GIZ Vietnam

Report Book #4

Size: A4 (W20.5cm x H29.5cm)

designed by AvantDG

2021.09.11 | P.D.Viet

CMYK | Scale 1/1

THE COVID-19 OUTBREAK AND ITS IMPACTS ON ENTERPRISES

THE COVID-19 OUTBREAK AND ITS IMPACTS ON ENTERPRISES

FOR INTERNAL USE

Hợp tác Đức
DEUTSCHE ZUSAMMENARBEIT

Published by

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

IEM

Imprint

Published by the
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Macroeconomic Reforms/Green Growth Programme
68 Phan Dinh Phung Street, Ba Dinh District, Ha Noi, Viet Nam

Social dimension for sustainable green growth in Viet Nam
The 6th floor, C building, Ministry of Labour - Invalids and Social Affairs
2 Dinh Le Street, Hoan Kiem District, Ha Noi, Viet Nam

www.giz.de/viet-nam

This publication is supported by the German Development Cooperation GIZ, under the framework of the Macroeconomic Reforms/Green Growth Programme and the Project "Social dimension for sustainable green growth in Viet Nam" in Viet Nam. The programmes are commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ).

FOREWORD

The years 2020 and 2021 may be labelled in the future" the Covid 19 years". The Covid wave swept through the world from the beginning of 2020 and is not over yet in 2021, especially with the worldwide spreading of the Delta variant of the Covid 19 virus.

When Covid started hitting the world beginning 2020, Viet Nam activated its response with strong economic fundamentals: macroeconomic stability, acceptable inflation, decreasing public debt, stable exchange rate... Viet Nam introduced early a policy of restrictions, identification of cases, containment and isolation, which proved as one of the internationally most successful ones in 2020. Therefore, Viet Nam scored again one of the highest growth rates worldwide despite Covid 19 in 2020.

In order to sustain economic activity and alleviate the economic consequences of Covid 19, the Government of Viet Nam issued policies very much in line with the international standard, for example decreased fees and interest rates for bank credits, decreased administrative fees and postponed payment of taxes, established cash handouts for unemployed and other groups of needy persons, and sped up the implementation of the national and provincial investment programmes to foster the demand side.

In 2020 the Government of Germany decided to help its development partners in their efforts to tackle the Covid 19 crisis with additional funds in the framework of its development cooperation for the response to the Covid 19. Some of the funds earmarked for Viet Nam have been channelled through the projects and programmes of the Sustainable Economic Development cluster of German Technical Cooperation implemented by GIZ. The funds were used for studies which provide international experience of the response to the Covid 19, analyse the economic and environmental impacts by Covid 19, analyse the social impacts, the repercussions of Covid on the private sector and the efficiency of the respective government programmes. The studies are written by the Central Institute of Economic Management and the by individual consultants, one in collaboration with the Viet Nam Chamber of Commerce and Industry. The studies have been designated to the partners institutions of the Sustainable Economic Development Cluster, namely Office of the Government, Central Institute of Economic Management, Ministry for Planning and Investment, Ministry of Finance, State Bank of Viet Nam and Ministry of Labour, Invalids and Social Affairs.

The studies have been conducted in 2020 and beginning of 2021 and shared with our partners at that time. We chose to publish them as well for a wider public as the efforts to come to grips with this Pandemic crisis are not yet over and the lessons for future pandemics are not yet fully translated into policies and laws. This process will accompany us for some more years and the Sustainable Economic Development Cluster is prepared to cooperate with our partners in this process.

I would like to thank our partner institutions and the staff of the Sustainable Economic Development cluster for their good collaboration and intense work to make this publication possible.

Michael Krakowski
Cluster Coordinator "Sustainable Economic Development"
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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01

EXPERIENCES FROM THE IMPLEMENTATION OF COMMERCIAL BANKS' SOLUTIONS FOR ENTERPRISES AND INDIVIDUALS RELATED TO LABOUR, EMPLOYMENT, AND SOCIETY DUE TO THE IMPACTS OF COVID-19

Consultant:
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November, 2020

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PREAMBLE

The outbreaks and spread of the acute respiratory infection caused by a new strain of the corona virus (Covid-19) have had serious impacts on the socio-economic development of countries across the world, pushing the global economy to hit the "bottom" in the second quarter of 2020. By mid-September 2020, after economies restarted after lockdowns, global economic growth had begun to show positive signs. The Organisation for Economic Cooperation and Development (OECD) forecast that the global growth rate in 2020 would decrease by 4.5%, which was adjusted to an increase of 1.5 percentage points compared to the forecast in June 2020. Statistics on the labour and employment situation showed that unemployment in the third quarter was positive compared to the second quarter in some countries, such as Canada, the US, and China; specifically, unemployment rates in August 2020 for these countries were 10.2%, 8.4%, and 5.9%, respectively. However, these rates were still much higher than for the same period in 2019[1].

In Viet Nam, new cases were reported and the pandemic developed in a complicated manner, which caused a slowdown in most sectors and fields. International trade disruption impacted production, exports and imports. The GDP growth rate in the second quarter of 2020 was estimated to increase by 2.62% compared to the previous period, which was the lowest growth rate in a third quarter during 2011-2020. However, in comparison with the previous quarter, the domestic economy bounced back. In the third quarter, the sectors suffering severe impacts from Covid-19 showed signs of rebounding. Compared to the previous quarter, the total retail sales of consumer goods and services increased by 14.4%, the revenue of accommodation and catering services was up by 28.2%, and the revenue of the travel and tourism sector increased by 161.3%. Labour, employment and incomes improved compared to the previous quarter. However, labour, employment, and income indicators in the third quarter and in the first 9 months of the year decreased year-on-year.

In this context, countries across the world, including Viet Nam, had to formulate immediate and short-term policies, and adjust medium- and long-term policies to avoid economic collapse, solve labour and employment problems, and ensure social security. These policies included financial and credit policies, which had positive effects. The issue is identifying how to implement and maintain such policies in response to new situations, ensuring sustainability and support for enterprises and workers in the long term.

This report focuses on examining and researching the experiences of certain countries (with a focus on the experiences in Germany) in supporting enterprises and labourers suffering the impacts of Covid-19. It also examines Viet Nam's policy response and experiences in implementing commercial banks' supporting solutions, and makes recommendations to improve the use of credit policy to address the difficulties of enterprises and labourers, as well as employment difficulties in the post-Covid-19 period.

[1] Source: Trading Economics, updated on September 29, 2020

SUMMARY OF KEY FINDINGS

1. All countries are focusing on pandemic prevention and control as well as the implementation of supporting policies for enterprises (especially small- and medium-sized enterprises (SMEs) and enterprises in key sectors of the economies), labourers, and social security. Typical German practice shows that financial and credit instruments are critical and effective in helping enterprises avoid collapse, restore production and reposition the workforce. The government's financial assistance packages (guarantees and recapitalisation) through the Economic Stabilisation Fund (WSF) and special lending programmes by KfW (the German development bank) are available to all companies ranging from the smallest businesses and SMEs to large enterprises and large corporations. These packages all offer good experiences for the Vietnamese Government regarding support policies for enterprises during Covid-19 and for economic recovery.

2. In Viet Nam, monetary, credit, and interest rate instruments through the commercial banking system were promptly implemented, actively contributing to eliminating the negative impacts of Covid-19 on enterprises and citizens.

   2.1. Compared to other countries in the region, Viet Nam is one of the countries with the strongest reduction in operating interest rates. Accordingly, since early 2020, the State Bank of Viet Nam (SBV) has made three consecutive reductions in operating interest rates with a total reduction of 1.5-2%/year, reduced the interest rate cap of 0.6-1% for deposits with maturities of less than six months, and lowered the interest rate cap by 1.5% for short-term loans for priority sectors and fields.

   2.2. From January until the end of September 2020, credit institutions implemented interest rate exemptions and reductions, which were applied to VND 1.16 million of billions of outstanding loans and nearly 500,000 customers. The total amount exempted and reduced was more than VND 5.5 trillion.

   2.3. Credit institutions provided new loans with lower interest rates than in the pre-Covid-19 period; in particular, from 23 January 2020 until the end of September 2020, the total disbursement turnover was VND 2.3 million of billions for more than 430,000 customers.

   2.4. The total amount of fees and charges that banks exempted and reduced for customers by the end of 2020 reached VND 1.004 trillion. It is expected that by the end of 2020, the total collection of payment service fees by the SBV will decrease by approximately VND 285 billion to support credit institutions to continue reducing interbank money transfer service fees for people and enterprises.

