

Financial Policies for Small and Medium Enterprises (SMEs) in Vietnam Nowadays

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ABSTRACT

Small and medium-sized enterprises (SMEs) have been continuously growing in both quantity and quality, contributing 48% to the national GDP and generating 50% of total employment in the economy. However, alongside their achievements, SMEs still face certain limitations such as outdated technology, weak business management models, low labor productivity, and lack of transparency in information. These drawbacks somewhat hinder SMEs' access to financial sources in the financial market, such as issuing stocks, seeking capital from strategic partners, and attracting investments from investment funds. According to statistics, the banking credit channel remains the primary source of capital, especially medium and long-term capital, meeting the investment needs for expanding business operations of SMEs. On the one hand, this could impede the sustainable development of SMEs, and on the other hand, it also poses liquidity pressures on the banking system. In recent years, urbanization and socio-economic development nationwide have achieved significant accomplishments in economic development, balanced social development, stability, and environmental protection. Among these, promoting SMEs' innovation and creativity is the driving force contributing to the economic growth and national budget revenues. The State has implemented various policies to support and promote SME development. Resolution XII of the Party Congress also emphasized the encouragement of entrepreneurship and the development of Vietnamese enterprises to become the backbone force, leading in the industrialization and modernization process. However, the implementation of support policies, including financial policies, still faces many challenges. SMEs find it difficult to access credit sources. This article will assess the current situation of implementing financial policies and propose solutions to build a favorable startup ecosystem for SMEs to contribute to enhancing the competitiveness and economic growth of the country.

Keywords: Financial policy, capital mobilization, SMEs, startups, support.

1. Problem Statement

According to the Law on Support for Small and Medium Enterprises in 2017, SMEs include micro-enterprises, small enterprises, and medium-sized enterprises. Currently, SMEs account for 98% of total operating businesses in our country, contributing about 45% to GDP, 30% to the value of exported goods, 31% to total state budget revenue, and attracting about 50% of the country's workforce. However, among approximately 700,000 SMEs in Vietnam, medium-sized enterprises only account for 1.6%, while the rest are small and micro-enterprises. The total registered capital of SMEs is approximately \$121 billion, accounting for 30% of the total registered capital of enterprises. Therefore, SMEs play an important role in job creation, increasing labor income, mobilizing social resources for investment and development, poverty reduction... In Vietnam today, SME development is a matter of particular concern to the State. The success of a country depends heavily on

the development of enterprises. In the current context of fierce global competition, the role of the State in relation to enterprises, especially SMEs, is more important than ever.

In 2016, Vietnam was chosen as the "National Startup Nation", demonstrating that entrepreneurship is receiving special attention from the State and society, and one of the urgent issues is to help SMEs start up and develop rapidly and strongly in the current integration context. However, the rate of SMEs accessing credit sources is still low due to some following realities:

Firstly, most SMEs are very limited in their own capital, so the demand for capital for production and business is very large. However, borrowing from banks or credit funds for SMEs is still difficult. Besides difficulties such as limited capital, weak management experience, and outdated production technology, the legal provisions on procedures for mortgage, collateral, and handling of secured assets for enterprises are not clear, consistent, and do not create favorable conditions for banks and enterprises to find common ground.

Secondly, SMEs often encounter many difficulties from accessing information, choosing locations to build factories, headquarters, stores as well as carrying out compensation, land clearance through negotiated mechanisms to implementing procedures to acquire production and business premises.

Thirdly, the reality shows that access to information about product markets and credit borrowing sources is often limited. The Credit Guarantee Fund for SMEs is still ineffective, and there are difficulties in accessing land... Therefore, creating mechanisms, procedures for SMEs to access credit sources is a urgent requirement nowadays to promote sustainable development of SMEs.

2. Theoretical Framework and Research Methodology

This article is based on the Marxist-Leninist methodology, the ideology of Ho Chi Minh, and the policies of the Party and the State of Vietnam regarding the development of SMEs in our country. Additionally, it utilizes some related research materials and findings, surveys related to the implementation of financial support policies for SMEs, collected from statistical yearbooks, reports on policy implementation from State Bank agencies, commercial banks, and data from the General Statistics Office. The latest information on the implementation status of policies is also collected.

Specifically, the qualitative research methods used include:

- **Synthetic method:** Utilized to inherit relevant theories related to the topic to form the theoretical basis for the article.
- **Statistical and comparative methods:** Through collecting secondary information and data, processing them to compare and evaluate the focus of the research.
- **Analytical method:** From information and data, the author analyzes and synthesizes the current situation of financial support policies for SME development in Vietnam. Research on the difficulties and obstacles faced by SMEs in accessing loan capital is conducted to help the State plan effective policies.

