

# The Situation of Small and Medium Enterprise Development in Vietnam

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## **Abstract**

In the period of 2010-2017, the number of small and medium enterprises (SMEs) of Vietnam tended to be increased, accounting for about 98% of the total number of Vietnamese enterprises by the end of December 2017. Vietnam's SMEs are mainly private enterprises operating in the field of commerce and services as well as industry and construction, mostly concentrated in the Southeast and the Red River Delta. In the research period, micro enterprises had experienced a sharp increase in the loss rate, making the loss rate of the whole enterprise soar. In addition, SMEs were increasingly dependent on loans and especially small businesses had less access to bank loans as well as deferred purchase. However, Fixed-charge coverage ratio of SMEs had been improved and the gap between large enterprises and small enterprises had been narrowed.

**Keywords:** SMEs, Development, Vietnam

## **1. Introduction**

By the end of 2017, Vietnam's small and medium-sized enterprises (SMEs) accounted for about 98.86% of the total number of operating businesses, of which medium enterprises occupied of only 0.57%, proportion of small enterprises was 25.84% and the remaining 72.45% was micro enterprise (chart 1). The importance of small and medium-sized enterprises is getting bigger as the scope of activities is expanded. This is reflected in the increasing number of enterprises, the fields that enterprise operating and exist as an indispensable part of

the economy. SMEs play an important role in economic growth, mainly creating job and generating income for workers, helping to mobilize social resources for development investment, poverty reduction, etc. Every year, Vietnamese SMEs have created over one million jobs, used up to 51% of social labor and contributed more than 40% of GDP to the country (Ho Chi Minh National Academy of Politics, 2018).

## 2. Development Trends of Vietnam SMEs

### 2.1 Structure of SMEs

From 2010 to 2017, the number of SMEs in Vietnam tends to increase. According to labor size, the number of SMEs by the end of 2015 was 433,674, accounting for about 98% of the number of enterprises nationwide and according to capital size, the number of SMEs was 414,915 and accounting for 94% number of enterprises nationwide (Table 1). By the end of 2017, in terms of labor size, the total number of SMEs reached 554,031 enterprises, an increase of 27.75 % compared to 2015 and accounted for 98.86% of the total number of enterprises nationwide (Table 1).

Table 1. Number of SMEs by labor size

Year	Total number of enterprises	Micro enterprises	Small enterprises	Medium enterprises
2010	291,299	187,580	79,085	2,562
2011	324,691	202,090	114,765	2,841
2012	346,777	223,098	115,719	2,847
2013	373,213	247,058	118,009	2,916
2014	402,326	271,617	122,262	2,930
2015	442,485	303,937	129,703	3,046
2016	505,059	354,413	141,021	3,281
2017	560,417	406,004	144,843	3,184

Source: White Paper Small and Medium Enterprise in Vietnam 2011, page 32

White Paper Small and Medium Enterprise in Vietnam 2014, page 40

Calculated from 2017 and 2018 Yearbook statistics

The majority of Vietnamese enterprises are SMEs and this proportion has been increasing recently. If in 2005, the number of SMEs was 101,679 enterprises, accounting for 95% of the total number of enterprises, by 2015, SMEs had reached 433,674 enterprises, accounting for nearly 98% of enterprises nationwide and by 2017, the proportion of SMEs account for 98.86% of total enterprises in the country.

The proportion of micro-enterprises tends to increase from 2010 to 2017, if in 2010 the proportion of micro-enterprises accounted for 64.39%, the proportion of micro-enterprises accounted for 68.68% in 2015, and 72.45% in 2017. Meanwhile, the proportion of small and medium enterprises tends to decrease, if in 2010 the proportion of small businesses was 27.14%, by 2015 the proportion was 29.3%, and in 2017 this ratio was 25.84%; the proportion of medium enterprises in 2010 was 0.87%, in 2015 it was 0.68% and in 2017 the proportion of medium enterprises was only 0.57% (Figure 1). Large enterprises also tend to reduce the proportion from 7,57 % to 1.13% in the period 2010-2017.

