vietnam Development Bank staff and enterprises; (ii) investment cost to start the pilot e-custom system and implement the web-based business registration system; and (iii) administrative and staff costs to review existing administrative procedures and to issue new regulations to improve the business environment. To support the reform initiatives outlined in the program, the Government of Viet Nam has requested a loan in various currencies equivalent to SDR26,537,000 from ADB's Special Funds resources to help finance the program. The loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan agreement. The government will fund the remaining resource requirement.

E. Implementation Arrangements

29. MPI will be the executing agency for the program. MPI will establish an inter-ministerial program steering committee and assign the Enterprise Development Agency to coordinate implementation of policy actions with MOF; the Ministry of Justice; the State Bank of Vietnam; Ministry of Industry and Trade; Office of the Government; and the Ministry of Labor, Invalids and Social Affairs, all of which are directly involved in supporting program implementation. Based on lessons from implementation of the first SME Development Program, program steering committee members should be working officials directly responsible for reforms supported by the program. The Enterprise Development Agency will convene biannual meetings to monitor progress and ADB will be invited to participate in the meetings as an observer. The agency will be responsible for administering day-to-day program activities, maintaining records, and reporting on implementation progress. The subprogram 1 period is from August 2008 to September 2010; the loan of \$40 million is to be disbursed as a single tranche when the government has met the conditions for loan effectiveness. The proceeds of the program loan will be disbursed in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*.¹⁷

III. DUE DILIGENCE

A. Governance

30. While noting steady progress in public financial management reforms, the assessment identifies some areas for improvement. Implementation of the 2002 State Budget Law and the 2005 Accounting Law is progressing; however both laws need to be updated. Budget coverage in Viet Nam is reasonably comprehensive, but still incomplete compared with international practices. The government has piloted a medium-term expenditure framework in several sectors, but it needs to be scaled up and mainstreamed in the annual budget cycle. Public financial management systems are being upgraded by rolling out the treasury and budget management information system, and the road map for adoption of international public sector accounting standards has been issued. The State Audit Law provides independence for the state auditing body and enhances transparency by making audit reports publicly available. Oversight by the National Assembly and provincial people's committee councils continues to

¹⁷ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

strengthen. The World Bank's assessment suggests that the fiduciary risks of the current public financial management systems (budgeting, accounting, reporting, and auditing) are moderate.¹⁸

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government of Viet Nam and MPI. The specific policy requirements and supplementary measures are described in the project administration manual

B. Poverty and Social

32. Viet Nam has experienced remarkable success in achieving rapid and sustained economic growth and poverty reduction since the country started its economic reform program Doi Moi in the late 1980s. Supported by annual gross domestic product growth of around 7.2%, the overall poverty rate dropped from 58% in 1993, to 37.4% in 1998, to 16% in 2006, and an estimated 14.8% in 2008. The impressive reduction in poverty is largely attributable to sustained business-led growth in investment, output, and employment, complemented by targeted poverty reduction interventions. Most new jobs in the last decade were created by SMEs and the private sector. Despite this progress, the absolute number of people living in poverty remains large. Based on the poverty measure calculated by the Ministry of Labor, Invalids and Social Affairs, about 11.3 million were living below the national official poverty line in 2008. Moreover, since the number of near-poor is large, the vulnerability of the population to poverty is high. The program supports the government in preparing the 2011–2015 SMEDP. A report by the International Finance Corporation on Vietnamese women entrepreneurs suggests that preparation of the SMEDP may particularly encourage women business entrepreneurs.¹⁹ The CIEM-ILSSA survey on manufacturing enterprises also finds that the proportion of women employees, including in senior positions, increases as enterprises get larger. The program has the potential to bring benefits to women's entrepreneurship and employment by supporting government efforts to increase the number of enterprises, and by easing constraints for enterprise growth.

C. Safeguards

33. The program does not trigger the safeguard policies and is categorized as C for environment, involuntary resettlement, and indigenous people. The following are agreed upon, and will be incorporated into the legal agreement. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the program. The government agrees to cooperate, and shall cause any and all government offices, organizations and entities involved in implementing the program to cooperate fully with any such investigation and extend all necessary assistance, including access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation.

