

# **SME Promotion Vietnam Project Document**

**Development Program Swisscontact**

*2002-2004*

## Table of Contents

. Acronyms and abbreviations .....	3
1. Executive Summary .....	4
2. Background.....	5
2.1. General and socio-economic situation.....	5
2.2. The SME context in Vietnam.....	5
2.3. Rational for Swisscontact’s involvement .....	6
3. Approach .....	6
3.1. Sub-sector development approach.....	6
3.2. BDS market development approach.....	6
3.3. Swisscontact’s SME Promotion Vietnam: A blend of two approaches .....	7
4. Assessment .....	7
4.1. The BDS market in selected provinces in Vietnam.....	8
4.2. The plastic sub-sector in greater Ho Chi Minh City.....	8
4.3. Other sub-sectors with potential.....	10
5. Project objectives and activities 2002-2004 .....	10
5.1. Goal .....	10
5.2. Purposes and Outputs .....	10
5.3. Partners and targeted clients.....	11
5.4. Geographic area and sectors.....	12
5.5. Crosscutting subjects.....	12
5.5.1. Socially Responsible Business (SRB).....	13
5.5.2. Gender.....	13
5.5.3. Environment.....	14
5.5.3.1. Recycled plastic market development.....	14
5.5.3.2. Industrial environmental management.....	14
5.5.4. Poverty alleviation .....	15
5.6. Intervention levels and instruments.....	15
5.6.1. Macro level .....	15
5.6.2. Meso level.....	16
5.7. Swisscontact Project Management.....	17
6. Budget.....	17
7. Time schedule.....	17
8. Monitoring and evaluation.....	18
8.1. Monitoring system.....	18
8.2. Evaluation.....	18
8.3. Exit strategy.....	19
9. Appreciation of potentials and risks .....	19

## Annexes

A. Logframe 2002-2004	
B. Executive summary of the Vietnam’s SME macro-level context analysis	
C. Executive summary of the sub-sector research in Ho Chi Minh City	
D. Executive summary of the plastic sub-sector research	
E. Executive summary of the UAI/FGD BDS users research	
F. Information on VCCI	
G. Organigram	
H. PMF format for monitoring and evaluation	
I. Vietnam at a glance	
J. Map of Vietnam	
K. Budget	

## Acronyms and abbreviations

ADB	Asian Development Bank
BDA	Business Development Adviser
BDS	Business Development Services
DPI	Department of Planning and Investment
EU	European Union
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GTZ	German Development Cooperation
HCMC	Ho Chi Minh City
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labour Office
MPDF	Mekong Project Development Facility
MPI	Ministry of Planning and Investment
MRP	Mekong Region Programme
NGO	Non-Government Organization
PACCOM	People's Aid Coordination Committee
PPC	Provincial People's Committee
PSD	Private Sector Development
SC	Swisscontact
SDC	Swiss Agency for Development and Cooperation
Seco	State Secretariat for Economic Affairs
SED	Small Enterprise Promotion
SIPPO	Swiss Import Promotion Programme
SME	Small and Medium Enterprise
SMEP	Small and Medium Enterprise Promotion
SNV	Netherlands Development Organization
SOE	State Owned Enterprises
SRB	Socially Responsible Business
SVTC	Support to Vocational Training Centers project
TA	Technical Assistance
TOR	Terms of Reference
UAI	Usage, Attitude and Image
UNIDO	United Nations Industrial Development Organization
VNCPC	Viet Nam Cleaner Production Center
VND	Vietnamese Dong
VSPA	Vietnam-Saigon Plastic Association
VTC	Vocational Training Centre

## 1. Executive Summary

Vietnam started opening its markets to the world economy only in the late 1980s, as part of what is known as “Doi Moi” or renovation policy of the government. The one-party communist government started the process to allow private sector businesses to operate. Recently, several laws came into effect, including the *Enterprise law (2000)* and the *Decree on SME promotion (2001)*. Early 2002, private-sector led associations were allowed to operate.

Foreign support to promote SME development is little, in which GTZ, SNV, UNIDO, ILO and the MPDF (IFC) play their roles. Their programs, however, are rather limited in size and there is a great potential for additional support, especially in Ho Chi Minh City where the far largest industrial concentration exists, while most support programs have their emphasis on the north or north-central of Vietnam. The Swisscontact SME Promotion Project in Vietnam will concentrate initially on the plastic sub-sector in Ho Chi Minh City but has the potential to expand to other areas in Vietnam. It will be part of a cluster of Swisscontact activities in the Mekong region.

The project’s goal is to contribute to improved socio-economic condition in private sector SMEs in selected regions and/or sub-sectors in Vietnam. These SMEs are the ultimate target group; however, Swisscontact’s direct interventions will be predominantly at the meso-level, i.e.: Support to organizational development of BDS providers. Macro-level interventions, which are mostly outside the reach of BDS market development approaches, address the improvement of an enabling environment in the plastic sub-sector and other sub-sectors that will be selected at a later stage.

The approach will be anchored in the sub-sector approach and integrates BDS market development methodologies. This will allow interventions in embedded BDS, and focus on services that tend to be sub-sector specific, such as product design, environmental services, and technical training. Also other interventions such as the regulatory environment and sub-sector supply chain will be addressed.

The program will focus on specific tools to cope with gender-balance issues that will initially be applied in the plastic sub-sector. Environmental concerns in SMEs will have a dominant role in the support scheme to the plastic sub-sector, addressing the dual goals of enhancing both the environmental and economic sustainability. Socially Responsible Business (SRB) will get emphasis starting the further expansion to other sub-sectors where this will be a selection criterion. The application of SA8000 will be considered. During the phase 2002-2004, the project will make efforts to monitor and measure the impact of its approach in terms of job and income creation and their relation to the poorer on the basis of specific case studies.