3. According to evaluations of international organisations, enterprises and the people, supporting solutions by the SBV and the commercial banking system are timely and responsive to the actual developments of the Covid-19 pandemic. The support channel through commercial banks has several advantages: it is relatively flexible; reaches a wide range of customers from individuals, households, business households, micro enterprises and SMEs to large companies, corporations and groups; and has large-scale and different levels of support. However, because the funding is commercial and for-profit, and the commercial banks are mostly autonomous, there are also certain disadvantages: (i) supporting policies are inconsistent among commercial banks, even among branches of a single credit institution; (ii) support is mostly given in the sharing spirit of the commercial banks; and (iii) support is limited because commercial banks have to balance their operational costs so that they have profits to pay their owners and shareholders.

4. The Viet Nam Bank for Social Policies (VBSP) is a state-owned policy bank that is not-for-profit. Its funding source is mostly from the central state budget and the bank is in charge of implementing programmes and policies assigned by the government. It is necessary and suitable to use policy credit measures (through the VBSP) to support and solve difficulties for workers in the spirit of addressing the limitations of the commercial credit channel (through commercial banks as mentioned above), assuring the consistency of policies and maintaining preferential and supportive conditions for state-targeted loans.

5. Recommendations to improve the engagement of policy credit measures and the VBSP in supporting enterprises, solving employment and labour difficulties, and supporting economic recovery in the post-Covid-19 period:

   5.1. Increasing medium- and long-term funding sources for the VBSP through increasing the limit of government-guaranteed bonds issued in order to meet the requirements for resources to implement policy credit programmes with long-term loans, business loans, and for job creation.

   5.2. Increasing the size of loans and expanding the range of borrowers to production, trade, livelihoods and job generation projects such as: (i) increasing the credit limit for production and business households in difficult fields and individual traders in difficult fields up to VND 100 million/household (instead of VND 50 million/household as is currently the case); and (ii) expanding the range of borrowers of policy credit programmes to workers working abroad who are members of households which recently escaped poverty.

   5.3. Converting and upgrading the Loan Programme to support job creation, maintenance and expansion to become a specialised policy credit programme for enterprises and workers in the post-Covid-19 period. Accordingly: (i) to diversify the funding sources for the National Employment Fund and to create capital for business loans and for generating jobs in a stable and sustainable manner; (ii) to supplement beneficiaries of the job settlement programmes, including disadvantaged and vulnerable worker groups (female workers, unskilled workers, and informal workers), potential worker groups (young workers, workers in new sectors and fields in the post-Covid-19 period) and SMEs, start-up enterprises, and newly-established enterprises in labour-intensive sectors and fields; (iii) to expand the scope of capital financing to include production and business capital, working capital, and operational costs; (iv) to increase the credit limit to meet the credit demand of supplemented and expanded lenders. At the same time apply the regulation on equity contributed to the projects (by a certain percentage) for self-borrowing enterprises and production and business establishments (similar to the method of commercial banks); and (v) to apply the direct lending method, eliminate verification by local authorities, and build the credit appraisal capacity of the VBSP's credit officers when lending to additional beneficiaries under the programmes.

5.4. Improving efficiency in the use of loans taken out by businesses and workers.

5.5. Supporting enterprises to recover and generate new jobs for workers.

PART 1

EXPERIENCE OF SELECTED COUNTRIES IN SUPPORTING ENTERPRISES AND WORKERS AFFECTED BY COVID-19 AND PROMOTING ECONOMIC RECOVERY - A CASE STUDY OF GERMANY

South Korea, the US, the UK, and Germany are facing a real and worsening crisis due to the impacts of Covid-19. In these countries, governments have promptly developed comprehensive measures and appropriate relief packages in order to support enterprises, their economies, and solve employment and social security problems. In particular, Germany has implemented government subsidies, flexibly applying financial and credit instruments.

A. PRACTICAL IMPLEMENTATION IN GERMANY

Similar to many countries suffering the impacts of Covid-19, Germany was warned of a wave of bankruptcies on an unimaginable scale, which forced the German Government to rescue the market from "a frozen state" in the Covid-19 period. At the end of March 2020, the German Federal Government, the Lower House of the German Parliament (Bundestag), and the German Federal Council, within a week, adopted a package of measures to counter the negative effects of Covid-19 to protect people's health, provide employment and business support, and promote social cohesion in Germany. The relief package, named "Corona-Schutzschild" (literally "Corona protective shield"), is the biggest relief package in German history, including comprehensive solutions to support enterprises, workers, individuals, and households.

I. Short-time working allowance for workers

On 13 March 2020, the Law on Crisis-related Temporary Improvement of the Regulations for Short-time Work Allowance was passed, which helped combat mass unemployment; accordingly, the conditions for short-time working compensation were eased as follows:

- Short-time working compensation was applied to all companies, including temporary workers.

- When at least 10% of a company's employees (before the change in the law, at least one third of employees) are affected by a loss of 10% of their working hours, the company is eligible to apply to the Federal Employment Agency (BA) to access the Kurzarbeit scheme in which they can reduce working hours for their employees and receive short-time work allowance.

- The rate of short-time working compensation is up to 60% of the net salaries and wages of the lost working hours (for workers with small children, the rate can reach 67%).

- Full reimbursement of social security contributions will be made by the Federal Employment Agency in cases where companies fall within the scope of the Kurzarbeit scheme.

- By 31 October 2020, salaries workers earn from side jobs in systematic industries (such as healthcare, agriculture, etc.) were not used to offset the short-time working allowance of their main job (when they are under the Kurzarbeit scheme). The applicable condition is that the salaries from side jobs plus the short-time working allowance of the main job (when they are under the Kurzarbeit scheme) must not exceed the usual monthly salary of the main job.

On 23 April 2020, the German Federal Government decided to increase the short-term working allowance. Accordingly, it was stipulated that: (i) the former rate of short-time working allowance is still applicable within the first three months after the reduction of working hours if the reduction rate is not significant; (ii) if the job reduction rate is at least 50% of the total normal working hours, from the fourth month, the allowance rate will be 70% (and 77% for workers with small children); and from the seventh month, the allowance rate will be 80% (and 87% for workers with small children).

II. Financial and credit support through the Economic Stabilisation Fund (WSF) and special support programmes of the German Reconstruction Bank (KfW)

1. Economic Stabilisation Fund (Wirtschaftsstabilisierungsfonds - WSF)

The German Federal Government established the Economic Stabilisation Fund (WSF) in March 2020 to combat the negative economic impacts of Covid-19 through using guarantees and recapitalisation instruments to help stabilise companies in the real economy and maintain jobs.

The scale of the WSF is up to EUR 600 billion and includes three relief packages as follows:

- Guarantees: The WSF can provide guarantees of up to EUR 400 billion to help companies access bank credit and refinancing on the capital market (to eliminate liquidity constraints).

- Recapitalisations: The WSF can participate in the recapitalisation of companies up to a total amount of EUR 100 billion for the stabilisation of the company (through Mezzanine and Equity instruments).

- Refinancing of KfW: The WSF can grant loans to KfW of up to EUR 100 billion to refinance KfW under the new KfW special programmes.

All support measures of the WSF are to be implemented until 31 December 2021. Upon completion of its mission, the fund will be dissolved.

1.1. Support policies of the WSF

a) The governmental guarantee package (EUR 400 billion):

  - The WSF can provide government guarantees for debt instruments issued from 28 March 2020 until 31 December 2021 in order to eliminate liquidity constraints and to support refinancing on the capital market.

  - Scope of the guarantee: 90% of principal and interest debt obligations.

  - Term of the guarantee: not exceeding 60 months.

  - Guarantee fees: companies must pay a guarantee fee in line with market conditions.

  - Terms and conditions of the guarantee: must be determined by a regulation issued by the German Federal Ministry of Finance.

b) The recapitalisation package (EUR100 billion):

  - The recapitalisation measures include:

    + Mezzanine instruments: The WSF buys subordinated debt, hybrid bonds, profit participation rights, silent partnerships, and convertible bonds. The measure may be particular for recapitalisation in a crisis. Accordingly, liabilities which are sufficiently subordinated in accordance with the provisions of German insolvency law are not taken into account in the over-indebtedness balance sheet. Thus, the company is prevented from being on the verge of insolvency right after the newly introduced suspension of the obligation to file for insolvency due to over-indebtedness has expired.

    + Equity instruments: The WSF buys shares or assumes other components of the equity of the company (in particular, the increase of the registered share capital and issuance of new shares).

  - The WSF will only participate if the German Federal Government has an important interest in the stabilisation of the enterprise and if stabilisation cannot be achieved by other more economically efficient means.

  - The recapitalisation must be implemented in line with market conditions.

c) The refinancing of special programmes of the KfW package (EUR 100 billion):

The WSF can grant loans to KfW to refinance KfW under the new KfW special programmes provided by the German Federal Government in response to the Covid-19 crisis.