D. Risks and Mitigating Measures

34. The program is firmly embedded in the SEDP 2006–2010, the SMEDP 2006–2010, and ongoing business climate reforms. The assumptions underlying the program include the: (i) external economic environment will improve to support domestic macroeconomic stability, (ii) government will stay on course with key business regulatory reform measures, and (iii)

¹⁸ World Bank. 2009. *Program Document for a Proposed Credit in the Amount of US\$350 Million to the Socialist Republic of Viet Nam for an Eighth Poverty Reduction Support Operation*. Washington, DC. (June).

¹⁹ International Finance Corporation. 2006. *The Voices of Vietnamese Women Entrepreneur*. Washington, D. C.

government will intensify efforts to support implementation of policy reforms. The program has three main risks (Table 2).

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Macroeconomic instability	The government is undertaking measures to strengthen its monetary policy framework, expand the tax base, and strengthen public expenditure management, with the assistance of development partners including the Asian Development Bank.
Capacity of agencies to implement reforms may be constrained by resources and other emerging priorities	The program reduces this risk by focusing on the policy triggers that constitute high-priority, high-impact policy reforms with some meaningful degree of implementing capacity.
Vested interests resist some of the reforms	These risks are mitigated by the following factors: The program focuses on efforts to support the government's own initiatives and reforms in areas where there is political will. The ongoing weak external environment provides an opportunity to build consensus among stakeholders on difficult policy reform issues and accelerate structural reforms to strengthen small and medium-sized enterprises' resilience.

Source: Asian Development Bank.

IV. ASSURANCE

35. The government and MPI have assured ADB that implementation of the program will conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan documents.

V. RECOMMENDATION

36. I am satisfied that the proposed program cluster and loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the program cluster for the Second Small and Medium-Sized Enterprises Development Program, and
- (ii) the loan in various currencies equivalent to SDR26,537,000 to the Socialist Republic of Viet Nam for subprogram 1 of the Second Small and Medium-Sized Enterprises Development Program, from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft program loan agreement presented to the Board.

C. Lawrence Greenwood, Jr.
Vice-President

23 September 2010

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Increased contribution of SMEs and the private sector to support sustainable high economic growth	Number of newly registered enterprises doubled in 2011–2015 from 339,000 in 2006–2010 Share of employment in SMEs and private sector increased to 63% in 2015 from 53% in 2008	GSO annual statistics GSO household surveys	Assumption Macroeconomic stability remains and economic growth continues Risk External environment deteriorates, increasing stress on fiscal policy
Outcome Improved business environment for more competitive SMEs and private sector operation	By end of 2012: Increased private sector investment per gross investment (baseline 2008: 71%) Reduced cost of starting a business in terms of per capita income (baseline 2008: 13.5%) Employment by SMEs and the private sector increased by at least 5% per year (baseline 57% in 2007) New SMEDP developed	GSO database World Bank's Doing Business report GSO database and MPI SME annual reports MPI reports	Assumptions Government stays on course with key macroeconomic reforms and business regulatory reforms Government is committed to the implementation of administrative procedure reforms Risk Weak coordination of government agencies and stakeholders to participate in implementing reforms
Outputs 1. Policy and institutional framework for SME development improved 2. Business competitiveness strengthened	Consultations with stakeholders improved Directions of SME development programs better clarified, including support for women-owned enterprises (baseline SMEDP 2006–2010) SME statistical database improved and maintained (baseline GSO enterprise survey 2007) 258 business procedures reviewed Number of days required to process a business registration application – reduced (baseline 2008: 10 days)	MPI SME white paper MPI enterprise database SME Five Year Development Plan 2011–2015 GSO enterprise survey database OOG report World Bank's Doing Business reports	Risks Weak capacity of government agencies to implement reforms Vested interests undermine policy reforms being undertaken