During a one-year period until mid-2002, thorough sub-sector research and BDS market assessments was undertaken, creating a valuable basis for project and intervention design. Additionally, research on the environmental management situation in the plastic sub-sector shaped the scope of Swisscontact’s potential interventions. Swisscontact entered into a strategic alliance with the Vietnam Chamber of Commerce and Industry to develop the SME market from the facilitator’s perspective. Meanwhile, a coordination office became operational in the Ho Chi Minh City that enables Swisscontact to profile itself as an independent organization that operates in a business relation with its partners

Although initial attention will be on Ho Chi Minh City where SME promotion interventions are expected to be most efficient, there will be a gradual expansion to secondary cities and urban areas, in order to cope with the development objectives and addressing the needs of the under-privileged areas and people. The timing of this also depends on the extent of donor and facilitator cooperation, especially where this leads to added capacity to Swisscontact’s project based on additional financial sources.

By mid-2004 an external evaluation will take place to assess achievements and impact of the project and to make recommendations on the further course of action.

## **2. Background**

### **2.1. General and socio-economic situation**

Vietnam is a country undergoing a transition towards a modern market economy. In 1986, as part of its ‘doi moi’ or ‘renovation’ policy, Vietnam first articulated a desire to undertake meaningful economic reform and integrate into the world economy. Vietnam grew robustly in the mid-1990’s, driven by large inflows of foreign direct investment and a resurgence in long-suppressed domestic demand. The country experienced a building boom in housing, hotels, industries and infrastructure, bringing new life to towns and cities across the country. Quality of life is growing with higher disposable incomes and purchasing power creating new markets for basic commodities as well as consumer durables and leisure products. The country has made important achievements in the institutional, social and economic fields during the past 10 years; however, the economy still faces some main difficulties, such as a low GDP per capita, and limited foreign investment. Annex I provides socio-economic data as published by the World Bank (June 2001).

Its 10-year socio-economic development strategy (2001 to 2010), Vietnam is seeking to repeat its high performance of rapid growth, employment creation and poverty reduction of the 1990s. GDP is expected to double in the current decade. Industrial growth is targeted at around 10 percent a year, driven in part by faster manufacturing growth. Given the fall of foreign direct investment and the stagnation of investment by state-owned enterprises (SOEs) and by the state budget, this rate can be achieved only if the investment by the private sector increases from the current 7% to around 11 to 13% of GDP. It is widely accepted in the country that the private sector, particularly small and medium enterprises (SMEs) offer the best prospects for generating employment and economic growth. With its increasing integration into world trade, the Vietnamese economy needs to become more dynamic and competitive. Experience from other countries indicates that Vietnam must have a strong and dynamic SME sector to ensure the competitiveness, stability and development of its economy.

### **2.2. The SME context in Vietnam**

The role of SMEs was largely ignored in Vietnam’s former centrally planned economy. The economic reform in the late 1980s opened up the economy for the private sector. SMEs gradually gained government recognition in the 1990s, particularly after the regional financial crisis that significantly slowed down foreign investment.

SME growth has been responsive to policy and legal changes. In 2000, the Enterprise Law was enacted, which was supplemented by Decree 90/2001 on SMEs in 2001, both of which were viewed as huge leaps in the evolution of the much-needed pro-business environment in Vietnam. Now that an improved legal framework and support policy are in place, law enforcement and policy implementation are determining factors to foster SME growth in the foreseeable future.

Vietnam’s SME sector is developing under unique economic and ideological circumstances, in which the dominant state sector is intended to serve as a tool to regulate the economy. Despite the government’s pledge to level the “playing field” for all economic sectors, the state sector continues to receive privileges that the private sector is not eligible for. As a consequence of the equitization and downsizing of big state-owned enterprises, SMEs become increasingly important to economic reforms. The Communist Party leaders and government officials are actively promoting private sector development.

International NGOs, multilateral and bilateral agencies have helped shape the SME landscape in Vietnam. While most NGOs focus their efforts at the grassroots level, bilateral and multilateral agencies seek to influence policy-makers. Government agencies that are of significant importance to SMEs are the Ministry of Planning and Investment (MPI) and the Vietnam Chamber of Commerce and Industry (VCCI).

The executive summary of the study report called “Vietnam’s SME macro-level context analysis, April 2002” is attached as Annex B.

### **2.3. Rational for Swisscontact’s involvement**

The strategic goal in Swisscontact’s *guiding principles* mentions that Swisscontact activities aim at sustainable improvement of the potential of economic and social development in industry, trade and the service sector in developing countries. Institutions and enterprises in urban areas as well as non-agricultural sectors in rural areas shall be enabled to achieve economic growth and thus create employment. SME promotion projects focus on enhancement of efficiency and competitiveness of small enterprises.

The *Development Program* agreement between the Swiss Agency for Development and Cooperation (SDC) and Swisscontact provides the framework for Swisscontact’s contribution to promote SMEs in selected countries. Emphasis includes the Mekong region countries Vietnam, Cambodia and Laos where a high development potential and contract opportunities from other donors exist with good potential for SME promotion: High growth rate; high level of un- and under employment; low salaries; large competition in the labor market. In Vietnam alone the labor force will grow by over 1 million per year.

The SME Promotion Project in Vietnam is part of a cluster of Swisscontact activities in the Mekong region, that includes the SVTC project in Vietnam (since 1994), and a component of the Regional Clean Air Project (ReCAP) in either Vietnam or Cambodia. Although each project operates under its own mandate, components of common interest will be undertaken in cooperation. This includes the involvement of the SVTC project in the development and implementation of vocational training interventions: SVTC’s network will be explored and expertise and know-how of SVTC will be tapped as advisory input where applicable. As far as it concerns ReCAP, the project will make available its infrastructure. Approaches applied by the project that are of relevance to ReCAP will be replicated.

## **3. Approach**

SME promotion projects commonly differentiate between *financial services* and *non-financial services*, the later one generally regarded as *business development services (BDS)*. There are different approaches to address BDS, among which are the *sub-sector development approach* and the *BDS market development approach*.