3. Results and Discussion

3.1. Current Situation of Small and Medium-sized Enterprise Development

The number of small and medium-sized enterprises (SMEs) in operation has been steadily increasing over the years. In 2022, the number of operating enterprises increased due to the acceleration of startups. In 2022, the number of newly established enterprises reached a record high (148.5 thousand enterprises), significantly higher than in previous years.

This reflects the economic recovery after the State changed its strategy to combat the COVID-19 pandemic, improved investment environment, and the efforts of entrepreneurs in startup initiatives.

The increase in startup enterprises has contributed to the economic growth exceeding the set target (8.02% compared to 6-6.5%) and is a positive sign for accelerating startups in the coming years.

Among these, SMEs account for a large proportion of the Vietnamese business community, employing nearly half of the total workforce and significantly contributing about 40% of the GDP annually. Playing a crucial role in the private economic sector, the SME sector has contributed to the transformation and growth of Vietnam's economy in recent years.

Overall, the number of SMEs in Vietnam is growing rapidly. SMEs have attracted a significant amount of domestic capital into production and business, contributing to the socio-economic development of our country. SMEs have enhanced their production and business capacity, creating more jobs and improving income for workers. SMEs are diversifying their product lines.

SMEs have made a considerable encouraging contribution to the value of production in various sectors, contributing to the annual budget of our country. The conditions for SME development have been concerned and somewhat improved by state management agencies, creating conditions for the establishment and operation of SMEs.

Despite these positive changes, the reality also shows that SME development in Vietnam is not closely associated with the common, long-term sustainable interests of society; Small-scale SMEs in terms of capital, labor, and weak competitiveness; The level of management capacity in production and business of business

owners; technical expertise, professional skills, and labor skills in SMEs are still very limited; Most machinery and equipment are outdated, not applying advanced science and technology to production and business activities as well as management; SMEs face difficulties in capital, and their ability to self-finance capital is still poor; Product competitiveness is still low, and the market for product consumption is small; The ability to link, cooperate, and participate in associations of SMEs is still limited; Conditions for SME development have improved, but there are still many limitations.

3.2. Achievements in Small and Medium-sized Enterprise Development

In recent years, thanks to the issuance of a series of mechanisms, policies, and the implementation of many positive measures, Vietnam's business environment has undergone positive changes; it has spurred the spirit of entrepreneurship and the strong return to activity of SMEs. The number of newly established enterprises and the number of enterprises temporarily suspended returning to operation has increased. Since 2016, there have been over 100 thousand new enterprises established each year. In the years 2017-2018, the whole country had 258,134 newly registered enterprises and 60,458 enterprises temporarily suspended returning to operation due to the improved business environment and the supportive policies of the State for enterprise development [1, p.22-23]. This resurgence coincided with the time when the Law on Enterprises 2014 and the Law on Investment 2014 officially took effect from July 2015. In fact, these laws have created flexible mechanisms, directly impacting, and facilitating businesses in their business activities, as businesses have the right to decide on the quantity, form, and content of their stamps; they are free to do business in sectors not prohibited by law; at the same time, the registration time for business establishment has been shortened to 03 days. In general, in the first 9 months of 2018, the whole country had 96,611 newly established enterprises with a registered capital of 963,411 billion VND, an increase of 2.8% in the number of enterprises and an increase of 6.7% in registered capital. In the third quarter of 2018 alone, there were 32,080 newly established enterprises in the whole country, down 15% compared to the second quarter of 2018 and down 1.9% compared to the same period in 2017. The average registered capital per enterprise reached 10.0 billion VND, an increase of 3.8% compared to the same period in 2017. The number of employees registered by newly established enterprises was 819,742 employees, down 7.5% compared to the same period in 2017. The number of enterprises returning to operation was 22,897 enterprises, up 8.5% compared to the same period in 2017. The total registered capital added to the economy was 2,845,331 billion VND, up 32.7% compared to the same period in 2017, including: 936,411 billion VND from newly registered enterprises (up 6.7% compared to the same period in 2017) and 1,881,920 billion VND (up 51.6%) through 32,144 capital increase registrations of operating enterprises (up 16.6%) [7].

In recent years, there has been a vibrant trend in the development of innovative startup business models, focusing on some sectors such as construction, processing, manufacturing, automotive industry, aviation transportation, finance, and banking. Currently, there are over 3,000 innovative startup companies operating, many of which are successful SMEs [1, p.23].

