

MINISTRY OF EDUCATION AND TRAINING MINISTRY OF FINANCE
ACADEMY OF FINANCE

PHUNG THANH LOAN

**FINANCIAL POLICIES ON SUPPORT
FOR THE GROWTH OF SMEs IN VIETNAM**

Specialized in Finance - Banking

Code no.: 9.34.02.01

DOCTORAL THESIS ABSTRACT

HANOI - 2019

The thesis is accomplished at:

ACADEMY OF FINANCE

***Scientific Supervisor:* 1. Assoc. Prof.Dr. DUONG DANG CHINH**

2. Dr. VU DINH ANH

***Counter Argument 1:***

.....

***Counter Argument 2:***

.....

***Counter Argument 3:***

.....

**The thesis will be defended at Doctoral Dissertation Assessment Council
for Academic Level**

Location:

Time:

After the publication, the thesis will be stored at:

- National Library of Vietnam**
- Academy of Finance Library**

INTRODUCTION

1. The necessity of the research

During the period from 2011 to 2015, Vietnamese SMEs with the same characteristics as SMEs in the world contributed about 30% of the total state budget revenue, 35% of total social investment capital and accounted for 25% of the total national export turnover, and also contributed nearly 50% to the annual economic growth. SMEs in Vietnam have not only little capital but also low-tech equipment, low-skilled workers who are lack of basic training, weak competitiveness, and limited business mindset. These difficulties are the great concern when Vietnam deeply integrates into the world economy. The 4.0 industrial revolution is changing the world economy, which challenges Vietnamese enterprises to adapt to the new business environment. Recently, the government has issued various policies with the aim of supporting for the development of SMEs but the result of implementing these policies is still limited that makes SMEs face many difficulties in the process of development. Due to the current status, the government is required to have more specific policies to support SMEs, especially the financial policies which is believed to help SMEs to overcome the obstacles and utilize the opportunities for growth. Accordingly, it is necessary to do a research seriously in order to investigate the opinion from enterprises about the financial policies which is supposed to facilitate SMEs' growth so that the government could improve the financial policies to support SMEs to adapt in new economic environment. I, therefore, chose "**Financial policies on support for the growth of SMEs in Vietnam**" as my doctoral thesis topic.

2. The objectives and tasks of the research

2.1. Research objectives

This research objectives are identified as follows:

- Developing a theoretical framework on financial policies to support for SMEs' growth;
- Analyzing the current status of SMEs' development and the financial policies on support for SMEs in Vietnam;
- Suggesting feasible solutions to improve the financial policies to support for SMEs' growth in Vietnam.

2.2. Research tasks

In order to achieve the above research objectives, this thesis aims to accomplish the following research tasks:

- Systematizing and improving the theoretical basis of SMEs and government's financial policies on support for SMEs. Learning from other countries' experience of financial policies for supporting SMEs' growth and then applying these lessons into Vietnam.

- Doing research on the status of SMEs' development and the Vietnamese government's financial policies on support for SMEs in the period of 2012 - 2017. Assessing the results in order to identify the limitations and the causes of those limitations.

- Suggesting solutions to improve the financial policies to support for SMEs' growth in Vietnam by 2030.

3. The subject and scope of the research

3.1. Research subject

- The research focuses on studying the theories and practices of financial policies on support for SME's growth in Vietnam.

3.2. Scope of the research

- With regard to the financial policies: The thesis would do the research and evaluate in depth of the influence of the financial policies on the operation of SMEs including tax policies (corporate income tax, value-added tax), credit policies and financial policies on land (cost of rent, non-agricultural land use tax)

- With regard to research participant: The main participants of the thesis are Vietnamese SMEs. However, with the purpose of clarifying the influence of financial policies on the development of SMEs, this thesis would particularly observe some of typical SMEs in the area of Hanoi.

- Reference Period: The thesis would focus on doing research on the status of the Vietnamese government's financial policies on support for SMEs in the period of 2012 - 2017 and suggesting useful solutions for SMEs' growth by 2030.

4. The new contributions of the thesis

- * *In theoretical perspective:* The thesis systematized and clarified certain of the basic theories of SMEs and financial policies on support for SMEs' growth including concept, content, impact and influential factors. There in, tax policies, credit policies and financial policies on land are highly concentrated on. The thesis also synthesized other countries' experience of utilizing financial policies for supporting SMEs' growth and then applying these lessons into Vietnam.

- * *In practical perspective:* The thesis indicated the status of SMEs' development and the Vietnamese government's supporting financial policies, which are mostly tax

policies, credit policies, and financial policies on land, for SMEs in the period of 2012 - 2017. Additionally, it evaluated the achievement and limitation of the implementation of these financial policies in order to reveal causes of those limitations. As a result of the research, two kinds of solutions were suggested as follows:

- Improving the financial policies to facilitate the growth of SMEs in Vietnam by 2030;
- Identifying the suitable environment for better implementation of the financial policies.

5. Structure of the thesis

In addition to the introduction, conclusion, references and appendices, the thesis consists of four chapters following:

Chapter 1: Literature review and Research methodology

Chapter 2: Basic theories of SMEs and financial policies on support for the growth of SMEs

Chapter 3: Current status of the financial policies on support for the growth of SMEs

Chapter 4: Solutions to improve the financial policies on support for the growth of SMEs in Vietnam

Chapter 1

LITERATURE REVIEW AND RESEARCH METHODOLOGY

1.1. LITERATURE REVIEW ON SMEs AND FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs

1.1.1. Domestic researches

Firstly, the researches on the role and the importance of SMEs sector in the economy affirmed the necessity of the growth of SMEs.

Secondly, the researches on the effects of government's financial policies on the operation of SMEs.

Thirdly, the specific researches on the detailed influence of each financial policies on the growth of SMEs.

1.1.2. International researches

Firstly, qualitative researches on government's policies supporting SMEs.

Secondly, quantitative researches on government's policies supporting SMEs.

1.2. THE VALUES AND LIMITATIONS OF THE PREVIOUS RESEARCHES

1.2.1. Scientific and practical values

The scientific and practical values from previous researches are accepted in this thesis including as follows:

- Criteria for defining SMEs in Vietnam in different periods of time;
- The advantages and disadvantages of SMEs;
- The role of SMEs in world economy and in Vietnam;
- List of financial policies on support for SMEs that are implemented in other countries and good practices;
- The reality of the operation of SMEs, the implementation of the financial policies on support for SMEs and the major difficulties preventing the growth of SMEs in Vietnam.