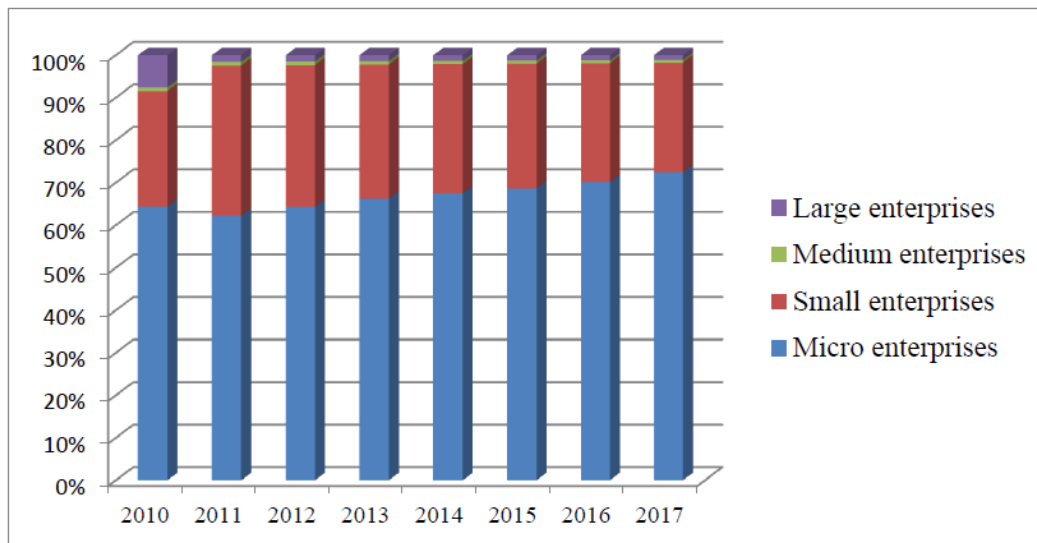


Figure 1. Proportion of micro, small, medium and large enterprises by labor size (Unit: %)

Source: The author calculated according to the data of the General Statistics Office

In the SME sector, mainly micro and small enterprises, medium enterprises account for a low proportion. This is the bottleneck of the process of developing, production expanding and improving the competitiveness of the enterprises.

### 2.1.1 Number of Enterprises by Type of Enterprise

The proportion of micro, small, medium and large enterprises has large differences in the private, state-owned and foreign-invested enterprises. In the private sector, the proportion of micro, small and medium enterprises accounted for the highest proportion with 98.54%, while the proportion of large enterprises only 1.46%. In the state-owned enterprise, large enterprises accounted for a large proportion, with 43.55%, while the micro, small and medium enterprises accounted for 2.05%, 37.46%, and 16.94% respectively. In the foreign-invested sector, the number of small businesses accounted for the majority with 53.16%, while large enterprises were 21.81%, micro and medium enterprises accounted for 16.12% and 8.91% respectively (Enterprise Development Agency, 2017).

By the end of 2017, in the private sector, the proportion of micro, small and medium enterprises accounted for the highest proportion, with 99.42%, while large enterprises only account for 0.62%. In the state-owned enterprise, large enterprises no longer account for a large proportion as before with only 30.93%, but most small businesses account for 54.18%, micro and medium enterprises accounted for 5.47%, and 9.49% respectively. In the foreign-invested sector, the number of small enterprises accounted for the majority with 48.8%, while large enterprises were 15.35%, micro and medium enterprises accounted for 30.65% and 5.2% respectively (Figure 2).