Along with the surge in quantity, SMEs have played an important role in the structural shift in industries by creating jobs, attracting labor from the agricultural sector, investing in niche markets, and promoting business development. On average per year (2016-2017 period), the SME sector attracted the most labor with 8.69 million workers (accounting for 60.9% of the total labor force in the enterprise sector in the economy) [3, p.31]. In the years 2017-2018, the number of newly established SMEs also created nearly 2.3 million new jobs.

The SME sector has demonstrated its role and significant contributions to driving the transformation and take-off of the economy. In the period 2015-2017, the private economic sector (of which SMEs are an important part) contributed about 50% of GDP, over 30% of state budget revenue, and 45% of total investment capital. In 2018, the private economic sector contributed about 42.1% of the GDP of the economy and showed signs of increasing [1, p.24]. State budget revenue from private enterprises has continuously increased by over 16%. State budget revenue from production and business activities of the private economic sector surpasses that of the FDI sector and the state-owned enterprise sector. These signals reflect the strength in scale, number of subjects, and improvement in the efficiency of the private economic sector [1, p.24]. The labor productivity growth rate of this sector is relatively stable. Although in recent years, the labor productivity growth rate of the whole country has continuously fluctuated, the labor productivity growth rate of the private economic sector, mainly SMEs, remains stable at around 4.8%-5.8% [7]. In general, in the 2016-2017 period, SMEs generated revenue that dominated the entire enterprise sector, with an average of 10.8 million billion VND per year, accounting for 56.4% of the total revenue of the entire enterprise sector, an increase of 64.4% compared to the average in the 2011-2015 period [3, p.36].

3.3. Limitations and Weaknesses of Small and Medium-sized Enterprises

Although in recent years, the number of newly established SMEs has been high, there is still a significant portion of SMEs that cannot survive, remain competitive, or operate efficiently. Currently, SMEs still find it very difficult to access societal resources to serve production and business activities such as recruiting highly skilled labor, accessing land, accessing credit from banks, sources of capital from funds, and applying science and technology. According to the World Bank's Business Environment Assessment report for 2018, Vietnam's credit access index in 2018 was ranked 29th out of 190 economies. In the first 6 months of 2018, the credit balance for SMEs accounted for about 21% of the total credit balance in the economy. Up to now, about 60% of

SMEs still have not been able to access bank credit [7]. Access to land still faces many difficulties and cannot meet the requirements (land allocation procedures are very slow and the costs are too high, causing businesses to miss business opportunities). SMEs lack market information as well as channels for dialogue with ministries, branches to seek support and protection, especially information about commodity prices, buying and selling procedures, import-export procedures, as well as production processes and quality requirements [1, p.38].

A notable point today is the weak linkage of Vietnamese SMEs, with very few connections between small businesses and larger-scale enterprises. According to the Asian Development Bank's Development Outlook report, currently, only 21% of Vietnamese SMEs participate in global supply chains, compared to 30% in Thailand and 46% in Malaysia [7].

The formation and development of private economic conglomerates in Vietnam mainly occur after a short accumulation period, relying on self-owned capital and receiving little support from the State. The development process in the conglomerate model of the group of private economic conglomerates currently faces some difficulties in management, models, as it mainly develops from family business scales. The linkages within the conglomerate model are still relatively simple, unable to implement other "soft" linkages through agreements, cooperation in using brands, services, research results innovation, application of common science, and technology in the conglomerate according to market principles. The fields of operation of economic conglomerates and enterprises in the private sector mainly focus on some sectors such as services, real estate... Therefore, there is a lack of a strong "leading" force of enterprises to be able to lead the Vietnamese enterprise "train" to participate in domestic and international production chains and value chains.

Since the majority of Vietnamese enterprises are small-scale, it is very difficult to increase employment through specialization or take advantage of the scale. On the other hand, due to small scale, the ability to accumulate and concentrate capital for investment, technology innovation, and expansion of production scale is almost nonexistent. This significantly affects the competitiveness of SMEs, especially in the context of deep integration into the international community nowadays [7].

3.4. Approach and Policies in Financial Support for Small and Medium Enterprises

With the government's commitment to accompanying businesses, in recent years, the National Assembly, Government, Prime Minister, and Ministries have issued numerous supportive policies for enterprises. These policies include support for technology application and transfer, participation in business incubators and coworking spaces, information support, communication, trade promotion, networking for startups and innovation, and attracting investment from startup funds. Other support includes assistance with legal procedures, production premises, office space, technology, human resource training, and credit guarantee. Among these policies is financial assistance for small and medium enterprises (SMEs), aiming to provide motivation and new directions for enterprises in the startup process.