1.2.2. Limitation of the previous researches

Firstly, most of the researches used qualitative research method to analyze and evaluate the influence of the financial policies such as tax, credit, investment, land, etc.... on the growth of SMEs.

Secondly, certain of the researches only focused on some of the aspects of the financial policies

Thirdly, it is identified that one of the obstacles for Vietnamese SMEs is the difficulty to access to land and to find business premises. However, the literature has been silent on the financial policies on land for SMEs, especially policies on rent rate, property taxes.

Fourthly, there is a shortage of quantitative researches in order to measure the impact of financial policies on the growth of SMEs.

The above limitations are the reason that more researches on the financial policies on support for the growth of SMEs need to be carried on.

1.3. RESEARCH METHODOLOGY

1.3.1. Research Methodology Selection

With the purpose of achieving the objectives of the thesis, a combination of qualitative and quantitative methods is utilized.

- Qualitative methods include:

+ Research Synthesis: integration of existing knowledge relating to the topic in order to generate new theoretical concept for the thesis

+ Statistical and Comparative Methods: the process of collecting the secondary data, data analysis, creating tables and graphs in order to make a comparison and assessment of the content of the thesis.

+ Data analysis methods: using the secondary data to analyze and summarize the current status of the financial policies on support for SMEs in Vietnam.

- Quantitative methods: using the statistical methods with regression model and SPSS 20.0 software in order to analyze the influence of the financial policies on the growth of SMEs in Vietnam.

1.3.2. Research Process

The research process consists of 4 steps following:

Step 1: Identifying the research problem and the limitation of the previous researches

Step 2: Building theoretical framework

Step 3: Analysing the current status

Step 4: Suggesting solutions

1.3.3. Primary data collection and analysis method

a. Data collection method: Questionnaire

The thesis used questionnaire as its quantitative data collection conducting through direct interview and via email.

b. Questionnaire design for Enterprises

The questionnaire is divided into 2 main parts. Part 1 consists of 16 questions which are from 05 groups including tax policies; credit policies; financial policies on land; business result/business growth and suggestions. The questions are designed in form of quantitative question. The values are measured by using the score scale Likert 5 namely 1 standing for strongly disagreed and 5 standing for strongly agreed (or from extremely inappropriate to extremely appropriate; or from very unnecessary to very necessary). Part 2 includes of 07 questions about enterprises' general information.

c. Experiment on the questionnaire for enterprises

The author conducted 30 experimentally direct interviews with SMEs' owners or managers in the area of Hanoi. Among those 30 interviews, all the respondents understood all the questions and all the questions are supposed to be clear, simple and understandable.

d. Sampling method

As mentioned in the scope of the research, it is hardly to conduct a wide range of research. Due to the limitation of research resources such as time, financial ability, personnel, pre-selected 200 samples (200 respondents) before the survey is the most efficient way for data collection.

In order to collecting the data relating to the financial policies on support for the growth of SMEs in Vietnam, the targeted participants are chief accountant or manager from SMEs in Hanoi. Therefore, the thesis used non probability sampling method.

e. The official conduction of the survey and data analysis

The author officially conducted the survey from March 1st, 2018 to April 28th, 2018. Using the data collection from the survey, the author adjusted, cleansed the

data and then inputted the data into SPSS 20.0 software. The results of data analysis would be discussed in Chapter 3.

CONCLUSION OF CHAPTER 1

Chapter 1 gave the general understanding of SMEs and the financial policies on support for the growth of SMEs collecting from both the international and domestic researches. It also explained the research methodology, the research process, the primary data collection and analysis method which were utilised in the thesis to achieve the research objectives.

CHAPTER 2

BASIC THEORIES OF SMEs AND FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs

2.1. BASIC THEORIES OF SMEs

2.1.1. Definition of SMEs

In order to meet the research objectives and to be consistent with the existing statistics about SMEs, the author defined SMEs according to Decree no. 56/2009/ND-CP issued by the Government namely:

“Small and medium businesses that have business registration in accordance with law, is divided into three levels: micro, small and medium scale total capital (total capital equivalent to total assets is determined in the balance sheet of enterprises) or number of employees per year (total funding is the priority criteria)”

2.1.2. Role of SMEs in the economy

- Playing an crucial role in the growth of the economy
- Offering more employment opportunities per invested capital in comparison with other large enterprises.
- Contributing to the equally economic development across the locations.
- Creating industrial links with large enterprises.
- Contributing to significantly increasing the investment of capital savings into the economy.

2.2. FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs

2.2.1. Growth of SMEs

The following criteria are set to evaluate the development of SMEs:

- Number of SMEs: number of active enterprises, number of newly registered enterprises.

- Number of employees.
- SMEs' capital.
- Total value of fixed assets and financial investment of SMEs
- SMEs' revenue and profit.

2.2.2. Financial policies

The national financial policies are the state policies on the use of financial tools including the system of governmental financial and monetary views, goals, guidelines and solutions in accordance with the characteristics of the country in different period in an attempt to foster, exploit, mobilize and utilize the diverse financial resources to effectively serve the implementation of the national socio-economic development plans and strategies in the corresponding period.

2.2.3. Financial policies on support for the growth of SMEs

The financial policies on support for the development of SMEs are the whole of governmental financial views, guidelines, goals and tools which influences the process of mobilizing, distributing and utilizing the financial resources of SMEs in order to make SMEs to become the important driving force of economic growth and to improve the competitiveness of the economy in the process of integration.

2.2.4. Content of the financial policies on support for the growth of SMEs

2.2.4.1. Types of tax policies support

- In term of corporate income tax (CIT): it is expressed through CIT rate, CIT exemption and deduction with term; time extension of paying CIT; investment discount; tax credit; accepting accelerated depreciation and loss carry forward.

- In term of value-added tax (VAT): the support is showed as setting the threshold of VAT registration; simplifying the VAT rate structure and VAT system; VAT refund; VAT exemption and deduction and time extension of paying VAT.

- Building presumptive tax system.

2.2.4.2. Types of credit policies support

- Loan capital
- Loan term
- Loan interest rate
- Loan conditions

2.2.4.3. Types of financial policies on land support

- Exemption and deduction of land rent and property tax
- Stabilizing the land rent cost and property tax for a certain rental period or for all the time of the project.