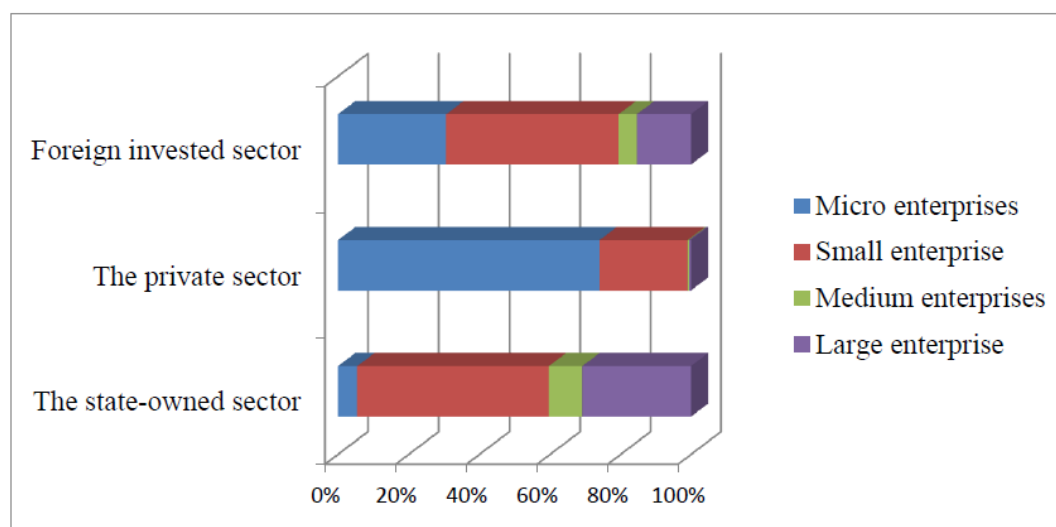


Figure 2. Proportion of SMEs by type of enterprise in 2017 (Unit: %)

Source: The author calculated according to the data of the General Statistics Office

Table 2. Number of enterprises classified by type of enterprise

Year	2009	2010	2011	2013	2014	2015	2016	2017
<b>State-owned enterprises</b>	<b>3,364</b>	<b>3,281</b>	<b>3,265</b>	<b>3,199</b>	<b>3,048</b>	<b>2,835</b>	<b>2,662</b>	<b>2,486</b>
Micro businesses	69	103	141	108	114	90	94	136
Small businesses	1,260	1,256	1,309	1,827	1,234	1,139	1,472	1,347
Medium businesses	570	539	510	341	449	407	274	236
<b>Private enterprises</b>	<b>238,932</b>	<b>268,831</b>	<b>312,416</b>	<b>359,794</b>	<b>388,232</b>	<b>427,709</b>	<b>488,395</b>	<b>541,753</b>
Micro businesses	161,661	186,061	214,433	244,590	285,532	319,097	350,682	400,908
Small businesses	69,918	74,218	87,772	110,771	91,942	97,105	132,303	135,600
Medium businesses	3,587	4,440	5,572	1,910	5,880	6,304	2,231	2,106
<b>Foreign-invested enterprises</b>	<b>6,546</b>	<b>7,248</b>	<b>9,010</b>	<b>10,220</b>	<b>11,046</b>	<b>11,942</b>	<b>14,002</b>	<b>16,178</b>
Micro businesses	1,055	1,416	2,158	2,387	2,834	3,049	3,637	4,960
Small businesses	3,480	3,611	4,275	5,411	4,993	5,509	7,246	7,896
Medium businesses	583	639	771	665	937	974	776	842

Source: The author calculated according to the data of the General Statistics Office

By business sectors, Table 3 shows the difference between the number of enterprises among three main business sectors (agriculture, forestry, and fisheries; industry and construction; trade and services) compared to national enterprises and the share of micro, small and medium enterprises in each sector. According to the data from Table 4, the number of enterprises in the trade and services sector is the highest, followed by industrial and construction enterprises, the lowest proportion enterprises are in agriculture, forestry and fishery sector. In the period 2010-2014, commercial and service enterprises also increased rapidly in both quantity and proportion. Meanwhile, industry and construction increased the number of enterprises but the proportion dropped by nearly 2%. With the disappearance of

more than 5,043 enterprises, the proportion of enterprises in agriculture, forestry, and fisheries decreased from 3.05% in 2010 to 0.96% in 2014 (Enterprise Development Agency, 2017). In the period 2015-2017, the trend of enterprise development by business sector was still the same as in the period of 2010-2014, meaning that the number of commercial and services enterprises increased both in number and in proportion; industry and construction enterprises increased in the number of enterprises but the proportion decreased. In 2016, the number of agricultural, forestry and fishery enterprises increased in number and proportion compared to 2015. However, by 2017, the number of enterprises in this sector decreased in both quantity and proportion compared to 2015 and 2016.