The Law on Support for Small and Medium Enterprises, passed by the National Assembly and effective since January 1, 2018, includes many preferential provisions supporting SMEs in production and business. This law provides an important legal framework for various elements of the economy to support the strong development of SMEs. Additionally, the law sets conditions for innovative startup enterprises to receive support, aimed at overcoming difficulties in accessing loan capital. To implement this law, the Government has issued several guiding documents, such as Decree No. 34/2018/ND-CP on the establishment, organization, and operation of the Credit Guarantee Fund for Small and Medium Enterprises, and Resolution No. 35/NQ-CP on support and development of enterprises until 2020. According to the resolution, by 2020, there will be at least one million operating enterprises in the country, including large-scale enterprises with strong resources. Subsequently, in March 2018, the Government issued Decree No. 39/2018/ND-CP providing guidance on the Law on Support for Small and Medium Enterprises.

In line with the government's commitment to accompanying businesses, the Ministry of Justice has plans to implement a legal consulting network for enterprises in economically and socially difficult areas. This aims to provide direct support for the legal needs of businesses and help them fulfill international integration commitments.

Moreover, in recent times, the banking sector has implemented various solutions and policies to overcome difficulties for SMEs in accessing credit capital. For instance, the State Bank of Vietnam issued Circular No. 45/2018/TT-NHNN guiding credit institutions to lend with guarantees from the Credit Guarantee Fund, facilitating SMEs' access to loans. Alongside policy issuance and guidance documents, the State Bank of Vietnam organizes banking-business connection programs in many localities to promote credit support for SMEs in production and business development. Implementing policy mechanisms and directions, credit institutions are diversifying credit provision forms, streamlining administrative procedures, and actively promoting incentive programs to support enterprises in increasing value-added.

Furthermore, some exemplary localities like Hanoi, Ho Chi Minh City, and Hai Phong have issued orientations, objectives, and basic solutions to support and develop innovative startup enterprises. For example, in Ho Chi Minh City, the People's Committee issued decisions on implementing programs for scientific research, technology development, innovation, competitiveness enhancement, and international integration.

It can be said that the government's determination to vigorously implement support policies for innovative startup SMEs has achieved many noteworthy results, contributing to the overall economic development of the

country and helping SMEs navigate in the vast sea. The entire country is buzzing with entrepreneurial energy, transforming Vietnam into a startup nation.

3.5. Current situation of institutional mechanisms for mobilizing capital for small and medium-sized enterprises (SMEs) in Vietnam

The establishment of mechanisms for capital mobilization for small and medium-sized enterprises (SMEs) in Vietnam is linked to the implementation of the Party's policy on the development of enterprises in general, and SMEs in particular. The initiation of the institutionalization process of the Party's policy on supporting SMEs began with the issuance of Government Document No. 681/CP-KTN on June 20, 1998, outlining the strategic direction and policies for the development of SMEs, which temporarily defined SMEs based on capital or labor scale.

Recognizing the important role of SMEs in the development of the socialist-oriented market economy, on November 23, 2001, the Government issued Decree No. 90/2001/ND-CP on assisting the development of SMEs. It stipulated that SMEs are independent production and business establishments registered according to current laws, with registered capital not exceeding 10 billion VND or an average annual workforce of no more than 300 people. The government supports SMEs through various financial and credit measures, applying them for a certain period in specific sectors, including traditional sectors and in areas needing developmental support. It encourages financial institutions, enterprises, and individuals to invest in SMEs, establishes the Credit Guarantee Fund for SMEs to guarantee them when they lack collateral for borrowing from credit institutions, and establishes the SME Development Bureau under the Ministry of Planning and Investment to support and collaborate with the Ministry in implementing functions and promoting the development of SMEs. The next step in institutionalizing mechanisms for capital mobilization for SMEs was the issuance of Decree No. 56/2009/ND-CP on June 30, 2009, on supporting SME development, which provided more specific regulations on: (1) Criteria for determining SMEs in each economic region with three groups: micro, small, and medium-sized enterprises; (2) Assistance for SMEs, especially those owned by women, employing many female workers, combined with other programs to help them access capital; (3) The Ministry of Finance, in coordination with relevant agencies, is responsible for developing the mechanism for establishing and operating credit guarantee funds, submitting it to the Prime Minister for decision, and guiding the implementation of credit guarantee operations for SMEs; (4) The State Bank of Vietnam, in coordination with relevant agencies, submits to the Prime Minister for issuance mechanisms to encourage and allocate some technical support projects to enhance the capacity of appropriate financial institutions to expand credit to SMEs, diversify products and services suitable for SMEs, and provide financial advisory and other support services to SMEs; (5) State training programs support SMEs in enhancing their capacity to prepare projects and business plans to meet the requirements of credit institutions when assessing loan applications from SMEs. To support innovative startup enterprises, on April 17, 2013, the Prime Minister issued Decision No. 601/2013/QĐ-TTg, officially launching the SME Development Fund (abbreviated as SMEDF) to provide financial support and enhance the capacity of SMEs to develop new business ideas. The conditions for documentation and loan procedures have also been facilitated by SMEDF and endorsed by banks to enable SMEs to access funding more quickly.