2.2.5. The influence of financial policies on the growth of SMEs

2.2.5.1. The influence of tax policies

2.2.5.2. The influence of credit policies

2.2.5.3. The influence of financial policies on land

2.2.6. Factors influence financial policies on support for the growth of SMEs

- Factors belong to subject of the policies
- Factors belong to object of the policies
- Current status of socio-economic development

2.3. INTERNATIONAL EXPERIENCE OF FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs - IMPLICATIONS FOR VIETNAM

2.3.1. International experience of financial policies on support for the growth of SMEs

2.3.1.1. Tax policies

- Experience of CIT incentives
- Building presumptive tax system.
- Experience of VAT incentives

2.3.1.2. Credit policies

Setting up state financial institutions in order to supply capital to SMEs by direct loans and credit guarantee are applied in Japan, Korea, and Italy.

2.3.1.3. Financial policies on land

Property tax deduction and property tax incentives programs for a number of specific enterprises and building SMEs' zones are implemented in America and China.

2.3.2. Implications for Vietnam

Firstly, it is suggested that tax incentives policy should be used flexibly in order to fit the conditions of revenue and expenditure of state budget of Vietnam and also to support the development of SMEs.

Secondly, state financial institutions should be set up with the aim of implementing preferential credit policies for SMEs.

Thirdly, the financial obligations relating to land for SMEs should be reduced with the purpose of cost savings and accumulated capital for investment in the business development

CONCLUSION OF CHAPTER 2

With the aim of building the theoretical framework for the thesis, it is clarified the theoretical issues connecting to the thesis in this chapter, namely:

- *Firstly*, clarifying the theoretical issues and the role of SMEs of socio-economic development in different countries.
- *Secondly*, identifying the definition, contents, factors and influential factors of development and development support for SMEs, financial policies and financial policies on support for the development of SMEs.
- *Thirdly*, studying other countries' experience of utilizing tax policies, credit policies and financial policies on land for supporting SMEs and then applying these lessons into Vietnam.

Chapter 3

CURRENT STATUS OF THE FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs

3.1. CURRENT STATUS OF THE GROWTH OF SMES

3.1.1. Increased number of SMEs

3.1.1.1. Number of newly registered SMEs

With the efforts of the Government, Ministries and local authorities to improve the environment for investment and business, enterprises are facilitated to enter the market and participate in the operation process. The total number of newly registered enterprises in the period of 2012-2017 reached 553.384 enterprises, with an average of 92,230 newly established enterprises each year.

3.1.1.2. Number of Active SMEs

The number of active SMEs in 2016 is 495.010 enterprises, which increased by 1,46 times in comparison with 2012. The average growth rate of number of active SMEs in the period of 2012-2016 reached 9.4%. In 2016, the number of active SMEs increased by 14.2% compared to 2015, which is higher than the 10% increase of 2015.

3.1.1.3. Number of SMEs as State owned enterprises

In 2016, SMEs accounted for 96,70% of the number of non-state owned enterprises, of which micro and small enterprises accounted for 97,43% and the rest was medium and large enterprises. Among the state owned enterprises, 56,91% of the enterprises were SMEs, of which micro enterprises accounted for only 2,9%. Meanwhile, SMEs accounted for 81,23% of foreign invested enterprises, of which small enterprises took the largest proportion of 44,79%.

3.1.1.4. Number of SMEs by economic sectors

SMEs are mostly from trade and service sector, which kept increasing from 67,7% in 2012 to 70,5% in 2016. Meanwhile, the percentage of SMEs in industrial

and constructing sectors tends to decrease from 31,3% in 2012 to 28,6% in 2016. The smallest share of the number of SMEs belongs to agricultural sector, which accounted for only about 1% in the period of 2012-2016.

3.1.2. Increasing the number of employees in SMEs

3.1.2.1. Number of employees in SMEs

In recent years, the increase in the number of newly registered enterprises has created more jobs for the employees. From 2012 to 2016, the labor force working in SMEs increased nearly 1,21 times, from 5.1 million to 6.2 million employees. The average labor growth rate in 5 years from 2012 to 2016 reached 4.2%

3.1.2.2. Number of employees in SMEs according to the size of company

With regard to the size of company, in 2016, the number of employees working in small enterprises accounted for 59.4%, followed by micro enterprises and medium enterprises which accounted for 24.3% and 16.2% respectively.

3.1.2.3. Number of employees in SMEs according to the type of business

The number of employees in state-owned decreased in both proportion and absolute value of number, which is down from 170.791 people (equivalent to 3.3%) in 2012 to 131.631 people (equivalent to 2.1%) in 2016. There was dramatic change in the proportion of the employees in FDI sector, which increased from 8% in 2012 to 9,2% in 2016. The number of employees in non-state owned enterprises accounted for 88,7% in 2016, known as the largest proportion.

3.1.2.4. Number of employees in SMEs by economic sectors

Although the number of employees in SMEs mostly work in industrial and constructing sector, the proportion of employees working in these sectors decreased from 57,3% in 2012 to 54,8% in 2016. Meanwhile, the proportion of employees working in trade and service sectors tends to increase from 41% in 2012 to 43,7% in 2016. The proportion of employees in SMEs in agriculture, forestry and fishery experienced slight decrease from 1,7% in 2012 to 1,5% in 2016.

3.1.3. Development of SMEs' capital and assets

3.1.3.1. Development of SMEs' capital resources

The capital resources of SMEs in 2016 was equivalent to 145,5% of the amount in 2014. In the whole period of 2014 - 2016, the capital resources of SMEs increased by an average of 20.9%.

3.1.3.2. Development of SMEs' assets

The fixed assets and SMEs' financial investment saw positive changes. On December 31st 2016, fixed assets and financial investment of SMEs increased by

90,7% compared to the corresponding period in 2012. On average, an SME reached 8.2 billion VND (equivalent to 130,5% of the amount in 2012).

3.1.4. Development of SMEs' net revenue and profit before tax

In the period of 2012 - 2016, SMEs' net revenue increased 1,63 times. It is observed a consistent increase in net revenue of SMEs in comparison with net revenue of all enterprises by 43,3% in 2012 to 45,2% in 2016. Profit before tax of SMEs in 2016 also increased by 1,79 times compared to 2012. However, in terms of the proportion of SMEs' profit compared to the total profit of the entire business sector, there was a decline from 13,3% in 2012 to 12 % 2016. Especially in 2013, this ratio is only 9,9%.

3.1.5. Financial criteria of SMEs

In term of capital structure.

It is indicated that the debt ratio is in direct proportion to the size of company. Therefore, medium and large enterprises have higher debt ratio than small and micro enterprises. In 2016, the highest debt index of medium and large enterprises is namely about 4,1 and 3,7 while the index of micro and small enterprises is 2,2 and 3,4 respectively.