1.2. Beneficiaries and applicable conditions

- Beneficiaries of WSF support are commercial enterprises that are not active in the financial sector (this means enterprises that are neither CRR credit institutions nor CRR investment firms as per the meaning of the German Banking Act) and which **have fulfilled at least two of the**

following three criteria in the last two financial years before 1 January 2020 which have already been closed on the balance sheet:

a) A balance sheet total of more than EUR 43 million;

b) More than EUR 50 million in turnover; and

c) More than 249 employees on an annual average.

Thereby, the eligible beneficiaries are mostly large enterprises[2] in Germany. However, at the discretion of the WSF-committee, the fund's stabilising measures are also available to systematically important smaller companies and companies in the critical infrastructure sector.

In addition, start-ups that have been valued by private investors in at least one completed financing round since 1 January 2017 with an enterprise value of at least EUR 50 million, including the capital raised through this round, may be eligible for recapitalisation measures.

- Eligible enterprises submit applications to the German Federal Ministry of Economic Affairs and Energy (BMWi). The German Federal Ministry of Finance (BMF) and BMWi together review applications and decide specific support based on the following criteria:

a) The importance of the company for the German economy;

b) The urgency of stabilising measures;

c) The effects on the labour market and competition; and

d) The principle of the most economical and efficient use of the WSF's resources.

In addition, companies applying for a measure under this law must not have met the EU definition of "companies in difficulty" by 31 December 2019. Benefiting companies must guarantee a sound and prudent business policy. They should contribute to the stabilisation of production chains and to securing jobs after receiving support from the fund.

1.3. The authority for decision-making and operational management of the WSF

- As far as questions of principle or matters of particular importance are concerned, decisions shall be taken by mutual agreement by an inter-ministerial committee (Economic Stabilisation Fund Committee, WSF-committee) chaired by the BMF. The WSF-committee will consist of representatives of the Federal Chancellery, BMWi, BMF and of the Federal Ministries of Labour and Social Affairs, of Justice and Consumer Protection and of Transport and Digital Infrastructure.

- The management of the funds is commissioned to the German Finance Agency ("Finanzagentur"). Established during the financial crisis for the management of SoFFin (Sonderfonds Finanzmarktstabilisierung - Special Financial Market Stabilization Funds), the commissioned entity is considered to be equipped to handle the day-to-day business of the WSF, especially regarding risk control and reporting/information systems.

1.4. Results of the support

[2] As stipulated in Germany: ***Micro businesses*** are those with up to nine employees and with a total turnover of up to EUR 2 million; ***Small businesses*** are those with up to 49 employees and a total turnover of up to EUR 10 million and no micro businesses; ***Mid-sized businesses*** are those with up to 249 employees and a total turnover of up to EUR 50 million and no micro businesses; ***Large businesses*** are those with more than 249 employees and a total turnover of more than EUR 50 million.

Company	Amount of the stabilisation measure	Contract information
The Government guarantee package		
-	-	-
The recapitalisation package		
Deutsche Lufthansa AG	€ 5,847.1 million	June 2020; September 2020 (adjustment)
FTI Touristik GmbH	€ 235.0 million	September 2020
TUI AG	€ 150.0 million	September 2020
MV Werften Holding Ltd.	€ 193.0 million	October 2020
German Naval Yards Kiel GmbH	€ 35.0 million	October 2020
Schlote Holding GmbH	€ 25.5 million	November 2020
Total	€ 6,485.6 million	
The refinancing of special programmes of the KfW package		
So far, KfW has requested EUR 37.032 million from the WSF.		

Source: https://www.deutsche-finanzagentur.de/en/economicstabilisation/ updated at 11:35 P.M. on December 8, 2020

2. Special support programmes of the German Development Bank *(Kreditanstalt für Wiederaufbau - KfW)*

The KfW is a German state-owned policy bank in charge of implementing all financial and credit support programmes and policies as assigned by the German Federal Government. To counter the economic, employment and social impacts of Covid-19, KfW introduced the unlimited "KfW special programme in 2020" to be available to all companies ranging from the smallest businesses to large DAX-listed multinational corporations. As announced by the Federal Government and implemented by KfW on 23 March 2020 the "KfW special programme 2020" improves and considerably simplifies the access terms and conditions for existing support programmes.

The KfW loan scheme is specified as follows:

Support measure	For large enterprises	For SMEs
Beneficiaries	Any company that is registered as an entity in Germany regardless of shareholder structure.	Any company that is registered as an entity in Germany regardless of shareholder structure.
ERP Start-up Loan - Universal	- Beneficiaries: newer companies established within the last five years. - Lending purpose: to cover investment and operating costs. - Maximum loan amount: The max. loan amount (for working capital loans) is up to EUR 200 million and limited to: • 25% of the annual turnover in 2019 or • Double the wage costs in 2019 or • The current financing requirements for the next 12 months for large companies or • 50% of the company's total debt in the case of loans exceeding EUR 25 million. - Now also available to large companies with annual sales of up to EUR 2 billion (previously: EUR 500 million). - Lending conditions: 80% of the risk is assumed for large companies.	- Beneficiaries: newer companies established within the last five years. - Lending purpose: to cover investment and operating costs. - Maximum loan amount: The max. loan amount (for working capital loans) is up to EUR 200 million and limited to: • 25% of the annual turnover in 2019 or • Double the wage costs in 2019 or • The current financing requirements for the next 18 months for SMEs or • 50% of the company's total debt in the case of loans exceeding EUR 25 million. - Lending conditions: up to 90% of the risk is assumed for SMEs.
KfW- Entrepreneur Loan	- Beneficiaries: older companies/large corporations (with more than 250 full-time employees) established for five years or more. - Lending purpose: to cover investment and operating costs. - Maximum loan amount: up to EUR 1 billion and limited to: • 25% of the annual turnover in 2019 or	- Beneficiaries: SMEs (with 10-249 full-time employees) established for five years or more. - Lending purpose: to cover investment and operating costs. - Maximum loan amount: up to EUR 1 billion and limited to: • 25% of the annual turnover in 2019 or • Double the wage costs in 2019 or • The current financing

Support measure	For large enterprises	For SMEs
	• Double the wage costs in 2019 or • The current financing requirements for the next 12 months for large companies or • 50% of the company's total debt in the case of loans exceeding EUR 25 million. Now also available to large companies with annual sales of up to EUR 2 billion (previously: EUR 500 million) - Lending conditions: + Term: from two to five years (for working capital loans). + Credit support/contract: normal (negotiated with local banks); + Interest rates: 2%-2.12%/year + Commitment fees: 0.14%/month charged for undrawn amount. KfW assumes up to 80% of the risk for large companies.	requirements for the next 18 months for SMEs or • 50% of the company's total debt in the case of loans exceeding EUR 25 million. - Lending conditions: + Term: from two to five years (for working capital loans). + Credit support/contract: normal (negotiated with local banks); + Interest rates: 1% – 1.46%/year + Commitment fees: 0.14%/month charged for undrawn amount. KfW assumes up to 90% for SMEs.
KfW Loan for Growth	- Beneficiaries: companies established for five years or more. - Lending purpose: temporary widening of the loan purpose to general corporate finance, including working capital by way of syndicate financing (previously limited to investments in innovation and digitalisation). Now also available to even larger companies with annual sales of up to EUR 5 billion (previously: EUR 2 billion) - Lending conditions: KfW assumes up to 70% of the risk (previously 50%) for the on-lending financing partners (usually regular banks).	

Support measure	For large enterprises	For SMEs
Loans with Accelerated Approval Process for Mid- Sized Enterprises		- Beneficiaries: enterprises that have more than 10 employees, have been active on the market since at least 1 January 2019, and reported a profit for the 2019 financial year or on average over the last three financial years. - Lending purpose: to cover investment and operating costs. - Maximum loan amount: up to three times the average monthly revenue generated by the SME in 2019 (capped at EUR 800,000 for SMEs with more than 50 employees or EUR 500,000 for SMEs with up to 50 employees) - Lending conditions: + Interest rates: 3%/year + Term: 10 years + Loans are approved without further credit risk assessment and no collateral is required. KfW's loans are secured by a guarantee from the Federal Government.
KfW Syndicate Loans	- Beneficiaries: medium-sized (50 – 149 full-time employees) and large enterprises (more than 250 full-time employees). - Lending purpose: to cover investment and operating costs. - Loan amount: at least EUR 25 million and limited to: • 25% of the annual turnover in 2019 or • double the wage costs in 2019 or • the current financing requirements for the next 12 months.	