To access funding support from the fund, SMEs can choose between two flexible options: submitting loan applications to SMEDF or submitting loan applications to commercial banks authorized by the fund. Each option requires SMEs to meet all documentation requirements. To specify Decision No. 601/2013/QĐ-TTg, on October 28, 2015, the Ministry of Planning and Investment issued Circular No. 13/2015/TT-BKHDT on the priority sector list and criteria for selecting priority subjects of SMEDF. In addition, to create more favorable conditions for SMEs to mobilize capital, SMEDF also organizes workshops, seminars for SMEs to connect with other domestic and foreign enterprises, and experienced financial advisors to increase their opportunities for accessing funding and seeking potential investors.

An important milestone in perfecting the institutional framework for SMEs was the passage of the SME Support Law by the National Assembly on June 12, 2017, which updated the criteria for determining SMEs and clearly defined the principles of SME support. At the same time, the law also stipulates sources of support for SMEs, including: Credit support with state support and guarantees; Support from the state budget; Support from tax exemptions, reductions, fees, land rentals, land use fees, and other payments to the state budget as prescribed by law; Legal sources of support from domestic and foreign organizations and individuals. Funding support for SMEs must be budgeted, appraised, approved, and settled in accordance with the law.

Specific provisions of the SME Support Law are reflected in Government Decree No. 39/2018/ND-CP dated March 11, 2018, in which: (1) Specific criteria for determining SMEs by sector are detailed; (2) Investment in innovative startup SMEs is regulated; the establishment, organization, management, and operation of startup investment funds and the mechanism for using local budget funds for investment in innovative startup SMEs; the criteria for innovative startup SMEs meeting the investment conditions of local state financial institutions; the form and method of investment; (3) Decisions to invest in innovative startup SMEs from the capital of startup investment funds not dependent on investment decisions of local state financial institutions; At the same time, to resolve institutional barriers to capital mobilization for startup SMEs, in 2020 the Prime Minister issued Directive No. 09/CT-TTG on creating favorable conditions for innovative startup enterprises.

To enhance the effectiveness of implementing the SME Support Law in 2017, in a new context, on August 26, 2021, the Government issued Decree No. 80/2021/ND-CP providing detailed regulations and guidance on implementing certain provisions of the SME Support Law to replace Decree No. 39/2018/ND-CP, which continued to update the criteria for determining SMEs (from Article 5 to Article 10), and specified the responsibilities of SMEs in self-identifying themselves as micro, small, or medium-sized enterprises to access appropriate support measures.

Decree No. 80/2021/ND-CP also supplements the principles of implementing SME support, specifically: Based on the balanced resource capacity and priority support direction in each period, the SME support agency determines the number of eligible SMEs to receive support, ensuring the following principles: SMEs submit applications first receive support first; SMEs owned by women, employing many female workers, and social enterprises as defined by law receive support first; In cases where SMEs simultaneously meet the conditions for different support levels in the same support content as prescribed, SMEs are selected for the most beneficial support level...

The decree provides specific regulations on conditions and levels of financial support for:

SMEs applying new technologies, accessing information, using consultancy services, and developing human resources: (i) Consultancy on searching, selecting, deciphering, and transferring appropriate technology to enterprises; (ii) Access to information on domestic and international standards, regulations; patents, technology information, scientific research results; information on connecting entrepreneurial networks, attracting investment from startup investment funds...; (iii) Intellectual property consulting, exploitation, and development; (iv) Implementation of procedures on standards, technical regulations, measurement, quality; product testing, business model improvement...

SMEs transitioning from household businesses are exempted from: first-time business registration fees at business registration agencies; first-time business registration content announcement at the National Business Registration Portal; land use tax for three years from the date of issuance of the first business registration certificate; guidance and advice from the Department of Finance on tax administrative procedures and accounting regimes.