### **3.1. Sub-sector development approach**

In the sub-sector development approach attention is paid to a vertically integrated group of (small and large) enterprises that deal within a defined sub-sector in an interdependent way. It includes enterprises that produce or procure raw materials, enterprises that process them and enterprises that sell the processed goods to wholesalers or retailers locally or abroad. Sub-sectors can be defined broadly (agro-business) or narrowly (spices and herbs). The sub-sector analysis will clarify the relationship between the actors involved, look at opportunities and constraints faced by them and provide the basis for the design of macro and meso level interventions.

Swisscontact’s role in this approach is to identify the appropriate actors at each of these levels and to come to an understanding with them on how to address defined issues.

### **3.2. BDS market development approach**

The BDS approach is based on the hypothesis that - besides access to finance – enterprises also require access to other types of services (e.g. as market information, marketing support, legal and accountancy support). These services should be provided on a business-to-business basis by specialized (for profit) providers or embedded in other commercial transactions with for profit enterprises. The role of the donor/facilitator is to support the development of the market for

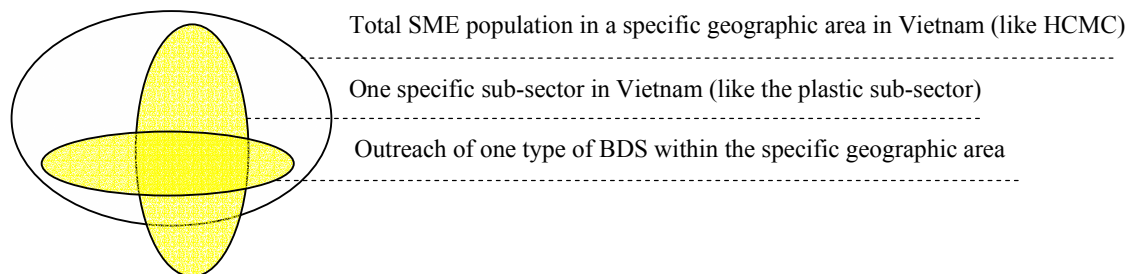
particular BDS by supporting the expansion/improvement of supply and/or demand. One activity of facilitators can be to assist BDS providers in developing/adapting service products to new clients. But facilitators may also perform a variety of other activities aimed at expanding/improving the supply side of the market, such as encouraging supplier franchising, helping suppliers improve their management or marketing, providing access to information on demand for services, etc. Furthermore, facilitators may stimulate demand for BDS, for instance by awareness creation, social marketing, or promotion of a voucher system.

As a facilitator, Swisscontact needs to understand the way markets and enterprises work. It needs to have the competence (skills, language, attitude and knowledge) and the credibility to get access to the supplier (provider) and the consumer of services (entrepreneur and employees) in order to strengthen the market for BDS. Support can be directed to the provider (by improving management capacity, by developing new or adapting existing service products, by accessing new markets etc.) or it can be directed towards the consumers (by improving their awareness/understanding of BDS, by providing incentives to try them etc.).

### 3.3. Swisscontact’s SME Promotion Vietnam: A blend of two approaches

The project will be anchored in a sub-sector approach. This implicates that intervention design, partner selection and project implementation will be based on sub-sector needs assessments. Applying the sub-sector approach will focus Swisscontact’s interventions, rather than aiming a broad reach out among the total SME population in a specific geographic area in Vietnam. This is consistent with the approach of Swisscontact’s strategic partner, the VCCI (see paragraph 5.3) that also applies sub-sector focused support.

Swisscontact’s BDS market interventions will be based on the assessed opportunities and constraints in the selected sub-sector(s). This creates potentials to address embedded BDS more focused, while at the same time the market of autonomous BDS providers with an outreach to multiple sub-sectors will be developed. The illustration below is a simplified projection in which one type of BDS and one sub-sector is accounted. The sum of these two determines the project’s area of operation (gray area).



It is Swisscontact’s policy to address environmental conditions in SMEs. A sub-sector approach allows a wider spectrum of focused interventions, compared to generic environmentally related BDS that are applicable to SMEs in general.

Macro-level context conditions, and specifically an enabling environment for SMEs, will be addressed with focus on sub-sector specific opportunities and constraints. For instance, the plastic sub-sector has its own particularities in import/export regulations; or the position of SOEs in this sub-sector is substantially different than in other sub-sectors. A sub-sector approach permits a focused macro-level dialogue among stakeholders.

## 4. Assessment

#### **4.1. The BDS market in selected provinces in Vietnam**

Before designing interventions to develop BDS markets, it is important to have a broad understanding of existing markets in order to

- identify weaknesses and opportunities,
- identify the reasons behind the lack of demand for or supply of services,
- identify the extent of market distortions,
- design effective and efficient interventions to develop selected BDS markets in Vietnam.

Swisscontact, in cooperation with GTZ, commissioned a study among 1,200 SMEs in the six main industrial areas of Vietnam, including 570 SMEs in greater Ho Chi Minh City (including Dong Nai and Binh Duong), as well as in Hanoi, Hai Phong and Da Nang. The executive summary of the report is attached as Annex E.

The BDS market for the private sector is estimated at about US\$ 27 million, of which 60% is in Ho Chi Minh City<sup>1</sup>. Most of the turnover is in Hanoi and HCMC because most of enterprises are concentrated here. But market penetration levels are similar among the 6 surveyed areas. They vary from a high of 50% to a low of 2%, depending on the type of BDS.