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. SME access to finance enhanced	Number of days required to start a business reduced (baseline 2008: 50 days)	World Bank's Doing Business surveys	
	Time and costs of dealing with customs reduced (baseline 2009: 21 days for export clearance and 22 days for import clearance)	Provincial competitiveness index	
	Number of days required to complete land title reduced by 30% (baseline: 45 days in 2009)	World Bank's Doing Business surveys	
	Time to pay taxes reduced (baseline 2009: 1,050 hours)	World Bank's Doing Business surveys	
	Share of longer-term (1 year and above) credit to SMEs in total bank credit increased by 2%–3% annually (baseline 2009: 15%)	Financial statistics from SBV	
	Number of loans approved supported by the government guarantee scheme increased (baseline 1,164 in 2009)	Vietnam Development Bank reports	
	Number of enterprises listed in UPCoM increased (baseline 10 in 2009)	Report from State Securities Commission of Vietnam	
Activities with Milestones			Inputs
1. Improve policy and institutional framework for SME development. 1.1 MPI approved the publication of the first SME white paper summarizing key issues and actions taken to address constraints to SME development in Q3 2010. 1.2 Government issued Decree 56/2009 to reform the policy environment and policy support for SMEs in Q2 2009. 1.3 MPI to submit to Prime Minister for approval a new decision to enhance the role of SME Promotion Council in supporting SME development in Q3 2010. 2. Strengthen the framework for competition policy 2.1 MPI implemented the new national web-based business registration system, which simplifies and unifies the process across 63 provinces and consolidates the information nationally in Q2 2010. 2.2 OOG published in the website all existing administrative procedures affecting national and provincial businesses in Q2 2009. 2.3 Government issued Decree 63/ND-CP on Administrative Procedure Control to institutionalize the control mechanism for administrative procedures from drafting to implementation phase in Q2 2010. 2.4 Government passed Resolution 25/NQ-CP on the simplification of 258 prioritized administrative procedures including those in tax, custom, land, building, and real estate sectors in Q2 2010.			ADB subprogram 1 loan: \$40 million equivalent

Activities with Milestones	
<p>2.5 Government issued Decree 24/2009 on implementing regulations for regulatory impact assessment in Q1 2009.</p> <p>2.6 MOJ reorganized the ministry based on Decree 93/2009 and assigned the General Department to be responsible for law preparation and RIA enforcement Q4 2008.</p> <p>2.7 MOF to implemented pilot e-customs program in 10 provinces with implementation conditions in Q3 2009.</p> <p>3. Improve SME access to finance</p> <p>3.1 SBV issued Circular 12/2010/TT-NHNN to provide guidance to credit institutions on dong lending with negotiation-based interest rate, including for short-, medium- and long-term lending for development investment, service, and business projects in Q1 2010.</p> <p>3.2 Vietnam Development Bank started the credit guarantee scheme for SMEs in Q1 2009.</p> <p>3.3 National Assembly passed the Law on SBV with a provision that allows SBV, under certain circumstances, to regulate the interest rate in Q2 2010.</p> <p>3.4 HNX to commence pilot operations of the UPCoM market in Ha Noi for unlisted public companies Q2 2009.</p>	

ADB = Asian Development Bank, GSO = General Statistics Office, HNX = Hanoi Stock Exchange, MOJ = Ministry of Justice, MPI = Ministry of Planning and Investment, OOG = Office of the Government, RIA = regulatory impact assessment, SBV = State Bank of Vietnam, SMEs = small and medium-sized enterprises, SMEDP = small and medium-sized enterprises development plan, UPCoM = Unlisted Public Company Market.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=41360-01-3>

1. Loan Agreement
2. Sector Assessment (Summary): Small and Medium-Sized Enterprise and Private Sector Development
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Public Information Notice: Viet Nam
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Compliance Status of Subprogram 1 Policy Actions of Small and Medium-Sized Enterprise Development Program Loan 2
11. Summary Program Impact Assessment

DEVELOPMENT POLICY LETTER

Mr. Haruhiko Kuroda
President
Asian Development Bank
Manila, Philippines

Subject: Viet Nam SME Development Program 2

Dear Mr. Kuroda,

This Letter of Development Policy highlights the Government of Viet Nam's commitment to sustain strong employment growth, and to further reduce poverty and improve living standards in Viet Nam. This commitment and actions to achieve it are highlighted in the country's results-based Socio-Economic Development Plan (SEDP 2006-2010). The Government has just completed a review of plan implementation that concluded we are on target to realize, and in some cases exceed, most targets. We have also started the consultation process to formulate a Socio-Economic Development Strategy (2011-2020) and a SEDP 2011-15). While the details of this strategy and policy are still being finalized, the focus will continue to be on poverty reduction and raising incomes and living standards by generating increased, and more productive, employment. Ongoing dialogue with ADB and other development partners is valuable in helping national stakeholders to develop strategies and actions to build on recent achievements, while also ensuring the realization of social and environmental goals. Recent experiences in Viet Nam and elsewhere in the region highlight the pivotal role of a competitive business sector and thriving small and medium enterprises (SMEs) in generating the increased employment and incomes needed to sustain success in reducing poverty. Hence this remains the Government's over-arching priority. The SDPL2 program will make an important contribution to this process.