Innovative startup SMEs are supported with: 100% of the costs of using equipment at technical facilities, incubation centers, coworking spaces but not exceeding 20 million VND per year per enterprise; Maximum support of 50% of the costs of renting premises at incubation centers, coworking spaces but not exceeding 5 million VND per month per enterprise. The maximum support period is 03 years from the date the enterprise signs the premises rental contract; Maximum support of 50% of the costs of participating in international startup competitions but not exceeding 30 million VND per competition per year per enterprise.

SMEs participating in industry clusters, value chains for training; enhancing production and business linkage capabilities; Information support, brand development, market expansion; Consultation on standards, technical regulations, measurement, quality; Support for production testing, inspection, certification, quality assurance procedures.

On May 10, 2022, the Ministry of Planning and Investment issued Circular No. 06/2022/TT-BKHDT continuing to guide some provisions of Decree No. 80/2021/ND-CP on support contents including: Consultation; human resource development; support for innovative startup SMEs; support for SMEs to participate in industry clusters, value chains; management of SME support activities.

3.6. Current situation of capital mobilization channels for small and medium-sized enterprises (SMEs) in Vietnam

In general, capital supply for small and medium-sized enterprises (SMEs) is typically mobilized through two main channels: (1) via the system of credit institutions and (2) through the financial market by issuing stocks and bonds to the public. In developed economies, the system of credit institutions will play a role in providing short-term capital, while the financial market will mainly fulfill the needs for medium and long-term capital. However, according to statistics, currently in Vietnam, the role of capital mobilization for the economy still mainly relies on the system of credit institutions.

Data from the National Financial Supervisory Commission shows that although the proportion of capital supply to the economy through the financial market channel increased from 21.6% in 2012 to 36.9% by the end of 2018, this ratio is still low compared to the proportion of capital supply to the economy from credit institutions. Specifically, by the end of 2018, the proportion of capital supply from credit institutions reached 63.1%, reflecting the current situation of dependence on credit institution borrowing for the majority of enterprises in general and SMEs in particular.

Chart 3 compares the contribution of capital sources to the GDP growth of Vietnam from 2012 to 2018. During this period, credit balances from the system of credit institutions contributed most positively to Vietnam's GDP growth both in absolute value and as a percentage of GDP. In 2012, the ratio of credit balances/GDP was only equivalent to 95%, but this ratio increased over the years and reached 130% of GDP by 2018. Meanwhile, the value of listed securities and market capitalization by the end of 2018 only accounted for 22% and 72% of GDP, respectively.

Vietnamese enterprises, in general, still rely on annual credit growth from the credit institution system to develop their businesses. However, this dependence also has certain downsides for the economy, such as (1) putting pressure on liquidity for the credit institution system because they bear the responsibility of providing

medium and long-term loans instead of the stock market; (2) creating inflationary pressure when economic development relies heavily on the growth of credit debt from credit institutions. Therefore, finding solutions to promote the development of alternative capital mobilization channels for SMEs to alleviate the burden on the credit institution system is necessary and objective to achieve sustainable economic development.

3.7. Reasons limiting the ability to access capital mobilization channels from the financial market for small and medium-sized enterprises (SMEs) Factors internal to small and medium-sized enterprises (SMEs)

Firstly, the transparency level of information of SMEs does not meet the expectations of investors in the financial market. One of the most necessary and important conditions for SMEs to access capital mobilization channels, including borrowing from credit institutions and issuing securities, is the transparency level of their information. Currently, not all SMEs find it difficult to borrow from commercial banks. In fact, SMEs that demonstrate financial capabilities, have feasible business plans, and transparent information can easily borrow from credit institutions. Conversely, SMEs that have not built trust with credit institutions may face difficulties in borrowing because these institutions also have their lending standards to manage their lending risks. Therefore, Vietnamese SMEs need to quickly change their management model towards transparency, voluntary disclosure of business information, voluntary auditing of financial reports to enhance their credibility with credit institutions and investors in the financial market, thereby being able to utilize various forms of capital mobilization for their business operations.

Secondly, although SMEs have made significant strides in recent years, their overall development level is still low. Due to limitations in scale and capital, many SMEs still use outdated technology, have poor management capabilities, low labor productivity, do not focus on brand building, do not care about communication and relations with securities investors, and do not diversify their sources of business capital. These factors combined limit their competitiveness, making SMEs receive less investment attention from securities investors.