Support measure	For large enterprises	For SMEs
	- Lending conditions: + Term: up to 6 years + Assumption of risk: KfW assumes up to 80% of the risk (but no more than 50% of the total debt) by forms as follows: • indirectly as risk sub-participation of a lender • directly as partner of the syndicate or • optional (additionally), refinancing of the syndicate partners. + Interest rates, terms of repayment, costs and credit support: similar to those of existing syndicate loans.	

III. Emergency aid and loans for micro companies, the self-employed and freelancers

The German Federal Government approved emergency aid for small companies, self-employed persons and freelancers to the amount of up to EUR 50 billion. Specifically:

- Enterprises with up to 5 employees can apply for single grants of up to EUR 9,000 for three months or two additional months if necessary.

- Enterprises with up to 10 employees can apply for single grants of up to EUR 15,000 for three months or two additional months if necessary.

- Granting conditions:

  + Suffering economic difficulties due to Covid-19;

  + Not suffering economic difficulties before March 2020;

  + Damage occurred after 11 March 2020.

IV. Other support

In addition to the above-mentioned solutions, to accelerate economic recovery, on 3 June 2020, the German Federal Government approved the Comprehensive EUR 130 billion (USD 146 billion) stimulus package to help domestic enterprises and workers in this leading European country recover faster given the negative effects of the pandemic. The stimulus package is implemented over two years in 2020 and 2021 in which the Federal Government will provide EUR 120 billion. Some of the important measures in the package include: standard value-added tax (VAT) is reduced from 19% to 16% for six months from 1 July 2020; the total value of the VAT reduction-related solution group is around EUR 20 billion. Besides, the German Federal Government promotes assistance for households with an amount of EUR 300 per child and doubles a government-supported rebate on electric car purchases. The stimulus package also establishes a EUR 50 billion fund for addressing climate change, innovation and digitalisation within the German economy.

B. LESSONS FOR VIETNAM

Covid-19 is complicated and unpredictable. The negative impacts of the pandemic on all aspects of socio-economic life cannot be fully assessed. This requires all countries to focus and prioritise prevention and combat the pandemic while at the same time implementing supporting policies for enterprises (especially SMEs and those in the key sectors of the economy), workers and to ensure social security. Lessons learnt are as follows:

First, dividing pandemic response and economic recovery phases so that they are in line with the scale and characteristics of the economy and the developments of the pandemic. Implementing of relief packages for enterprises should be done in a timely manner in order to maintain production and business, and stabilise the economy.

From the experiences of developed countries (see Annex 1), from the beginning of the pandemic, governments promptly developed many solutions to "save enterprises" because enterprises are the "backbone" of economies. The maintenance of production and business activities helps assure not only the stable development of the economy but also employment and social security.

Priority is given to supporting exporting enterprises, start-up enterprises, and SMEs through financial relief packages (new low-interest loans, credit guarantees, insurance premium reduction, etc.) and domestic consumption stimulus and emergency disaster assistance packages through reducing lending interest rates, rescheduling debts, and deferring social insurance payments, etc., thereby indirectly maintaining jobs for workers and ensuring people's living standards. The relief packages are implemented using funds from the state budget.

Second, actively supporting workers to indirectly assist enterprises and ensure social security.

This is the solution that many countries like the US and Germany have applied in order to give direct support to workers and help maintain and stabilise people's lives during social distancing and avoid mass unemployment. In particular:

- Focusing on providing jobs for workers who suffer job cuts or reduced working hours/incomes due to the pandemic through establishing support funds (from the state budget) to maintain jobs for workers in labour-intensive enterprises such as SMEs and enterprises in key sectors of the economy and research and development (R&D) projects; creating jobs in health and pandemic prevention agencies and state agencies.

- Job protection and creation methods, especially for vulnerable groups: (i) through the use of social safety nets (SSN) in the short term. At the same time protecting and generating jobs and supplementing incomes through salary subsidies; (ii) implementing employment services and capacity building programmes to help connect vulnerable worker groups with new employment opportunities; (iii) stimulating employment demand in affected sectors through business support; and (iv) focusing on policies for the poor, people with disabilities, female workers and young workers.

- At the same time, in order for the policies to really take effect and bring about results in a timely manner, governments have focused on simplifying procedures for workers to gain easier access to support. They have effectively implemented policies to support social security, generate jobs, and create conditions for employees to return to the market as soon as possible, while ensuring there is a sufficient workforce when production increases. There has also been a focus on supporting employers to train and retrain employees to meet new requirements, as well as stepping up the connection between domestic labour supply and demand, and linking to the international labour market.

Thirdly, continuing to support the creation of favourable conditions for production and business for enterprises.

Besides immediate and short-term solutions, in order to assure the long-term and stable development of enterprises and the economy as a whole, it is necessary to formulate consistent and fundamental policies. The establishment of a favourable business environment for domestic and FDI enterprises is considered a more strategic solution.

A sound business environment will help enterprises to be competitive in the region and the world thanks to certain policies and mechanisms to attract domestic and foreign investment. These include being proactive; having supporting policies and mechanisms; completing infrastructure; providing support services in order to attract and select foreign investment cooperation and promoting selective investment cooperation; ensuring quality, efficiency and environmental protection and ecology from large corporations and multinational companies with high technology and strong potential; and leading or dominating production networks and regional and global value chains.

Additionally, accelerating the process of economic restructuring. Supporting the development of industries and fields with potential and advantages, participating deeply in value chains through preferential policies on finance – the state budget, credit and other support policies. This involves restoring and stabilising agricultural production, ensuring national food security and export suitability, efficiency and adaption to the new situation, as well as strengthening and improving the capacity of disease prevention and control. There should also be a focus on restoring and developing new supply chains and value chains, and diversifying to avoid dependence on a single market for both exports and imports.

Fourthly, promoting the development of digital government, digital economy, digital society, and the innovation and application of science and technology.

Developing a digital economy and digital government and investment in creative business platforms are the main priorities of developed countries. Thanks to these solutions, economies in developed countries have been able to adapt easily during the pandemic. Therefore, it is time to raise awareness and promote the application of new technology based on the application of 4.0 technology. This is an irreversible trend in the digital age and deep international integration era. Resources should be focused to develop a number of shared technology platforms and core national database systems, while ensuring secure technical infrastructure and information security. Building and developing a system of national, regional, and local innovation centres as well as supporting and developing an innovative start-up ecosystem will help the economy adapt to similar challenges and changes that may occur in the future.

The Covid-19 pandemic has created new awareness, shifting consumer tastes and preferences, and new commercial transactions on the principle of distance and limited in-person contact. At the same time, new online businesses have appeared, creating changes in demand for certain essential products and services, such as food processing, medicine, pharmaceuticals, digital transformation, and e-logistics, etc. This also brings new market opportunities for Vietnamese enterprises to restructure production, form new value chains and make development breakthroughs. This is an opportunity for Vietnamese enterprises to review their true capacity, resilience, and adaptability before market crises and non-traditional security problems. They have the opportunity to review, evaluate and restructure raw material sources and customers, and find new directions to be more proactive and build plans to renovate their production models and business strategies to grasp new markets and demands.

PART 2

VIETNAM'S POLICY RESPONSE TO SUPPORT ENTERPRISES AND EMPLOYEES AFFECTED BY COVID-19; AND EXPERIENCES OF COMMERCIAL BANKS REMOVING LOAN DIFFICULTIES

The Covid-19 pandemic has affected all socio-economic aspects; many enterprises, particularly SMEs were forced to suspend or scale down business operations; many employees were forced to work on rotation schedules, worked few hours or lost their jobs, which negatively affected their lives. In order to respond to the pandemic and help people and enterprises to overcome difficulties and restore production and business, like many other national governments, the Vietnamese Government developed many supporting solutions combining fiscal policy and monetary policy (see Annex 3).

A. FISCAL POLICY GROUP

I. Tax and budget collection exemption

This includes: (i) Import duty exemption for medical supplies and equipment serving Covid-19 pandemic prevention; supplies and inputs of enterprises in footwear, textile, agricultural, and mechanical engineering industries; supporting industries; and the automobile industry; (ii) License tax exemption for households, individuals, and groups of individuals engaged in production and business activities for the first time in the first year, and for individuals, groups of individuals, and households engaged in production and business activities with annual revenue of VND 100 million or less.

II. Tax and budget collection reduction[3]

This includes: (i) personal relief for tax payers of VND 11 million/month (previously VND 9 million/month) while relief for each dependent is VND 4.4 million (previously VND 3.6 million); (ii) 30% reduction of corporate income tax payable in 2020 for enterprises, cooperatives, public service delivery units and/or other entities that have a total revenue in 2020 of no more than VND 200 billion; (iii) 30% reduction of environmental protection tax on aviation fuel until the end of 2020[4]; (iv) 15% reduction of land rent to be paid in 2020 for enterprises, organisations, households and individuals that directly lease land of the State according to Decision or contract of competent state agencies in the form of annual rent payments that have to stop production and business due to the effect of the Covid-19 pandemic; (v) Reviewing and eliminating certain kinds of fees and charges: 70% reduction of corporate registration charges; 67% reduction of corporate information disclosure fees; 50-70% reduction of review fees for revision and addition to the postal service operational licenses; and 50% reduction of registration charges on domestically manufactured and/or assembled automobiles by the end of 2020 in order to stimulate both domestic production and consumption, etc.