In term of performance of SMEs.

Due to the macroeconomic problems in the period of 2012-2016, the number of enterprises suffering from losses increased with an average of about 42.3%. It is shown that the loss ratio is inversely proportional to the size of company. When dealing with the challenging period, micro enterprises are the most vulnerable, which share the largest proportion of enterprises suffering from losses. On the other hand, return on assets (ROA) and return on equity (ROE) are directly proportional to the size of company, which mean that the ROA and ROE of large and medium enterprises are higher than small and micro enterprises.

In term of liquidity of SMEs.

The current ratio and quick ratio of liquidity are in inverse proportion to the size of company. In fact, the smaller size of company is, the more difficult it is to access to bank loans or capital tie-up. Meanwhile, larger companies often use financial leverage to increase profits and save the cost of capital.

On the contrary, the interest coverage ratio is directly proportional to the size of company. Large and medium enterprises are supposed to have better ability to meet its interest obligations than small and micro enterprises.

3.1.6. General assessment of the growth of SMEs

Firstly, the achievements are as follows:

- The increase of newly registered and active SMEs.
- Offering more employment opportunities.
- Starting to have long-term vision of investment and business activities.
- Small and micro enterprises use less debt capital than larger enterprises so that

they have better solvency;

- The business results of SMEs show signs of growth after the economic downturn namely a slight decrease of number of enterprises suffering loss, increase of both net revenue and profit after tax.

Secondly, there are still certain of limitations, such as:

- Small capital size.

-The gap of capital of production and business activities, fixed assets and long-term financial investment between SMEs and big enterprises is huge.

- The ability to meet its interest obligations of SMEs, especially small and micro enterprises, is worse than big enterprises.

- The total net revenue from production and business activities and profit after tax on average of an enterprise are at low level that increase the gap between SMEs and big enterprises.

- The efficiency of capital use is direct proportional to the size of company. However, the gap of efficiency of capital use between big enterprises and SMEs is huge.

3.2. CURRENT STATUS OF THE FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMES

3.2.1. Current status of tax policies on support for the growth of SMEs

3.2.1.1. Reality on corporate income tax (CIT)

Firstly, CIT rate deduction for SMEs is implemented earlier according to the plan.

Secondly, there have been many changes in regulations relating to the allowable expenses that was deducted in favor of the enterprises.

Thirdly, it is accepted accelerated depreciation.

Fourthly, loss carry forward is allowed.

Fifthly, CIT Code contains regulations about kinds of income that are exempted from tax or are preferential time of exemption and deduction; and about preferential tax rate.

3.2.1.2. Reality on value-added tax (VAT)

Firstly, for SMEs with a turnover of 1 billion VND or more, the enterprises must implement fully regulations on accounting, invoices and documents as required by the law in order to pay tax by the tax credit method.

Secondly, it is regulated that enterprises and cooperatives with a turnover of under 1 billion VND are entitled to calculate VAT by simple method.

Thirdly, supporting for SMEs through VAT refund polices.

Fourthly, goods and services of household and business individuals with annual turnover of 100 million VND or less are not taxable objects of VAT Code.

3.2.2. Current status of credit policies on support for the growth of SMEs

3.2.2.1. Reality on bank credit

Currently, SMEs are granted credit terms by credit institutions in accordance with the general regulations. Moreover, banking sector has recently issued many beneficial policies in order for SMEs to access to bank credit

3.2.2.2. Reality on preferential credit

SMEs Development Fund was established in April 2013 with the purpose of supporting SMEs' production and business project in State priority sectors for enhancing the competitiveness of SMEs so that they could contribute to increase income and to create more job opportunities.

3.2.2.3. Policies on credit guarantee for SMEs

The term of credit guarantee for SMEs in Vietnam is firstly regulated in the Decree No. 90/2001/ND-CP dated on November 23rd, 2001 on support for the development of SMEs. The objectives of policies on credit guarantee are to build relationship between SMEs and credit institutions, to help SMEs to access to official credit sources. Most of credit guarantees for SMEs are granted through Vietnam Development Bank and local credit guarantee fund for SMEs.

3.2.3. Current status of financial policies on land for support for the growth of SMEs

3.2.3.1. Reality on policies on land rent cost

Firstly, the percentage of land rent cost per year decreased from 1,5% to 1%

Secondly, Land Code 2013 regulated 5 land pricing methods including direct comparison method, subtraction method, income-based method and surplus-based method.

Thirdly, regulations on successful bids for land use rights.

Fourthly, the Government would take the initiatives in revocation of land according to land planning, implementation of compensation and land clearance in order to create a clean land fund for rent through auction or non-auction. The Land Development Fund will help the organization to pay in advance for the compensation of land clearance.

Fifthly, the regulations on rent payment period of land lease paid annually, and land lease paid in lump sum were adjusted to be in line with practices and to facilitate tenants to fulfill the financial obligations to the State.

Sixth, it is implemented the land lease cost exemption for the whole lease term; the exemption of land lease cost, water surface lease cost during basic construction period according to projects approved by competent authorities but not exceeding 3 years since the effective date of the land lease or water surface lease decision; the exemption of land lease cost and water surface lease cost after the exempting period of basic construction; the reduction in land rent cost for specific situations.

3.2.3.2. Reality on policies on non-agricultural land use tax

Firstly, tax rate for land used for non-agricultural production and business and non-agricultural land used for production and business purposes is 0,03%.

Secondly, the price of 1m² of taxable land, which is stipulated by people's committees of provinces and cities under central authority according to the purpose of land use, is lower than the market land price and is remained consistently for 5 years.

Thirdly, the exemption and reduction of non-agricultural land use tax is implemented in specific situations.

3.3. ASSESSMENT OF THE INFLUENCE OF FINANCIAL POLICIES ON THE GROWTH OF SMEs - STUDY ON TYPICAL CASES IN HANOI

3.3.1. Examining the influence of financial policies on the growth of SMEs by Regression model

** Cronbach's Alpha Analysis*

Table 3.11. Results in Scale testing

	Cronbach's Alpha coefficient
Tax policies	0.851
Credit policies	0.729
Financial policies on land	0.800
Business result	0.816

Source: Results in author's investigation and analysis

With regard to the information shown in table 3.11, it is indicated that all observed variables have appropriate correlation coefficient (≥ 0.3). Meanwhile, Cronbach's Alpha coefficient ≥ 0.6 meets reliability requirements.