Factors related to the structure and development level of Vietnam's financial market

Firstly, the corporate bond market is underdeveloped. Vietnam's debt market mainly relies on traditional bank credit channels, while another important debt market, the corporate bond market, is not yet developed in line with its potential. From 2015 to 2018, the number of corporate bonds issued and listed on the Ho Chi Minh City Stock Exchange only modestly increased from 6 to 26 types of corporate bonds, mainly issued by large listed companies. In terms of listed value, by the end of 2018, the value of listed corporate bonds reached only 32,671 billion VND, equivalent to only 0.45% of the total credit granted by the entire credit institution system. This indicates that almost all SMEs cannot access medium to long-term capital through the issuance of corporate bonds. Some reasons for the underdevelopment of the corporate bond market may include: (1) issues regarding the transparency of SME information as analyzed above; (2) Vietnamese SMEs have not met the conditions for issuing and listing bonds as regulated by law; and (3) the absence of independent credit rating organizations in the Vietnamese financial market.

Secondly, the underdevelopment of non-bank financial intermediaries. Experience in developed markets worldwide shows that to maximize the role of capital mobilization from the financial market, the system of financial intermediaries must be perfected and diversified to bridge the gap between capital suppliers - investors with idle capital, and capital demanders - enterprises in need of capital for production and business activities. A developed and diversified system of financial intermediaries should include: a system of commercial banks, non-bank financial intermediaries such as investment banks, securities companies, types of pension funds, venture capital funds, startup investment funds, etc. In reality, in Vietnam, only the system of credit institutions is performing its role well in capital mobilization. Meanwhile, other types of financial intermediaries are still developing slowly, with small scope and scale of operations, mainly focusing on large listed companies. This somewhat affects the ability to diversify capital mobilization channels for the majority of SMEs.

Thirdly, the diversity and scale of capital of institutional investors in Vietnam are still low. Institutional investors, specifically investment funds, typically develop strongly, both in terms of variety and capital scale, in developed countries. They are essential contributors to attracting idle capital from retail investors, non-professional investors, and various segments of society. This process will provide capital for investment funds, professional investors, to invest in SMEs - where there is a high growth potential in the economy of countries. However, data in Vietnam shows that the number, variety, and scale of operating capital of investment funds are still very limited. As of the end of February 2019, there were only 41 active investment funds in the Vietnamese stock market with a net asset value (NAV) scale of 24,399 billion VND, a modest figure compared to the market capitalization of the Vietnamese stock market and the total credit granted by the entire credit institution system.

3.8. Assessment of the current situation of access to financial resources for small and medium-sized enterprises

It can be said that in recent times, SMEs have demonstrated their significant role in contributing to economic growth, attracting investment, and promoting the nationwide startup movement. However, alongside the

achievements, the implementation of financial policies still faces certain limitations, affecting the specific development of SMEs:

Firstly, access to credit policies for startup businesses remains limited, with opportunities to access credit not truly meeting the needs of businesses. According to a report from the Ministry of Finance, from 2017 until now, up to 77.78% of surveyed enterprises have assessed that policies regarding financial access for startups contribute to enhancing their access to financial services. However, some businesses believe that current financial access policies do not focus on financing technological innovation (35.36%) and do not support the process of financial training for startup businesses (43.94%). It is noteworthy that policies aimed at enhancing the capacity of financial institutions are highly regarded by startup businesses, with up to 56.57% of businesses accepting these policies.

Furthermore, the majority of innovative startup businesses are primarily small and medium-sized enterprises, newly established with individual or group entrepreneurs implementing intellectual exploitation, technology, new business models, limited internal capital, and almost no assets for bank collateral. Additionally, the inherent nature of innovative startup businesses entails high risks, making it difficult for them to raise funds through traditional channels such as commercial banks.

Secondly, there is no clear distinction between SMEs in each sector, so financial support remains evenly distributed. Startup businesses find it difficult to access state-supported credit policies and preferential loan sources because these policies have a broad scope and target almost all small and medium-sized enterprises without specific orientation for specific target groups, especially innovative startup businesses. Difficulties include: Decree No. 38/2018/ND-CP dated March 11, 2018, which details investment for innovative startup SMEs but lacks specific provisions on the obligations of investors; Tax policies do not differentiate in favor of startup businesses. Specifically, the corporate income tax rate for startups is still 20% like other businesses. The preferential tax rate of 10% or tax exemption for income from certain industries and sectors is the same as for newly established businesses from new investment projects; There is no tax policy distinguishing investors in startup businesses when transferring capital. Current tax policies support businesses based on geographical and sectoral considerations, so any business meeting the incentive conditions will receive corresponding incentives. Therefore, if innovative startup businesses do not operate in tax-incentivized areas or meet the standards in current investment encouragement sectors, they will not receive tax support.