The amount of micro and small enterprises is the majority in all three sectors. In particular, in the industry and construction, and trade and service industries show that the size of enterprises is getting smaller, as the proportion of micro-enterprises increases, the proportion of small and medium enterprises decreases.

Table 3. Number and proportion of enterprises according to business sectors

Year	2015		2016		2017	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
<b>Total enterprises</b>	<b>442,485</b>	<b>100</b>	<b>50,059</b>	<b>100</b>	<b>560,417</b>	<b>100</b>
<b>Agriculture, forestry and fishery</b>	<b>3,707</b>	<b>0.84</b>	<b>4,315</b>	<b>0.85</b>	<b>3,238</b>	<b>0.58</b>
Micro enterprises	1,889	50.95	2,398	55.57	1,100	33.97
Small enterprises	1,776	47.91	1,872	43.38	2,091	64.57
Medium enterprises	42	1.13	45	1.04	47	1.45
<b>Industry and construction</b>	<b>129,454</b>	<b>29.25</b>	<b>141,478</b>	<b>28.01</b>	<b>159,289</b>	<b>28.42</b>
Micro enterprises	69,219	53.47	76,817	54.29	92,869	58.30
Small enterprises	58,041	44.83	62,305	44.04	64,156	40.27
Medium enterprises	2,194	1.69	2,356	1.66	2,264	1.42
<b>Trade and services</b>	<b>302,715</b>	<b>68.41</b>	<b>352,044</b>	<b>69.70</b>	<b>386,739</b>	<b>69.01</b>
Micro enterprises	232,829	76.91	275,199	78.17	308,143	79.67
Small enterprises	61,256	20.23	67,313	19.12	69,364	17.93
Medium enterprises	8,630	2.85	9,532	2.71	9,232	2.38

Source: The author calculated according to data of the General Statistics Office

Table 4. Number and proportion of enterprises by labor size and region (Unit: Enterprise)

Year	2015	2016	2017
<b>Red River Delta</b>	<b>31.94%</b>	<b>30.96%</b>	<b>31.69%</b>
Micro enterprises	92,032	103,677	121,323
Small enterprises	48,349	51,626	55,263
Medium enterprises	981	1,086	1,038
<b>Northern midlands and mountainous</b>	<b>3.76%</b>	<b>3.81%</b>	<b>3.98%</b>
Micro enterprises	8,780	10,632	13,407
Small enterprises	7,688	8,405	8,669
Medium enterprises	208	230	232
<b>North Central and South Central Coast</b>	<b>12.509%</b>	<b>12.503%</b>	<b>13.02%</b>
Micro enterprises	36,036	41,703	51,058
Small enterprises	18,904	21,024	21,533
Medium enterprises	414	423	391
<b>Central Highlands</b>	<b>2.42%</b>	<b>2.54%</b>	<b>2.59%</b>
Micro enterprises	7,600	9,350	11,001
Small enterprises	3,079	3,462	3,505
Medium enterprises	56	61	57
<b>Southeast</b>	<b>40.76%</b>	<b>41.59%</b>	<b>40.01%</b>
Micro enterprises	137,716	163,340	178,428
Small enterprises	41,499	45,516	44,577
Medium enterprises	1,149	1,225	1,225
<b>Mekong River Delta</b>	<b>7.26%</b>	<b>7.3%</b>	<b>7.54%</b>
Micro enterprises	21,771	25,710	30,786
Small enterprises	10,150	10,949	11,257
Medium enterprises	223	239	226

Source: The author calculated according to the data of the General Statistics Office

From 2015 to 2017, in terms of operation area, small and medium enterprises concentrated mainly in the Southeast (about 40%), followed by the Red River Delta (about 30%), the North Central and South Central Coast (12%), Mekong River Delta (7%) and finally the Northern midlands and mountainous (3%). Also according to the data from Table 4, the proportion of micro-enterprises is high in all regions (over 50%) and rapidly increased from 2015 to 2017, showing the trend of smaller business size.