BDS market growth in the private sector is estimated at 7-10% per year. Markets are young but growth is accelerating. Key constraints for growth in most BDS markets include the low quality of services, lack of appropriate service products, poor service marketing, reluctance of SMEs to spend money on outsourced business services, and some BDS markets are controlled by the state. Opportunities include that the overall economic growth of the country will fuel the demand for BDS. Entrepreneurs have a high awareness of services and reasonable ability to diagnose business problems and choose appropriate services to help solve them, but this demand for services in most BDS markets is largely unmet. Services with a high market potential include business information (embedded or stand-alone), IT related services, and market related services (advertising & promotion, market research, product design and trade fair services).

In order to stimulate private sector investment in BDS markets, the playing field between SOEs and private companies has to be leveled. The lack of competition in controlled markets (like the Internet, media) resulted in low quality services. It is important to look at the effects of subsidized providers on the demand and private supply of services. Subsidies from both government and donors/social organizations should be shifted from transactions (i.e. subsidizing the cost of the delivery of BDS) to developing the BDS market itself. This means improving the commercial supply of services and increasing the availability of information about services, providers and the demand among SMEs for BDS.

#### **4.2. The plastic sub-sector in greater Ho Chi Minh City**

As a starting point of the BDS market assessment, an initial sub-sector study was undertaken in Ho Chi Minh City in the period June and July 2001. The executive summary of the study report is attached as Annex C. This study identified the plastic manufacturing sub-sector among others as having a high potential for development. This initial sub-sector study was complemented by an in-depth study of the plastic sub-sector in Ho Chi Minh City. The executive summary is attached as Annex D.

The plastic sub-sector in Vietnam is concentrated in Ho Chi Minh City, where a group of approximately 800 enterprises produce 80% of the total national plastics production. The growth rate in 2001 was 18 %; the rate of consumption per capita was 0.7 kg in 1989 and is now 11.6 kg. The total annual consumption of plastic materials is more than 1 million tons. The yearly growth-rate is expected to be maintained at 20-25% over the next 10 years.

The enterprises that operate in the plastics sub-sector are predominantly private sector SMEs while the few State Owned Enterprises (SOEs) are generally of medium-scale. The plastic

---

<sup>1</sup> Figures based on the BDS-market assessment (April 2002).

products market is diverse. Although there are differences between enterprises, an average of 50% of plastic products find their way to the industrial sector for further processing or assembly. Approximately 43% of them are engaged in export and although most SMEs wish to increase this component, obstacles to expansion exist, including market access, legal framework for direct export and lack of capital.

The role of business associations such as the *Vietnam Plastics Manufacturers Association (VPMA)*, the *Vietnam Saigon Plastic Association (VSPA)* or the *Vietnam Chamber of Commerce and Industry (VCCI)* is limited to the provision of certain types of BDS, mainly: the provision of information, international and domestic marketing services and some types of training. There is potential for these associations to play a more dominant role in representing their members in the future.

When selecting interventions in the BDS market of the plastic sub-sector, the following is considered:

- The project will target on market opportunities, rather than constraints. This means the project will stay flexible in order to respond to new opportunities that come up.
- The project will support specifically efforts to increase the markets of SMEs, both the domestic as well as the export market, e.g. develop and document an effective strategy and approach of export promotion
- Initially emphasis will be on services that have a short-term payoff for SMEs, to be started with pilot project activities.
- Embedded BDS is generally much sub-sector specific, and consequently it will get due attention and learning will be documented
- Focus on BDS that have a high potential for market development, i.e. strong demand and weak supply, would be initially considered; however, also weak BDS-markets (with a rather underdeveloped demand and weak supply) will be regarded where this is crucial for the sub-sector as a whole.
- Emphasis will be on the development of the supply side of the BDS market that will invigorate the BDS market as a whole with increased supply, demand, availability of information and improved regulation. Potentials for demand side development, however, are identified in environmental management, quality management, technical training, technical advisory, and product design. Demand stimulation activities would focus mainly on awareness, understanding and trial: Getting SMEs to try BDS.
- Special attention will be given to cross sector issues such as gender, environment and socially responsible Business (SRB) practices.

Based on results from recent research as mentioned in paragraphs 4.1 and 4.2, the following fields of intervention are considered of greatest importance:

1. *BDS group: Market access and Export promotion*
  - Market information
  - Development of samples
  - Market research
  - Market linkage
2. *BDS group: Training and technical assistance*
  - Technical training
  - Exchange visits and business tours
3. *BDS group: Technology and product development*
  - Product design services
  - Technology procurement
  - Quality assurance
4. *BDS group: Input supply*
  - Information on input supply sources
  - Linking SMEs to input suppliers

Organizations that could potentially address these concerns include private sector BDS providers and business associations. Government organizations have the potential to strengthen their role in some specific types of BDS, such as vocational training.

Swisscontact considers Socially Responsible Business (SRB), Gender and Environment as crosscutting subjects. Paragraph 5.5 elaborates further on the assessment of the situation in the project environment.

#### **4.3. Other sub-sectors with potential**

The sub-sector study undertaken in June-July 2001 as mentioned in paragraph 4.2 assessed sub-sectors that are potentially of interest for Swisscontact's assistance. Sub-sectors (besides Plastic manufacturing) that were considered included:

- Construction
- Leather and shoes
- Ceramics
- Garment and textile
- Food processing
- Light engineering

Final selection of sub-sectors to be assisted was based on a ranking. Criteria included: Un-met market demand, export potential, relevance to crosscutting subjects, value added opportunities, key-expertise of Swisscontact and its potential partners, reach-out, and potential for job creation.

The resources available from the development program that is co-financed by SDC limit expansion of the project to other sub-sectors and/or geographic areas. Cooperation with additional donor or facilitator organizations, however, can contribute to such an expansion. Initial contacts and/or agreements have been made with the MPDF (a co-financed fund by 10 donors and managed by the IFC), GTZ (German Development Cooperation) and SNV (Netherlands Development Organization).

### **5. Project objectives and activities 2002-2004**

#### **5.1. Goal**

The project's goal is to *improve the socio-economic conditions in the private sector SMEs in selected regions and/or sub-sectors in Vietnam*. As such the project contributes to increased competitiveness of SMEs with the improved quality of work of people in targeted SME population, including increased income, improved working conditions, improved environmental conditions, and improved position of women in SMEs.