Thirdly, borrowing from banks requires many procedures, time, effort, costs, and may even exceed the capacity of SMEs. Administrative procedures are sometimes complex, causing inconvenience to businesses in their business operations such as: Land procedures, land clearance, social insurance, business registration, specific guidance on financial support for startup activities from state budget sources have not been specifically issued, so startup support activities from budget-funded funds have not been extensively implemented.

Fourthly, collateral requirements for business loans to ensure safety are often strict, while SMEs have limited collateral assets. Many SMEs have assets but do not have enough legal documents to carry out collateral procedures, such as: Businesses are assigned land for use but have not been granted land ownership certificates, or businesses have land lease contracts paying annually but are not able to mortgage land for bank loans. Some intangible assets of businesses do not have specific mechanisms to allow their use as collateral for bank loans, such as: Business trademarks, intellectual property assets...

Fifthly, the capacity of SMEs is still limited, with inefficient operations; many SMEs do not disclose information, financial situations of companies, lack transparency, and honesty in financial management, causing difficulties for banks in assessing the financial capacity and business operation efficiency of enterprises... For most SMEs, the majority of them do not have enough assets to meet liquidity criteria and good collateral value as prescribed. Therefore, compared to ordinary businesses, banks face greater risks when lending to SMEs, making it difficult to manage cash flows for debt recovery.

4. Some solutions for implementing financial policies for small and medium-sized enterprises in the future

Firstly, reforming the system in issuing documents, policies related to SMEs of enterprises; removing, reducing administrative procedures, expediting the process of issuing land ownership certificates attached to land for enterprises; supporting enterprises to enhance their self-improvement capacity in management mechanisms, business management capabilities, financial management transparency, clarity, investing in technological innovation, and enhancing competitiveness.

Secondly, regularly providing timely, complete, accurate information about loan conditions, time, loan procedures of lending organizations to each enterprise. Assisting enterprises in stages: business project preparation, mobilization and efficient use of capital. Establishing more favorable loan policies for SMEs, such as: reducing interest rates, collateral mechanisms, more convenient unsecured loans...

Thirdly, diversifying channels for SMEs to access capital. In practice, SMEs access capital from various sources, but accessing capital from credit institutions is still the main and important channel for SMEs. Therefore, to overcome difficulties, the Government needs to enhance support in providing information, operational status, and repayment ability of enterprises, thereby encouraging credit institutions to link to create a data system on SMEs, as well as transparent necessary criteria for credit access for enterprises. At the same time, there should be incentives for credit institutions to effectively support credit for SMEs; forming a network of links between large enterprises and SMEs.

Fourthly, SMEs need to innovate their management capacity, risk management, and financial management, focusing on key production and business areas, strengths, and generating stable cash flows to increase the ability to repay bank loans. On the other hand, SMEs must be responsible and conscious in cooperating, coordinating with credit institutions in debt restructuring, debt repayment, and developing business plans suitable to the capital, technology, and human resources of their enterprises.

Finally, in the context of economic integration, internationalization, and the fourth industrial revolution to support SMEs in accessing financial resources, credit agencies, organizations need to actively deploy new technological solutions to reduce costs, enhance efficiency, and transparency of programs. Researching and creating conditions for the development of new intermediate financial institution models such as: Investment banks, Venture capital funds, SME investment funds... Developing the mentioned intermediate financial institution models will facilitate direct connection of new business ideas of startups with investors in the financial market, thereby solving the capital problem for enterprises. Thus, to develop SMEs, a comprehensive solution system is needed, from state regulatory documents, institutional enforcement mechanisms to support solutions, advice in production, in finding markets, and utilizing international support programs for SMEs can promote SMEs to develop stably and sustainably.

5. Conclusion

Clear recognition of the important role of SMEs in the process of socio-economic development. In recent times, many financial support policies for SMEs have been issued and implemented. Some initial policies have proven effective, contributing positively to the development of SMEs in Vietnam. However, these results are still small compared to the goals of enterprise development by 2025 and 2030 set by the Party and the Government. In the near future, with the process of international economic integration and the fourth industrial revolution, there will be profound impacts on all aspects of the economy and activities of SMEs. Therefore, perfecting the system and regulations on financial policies will be a significant lever in promoting SMEs to overcome difficulties in capital, technology, and costs... Especially in minimizing risks, barriers from policy mechanisms, creating a truly open, equal, convenient, transparent business environment in the context of the fourth industrial revolution will be a prerequisite for SMEs to innovate and develop strongly, contributing positively to the socio-economic development of the country in the coming time.

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