## 2.2 Structure Changing of Small and Medium Enterprises

### 2.2.1 The Structure Changing of SMEs by Type of Business

In general, from 2015 to 2017, SMEs tended to increase in proportion in all three types of enterprises (state-owned enterprises, private enterprises, and foreign-invested enterprises). Specifically, the proportion of SMEs in the state-owned enterprise increased from 57.7% in 2015 to 69.1% in 2017, the proportion of SMEs in the private sector increased from 98.7% in 2015 to 99.4% in 2017, the proportion of SMEs in the foreign-invested sector increased from 79.8% in 2015 to 84.6% in 2017. The proportion SMEs in the private sector still accounted for the highest proportion in the period 2015-2017, followed by SMEs in the foreign-invested sector and finally in the state-owned enterprise (Figure 3).

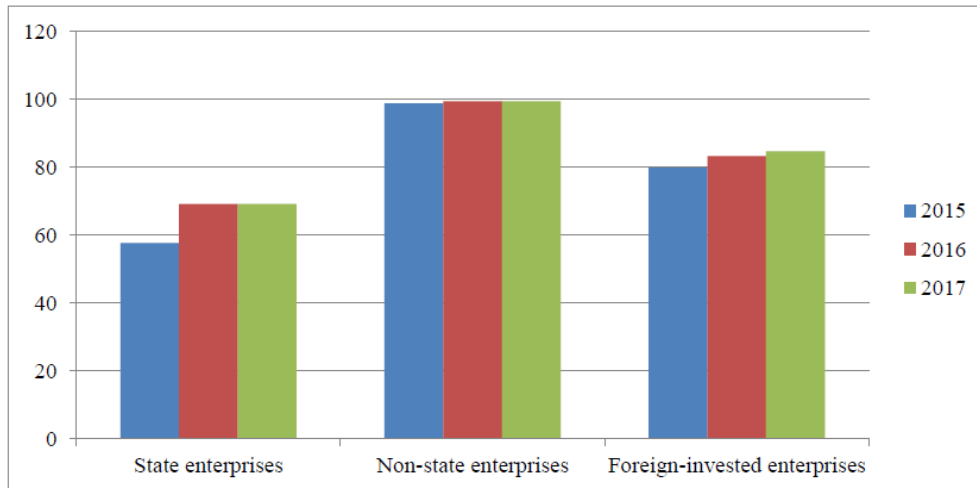


Figure 3. Structure changing of SMEs by type of enterprise (Unit: %)

Source: The author calculated according to the data of the General Statistics Office

### 2.2.2 The Structure Changing of SMEs by Business Sector

From 2015 to 2017, the proportion of SMEs in agriculture, forestry, and fisheries tends to decrease significantly from 0.84% to 0.58% and the proportion of SMEs in this sector is always at the lowest level compared to industry and construction as well as trade and services. The proportion of SMEs in industry and construction also tended to decrease from 29,25 % in 2015 to 28.42% in 2017. Trade and services are the sectors with the largest number of SMEs in all three years and the proportion of SMEs in this sector tends to continue to increase from 68.41% in 2015 to 69.01 in 2017 (Figure 4). Thus, it can be seen that most SMEs provide services (about 70%), only about 30% of enterprises are in production activities. This proves a trend of progress, consistent with the structural shift in the process of industrialization and modernization of the country to contribute to improving the quality of growth and strengthening the country's economic potential.