The Global Crisis and Recent Economic Performance

Having recorded impressive economic growth of about 7.6% over the last four years, Viet Nam entered the recent global financial crisis with domestic economic overheating, largely stemming from massive capital inflows. Our efforts to sterilize these capital inflows initially were not successful in preventing a boom in bank lending, an accelerating inflation rate, and a large trade deficit. Determined and coordinated policy measures by the Government, led by the State Bank of Viet Nam (SBV), commencing from March 2008 onward, eventually succeeded in arresting accelerating inflation pressures and reducing the trade deficit to manageable levels. As inflationary pressures waned, largely as a result of falls in global commodity prices, and economic growth prospects rapidly weakened due to the global economic crisis, the Government and SBV reacted swiftly and shifted policy direction from one of economic stabilization to that of supporting economic activities. On the monetary front, SBV has gradually eased monetary policy in a flexible and cautious manner since Q3 of 2008. The Government also developed a countercyclical economic stimulus package consisting of four pillars: (i) enhancing State investment derived from the budget and additional bond issues; (ii) providing exemptions, reductions, and deferrals in taxes, intended to support business and bolster domestic consumption; (iii) delivering interest subsidies

and credit guarantees intended to keep credit flowing; and (iv) allocating additional budget expenditure for social welfare.

The policies produced the desired results in terms of economic growth, but significant challenges remain. Viet Nam has withstood the global crisis better than most other countries in the region. Having recorded the slowest growth rate of 3.1% in Q1 2009, economic growth is expected to be around 6.5% in 2010. However, the large fiscal stimulus package and easing of monetary policy have contributed to a possible return of inflationary pressures throughout 2010. In addition, given Viet Nam's high dependence on external economic growth, a likely weak global recovery will continue to constrain domestic economic growth for few years to come. Even with a strong initial recovery, the economic growth rate achieved in 2009 was about 2% below the country's potential growth needed to continue the recent pace of poverty reduction.

Going forward, strong domestic efforts with careful macroeconomic management will need to continue. At the same time, the Government sees the crisis experience as an opportunity to build consensus among stakeholders on difficult policy reform issues, and to advance its medium-term objectives pertaining to private sector and SME development; recognizing that these reforms are fundamental to supporting higher medium-term economic growth rates, and reducing unemployment and poverty reduction.

The SDPL2 Program

The Government has long-recognized the important role of SMEs in achieving its medium-term economic growth and poverty reduction targets, as they represent over 97% of all enterprises in Viet Nam. Reforms implemented under both SEDP 2006-2010 and SMEDP 2006-2010 have produced significant results, including in improving the business registration process, supporting credit growth, and enhancing SMEs' access to international markets. These reforms have supported a rapid increase in the proportion of total employment in the private sector.

Despite significant progress achieved, some challenges remain. The experience in the last two years suggests that, due to a changing economic environment, the task of creating productive jobs for an estimated 1.7 million of young workers entering the labor market annually has become more difficult. As highlighted in the draft SEDP 2011-2015, to answer this challenge it is important to make SMEs more efficient, productive, and competitive. This can be done in large part by addressing key institutional and structural impediments that adversely affect SME development. In this context, the SDPL2 Program will focus on three core policy areas, namely:

- (i) Improving the framework for promoting SME development;
- (ii) Strengthening the framework for competition policy;
- (iii) Enhancing SMEs' access to finance.

An enabling environment for SME and private sector development requires a supportive framework of legal, labor, fiscal and monetary policies that cumulatively serve to promote the foundations for competitive markets, by fully involving all of the concerned stakeholders. Our experience suggest that an effective medium-term policy framework, such as SMEDP 2006-2010, is required to coordinate and integrate government priorities, policies, and plans so as to create the competitive markets that are so essential for the SME sector. In this light, the Government is reviewing the

implementation of SMEDP 2006-2010 to help inform the way forward. The Government recently issued Decree 56/2009 to redefine the State's support for SME development. The Decree identifies the roles of different state agencies in implementing SME development policies in a number of areas, such as access to finance, land access, technology adoption, and dissemination of information relevant to SMEs. In developing SME policies, there is further need to improve dialogue between the Government and the main pertinent stakeholders. The Government intends to strengthen these activities by institutionalizing the framework and improving participation of all stakeholders, including at the provincial level and the role of women as owners of businesses.