** Exploratory factor analysis(EFA)*

After conducting EFA with factor loading 0.5, it is shown that the observed variables are extracted into 3 groups in accordance with the conditions of total extracted variance, KMO coefficient and Bartlett testing.

Conducting EFA with dependent variable also meets the conditions of total extracted variance, KMO coefficient and Bartlett testing

** Pearson correlation coefficient analysis - Pearson (r)*

Table 3.12. Correlation coefficient Matrix between variables

		Business Result	Tax policies	Credit policies	Financial policies on land
Business result	Pearson correlation	1	-.471**	-.712**	-.713**
	Sig. (2-tailed)		.000	.000	.000
	N	200	200	199	200
Tax policies	Pearson correlation	-.471**	1	.498**	.321**
	Sig. (2-tailed)	.000		.000	.000
	N	200	200	199	200
Credit policies	Pearson correlation	-.712**	.498**	1	.501**
	Sig. (2-tailed)	.000	.000		.000
	N	199	199	199	199
Financial policies on land	Pearson correlation	-.713**	.321**	.501**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	200	200	199	200

Source: Results in author's investigation and analysis

According to Table 3.12, it is shown the Correlation coefficient Matrix between “Business result” as dependent variable and the independent variables. The statistic representing the strength of association between independent variables and dependent variable is less than 0.05. Therefore, there is a linear relationship between these independent variables and dependent variable.

** Regression model*

Table 3.13. Model description

Model	R	R square	Adjusted R square	Standard deviation	Durbin-Watson
1	.834 ^a	.695	.690	.29034	2.067

Source: Results in author's investigation and analysis

When the value of adjusted R^2 is 0.69, it is indicated that the independent variable inputting into regression test make an effect of 69% on the change of dependent variable while the remaining of 31% is due to the variables outside the model and random error.

Durbin - Watson coefficient is 2.067, which lies between 1.5 and 2.5 so that first-order autocorrelation did not happen.

- Appropriateness of the model assessment

Table 3.14. ANOVA testing

		Sum of squares	Df	Mean squares	F	Sig.
1	Regression	37.486	3	12.495	148.223	.000 ^b
	Residual	16.438	195	.084		
	Total	53.924	198			

Source: Results in author's investigation and analysis

Table 3.14 shows the sig of F test is 0.00 (less than 0.05) so that the regression model is significant.

- The sig value of T test is used to verify the significance of the regression coefficient. If the sig of the T test of the regression coefficient of an independent variable is less than 0.05, it is concluded that the independent variable has an effect on the dependent variable.

Table 3.15. Regression coefficient

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.903	.130		37.734	.000		
	Tax policies	-.074	.027	-.128	-2.791	.006	.745	1.343
	Tax policies	-.313	.038	-.412	-8.209	.000	.622	1.608
	Financial policies on land	-.390	.038	-.472	-10.293	.000	.742	1.348

Source: Results in author's investigation and analysis

It is shown in table 3.15 that none of the factors were excluded because the sig of the T test of each independent variable is less than 0.05. VIF coefficients of independent variables are less than 10 so that collinearity statistics did not occur.

So, the results in regression analysis indicated that the independent variables did make effect on the dependent variable (business result of the enterprise). Standardized regression equation is expressed as follows:

$$Y = - 0.128X_1 - 0.412X_2 - 0.472X_3$$

Namely:

Y: Business result of the enterprise

X1: Taxpolicies

X2: Creditpolicies

X3: Financial policies on land

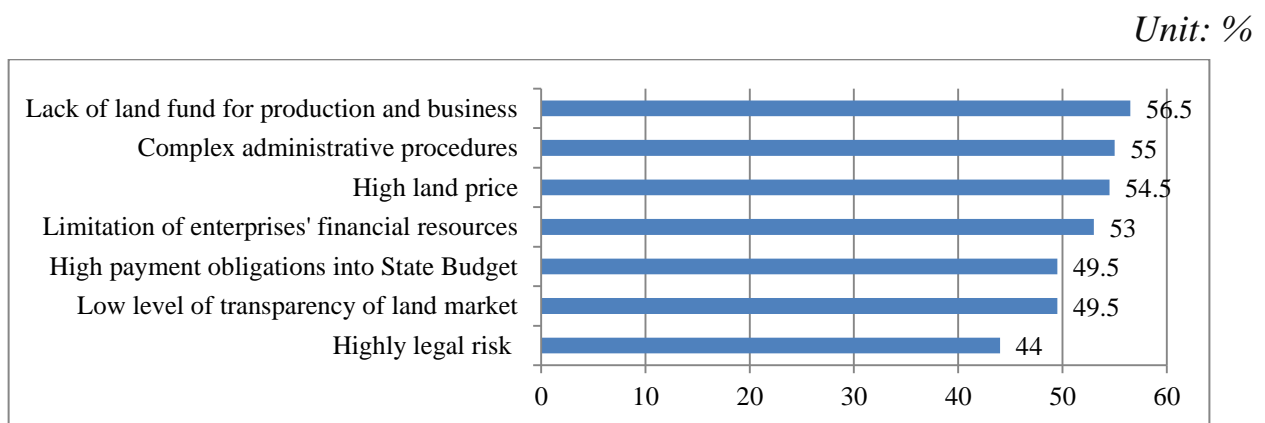
When the regression coefficients are all smaller than 0, all independent variables inputting into the regression analysis have the opposite effect on the dependent variable. According to the range of the standardized regression coefficients Beta, the order of influential level from the strongest to weakest of the independent variables to

the dependent variable is: financial policies on land > credit policies > tax policies (based on the absolute value of regression coefficients).

3.3.2. Analysis of the influence of financial policies on the growth of SMEs

3.3.2.1. Financial policies on land

According to the quantitative research's result, it is indicated that the cost of production and business land/premises is the most influential factor to the efficiency of SMEs' operation with Beta coefficient equalling to 0,472 point. The average testing score of the ability of SMEs to access to production and business land/premises reaches slow level with 2,84 point. The PCI 2017 survey result revealed that only 12% of the enterprises in Hanoi easily accessed to the production and business land/premises. It is also the lowest rate of Vietnam.