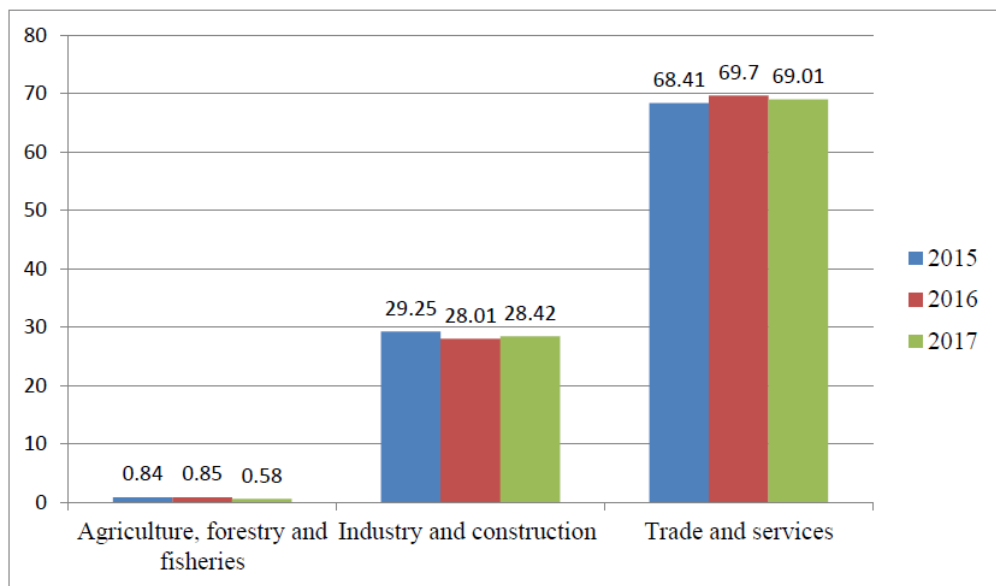


Figure 4. Structure changing of SMEs by business sector (Unit: %)

Source: The author calculated according to the data of the General Statistics Office

### 2.2.3 The Trends of Moving SMEs by Region

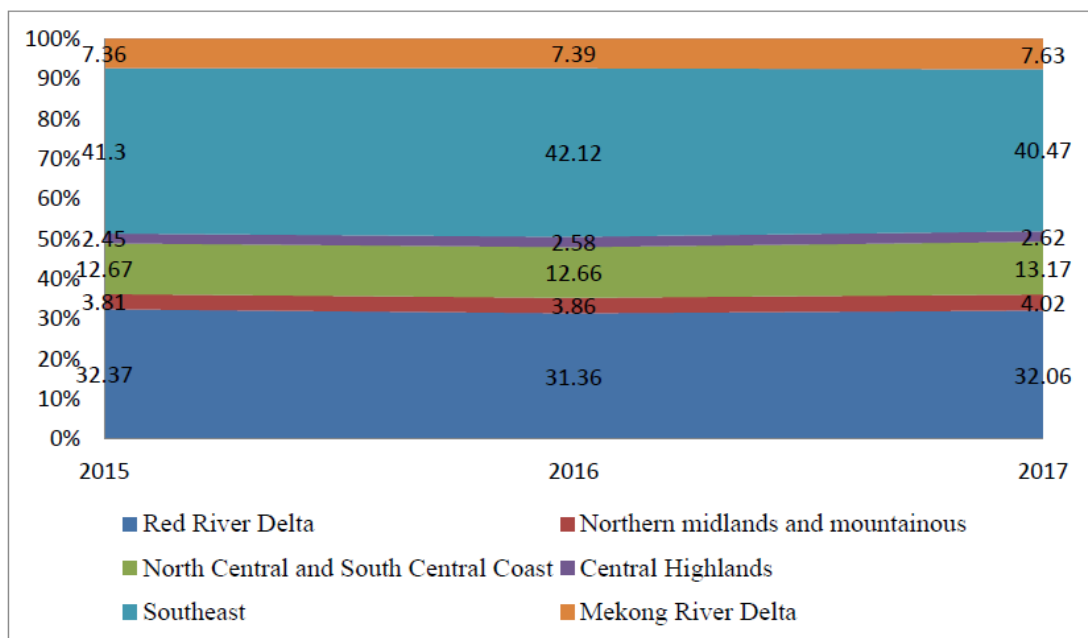


Figure 5. Structure changing of SMEs by region (Unit: %)

Source: The author calculated according to the data of the General Statistics Office

According to Figure 5, there is no significant structure changing of SMEs by the region in the



period 2015-2017. SMEs concentrated mainly in the Southeast region with 40%, followed by the Red River Delta (about 32%), North and South Central Coast (13%), Mekong River Delta (about 7%). The proportion of SMEs operating in the Northern midlands and mountainous as well as the Central Highlands is extremely low with only about 4% and 2% respectively.