The Government provided extensive temporary measures to assist SMEs to cope with the impacts of the recent global economic crisis. But, the Government also 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. These reforms will consolidate the previous efforts at regulatory simplification, and embeds the policy focus in a comprehensive framework for measuring the costs and benefits of regulatory proposals, as well as for their elimination.

Significant progress has been achieved in improving SMEs' access to finance during the last five years, but surveys suggest that access to finance remains SMEs' top constraint for business growth. This indicates that a more comprehensive effort is needed to ease this particular constraint. As constraints across SMEs are not uniform, the challenge going forward is to ensure the availability of various financial products and services to meet their various needs. For example, smaller SMEs and new entrants are typically more constrained by collateral and their limited capacity to borrow. They need simplification of procedures to obtain land user rights, and further development of the leasing industry, while enhanced financial institutions experienced in dealing with SMEs would help in improving financing access for this segment of enterprises. The newly introduced nationwide credit guarantee system will ease SMEs' access to medium-term investment for investment and innovation. The establishment of the Unlisted Public Company Market (UPCoM), launched in June 2009, will assist larger SMEs to access equity financing, while at the same time enhance their corporate governance practices.

The above reforms are only a subset of the Government's broader reform agenda. Many aspects of the broader reform agenda will also help to improve the environment for business and investment. Efforts are being made to accelerate and improve the efficiency of public expenditure to accelerate infrastructure development. Major efforts are being made to reform the education system, so as to uplift standards and enhance its effectiveness. The net results of these comprehensive reforms will be a dramatically improved business environment over the next decade.

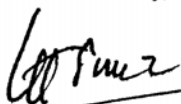
Conclusion

The Government remains committed to building on recent success in reducing poverty and improving living standards. Business led employment creation is a critical element of efforts to achieve these goals. This SME development program will help sustain, and

build on, recent successes in SME development and employment generation. The recent global crisis has served to increase and underline the urgency of the need for action to improve Viet Nam's competitiveness. The actions outlined in this program should help position Viet Nam to create an enhanced SME development environment, and position Viet Nam to take advantage of new post-crisis opportunities to further expand and develop SME employment and poverty reduction.

The Government highly appreciates the support of ADB in formulating and implementing this program.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Vo Hong Phuc', written over a horizontal line.

Vo Hong Phuc
Minister of Planning and Investment
August 30, 2010

POLICY MATRIX AND MEDIUM-TERM DIRECTION AND GOALS

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 ^a Milestones for Subprogram 2 (October 2010)–March 2012	Post-Program Policy Partnership Framework
1. Enhancing the Framework for Promoting SME Development			
Improve policy/planning framework for SME development initiatives (MPI)	<p>1.1 MPI approved publication of the first SME White Paper summarizing key issues and actions taken to address constraints to private sector/SME development.</p> <p>1.2 MPI upgraded SME information website to include links with available statistical data of SMEs.</p> <p>1.3 Government issued Decree 56/2009 to reform the policy environment and support for SMEs, with a provision to support women-owned enterprises</p> <p>1.4 Government issued Resolution No. 22/2010 to provide guidelines for implementation of Decree 56 on provision of support policies for SMEs.</p> <p>1.5 MPI started seeking inputs from line ministries, provincial governments, business association and other stakeholders on the implementation of SME development policies (Decree 56 and Resolution 22)</p> <p>1.6 MPI submitted to Prime Minister for approval a new Decision to enhance the role of SME Promotion Council</p>	<p>1.1 MPI prepared a report to review implementation of the first Five Year SME Development Plan 2006-2010.</p> <p>1.2 MPI to conduct stakeholders consultation, involving relevant line ministries, provincial government, Viet Nam Women Union, development partners and other stakeholders to discuss the draft of SME Development Plan 2011-2015.</p> <p>1.3 MPI to issue SME data with breakdowns by size of enterprises in accordance with the SME definition stated in Decree 56/2009</p> <p>1.4 The Government to issue the second Five Year SME Development Plan 2011-2015.</p> <p>1.5 MPI to update the SME White Paper to reflect the recent state of SME development</p>	Institutionalized better policy making process for promoting SME development with increasing use of SME data and improved stakeholder consultation