#### **5.2. Purposes and Outputs**

Project purposes and outputs are defined in attached Logical Framework (Annex A). It concentrates on 3 main areas:

- A. Project management, development, monitoring and evaluation that ensures a professional implementation and achievement of planned outputs
  - Swisscontact's SME promotion Vietnam organization implements efficiently and effectively the program according to this Project Document with the necessary PMF and impact analysis.
  - Cooperation with VCCI as strategic partner is fulfilled as per agreement, with focus on VCCI's organizational development
  - Cooperation with Vietnamese government, foreign donor and facilitator organizations in SME promotion is operational as well as a good relationship to selected private sector entrepreneurs is established. A good working relation is established with SDC

and seco. Coordination takes place with Swisscontact's SVTC project and the Swisscontact Country Representative

- The new approaches will be developed in cooperation with Swisscontact's sector coordinators (SME promotion, gender, environment and SRB) and be adequately documented

B. Increased competitiveness, productivity and market access of private sector **plastic manufacturing** SMEs in greater Ho Chi Minh City. 400 SMEs will be reached by the BDS-providers that are supported by mid 2004.

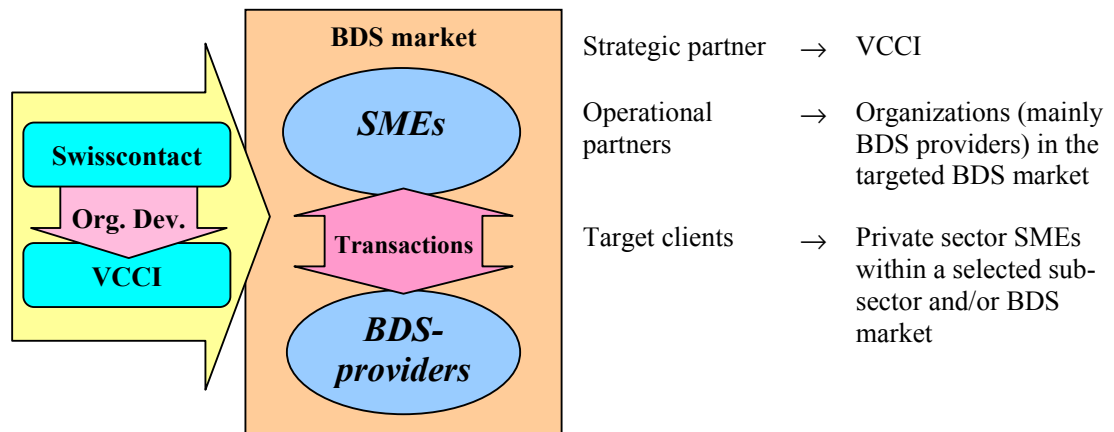
- BDS market development interventions are designed and implemented for embedded as well as transactional BDS with market opportunities in the plastic sub-sector
- Environmental management support schemes are established and implemented in the SME plastic sub-sector
- Gender inequality conditions/issues in the selected sub-sectors are addressed
- SRB (including child labor) conditions/issues in the plastic sub-sector are addressed
- Recommendations for improved macro-level conditions for the plastic sub-sector are submitted to the stakeholders and are followed-up

C. Increased competitiveness, productivity and market access of private sector SMEs **in one other sub-sector** in Vietnam. 50% of the SMEs that benefited indirectly from Swisscontact's assistance have adopted positive changes in their business practice.

- BDS market development interventions are designed and implemented for embedded as well as transactional BDS with market opportunities in an additional sub-sector
- Environmental management support schemes are established and implemented.
- Gender inequality conditions/issues in the selected sub-sectors are addressed
- SRB (including child labor) conditions/issues in the selected sub-sectors are addressed
- Recommendations for improved macro-level conditions for an additional sub-sectors are submitted to the stakeholders and are followed-up

### 5.3. Partners and targeted clients

The project distinguishes between strategic partner, operational partners, and targeted clients, which is illustrated as follows:



By means of an agreement signed between the VCCI and Swisscontact, the VCCI became Swisscontact's strategic partner in its SME Promotion Project in Vietnam. Swisscontact supports the VCCI in its organizational development as BDS facilitator.

The VCCI is mandated by the government of Vietnam to assist local enterprises and promote commercial, economic and technological cooperation between local and foreign businesses. The

Chamber keeps regular contact with the National Assembly's Office, the Office of the Government, and other relevant governmental bodies at the central as well as provincial level. Annex F provides further information on the VCCI.

Operational partners are those organizations or institutions in the targeted sub-sectors that will be engaged in the further development and implementation of interventions. As far as it concerns the development of the BDS market, these will predominantly come from the BDS providers potential, either those providing BDS on a transactional basis or organizations that provide embedded BDS. Agreements between Swisscontact and its operational partners will be based on a business relation in which support schemes will emphasize on pre- and post service delivery activities.

At macro-level Swisscontact interventions will focus on the development of an enabling environment. Operational partners will be selected from government and/or parastatal organizations including the VCCI and business associations.

The private sector SMEs in Vietnam are the ultimate target group of the project. The target clients are the private sector SMEs within the selected sub-sector and/or BDS markets. Here, the impact of the project will be measured. There will be no direct interventions from Swisscontact at this level except for purposes of monitoring and impact measurement

#### 5.4. Geographic area and sectors

The project distinguishes between three levels of SME-concentration areas within Vietnam (see also the map of Vietnam in Annex J):

1. Large cities	Most registered enterprises in Vietnam are in the main cities being Ho Chi Minh City (23,500 SMEs), Hanoi (11,000 SMEs), Da Nang (2,000 SMEs), and Hai Phong (1,500 SMEs).
2. Secondary cities	Cities with an SME population below 1,500. Examples include Can Tho, Binh Duong and Dong Nai, which are within acceptable reach of Ho Chi Minh City. The socio-economic level in these areas is substantially below of that of the first category.
3. Urban areas	In this category the critical mass of SMEs to develop efficient intervention projects are generally not met. Interventions are feasible when support is provided as a “satellite” from an existing SME promotion project, in which organizational infrastructure is already established and (human) resources can be made available on sharing-basis. Examples of such areas are Ninh Binh and Nam Dinh. In these areas the socio-economic level is considered the lowest.