### **3. Business Efficiency of SMEs**

#### *3.1 Earnings Power of the Enterprises*

##### **3.1.1 The Proportion of Enterprise Loses**

The proportion of enterprises that suffer from losses is often inversely proportional to the size of the firm, indicating the vulnerability of the micro-enterprise. Because of the loss of micro-enterprise rapidly increase in 2011, 2013, 2014, 2015 and 2016, while the group of small and medium enterprises does not have this spike, which made the loss ratio of the whole nationwide enterprises. The remaining three groups of enterprises are small, medium and large enterprises that often have nearly equal loss rates and develop in the same direction of a slight increase in the period of 2007-2015 and decrease in 2016. With the tax reduction policy of the company income tax for SMEs as the current regulations, it is clear that the micro-enterprise sector will get not much benefit.

##### **3.1.2 Return on Asset - ROA**

To assess the ROA of enterprises, the study will only look at profitable enterprises. ROA of those enterprises also increased in the same direction as the size of the business. ROA of large and medium enterprises is always the highest and has the same movement, decreasing continuously from 2010 to 2013 and recovering slightly in 2014-2016. Meanwhile, ROA of small and micro enterprises is more complicated, especially for micro-enterprises with a large margin. ROA of micro-enterprises increasing sharply in 2 years from 2011 to 2012 reached 7.7%, the highest among business groups by size, then decreased sharply to 3.3% in 2013 and recovered slightly to 3.5% in 2014, then decreased to 2.9% in 2015 before sharply increasing in 2016 to 4.5% (Vietnam Chamber of Commerce and Industry, 2017). ROA of small enterprises is similar to that of micro-enterprises, but with a narrower margin. From 2011 to 2014, the ROA of small businesses was the lowest. By 2015, the ROA of micro-enterprises continued to decline to 2.9%, the lowest among enterprises, meaning that businesses had to spend 100 Vietnam dong of assets to earn only 2.9 Vietnam dong of profit. This shows the high instability of micro and small enterprises in comparison with medium and large enterprises (Vietnam Chamber of Commerce and Industry, 2017).

##### **3.1.3 Return on Equity - ROE**

ROE of enterprises is also directly proportional to the size of the business. Large enterprises always have the highest ROE, but have decreased since 2009 and only recovered slightly in the two years 2015-2016, reaching 17.3%. The second is ROE of medium enterprises reaching 13.4% in 2016 and tends to change as same as the ROE of large enterprises. ROE of micro-enterprises is usually at the lowest position with the largest margin. Especially in 2012, ROE of micro-enterprises rises to 12.2%, higher than ROE of small enterprises and nearly

equal to ROE of medium enterprises. However, by 2015, the ROE of micro-enterprises decreased sharply to 5.2%, the lowest among four groups of enterprises and by 2016, the ROE of micro-enterprises rapidly increased to reach 8.4%, less than half of ROE of large enterprises (Vietnam Chamber of Commerce and Industry, 2018).

#### 3.1.4 Return on Sales - ROS

Except for 2012, ROS of large enterprises was always highest but tended to decrease from 2010 to 2014, then increasing again in the two years 2015-2016. Meanwhile, micro-enterprises have higher ROS than small enterprises. While ROS of micro-enterprises tended to increase, ROS of other enterprises tended to decrease. ROS of micro-enterprises increased from 3.9% in 2007 to 5.4% in 2015 and higher than ROS of medium enterprises. Meanwhile, ROS of small enterprises is usually at the lowest position with about 3.7% in the period of 2007-2015 (Vietnam Chamber of Commerce and Industry, 2018).