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 ^a Milestones for Subprogram 2 (October 2010)–March 2012	Post-Program Policy Partnership Framework
	in supporting SME development.		
2. Strengthen the Framework for Competition Policy			
2.1 Improve and develop national business registration system (MPI)	2.1 MPI implemented a new national web-based business registration (NBRS), which simplifies and unifies the process across 63 provinces and consolidate the information nationally.	2.1 MPI to implement training to build capacity of provincial registrar offices in implementing the new national business registration system	Established an efficient and consistent electronic -base national business registration system
2.2 Simplify administrative procedure (OOG),	<p>2.2 OOG published in its web site all existing administrative procedures affecting businesses at both the national and provincial levels.</p> <p>2.3 Government issued Decree 63/ND-CP on Administrative Procedure Control to institutionalize the mechanism for controlling administrative procedures from drafting to implementation phase.</p> <p>2.4 Government issued Resolution 25/NQ-CP on the simplification of 258 prioritized administrative procedures including those in tax, custom, land, building and real estate sectors.</p>	<p>2.2 Government to establish a more permanent national agency to implement administrative procedure control and simplification as required by Decree 63/2010</p> <p>2.3 OOG to coordinate with relevant government agencies to complete simplification of priority administrative procedures affecting businesses at both the national and provincial levels.</p> <p>2.4 Government to pass resolutions on simplification of over 5,000 administrative procedures under the mandate of 24 ministries and sectoral agencies and to implement an overall reform on administrative procedures relating to organizations' and individuals' activities.</p>	Improved business certainty and reduced the cost of compliance with Government regulations.
2.3 Improve the quality of the new legal documents and provide legal Support/Protection for Businesses (MOJ).	<p>2.5 National Assembly amended Law on Laws to strengthen provisions on consultation and regulatory impact assessment.</p> <p>2.6 Government issued a Decree 24/2009 to guide the implementation of regulatory impact</p>	<p>2.5 Government to issue a manual and guidelines for implementing regulatory impact assessment.</p> <p>2.6 MOJ to implement training program to build capacity to implement RIAs.</p>	Institutionalized a standard system of regulatory review and quality control to improve the quality of business related regulations

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 ^a Milestones for Subprogram 2 (October 2010)–March 2012	Post-Program Policy Partnership Framework
	<p>assessment.</p> <p>2.7 MOJ reorganized the ministry based on Decree 93/2009 and assigned the General Department to be responsible for law preparation and RIA enforcement</p> <p>2.8 Government issued Decree 66/2008 on legal support to enterprises to ensure their rights to conduct business are protected.</p> <p>2.9 VCA published a report reviewing the status, and providing perspectives on, economic concentration in Viet Nam.</p>	<p>2.7 MOJ to review implementation of Decree 66/2008 on Legal Support for enterprises and proposes any additional reforms needed.</p> <p>2.8 VCA to complete RIA on the revision of the Law on Competition</p> <p>2.9 VCA to draft revision of Law on Competition to submit the National Assembly</p> <p>2.10 VCA to conduct advocacy on competition policy to SME and large enterprises</p>	<p>Fair competition (including free entry and exit) promoted for SMEs across all sectors in Viet Nam</p>
2.4 Simplify tax and customs policies and administration procedures. (GDC/MOF)	<p>2.10 MOF implemented pilot e-customs program in 10 provinces</p> <p>2.11 MOF issued a Master Plan for implementation of the ASEAN Single Window.</p>	<p>2.11 MOF to review implementation of the pilot e-customs system and develop a road map for full implementation of the e-customs system</p> <p>2.12 MOF to endorse a medium-term plan for customs modernization.</p> <p>2.13 MOF to introduce new tax payment methods to reduce time needed for tax payment.</p>	<p>Reduced time and costs of dealing with Tax administration and Customs.</p>
2.5 Improve labor market regulation, labour relation and labor market data collection system	<p>2.12 MOLISA implemented provision of the Social Insurance Law replacing severance pay with unemployment insurance</p> <p>2.13 MOLISA established a Center for Industrial</p>	<p>2.14 MOLISA to review implementation of unemployment insurance, and its impact on workers and SME employment.</p> <p>2.15 MOLISA to regularly publish key</p>	<p>A more flexible labor market developed to support SME employment and development</p>