SME promotion interventions are expected to be most efficient in Ho Chi Minh City with having the far highest number of SMEs. Therefore the SME Promotion Project will start here. Initial concentration will be on the plastic sub-sector. Within a period of 2 years, Swisscontact will have established a strong basis and infrastructure, and initial impact is expected.

Expansion to the other areas aside from Ho Chi Minh City and other sectors will follow. The extent and timing depend also on external financing opportunities. To cope with the development objective addressing the needs of under-privileged areas and people, the expansion will emphasize on the second and third category of SME-concentration areas.

#### 5.5. Crosscutting subjects

The project will apply Swisscontact’s *Relevance Matrix* in addressing crosscutting subjects, which is a tool that estimates the extend of integration, if any, of the crosscutting subjects in the

project. Where applicable corrections will be undertaken to reduce negative effects, or enhance positive effects.

### **5.5.1. Socially Responsible Business (SRB)**

SRB has in the past mainly focused on working conditions (specially for children) and environmental effects. Today, the driving forces for corporate social responsibility include:

- investment links with foreign investors/joint ventures
- trade links
- commercial pressure to cut cost
- environment pressure to reduce waste
- community pressure from the civil society
- regulatory pressure from international/government standards

Mostly these pressures apply to large firms and link to international markets. But also SMEs are part of this system and can become the target of sanctions of non-compliance. The SRB approach can be an effective instrument at SME level where high potentials (improve competitiveness in international market, cutting costs) or high risks (avoid sanctions, labeling requirements) are at stake.

The project will propose a strategy and instruments on how to promote SRB in the plastic sub-sector by early 2003. It will also document the situation of child labor in its target sub-sectors and how to improve their situation

The project will in its analysis of intervention potentials in the selected sub-sectors examine the relevance of SRB issues. Depending the selection of additional sub-sectors, this could be in the textile and/or agro-processing sectors in relation to export consumer goods. Development of tools and instruments will take into consideration international experience of application of SA8000.

### **5.5.2. Gender**

Swisscontact promotes the equitable development of women and men in all its fields of action. Accordingly, one criteria taken into account by Swisscontact in the selection of sub-sectors is *the potential to make a positive impact with regard to the under privileged position of women*.

In Vietnam, women as workers within SMEs are considerably disadvantaged compared to men, and this situation is most pronounced in those sectors that are the furthest removed from tasks 'traditionally' performed by women. Gender stereotypes on the division of labor are very clear. Furthermore, women are under-represented in managerial positions in the SME sector, with the number of women-owned enterprises estimated at 31% (mainly micro-sized).

Women in the SME sector generally have lower levels of education and less access to on-the-job training, resulting in the preference of men over women in recruitment and promotion, and the restriction of women to the performance of menial tasks in the workplace. In addition to the typical constraints faced in business operations, women are subjected to further gender-specific constraints such as behavioral and socio-cultural barriers, occupational and infrastructural impediments, and legal hindrances, which reduce the competitiveness of women as workers in this sector.

As a result of their dual productive and reproductive roles ("double burden"), women are more likely to be working without payment within their own family businesses, they cannot respond to offers of employment with the same flexibility as men, and they are more likely to be victims of workplace sexual harassment. Despite the existence of a number of national gender-sensitive policies, the achievement of equality between men and women in relation to the SME sector in Vietnam is in reality far from being realized.

The project will focus (based on SDC's guidelines) on specific tools that will initially be applied in the plastic sub-sector, which will include: Gender audits among all its operational partners, gender sensitization programs where the results of these audits justify, application of gender-

sensing in the process of development and implementation of BDS tools and instruments including testing the application of SDC's toolkit 'SME and Gender', emphasis on gender balance in BDS demand development, and integration of gender-balance issues in contributing to an enabling environment. One year after the start of the gender interventions it will be evaluated in coordination with the Swisscontact gender coordinator.

### **5.5.3. Environment**

In all its projects, Swisscontact aspires to contribute to sustainable development and promotes matters related to environmental protection. Accordingly, one criterion taken into account in the selection of sub-sectors is *the potential to make a positive impact with regard to environmental issues*.

In Vietnam, environment is currently a low priority for SMEs. The chief interests of SMEs across all sectors in Vietnam, including the plastic sub-sector, are costs, yield and product quality. As a result, SMEs continue to impact negatively on the environment, and fail to realize the benefits associated with environmental management. Interventions undertaken in the environmental field seek to emphasize incentive based schemes and rewards for positive performance, rather than negative reinforcements.

Environmental management support in the plastic industry of Ho Chi Minh City aims to contribute to increasing the productivity and market access of SMEs, as well as enhancing the development of sustainable environmental conditions. In order to achieve this, two key methodologies will be applied:

- Recycled plastic market development; and
- Industrial environmental management.

#### **5.5.3.1. Recycled plastic market development**

Although the proportion of non-perishable recyclable materials ending up in landfill in Ho Chi Minh City is currently relatively small, the composition of waste is changing rapidly with shifts in consumer style towards a more "disposable" culture, resulting in an increase of recyclable plastics remaining in the waste stream. The recycling of post-consumer plastic materials has the potential to enhance environmental protection through the diversion of plastics from landfill and the conservation of raw materials. By increasing the capacity for the recycling of plastic waste materials, it may also be possible to influence the productivity and market access of SMEs in the recycled plastic sub-sector.