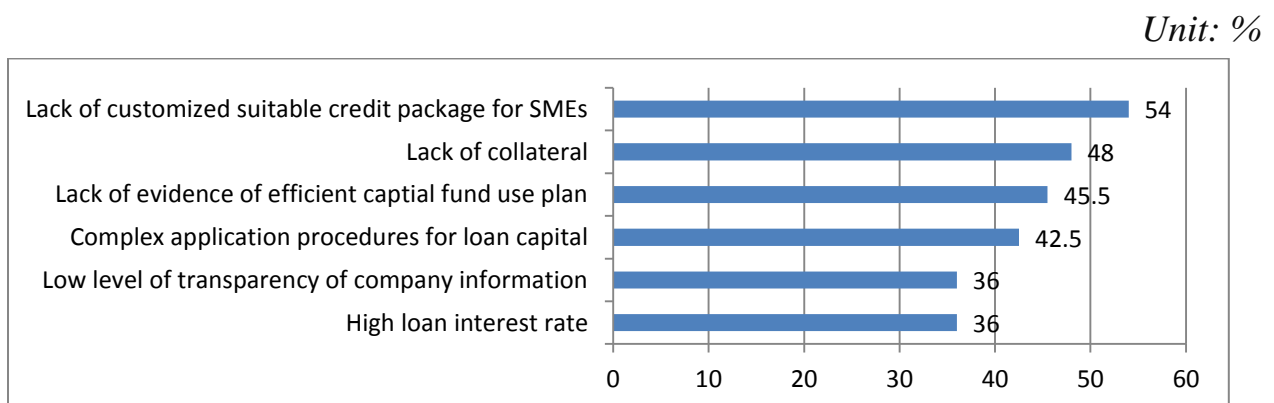
Graph 3.4. Obstacles preventing SMEs from access to production and business land/premises

Source: Results in author's investigation and analysis

3.3.2.2. Credit policies

The second most influential factor to the growth of SMEs is credit policies with the B coefficient equalling to 0,412 point.

In term of the ability of SMEs to access to bank credit, it reached low point with 2,94 point on average.

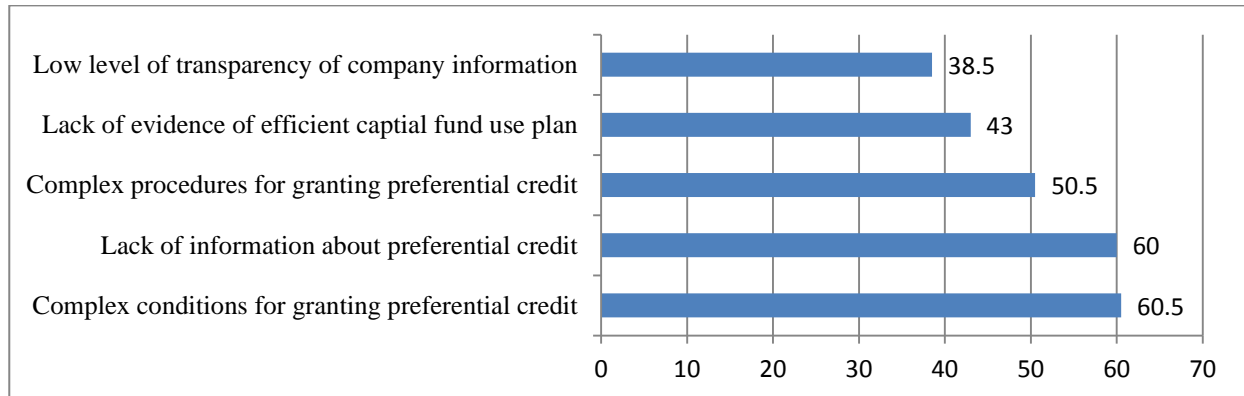


Graph 3.5. Difficulties of enterprises in accessing to bank credit

Source: Results in author's investigation and analysis

In term of the ability of SMEs to access to preferential credit, the testing score is even lower than the ability of SMEs to access to bank credit with only 2,69 point

Unit: %

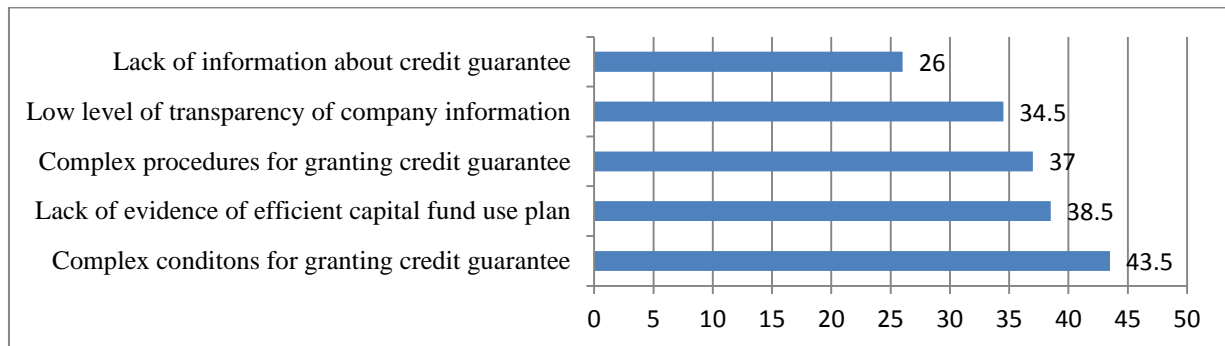


Graph 3.6. Difficulties of enterprises in accessing to preferential credit

Source: Results in author's investigation and analysis

In term of granting credit guarantee for SMEs, the average testing point the ability of SMEs to be granted credit guarantee is at low level with 2,94 point.

Unit: %



Graph 3.7. Difficulties of enterprises in accessing to credit guarantee

Source: Results in author's investigation and analysis

3.3.2.3. Tax policies

In table 3.20, it is provided that the existing limitations of tax policies influence the enterprises' operation.

Table 3.20. Enterprises' assessment of the difficulties in tax policies

Question	Average score
Regular change in tax policies	3.56
Regulations of tax policies are issued in various kinds of documents	3.68
Regulations of tax policies are complicated and incomprehensible	3.69
Complicated tax administrative procedure	3.57
Difficulties in tax inspection	3.17