### 3.2 Solvency of the Business

#### 3.2.1 Current Ratio

The current ratio measures a company's ability to pay short-term obligations by using current assets. The current ratio is inversely proportional to the size of the enterprises. Micro enterprises always have the best current ratios, followed by small enterprises, then medium enterprises and finally large enterprises. This result reflects the fact that smaller business is less likely to have access to bank loans as well as deferred purchase payments, while for larger enterprises it is much more convenient. To ensure the financial security, the current ratio must be approximately 2 times, but this ratio in large enterprises is usually only 1,7 times. The improvement of the current ratio of enterprises in 2016 is mainly due to micro and small enterprises. The current ratio of micro-enterprises has increased by 252% compared to 2015, reaching 8,4 times, while this index of small enterprises increased 173%, reaching 3.8 times (Vietnam Chamber of Commerce and Industry, 2018).

#### 3.2.2 Quick Ratio

The quick ratio reflects the ability of enterprises to pay current liabilities with its current assets in addition to inventories. The quick ratio is also inversely proportional to the size of the business. Micro-enterprises always have the best quick ratio, followed by small enterprises, then medium enterprises and finally large enterprises. In 2016, the quick ratio of micro-enterprises was 2.5 times higher than small enterprises, 4 times more than medium enterprises and 5.6 times higher enterprises. This result shows the financial security of micro and small enterprises, thereby suggesting that commercial banks need to pay more attention when developing credit packages for micro-enterprises.

#### 3.2.3 Fixed-Charge Coverage Ratio

*Fixed-Charge Coverage Ratio* assesses the ability of enterprises to generate enough income to cover interest rates. The interest payment ratio usually tends to be proportional to the size of the business. Large enterprises always have the highest index, followed by medium enterprises, due to the economy of scale. Micro and small enterprises always have a low

index, which makes it less likely to access loans from credit institutions. This ratio is high for large and medium enterprises, so large and medium enterprises are more favorable than small and medium enterprises to access credit institutions' capital sources. However, the general trend is that the ability of enterprises to pay interest on loans has been improved and the gap between large enterprises and micro, and small enterprises has been narrowed.

### *3.3 Efficient Use of Corporate Capital*

#### 3.3.1 Debt Ratio

The debt ratio shows the solvency of the enterprise and the ability to access external financial resources to meet the investment and development needs of the business. This index reflects the ability of the enterprise to use its capital to cover its debts. The debt ratio is directly proportional to the size of the business. Medium and large enterprises had the highest index, about 3.5 and 3.6 times in 2015 and increased to 4.1 times and 3.7 times in 2016, showing the capital structure of these enterprises is highly depends on debts. Meanwhile, the ratio of micro and small enterprises was 1,7 times and 2.8 times in 2015, and it also tends to increase in 2016 with the debt ratio of micro and small enterprises is 2.2 times and 3.4 times, respectively (Vietnam Chamber of Commerce and Industry, 2018). It can be seen that the debt ratio of small and micro enterprises tends to increase, gradually approaching the large enterprises, which shows that enterprises from micro to large are increasingly dependent on the debts.

#### 3.3.2 Capital Turnover Ratio

The capital turnover ratio assesses the ability of an enterprise's capital resources to generate revenue. This ratio helps businesses see how much money a business earns. The efficiency of using capital is proportional to the size of the business. In 2015 and 2016, micro-enterprises always had the lowest capital turnover ratios, followed by enterprises with small capital. Medium and large enterprises have the same effective use of capital. Small and micro-enterprises with medium and large enterprises have a big gap in capital turnovers.

## **4. Conclusion**

The majority of Vietnamese enterprises are small, micro and medium-sized enterprises, and this proportion has increased in recent years. In the area of small and medium enterprises, mainly micro and small enterprises, medium enterprises account for a low proportion. In particular, proportion of micro enterprises is on the rise trend, while that of the small and medium enterprises has decreased. Micro firms have little chance to grow quickly, partly because they do not have high technology, and face to capacity constraints (capital size, access to loans, etc). Therefore, it is difficult to expect these enterprises to grow quickly to create more quality jobs, as well as increase the scale of contribution to the state budget. This is also considered a bottleneck in the process of developing, expanding production and improving the competitiveness of the business community.

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