The project's interventions within recycled plastic market development are focused on facilitating the supply of better quality products derived from recycled plastic materials. This involves enhancing the technical feasibility of SMEs to be able to recycle plastic waste into commercial products. Swisscontact will thus work with plastic sector SMEs to facilitate access to market information, support the establishment of demonstration workshops exhibiting state-of-the-art recycling technology and facilitating access to credit and funding for investment in technology.

#### **5.5.3.2. Industrial environmental management**

A number of environmental management tools exist, which aim to help businesses and industry become more sustainable. By encouraging responsible behavior and decision-making, these tools can assist companies to reduce the impact of their operations on the environment, at the same time as increasing cost savings.

Although there is generally a lack of motivation and means for the adoption of environmental management amongst plastic producers in Ho Chi Minh City, the project will work to develop and coordinate structured environmental management tools and solutions that will be targeted at plastic sector SMEs on a pilot basis. A further focal point will be the development of initiatives

such as databases and coupon systems to support the use of commercial environmental management service providers by SMEs in the plastic sub-sector.

A number of potentials and risks can be identified for environmental activities planned as part of the SME promotion project in the plastic sub-sector of Ho Chi Minh City. Risks include the reluctance of SME management to discuss environmental issues, and the tendency for entrepreneurs in the recycling industry to be defensive of their knowledge and expertise. Potentials include the ability to create favourable market conditions for different enterprises, and creation of a properly functioning industrial ecosystem that can contribute to environmental protection and sustainable development. With increased awareness of, and competence in sound environmental management, plastic sector SMEs in Ho Chi Minh City have the opportunity to grow and develop in a more sustainable manner.

#### **5.5.4. Poverty alleviation**

The Project Document clearly spells out that the targeted enterprises are small to medium formal sector enterprises and not micro enterprises, which often are presumed to have a direct impact on poverty alleviation.

SME promotion may serve the (poor) employees through the creation/strengthening of jobs and incomes but it is definitely not an instrument to directly combat poverty. From a sustainability point of view, however, it may be more justifiable to promote formal sector enterprises than micro enterprises. They have larger potential to sustain, to grow and to create *sustainable* income and employment than micro enterprises or self-employment in the informal sector. Informal sector jobs “created” through one specific assistance project are, by economic logic, often simultaneously destroyed in the same market. This is especially true in highly competitive and stagnant markets.

The project will make efforts to monitor and measure the impact of its approach in terms of job and income creation and their relation to the poorer people on the basis of specific case studies

### **5.6. Intervention levels and instruments**

#### **5.6.1. Macro level**

A sub-sector approach in its essence covers all levels of interventions. Macro-level interventions, which are mostly outside the reach of BDS market development approaches, address improvement of an enabling environment for SMEs. The project will link with international attempts to build know-how in this field (Swisscontact projects in Indonesia and Bangladesh. Also GTZ-Vietnam is engaged in field research within the scope of a donor-committee initiated field-research). Focus of the project will be on initiating dialogue towards such an enabling environment and regulatory framework in the plastic sub-sector and other sub-sectors that will be selected at a later stage. This may include:

- Focus on the immediate business environment (focus on constraints in the immediate environment, such as regulations, business licenses and permits, etc.)
- Focus on strengthening the *voice* of the SMEs and their organizations (the project will conduct advocacy activities through private-sector-led business associations and therefore strengthen their capacity in advocating their interests)
- *Bottom-up* approach (business environment issues would be discussed on concrete experiences of SMEs)
- Focus on constructive dialogue with decision makers (analyze existing situations and come up with concrete proposals for improvement based on international experiences)

Specifically, the project will improve the environment for private sector provision of BDS. This may include:

- Encouraging the government to level the playing field between SOE and private sector BDS providers

- Discouraging large scale transactional support for BDS by the government or donor organizations
- Encouraging the government to offer incentives for private investment in BDS provision, similar to those offered to the manufacturing sector

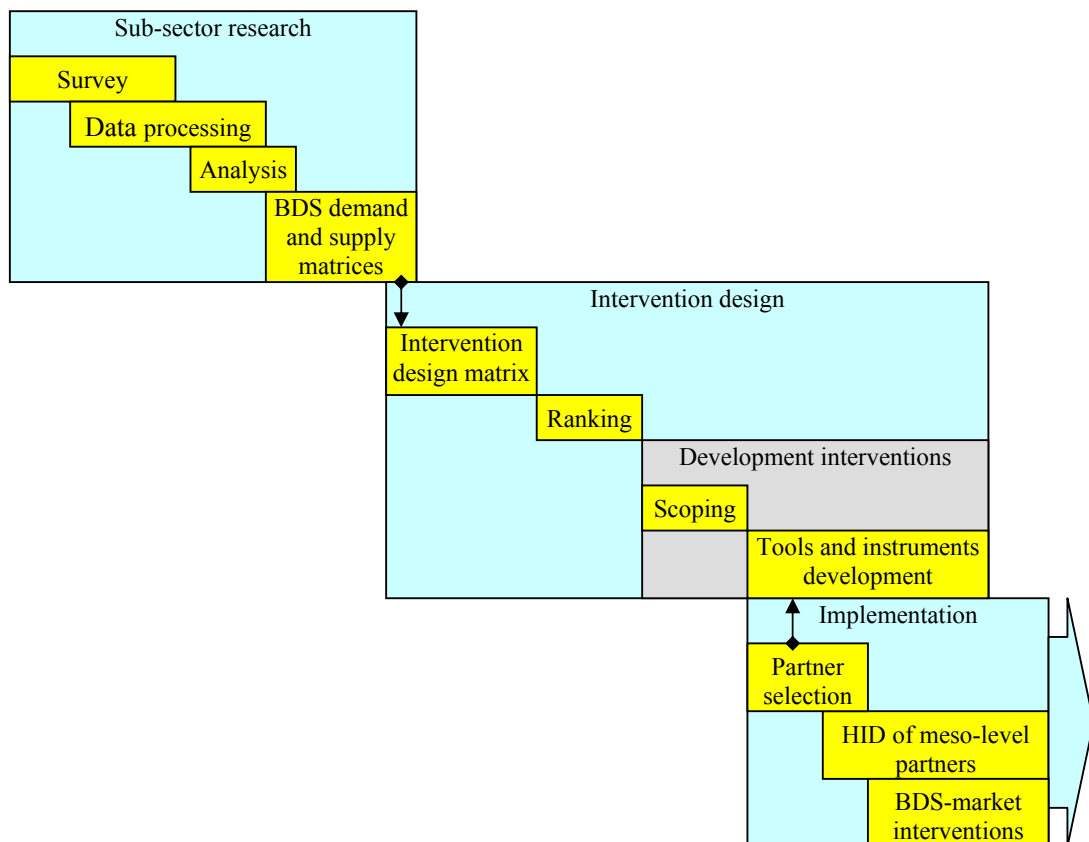
Cooperation with donor and facilitator organizations in Vietnam will lead to a better coverage of the total demand for SME promotion. Such cooperation could be at different levels:

- Added capacity to Swisscontact's project based on additional financial sources. There are potentials in cooperation with the SDC coordination office (within its urban governance program) and MPDF (within its BDS market development program)
- Added reach-out by matching Swisscontact's resources with those of other donors/facilitators. Contracts have been established with GTZ and SNV. Potential other organizations are ILO, UNIDO and other donors with emerging programs in Vietnam towards SME promotion
- Expanded network of resource organizations by increased access of Swisscontact's partners and target clients to those. Within the reach of Swiss-allied projects are the SVTC project of Swisscontact and the seco-financed VNCPC.

### 5.6.2. Meso level

The project does not provide direct support to its ultimate target group at enterprise level, but instead it will support meso-level organizations and institutions to address this target group. The BDS market development approach is based on this principle (see paragraph 3.2). Agreements between Swisscontact and its operational partners at meso-level, generally to be regarded as BDS providers, will be based on a business relation.

The following phases will be applied in the total process from sub-sector selection through BDS market interventions:



Instruments and procedures for the selection, support and monitoring of above-mentioned process will be established and applied.

### 5.7. Swisscontact Project Management

Swisscontact profiles itself as an independent, professional organization that maintains a business relation with its partners. An *SME Promotion Project Office* has been established in Ho Chi Minh City that provides facilities needed to operate efficiently and effectively in the execution of the project.

Staff of the project will consist of one *international* Project Manager, assigned by Swisscontact's head office. Additionally, a team of locally recruited experts and supporting staff will be formed, based on project demands. Annex G provides the organigram as foreseen for the first phase (2002-2004), which includes:

- One Environmental Advisor, supported by an Environmental Assistant
- Three Business Development Advisors (BDA)
- One Associate Expert
- One Office Administrator, supported by an Administrative Assistant

Tasks that are time limited and that are suitable to be outsourced will be so. Consequently, the project will build on a reliable network of consultants, both individuals as well as organizations, that can be tapped.

Both, Swisscontact's own staff and its regular consultants will be subjected to staff development programs towards improved capability in their specific responsibilities and/or tasks.

Swisscontact assigned a Country Representative in Vietnam, who is based in Hanoi and combines this position with Project Manager of Swisscontact's SVTC project. The cooperation between the SME Promotion Project and the Country Representative concentrates on coordination of overarching Swisscontact activities, i.e.: Promotion of Swisscontact's Senior Expert Corps program, acquisition of local project opportunities, representation to official (non-project) organizations, and the development of an organizational and financial project manual.

The SME Promotion Project will maintain in regular contact with the SDC coordination office and the seco representative at the Swiss Embassy, both in Hanoi. This would result in identification of potential cooperation and utilization of synergies of the different programs and/or projects.

## 6. Budget

The detailed budget is attached in Annex K, which is summarized as follows:

	2002	2003	2004	TOTAL
Project Management	330,000	330,000	365,000	1,025,000
Plastic sub-sector in Ho Chi Minh City	175,000	220,000	235,000	630,000
Expansion to other sub-sectors and/or regions	5,000	160,000	180,000	345,000
TOTAL	510,000	710,000	780,000	2,000,000

*Figures are in Swiss Francs*

## 7. Time schedule

Hereunder are presented main activities in relation to the outputs as mentioned in the logical framework as presented in Annex A. Comprehensive planning will be undertaken on annual basis (period planning) in accordance with Swisscontact procedures.



The main elements to be measured in the evaluation are mentioned in Annex H. The project management will make the required arrangements to make sure that the data will be available to the evaluators at the start of their mission.

### **8.3. Exit strategy**

In accordance with Swisscontact's policy for SME promotion projects the commitment to this project is long range - which means 10 to 15 years - provided that the environment permits an effective involvement in the intended sectoral and geographic areas, including other countries in the Mekong Region. A decision as to when and with what exit scenario the project would be phased out is not appropriate at this stage of project start and expansion, but will be elaborated towards the end of phase 2 (2005-2007).

Support to specific sub-sectors and BDS markets will be phased out after criteria related to "reasonably developed" and "sustainable growth" are met. These criteria will be set at the start of the intervention phase and based on data obtained during the sub-sector research. It is estimated that support to one sub-sector will have a duration of 3 to 5 years.

## **9. Appreciation of potentials and risks**

"Doi Moi", or renovations, started in the late 1980s leading towards a market-led economy. It is conditionally for the development of the private sector SMEs that this process continues. Government strategies and regulations should remain favorable for the development of the private sector.

The high potential for development of the private sector in Vietnam attracts donor support. There is a risk that this accelerating process will lead to a distortion of the BDS market to an extent that interventions will become non-sustainable.