- 50% reduction of prices of aircraft landing and take-off services; departure air traffic control services for domestic flights from March until the end of September 2020; applying a minimum value of VND 0 for aviation services not specified by the State from March until the end of September 2020.

- 2% reduction of interest rates for direct loans and indirect loans for small and medium enterprises from the Development Fund for SMEs.

III. Extension for payment of taxes and budget collection

The government issued Decree No. 41/2020/NĐ-CP on deferring VAT, corporate income tax (CIT), personal income tax (PIT) and land rental payments for enterprises and business households (tax payers); rescheduling of special excise on domestically assembled automobiles by the end of 2020 in order to stimulate both domestic production and consumption.

[3] Although it is difficult to quantify, most policies imply that the State assumes the loss of budget revenue in order to support enterprises.
[4] This policy will help aviation companies seriously affected by the pandemic to retain jobs for employees.

B. GROUP OF DIRECT ASSISTANCE FOR WORKERS AND PEOPLE SUFFERING FROM A SIGNIFICANT DECREASE IN INCOME OR LOSS OF INCOME DUE TO COVID-19

The Vietnamese Government issued Resolution No.42/NQ-CP dated 9 April 2020; the Prime Minister issued Decision No.15/2020/QĐ-TTg dated 24 April 2020[5] on direct assistance for people, workers, and business households suffering from difficulties due to Covid-19 with a total budget of around VND 62 trillion, including two main policy groups: (i) The group of allowances, unemployment insurance, death and pension benefits; and (ii) The group of preferential loans. The support policies are applicable to a wide range of objects such as workers, individual business households, employers in financial difficulties, persons with meritorious services to the revolution, social protection beneficiaries, poor and near-poor households, etc.

C. GROUP OF MONETARY SOLUTIONS, FINANCIAL AND CREDIT SUPPORT THROUGH THE CHANNEL OF COMMERCIAL BANKS

According to the SBV, by 30 September 2020, as estimated, the outstanding loans affected by Covid-19 were worth VND 2.3 million of billions, accounting for about 26.5% of the total outstanding loans of the whole system, causing many potential risks for banking operations. Specifically, the sectors with outstanding loans badly affected by the pandemic were as follows:

- Processing and manufacturing industry (VND 463 trillion);
- Wholesaling and retailing (VND 367 trillion);
- Construction (VND 273 trillion);
- Real estate (VND 193 trillion);
- Transportation and warehousing (VND 91 trillion);
- Accommodation and catering services (VND 76 trillion).

Sectors with larger percentages of outstanding loans that were affected more than those of other economic sectors are as follows:

- Transportation and warehousing (45.6%);
- Accommodation and catering services (41.5%);
- Mining (40.4%);
- Processing and manufacturing industry (38.1%);
- Arts and entertainment (35.4%);
- Construction (31.7%).

To remove difficulties for enterprises and citizens, the banking sector actively and rapidly issued

[5] The government issued Resolution No.154/NQ-CP dated 19 October 2020 adjusting and supplementing Resolution No. 42/NQ-CP; the Prime Minister issued Decision No. 32/2020/QĐ-CP dated 19 October 2020 adjusting and supplementing certain articles of Decision No. 15/2020/QĐ-TTg.

many monetary and financial policies. The whole banking system has implemented synchronously all solutions to support customers affected by the pandemic, including:

- Restructuring debt repayment, maintaining debt classifications;
- Waiving and reducing interest and fees, maintaining classified debt groups;
- Significantly reducing interest rates for existing outstanding loans;
- Promoting new loans at preferential interest rates.

These supporting solutions have helped people and enterprises to improve their credit access and avoid incurring more bad debts, creating conditions for maintaining and expanding production and business after the pandemic.

I. Supporting policies of the banking sector

1. Restructuring debt repayment, waiving and reducing interest and fees, and maintaining debt classifications

The SBV issued Circular No. 01/2020/TT-NHNN taking effect from 13 March 2020 allowing credit institutions to restructure debt repayment, waive and reduce interest and fees, and maintain debt classifications for outstanding debts including the principal and/or interest arising from a loan or finance lease during the period from 23 January 2020 until three months after the day on which the Prime Minister declares the end of the Covid-19 outbreak. The debt shall not be deferred for more than 12 months from the initial repayment deadline according to the loan/finance lease agreement (the deadline on which the customer pays both principal and interest specified in the original loan/finance lease agreement).

This is an important document that helps create a legal corridor for credit institutions to restructure debt repayment and reduce interest and fees while maintaining debt classifications for customers, creating conditions for people and enterprises to continue borrowing capital to sustain and implement production and business plans and projects in order to restore activities after the pandemic.

According to data from the SBV, by the end of September 2020, credit institutions had restructured debt repayments and maintained debt classifications for more than 275,000 customers with total restructured outstanding debts of about VND 335 trillion, accounting for 3.86% of the total outstanding debts of the whole economy. It is notable that the restructured outstanding debts are just the outstanding debts arising from 23 January 2020 to three months after the day on which the Prime Minister declared the end of the Covid-19 outbreak (not all outstanding debts of customers).

Some sectors that had larger percentages of restructured outstanding debts than those of other economic sectors are: other service activities (17.24%); construction (9.59%); transportation and warehousing (6.5%); arts and entertainment (6.17%); accommodation and catering services (5.34%); healthcare and social assistance (4.52%); information and communication (3.84%); and education and training (2.89%).

Percentages of restructured outstanding debts by sectors to September 2020

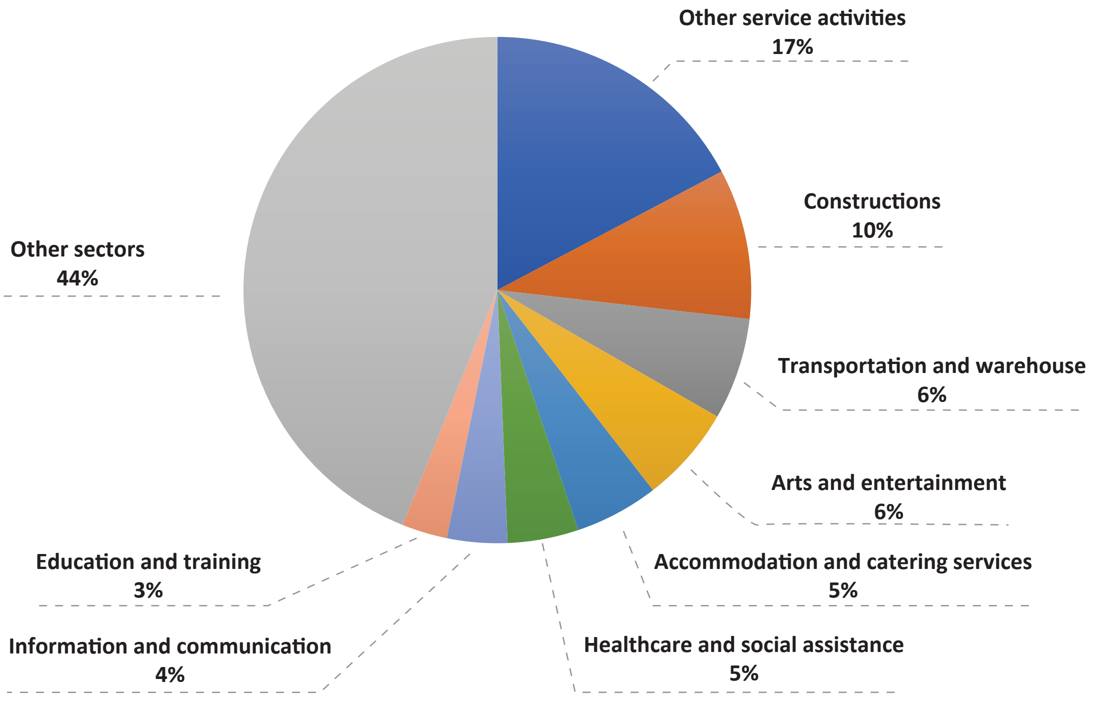


Figure 1: Restructured outstanding debts by sector

Regarding results of the reduction and exemption of interest and fees, and the retention of debt categories for the total outstanding debts of nearly VND 70 trillion, the total amount of interest reduced and exempted was nearly VND 550 billion for nearly 130,000 customers. This is just the result of reduction and exemption of interest and fees, and retention of debt categories under Circular No. 01[6], not the result of the reduction and exemption of interest and fees in accordance with the normal interest rate adjustment mechanism of credit institutions.