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 ^a Milestones for Subprogram 2 (October 2010)–March 2012	Post-Program Policy Partnership Framework
	Relations to support improved labor relations.	labor market data	
3. SME Access to Finance			
3.1 Improve SMEs' access to conventional commercial bank lending (SBV)	<p>3.1 SBV issued Circular 12/2010/TT-NHNN to provide guidance to credit institutions on VND lending with negotiation-based interest rate, including for short-, medium- and long-term lending for investment and business projects.</p> <p>3.2 National Assembly passed the Law on SBV with a provision that allows SBV, under certain circumstances, to regulate the interest rate mechanism applicable to credit institutions and between credit institutions and customers.</p> <p>3.3 MPI in collaboration with MOF completed a final draft of a joint-circular on the government-funded capacity building programs to improve SME competitiveness and access to finance</p>	<p>3.1. SBV to provide training assistance to improve the capacity of financial institutions in providing lending to SMEs as provisioned in the Decree 56.</p> <p>3.2 SBV to review implementing regulations (decrees and circulars) related to leasing to ensure their consistency with the newly passed Law on Credit Institution.</p>	<p>Developed a more flexible interest rate environment that is conducive for commercial bank lending to SMEs.</p> <p>Develop a more diverse range of debt financing products and services for SMEs to access.</p>
3.2 Improve SMEs' access to alternative financial services (SBV)	3.4 Government issued Decree 95/2008 aimed at improving SMEs' access to leasing finance.		
3.3 Establish credit guarantee activity in support of SMEs' improved access to (debt) finance (MOF)	<p>3.5 Government implemented the Credit Guarantee Scheme for SMEs.</p> <p>3.6 Based upon the initial experiences, VDB reviewed the Credit Guarantee Scheme and proposed revision to MOF focused on credit risk and collateral sharing with the participating banks.</p>	3.3 Government (SBV) to issue revised legal framework to include more appropriate credit risk and collateral sharing with participating commercial banks to foster the establishment of a sustainable credit guarantee scheme	Maintained a viable and sustainable market-based credit guarantee system in support of greater SME-oriented lending.
3.4 Improve access to equity finance and corporate governance practices in larger SMEs	3.7 MOF issued a Decision on the trading of unlisted (public) securities at HNX, to support the	3.4 MOF to conduct a diagnostic study of UPCoM's initial operations, assessing	Improved access to equity finance and corporate governance standards and practices in larger SMEs.

Policy Action	Subprogram 1 Summary of Actions Accomplished Under Subprogram 1 (September 2010)	Subprogram 2 ^a Milestones for Subprogram 2 (October 2010)–March 2012	Post-Program Policy Partnership Framework
(MPI and MOF)	development of the UPCoM. 3.8 HNX commenced pilot operations of the UPCoM market in Hanoi for unlisted public companies. 3.9 MPI submitted to the Government a revised Decree 139/2007/ND-CP to improve existing regulations on the rights and protection measures for minority investors in joint stock companies	its effectiveness as an equity trading platform for larger SMEs, and provide recommendations for improvement. 3.5 MPI to conduct a review of the Enterprise Law's corporate governance provisions, and provide recommendations for improvement, especially with regard to: i) financial disclosure standards; and ii) investor protection issues in joint stock companies.	

ASEAN = Association of Southeast Asian Nations, BIDV = Bank for Investment and Development of Vietnam, CIT = corporate income tax, GDC = General Department of Customs, HNX = Hanoi Stock Exchange, MOF = Ministry of Finance, MOJ = Ministry of Justice, MOLISA = Ministry of Labor, Invalids, and Social Affairs, MPI = Ministry of Planning and Investment, NRAFT = National Registration Agency of Secured Transactions, OOG = Office of the Government, RIA = regulatory impact assessment, SBV = State Bank of Vietnam, SME = small and medium-sized enterprise, UPCoM = Unlisted Public Company Market, VBARD = Vietnam Bank for Agriculture and Rural Development, VCA = Vietnam Competition Authority, VDB = Vietnam Development Bank.

^a The Government will issue a new SME Development Plan 2011-2015 in 2011, the triggers may be revised during the processing of the Subprogram 2 to reflect the Government's new SME policies.