Source: Results in author's investigation and analysis

3.4. ACHIEVEMENTS, LIMITATIONS AND CAUSES

3.4.1. Achievements

3.4.1.1. Tax policies

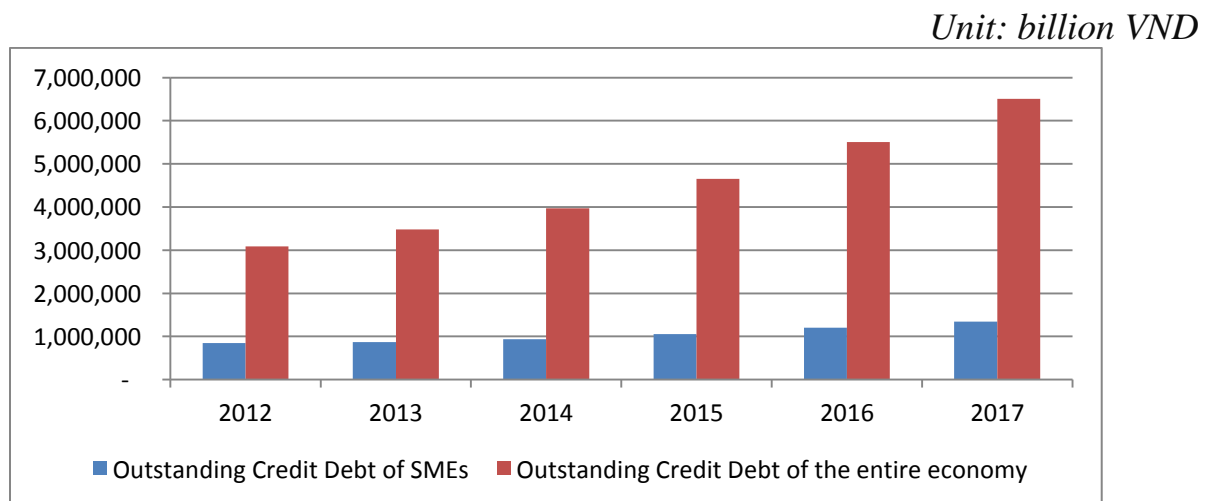
Firstly, tax and other State Budget contributions of SMEs increased in the period of 2012-2016.

Secondly, tax policies made positive changes in beneficial way for SMEs.

Thirdly, there are preferential tax policies for SMEs in difficult period.

3.4.1.2. Credit policies

Firstly, the ability of SMEs to access to bank credit is improved.



Graph 3.8. Outstanding Credit Debt of Vietnamese SMEs in the period of 2012-2017

Source: State Bank of Vietnam

Secondly, preferential credit policies from SMEs Development Fund initially show positive result.

Thirdly, many SMEs are granted credit guarantees through Vietnam Development Bank and local credit guarantee fund for SMEs.

3.4.1.3. Financial policies on land

Fifthly, financial policies on land help to solve the issues on production and business land/premises for certain of enterprises.

Secondly, many enterprises gain benefits from the preferentially financial policies on land.

3.4.2. Limitation

3.4.2.1. Tax policies

Firstly, recent preferential tax policies are still insignificant with the aim of solving the problem for a certain of time.

Secondly, the regime of preferential tax policies for SMEs is not strong enough when most of tax incentives are implemented by economic areas and business sectors.

3.4.2.2. Credit policies

Firstly, the ratio of outstanding credit debt of SMEs to of the whole economy tends to decrease.

Table 3.24. The ratio of outstanding credit debt of SMEs to of the whole economy in the period of 2012-2017

Unit: %

Criteria	2012	2013	2014	2015	2016	2017
The ratio of outstanding credit debt of SMEs to of the whole economy	27	25	24	23	22	21

Source: State Bank of Vietnam

Secondly, most of SMEs could not approach to the preferential credit capital from SMEs Development Fund.

Thirdly, the activities of credit guarantee for SMEs have not worked effectively while just a few of SMEs were granted credit guarantee.

3.4.2.3. Financial policies on land

Firstly, financial policies on land have not found a suitable regime in order to facilitate SMEs to access to production and business land/premises through land lease.

Secondly, land/factory rent cost in industrial zones/clusters is higher than the competence of SMEs.

Table 3.26. Average land/factory rent cost in industrial zones of Southeast region in 2017

	HCM City	Dong Nai	Binh Duong	Vung Tau	TayNinh	BinhPhuoc
Average land rent cost (USD/m ² /tenancy period)	143,4	76,4	65,8	54,6	46,9	27,9
Average factory rent cost (USD/m ² /month)	3,4	3,6	3,3	3,0	2,7	2,2

Source: [18, tr8]

Table 3.27. Average land/factory rent cost in industrial zones of Northern region in 2017

	Ha Noi	Hai Phong	Bac Ninh	QuangNinh	Hai Duong	Hung Yen	VinhPhuc
Average land rent cost (USD/m ² /tenancy period)	114,6	83,2	64,1	52,8	61,3	78,5	61,6
Average factory rent cost (USD/m ² /month)	3,2	4,9	3,5	3,9	4,0	2,3	4,5

Source: [17, tr11]

3.4.3. Causes

Firstly, limitations of financial resources for supporting the development of SMEs.

Secondly, the coordination between central and local Ministries to support the growth of SMEs is not effective.

Thirdly, the implementation of financial policies on support for the growth of SMEs remains many weaknesses.

Fourthly, SMEs themselves have many weaknesses.

CONCLUSION OF CHAPTER 3

It is indicated the current status of the growth of SMEs in the period of 2012-2017. It is also conducted an analysis of the reality on financial policies on supporting the development of SMEs by 3 main components namely: tax policies, credit policies and financial policies on land. As a result of studying typical cases in Hanoi, it is shown the influence of financial policies on the growth of SMEs and the limitation of these policies preventing SMEs from development. The achievements, limitations and causes are also analyzed in this chapter. According to the analysis mentioned in this chapter, feasible solutions for supporting the growth of SMEs in Vietnam would be suggested.

Chapter 4

SOLUTIONS TO IMPROVE THE FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs IN VIETNAM

4.1. OPPORTUNITIES AND CHALLENGES OF SMEs IN NEW ECONOMIC CONTEXT

4.1.1. Domestic macroeconomic context

Firstly, Vietnamese macroeconomic environment is stable with well-controlled inflation.

Secondly, foreign direct investment continuously increase significantly.

Thirdly, workforce productivity is improved but it is still lower than other countries in the same region.

Fourthly, international economic integration and industrial revolution 4.0 greatly influence economic activities.

4.1.2. Opportunities and challenges of SMEs in new economic context

4.1.2.1. Opportunities

Firstly, opportunities to expand consumer market.

Secondly, opportunities to participate in global value chain.

Thirdly, opportunities to access to advanced manufacturing technology.

Fourthly, opportunities to access to database and information.

4.1.2.2. Challenges

Firstly, challenges to competition and market.

Secondly, challenges to overcome the limitation of financial competency

Thirdly, challenges to overcome the obstacles of low-skilled human resources and poor corporate management.