By 30.11. 2020, the Prime Minister had not announced the end of the Covid-19 outbreak and the SBV is drafting an amended Circular No. 01 in the direction of extending the timeline for debt repayment restructuring in accordance with Circular No. 01

2. Strongly reducing interest rates and promoting new loans with preferential interest rates

After the first case of Covid-19 was reported in

[6] According to Circular No. 02/2013/TT-NHNN dated 21 January 2013, debts on which interest is exempted or reduced because customers are not sufficiently capable to pay all interest under credit contracts are classified in Group 3 (sub-standard debts).

Viet Nam on 23 January 2020, the SBV constantly directed credit institutions to implement credit support solutions with a focus on reducing operating expenses in order to minimise interest rates, share difficulties with customers through various forms such as issuing directive documents (Official Letter No. 541/NHNN-TD dated 4 February 2020, No.1117/NHNN-TD dated 24 February 2020, and No.1425/NHNN-TD dated 6 March 2020, Directive No. 02/CT-NHNN dated 31 March 2020 and Official Letter No. 5596/NHNN-VP dated 4 August 2020) and organising many working sessions and meetings with senior leaders of credit institutions and 15 conferences in provinces throughout the country.

Since early 2020, the SBV has made three consecutive adjustments to operating interest rates (on 17 March 2020, 13 May 2020, and 30 September 2020) with a total reduction of 1.5%-2%/year, reducing 0.6%-1.0%/year for the interest rate cap for personal deposits whose maturity is less than six months and reducing 1.5% for short-term lending interest rate cap for priority sectors (now just 4.5%/year) to reduce interest rates and create favourable conditions for customers to access low-cost loans. **Viet Nam had one of the strongest reductions in operating interest rates in the region[7].**

As a result, mobilising and lending interest rates have tended to decrease. The lending interest rates for priority areas are currently at 4.5%/year. Currently, the mobilising interest rates of credit institutions are generally at 0.1-0.2%/year for non-term and less than one month deposits; 3.5-4%/year for deposits whose maturity is from one to six months; 4.4-6.4%/year for deposits whose maturity is from 6 to 12 months; and 6-7.1%/year for those whose maturity is more than 12 months. The lending interest rates for production and business activities are generally at 5.5-9%/year for short-term loans; and 8-11%/year for medium- and long-term loans. The reduction of lending interest rates depends on particular credit institutions and characteristics of loan products and customers. The estimated average reduction in the whole banking system is about 0.8%/year[8].

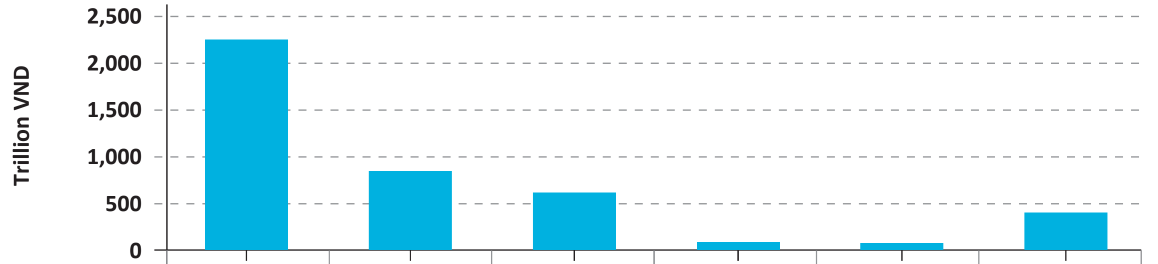
According to SBV data, by the end of September 2020, credit institutions exempted and reduced interest rates for customers (including the reduction and exemption of interest rates, the retention of debt category under Circular No. 01, and the reduction of normal interest rates as regulated by particular credit institutions). The total outstanding debts on which interest was exempted and reduced were worth VND 1.16 million of billions for nearly 500,000 customers. The total amount of interest reduced and exempted by credit institutions was worth more than VND 5.5 trillion.

Along with lowering interest rates for existing outstanding loans, **credit institutions promoted new loans with lower interest rates than before the pandemic for customers affected by Covid-19 with the disbursement turnover from 23 January 2020 to the end of September 2020 of about VND 2.3 million of billions for more than 430,000 customers.** Regarding new loans for customers affected by the pandemic, 76.55% were for the following sectors: wholesaling and retailing (VND 913.2 trillion – 39.24%); processing and manufacturing (VND 677.86 trillion – 29.13%); agro-forestry-fisheries (VND 145.7 trillion – 6.26%); and the production of products and services for self-consumption (VND 127.8 trillion – 5.49%).

[7] Philippines: 1.25%; Thailand: 0.75%; Malaysia: 1%; Indonesia: 0.5%; India: 1.15%; China: 0.3%.

[8] The author calculated these figures based on the amount of interest to be reduced and the outstanding debts on which interest is reduced and exempted.

New loans for customers affected by Covid-19 (Trillion VND)



	Total of new loans	Wholesaling and retailing	Processing and manufacturing	Agro-forestry-fisheries	Production of products and services for self-consumed	Others
New loans up until 30/9/2020 for customers affected by Covid-19 (trillion VND)	2,326.96	913.2	677.86	145.67	127.8	462.43

Figure 2: Loans for customers affected by Covid-19

3. Reducing payment fees, money transfer fees, and credit operation expenses

The SBV has directed the National Credit Information Centre (CIC) to reduce fees for credit information services on a large scale; the Viet Nam National Payment Joint Stock Company (NAPAS) exempts and reduces service fees on electronic switching and promotes cashless payment. **The total amount of the fees that were exempted and reduced by the end of 2020 was about VND 1.004 trillion. As expected, by the end of 2020, the total collection of payment service fees of the SBV will be reduced by VND 285 billion to support credit institutions to continue reducing interbank money transfer service fees for people and enterprises.**

4. Stabilising the financial and monetary market and creating conditions for credit institutions to maintain stable operations

Since the beginning of 2020, the SBV has flexibly regulated the exchange rate through announcing fluctuations of the central exchange rate every day in accordance with domestic and foreign market developments, macroeconomic balance, and monetary policy to limit speculation and hoarding of foreign currencies, and help the economy respond better to external shocks. The exchange rate was relatively stable in the first 9 months of the year; the market psychology was stable; and the foreign currency market smooth.

II. Disadvantages and difficulties

1. Low credit demand

Since the outbreak of Covid-19, quarantine and social distancing periods across the world have caused the capital absorption capacity of economies to decline sharply due to the narrowed consumer market. Although the whole banking sector has made efforts to significantly reduce lending interest rates, it is hard to find enterprises and practical production and business plans to disburse capital to. By the end of September 2020, credit growth of the whole banking sector was only 6.09%, the lowest growth rate in recent years and much lower than that for the same period of 2019 (9.4%). Excess liquidity at banks can be seen via the interbank interest rates remaining low[9], and the foreign exchange reserves reaching their highest level in many years[10].

2. Difficulties in determining levels of support

Commercial banks find it hard to evaluate the damage to customers and business prospects in the new situation when the pandemic is still developing unpredictably across the world. The level of damage and business prospects of each customer is different, which makes it difficult for banks to exactly determine necessary solutions and levels of support.

3. Potential risks from bad debts

Enterprises with higher financial leverage will be more affected. Even when credit institutions restructure debt repayments, it is difficult to determine future income. It is highly likely that bad debts will arise after the debt restructuring deadline.

According to statistics published at the Viet Nam Banking Overview Forum 2020 with the theme "Restructuring and handling bad debts: Results and policy recommendations" on 30 September 2020 in Hanoi, non-performing loans (NPL) on balance sheets at the end of August 2020 were at 1.96%, excluding those sold to the VAMC and potential bad debts. Many experts believe that from the end of 2020 to 2021, the banking sector will be dealt a blow and bad debts will soar.

4. Inconsistent support of credit institutions and customers' difficulties accessing support programmes

Credit institutions' credit support solutions are implemented in the spirit of sharing difficulties and accompanying borrowers with resources of the banking sector. The credit support programmes are launched using deposits of citizens and economic organisations. Banks themselves are commercial units affected by the pandemic, thus they need to review lending processes prudently to assure loan safety.

Thereby, the launching of debt restructuring, exemption and reduction of lending interest rates, and loans with preferential interest rates among credit institutions, even among branches of a particular credit institution, are not consistent or synchronous. Many customers encounter numerous obstacles related to approval procedures, including proving the effectiveness of projects and collateral assets. Thus they cannot access support packages or it takes too long to agree a support agreement with credit institutions.

5. Debt repayment restructuring and retention of debt groups are only applied for debts arising before the pandemic

Debt repayment restructuring and retention of debt groups are only applied to debts arising before 23 January 2020 whose debt repayment obligations must be performed during the period from 23 January 2020 to 3 months after the day on which the Prime Minister declares the end of the Covid-19 outbreak. In reality, many loans were disbursed after 23 January 2020 and both banks and customers could not foresee the development of the pandemic. Thus, they need support to restructure debt repayment deadlines.

[9] The VND interest rates on the interbank market in key terms from the beginning of the year until now have remained below 1%/year; at times the overnight lending interest rate was only 0.175%/year.

[10] According to information given at the government's regular meeting in August 2020, the foreign exchange reserve by the end of August 2020 was about USD 92 billion and by the end of this year it may reach USD 100 billion, many times higher than the rate of USD 20 billion at the beginning of the term.

III. Challenges for banking credit activities in the new context

The Covid-19 pandemic is still progressing in a complicated manner, causing prolonged weak economic growth and even an economic crisis next year. Many enterprises cannot deploy their production and business plans and are suffering serious losses; some have gone bankrupt. Credit demand is low due to narrowed input and output markets.

An increase in potential bad debts causes a risk of system insecurity due to debt repayment restructuring and retention of debt classifications over a long period. According to Circular No. 01/2020/TT-NHNN, debt shall be deferred for no longer than 12 months from the initial repayment deadline according to the loan/finance lease agreement. The amount of debt repayment restructuring and retention of debt classification is not the total amount of restructured debts – by the end of September 2020, the total amount was more than VND 330 trillion, accounting for more than 3.8% of the total outstanding loans, which causes a risk of system insecurity.

IV. Lessons learnt from building credit support policies through commercial banks

- Central agencies shall have to formulate specific and practical solutions to accelerate implementation of supporting solutions, and improve access to relief packages for enterprises and citizens.

- Monetary policy solutions for people and enterprises affected by Covid-19 (reducing operating interest rates, specific debt classification mechanisms, refinancing, etc.) should only be immediate and temporary. The medium- and long-term goals are to stabilise the value of the currency, contribute to curb inflation, stabilise the macro-economy, and support economic growth in an appropriate manner.

- Debt repayment restructuring: Extending the deadline for debt repayment and maintaining debt classifications should be applied in line with the developments of the pandemic but with a schedule in order to reflect debt quality. Commercial banks should have sufficient provisions to deal with actual credit risk.

- Interest exemption and reduction: there should be support from central agencies to consolidate criteria and levels of support for enterprises and citizens. Commercial banks are for-profit organisations that mobilise capital from people and economic organisations; they have to assure interest payments for depositors, cover operating costs and make profits. Thus, interest exemption and reduction for people and enterprises as suggested by administrative management agencies should be applied in the sharing and supportive spirit of each bank based on their financial balances and management policies. There is no likelihood of the same level of support among all banks.

- New loans with preferential interest rates: there should be consistent and synchronous solutions through one or more channels, such as policy banks (the VBSP and the Viet Nam Development Bank (VDB)) and possibly state-owned commercial banks (provided that there is a loan and interest rate support mechanism). With specific characteristics in terms of capital sources and operating nature, commercial banks should consider lending activities carefully, complying strictly with risk management procedures in order to assure loan safety. The lending decisions of commercial banks regarding eligible borrowers and fields shall depend on management policies and the risk appetite of the banks.

- **Conclusion:**

From international experiences and the actual implementation of supporting solutions for customers affected by Covid-19, the participation of credit policy instruments (through the VBSP) to remove difficulties for workers and employment is necessary and appropriate. This will eliminate limitations of the commercial credit channel through other credit institutions, assure consistency and uniformity of policies, and ensure that the preferential and support levels of loans are in accordance with the state's objectives.

PART 3

RECOMMENDATIONS TO IMPROVE CAPACITY TO USE POLICY CREDIT INSTRUMENTS TO RESOLVE DIFFICULTIES OF ENTERPRISES, WORKERS, AND EMPLOYMENT ISSUES IN THE CONTEXT OF POST-COVID-19 ECONOMIC RECOVERY

A. FUNDAMENTAL DIFFERENCES BETWEEN LENDING ACTIVITIES OF COMMERCIAL BANKS AND THE VIETNAM BANK FOR SOCIAL POLICIES (VBSP)

I. Policy and mechanism

Due to differences in terms of operating objectives, capital sources, and organisational model, commercial banks and the VBSP have significant differences in terms of operation, lending conditions, eligible borrowers, loan limits, interest rates, loan security, lending process and procedures. As a result, the support capacity of these two kinds of banks is different.

Criteria	Commercial banks	Viet Nam Bank for Social Policies
Operational goals	According to the Law on Credit Institutions 2010, a credit institution is a type of enterprise mainly operating for profit.	According to the Law on Credit Institutions 2010, regulations of Decree No.78/2002/NĐ-CP dated 4 October 2002 of the Government on credit for poor people and other policy beneficiaries and Decision No. 131/2002/QĐ-TTg dated 4 October 2002 of the Prime Minister on the establishment of the Viet Nam Bank for Social Policies (VBSP): the VBSP is established to implement preferential credit for poor people and other policy beneficiaries and is not for profit.
Capital sources	Credit institutions of different types have different forms of capital mobilisation. The capital sources for lending are generally mobilised from deposits of residents and economic organisations in the market with a commercial mechanism. The scopes and forms of capital mobilisation are diverse and flexible.	According to provisions of Decree No. 78/2002/NĐ-CP and actual situations, funds for VBSP lending are mobilised from: (i) the central state budget (now accounting for about 16.25% of the total capital amount of the VBSP); (ii) borrowing mostly from the SBV and entrusted funds from organisations and individuals abroad (5.24%); (iii) deposits of state-run credit institutions being equal to 2% of the balance of mobilised capital according to the provisions of Decree No. 78/2002/NĐ-CP (35.2%); (iv) bond issuance guaranteed by the government (15.72%); (v) mobilised funds from organisations and individuals in the market (14.42%); (vi) entrusted capital from the local state budget (8.64%); and (vii) other funds and capital (4.3%). The VBSP applies to the government for additional compensation for interest rate differences and operating expenses.

Criteria	Commercial banks	Viet Nam Bank for Social Policies
Method of operation and lending conditions	1. As regulated in the Law on Credit Institutions 2010 "Credit institutions and foreign bank branches have autonomy in their business activities and are accountable for their business results. No organisations or individuals may illegally intervene in the business activities of credit institutions and foreign bank branches", and "credit institutions and foreign bank branches may refuse to extend credit or provide other services when finding that they do not fully meet the conditions to do so, or such credit extension or service provision is inefficient or non-compliant with the law". 2. Subjects and lending methods of a credit institution: Individuals and legal entities of all economic sectors and fields, and economic elements fully meeting lending conditions and evaluation criteria of particular credit institutions; diverse lending methods; civil lending relations.	1. The VBSP lends to policy beneficiaries according to provisions of Decree No. 78/2002/QĐ-TTg and other programmes designated by the Prime Minister. The policy beneficiaries are identified according to prescribed criteria and verified by competent agencies; the evaluation and management of lending subjects is conducted according to criteria, process, and administrative procedures of the state. - Poor and near-poor households: according to the criteria for poor and near-poor households announced by the Prime Minister at various points in time. - Households that have just escaped poverty: as regulated by the Prime Minister, households that have just escaped poverty are those that used to be poor and near-poor households, but have just escaped poverty as verified by communal authorities. - Other policy beneficiary households: Households with people with meritorious services to the revolution recognised by the competent authority, including households with meritorious services to the revolution, households of war invalids and martyrs; Households who are ethnic minorities with extreme difficulties; Households living in areas prone to natural disasters; Households in difficult

Criteria	Commercial banks	Viet Nam Bank for Social Policies
		circumstances; Households doing business in difficult areas; Households in rural areas. Most of the households mentioned above are listed by communal authorities for management and monitoring. 2. The VBSP shall provide loans by entrusting them to credit institutions or socio-political organisations (hereinafter referred to as "mass organisations") under entrustment contracts, or directly to the borrowers. Currently, most credit programmes of the VBSP are implemented by direct lending but entrusting some work and contents to mass organisations. Heads of villages and mass organisations are responsible for identifying lending subjects to ensure loans are provided to eligible borrowers. Some lending programmes for enterprises, production and business establishments, and workers have lending methods as follows: - Only entrusted lending: lending to policy beneficiaries working overseas for definite terms; lending to support poor districts to promote sending workers abroad for sustainable poverty reduction for the 2009-2020 period according to Decision No. 71/QĐ-TTg dated 29 April 2009 of the Prime Minister. - Only direct lending: Lending programme for SMEs funded through the German Reconstruction Bank (KfW); Lending to workers to make