4.2. COMMUNIST PARTY AND STATE'S VIEW AND OBJECTIVES OF THE GROWTH OF SMEs TILL 2030

4.3. VIEW ON IMPROVING FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs TILL 2030

4.4. SOLUTIONS TO IMPROVE FINANCIAL POLICIES ON SUPPORT FOR THE GROWTH OF SMEs

4.4.1. Solutions to improve tax policies

4.4.1.1. Improving CIT policies

Firstly, the implementation of law on support for SMEs is firstly CIT rate deduction for SMEs and then gradually proceeding to the exemption of tax for micro enterprises.

Secondly, SMEs are allowed to accelerated depreciation

Thirdly, tax credit incentives are applied for research and development activities of SMEs.

4.4.1.2. Improving VAT policies

Firstly, SMEs are allowed to choose simple input VAT.

Secondly, micro enterprises are permitted to choose calculate VAT according to cash accounting system.

4.4.2. Solutions to improve credit policies

4.4.2.1. Commercial credit policies

Firstly, there is a trend on giving priority to grant credit for SMEs.

Secondly, the loan interest rate is reduced by stabilizing inflation at low level and it is created an equal loan interest rate between large enterprises and SMEs.

4.4.2.2. Preferential credit policies

Enhancing the provision of information about preferential credit policies for SMEs

4.4.2.3. Credit guarantee policies

Firstly, raising capital scale of credit guarantee institutions.

Secondly, credit guarantee funds should strengthen cooperation with commercial banks on the basis of selecting target banks instead of expanding the cooperation with all the banks in the system.

Thirdly, creating credit guarantee system according to two-level model.

4.4.3. Solutions to improve financial policies on land

Firstly, relieving financial obligations on land for SMEs.

Secondly, developing industrial zones/clusters for SMEs.

4.5. ENVIRONMENT FOR THE IMPLEMENTATION OF SOLUTIONS

4.5.1. For tax policies

Firstly, raising the stability of tax policies for a long term and reducing the complexity and incomprehensibility of tax policies.

Secondly, regulations of tax policies should be reviewed and organized systematically in order for SMEs to apply easily.

Thirdly, learning from good international practices to reduce the regular change, complexity and sparseness of tax policies.

Fourthly, continuously reforming the tax administrative procedures.

4.5.2. For credit policies

Firstly, commercial banks need to create customized suitable credit programs for SMEs.

Secondly, enhancing marketing activities and loan package introduction in order to fully inform SMEs.

Thirdly, developing the cooperation between commercial banks and SMEs credit guarantee institutions.

4.5.3. For financial policies on land

Increasing the transparency and explicitness of land market.

4.5.4. For SMEs

Firstly, participating in business associates and business associates in specific sectors.

Secondly, organizing accounting and financial system professionally in order to enhance the explicitness of financial information of SMEs.

Thirdly, improving the quality of corporate management and risk management.

Fourthly, providing more training for employees and developing organizational culture in order to reduce moral hazard in business.

4.5.4. For Vietnam Association of SMEs

CONCLUSION OF CHAPTER 4

It brings us better understanding of the crucial role of SMEs in the process of socioeconomic development. Recently, many financial policies on supporting the development of SMEs has been issued and implemented. Some of the policies initially show good results and contribute positively to the growth of SMEs in

Vietnam. However, those good results are still too little in relation to the objectives of the growth of SMEs till 2025 and 2030 of Communist party and Government. Therefore, in this chapter, it is suggested some solutions to improve tax policies, credit policies, financial policies on land, and the environment for implementation of better support for the growth of SMEs in the future.

CONCLUSION

The doctoral thesis “*Financial policies on support for the growth of SMEs in Vietnam*” addressed the issues as follows:

It shown us better understanding of theoretical basis and theoretical framework of financial policies on support for the growth of SMEs. It also identified 3 financial policies, which mainly influence the development of SMEs namely: tax policies (CIT, VAT), credit policies and financial policies on land (land rent cost, tax on non-agricultural land use). Additionally, international experiences of financial policies on support for the growth of SMEs are studied in order to generate implications for Vietnam.

Moreover, an assessment of current status of the development of SMEs in Vietnam was conducted by the criteria on number of enterprises and financial criteria reflecting the efficiency of SMEs. The current status of financial policies on supporting the growth of SMEs and the results of the implementation of these polices were discussed. It is proven that the different level of the influence of financial policies on the growth of SMEs.

Lastly, it is suggested science-based solutions in order to improving the financial policies on support for the growth of SMEs in Vietnam including: group of solutions to improve tax policies, group of solutions to improve credit policies and group of solutions to improve financial policies on land.

**LIST OF WORKS PUBLISHED BY THE AUTHOR
RELATING TO THE THESIS**

1. Phung Thanh Loan (2012), “Tax cuts, pay increases - Difficult situation”, *Journal of Financial News*, (12), p. 10-11.
2. Phung Thanh Loan (2013), “Exchange-Traded Fund (ETF) - A boost to Vietnam’s stock market”, *Journal of Vietnam’s Stock Market*, December 2013, p.14-16.
3. Phung Thanh Loan (2014), “Is low rate of inflation the chance of growth or the risk of deflation?”, *Science Conference organized by Institute of Economics and Finance*, December 2014, p. 122-129.
4. Phung Thanh Loan (2015), “The influence of interest policy on SMEs”, *Science Conference organized by Academy of Finance and Vietnam Academy of Science and Technology*, Finance Publishing House, Hanoi, p. 60-65.
5. Phung Thanh Loan (2015), “SMEs are on the threshold of world economic integration in 2015”, *Journal of Social Science Manpower*, September 2015, p.46-54.
6. Phung Thanh Loan (2016), “Financial policies support for Agricultural, Forestry and Fisheries Enterprises in an integrating context”, *Journal of Finance*, (Vol.2), September 2016, p. 17-19.
7. Phung Thanh Loan (2017), “Credit Guarantee for SMEs - Experience from Italy”, *Journal of Financial Inspection*, May 2017, p.53-54.
8. Phung Thanh Loan (2018), “Crowd Funding - A new form of capital mobilization for small and medium sized enterprises (SMEs) in VietNam”, *International Conference organized by University of Industry*, April 2018, p. 549-555.
9. Phung Thanh Loan (2018), “Data Envelopment Analysis (DEA) measures the efficiency of public expenditure on education”, *National Conference organized by Academy of Finance*, Finance Publishing House, Hanoi, p. 70-74.
10. Phung Thanh Loan (2019), “Current status of development on financial inclusion in Vietnam”, *National Conference organized by Academy of Finance*, Finance Publishing House, Hanoi, p. 304-310.