Criteria	Commercial banks	Viet Nam Bank for Social Policies
		pre-departure deposits before going to work in Korea. - Partly direct lending and partly entrusted lending: • Lending to households doing business in difficult fields (entrusted lending if the size of loans is up to VND 30 million, direct lending if the size of loans is more than VND 30 million and up to VND 100 million); • Lending to traders doing business in difficult fields (entrusted lending if traders and individuals; direct lending if traders are economic organisations); • Lending to support job creation, maintenance, and extension (entrusted lending is applied to workers borrowing from the capital source managed by provincial People's Committees, Women's Unions, Farmers' Associations, Veterans' Associations, and Youth Unions; direct lending is applied to production and business establishments, households or workers borrowing from the capital source managed by the Viet Nam General Confederation of Labour (VGCL), Viet Nam Cooperative Alliance (ACA), and Viet Nam Blind Association (VBA)).
Lending amount and lending interest rates	1. According to the Law on Credit Institutions 2010, "Credit institutions and their clients may agree on interest rates and credit extension charges to be applied to	1. Lending interest rates given by the VBSP are decided by the Prime Minister for each programme and each period. They are consistent across the country and normally

Criteria	Commercial banks	Viet Nam Bank for Social Policies
	their banking operations according to law.” The lending interest rates of commercial banks basically fluctuate according to the capital supply-demand of the market. From time to time, SBV issues regulations on short-term VND lending interest rate cap for priority sectors (agriculture and rural areas; SMEs; export; supporting industries; high-tech enterprises) in order to implement the guidelines of the government and the Prime Minister. 2. A credit institution shall make appraisal of the plan to use the borrowed fund, financial capability of borrowing customer, existing lending limits to customers and available capital sources of the credit institution to decide and agree with the customer on the loan limit. Loans provided by commercial banks are varied in size ranging from a few million VND to thousands of billions VND.	lower than those given by commercial banks. Currently, the lowest interest rate is 1.2% (the lending programme for afforestation and animal husbandry according to Decree No. 75/2015/NĐ-CP of the Government); the highest interest rate is 9%/year (the lending programme for clean water and environmental sanitation; lending to households doing business and traders in difficult fields; lending to SMEs). 2. Loan limits: loan limits for lending subjects depends on regulations of the government and the Prime Minister for each programme. Most of the loans are small. The largest loan is currently VND 2 billion *(for production and business establishments under the job creation lending programme)*.
Loan guarantees	The credit institution and its customer shall agree on whether or not a security for a borrowed fund is implemented. Agreement on security for the borrowed fund between the credit institution and its customer must conform to regulations of the laws on security and relevant legislation. The credit institution shall make its decision on and bear responsibility for any unsecured loan.	According to Decree No. 78/2002/NĐ-CP, *“poor people and other policy beneficiaries (hereinafter called borrowers), when borrowing capital under the provisions of this Decree,* ***shall not have to mortgage their properties****, except for economic organisations being subjects defined in Clauses 3 and 5, Article 2 of this Decree. Particularly for poor households, they shall be exempt from administrative procedure fees when borrowing capital. The loan security for economic organisations*

Criteria	Commercial banks	Viet Nam Bank for Social Policies
		defined in Clauses 3 and 5, Article 2 of this Decree shall comply with the regulations of the Managing Board of the Social Policy Bank". In most lending programmes of the VBSP, mortgages are not required.
Lending process and procedures	The lending process and procedures are regulated by the credit institution. Credit institutions must issue internal regulations on lending and manage loans in accordance with the business characteristics of credit institutions.	Characterised by the commentary participation of Savings and Credit Groups and the verification of policy beneficiaries of competent authorities; the VBSP only checks and considers if borrowers are eligible.

The results of loans and support to customers affected by Covid-19 between January 2020 and the end of September 2020 show differences, details of which are described below. Particularly:

II. Implementation results (Annex 2)

1. General lending results

- The total outstanding loans of credit institutions reached VND 8.69 million of billion, up by 6.09% compared to the end of 2019. In particular: (i) the total outstanding loans of enterprises are VND 4.66 million of billion, up by 7.13% compared to the end of 2019, accounting for 53.62% of the total outstanding loans of the whole economy; (ii) the total outstanding loans of SMEs reached VND 1.7 million of billion, up by 6.22%, accounting for 19.57% of the total outstanding loans of the whole economy (201,842 SMEs); and (iii) the total outstanding loans of individuals and business households reached VND 3.93 million of billion, up by 4.93%, accounting for 45.23% of the total outstanding loans of the whole economy.
- The total outstanding loans of the VBSP reached VND 223,207 billion, up by 7.9% compared to the end of 2019, with nearly 6.5 million poor and near-poor households and other policy beneficiaries. In particular: (i) the total outstanding policy credit serving production and business, job creation and livelihoods reached VND 164,523 billion, accounting for 74% of the total outstanding loans, up by 8.5%; (ii) the total outstanding policy loan serving daily life reached VND 58,684 billion, accounting for 26% of the total outstanding loans, up by 6.45%; and (iii) the total outstanding loans of enterprises reached VND 306.65 billion, up by 1.02%, with 4,859 enterprises.

2. Results of support for customers affected by Covid-19

- At credit institutions:

+ Restructuring debt repayment and maintaining debt classifications for more than 275,000 customers with a total amount of restructured debts of VND 335 trillion (more than 11,000 enterprises with outstanding loans of VND 301.4 billion).

+ Exempting and reducing interest and maintaining debt classifications for nearly 500,000 customers with total outstanding loans (whose interest is exempted and reduced) of VND 1.16 million of billion (more than 71,000 enterprises with total outstanding loans of more than VND 930 trillion).

+ New loans with preferential interest rates were provided to more than 430,000 customers with accumulated loan sales from 23 January reaching VND 2.3 million of billion (more than 58,000 enterprises with total loans of VND 1.9 million of billion).

- At the VBSP:

+ Repayment extension for outstanding loans of VND 4.1 trillion for 163,000 customers.

+ Term of repayment adjustment for outstanding loans of VND 1.57 trillion for 75,000 customers.

+ New loans of VND 58.7 trillion to 1.59 million customers.

+ Loans to employers with the interest rate of 0% to pay for work stoppages: no results.

B. RECOMMENDATIONS TO IMPROVE THE CAPACITY TO USE POLICY CREDIT INSTRUMENTS TO RESOLVE THE DIFFICULTIES OF ENTERPRISES, WORKERS, AND EMPLOYMENT ISSUES TO SUPPORT ECONOMIC RECOVERY IN THE POST-COVID-19 PERIOD

I. Increasing medium- and long-term capital sources for the VBSP

- The National Assembly should increase investment resources and balance the medium- and long-term resources of the state to adequately and promptly allocate charter capital, compensate for interest rate differences and management fees, and ensure capital for VBSP social policy credit programmes.

- The government should propose that the Politburo allow the VBSP to increase the government-guaranteed bond issuance limit to achieve the credit growth target according to the annual plan in order to ensure the required resources for implementing the policy credit programmes that provide long-term loans, business loans and job creation loans[11].

II. Expanding the scope of eligible borrowers of VBSP's existing lending programmes to workers, enterprises, and to address employment issues

1. Innovating credit policies of the VBSP towards

[11] Resolution No. 07-NQ/TW dated 18 November 2016 of the Politburo minimises government guarantees for new loans, controlling guarantee limits for two policy banks with the obligation on annual repayment.

increasing credit limits, expanding the scope of eligible borrowers to production and business projects, livelihood creation projects, and job creation projects for poor and near-poor households, households that have just escaped poverty, and policy beneficiaries

- Increasing the limit of loans for households doing business in difficult fields and traders who are individuals doing business in difficult fields to VND 100 million/household (currently VND 50 million/household).
- Expanding the scope of eligible borrowers to workers working abroad who are members of households that have just escaped poverty.

2. Converting and upgrading the lending programme to support job creation, maintenance and expansion into a specialised credit programme for enterprises and workers in the post-Covid-19 period

<u>2.1. Diversifying sources forming the National Employment Fund, creating capital sources for business loans and stable and sustainable job creation loans</u>

According to provisions of Article 11 of the Viet Nam Employment Law, sources forming the National Employment Fund include *the State budget, supporting sources of domestic and foreign organisations and individuals, and other lawful sources. Besides, according to provisions of Decree No. 74/2019/NĐ-CP amending and supplementing Decree No. 61/2015/NĐ-CP "Differences in interest rates and management costs incurred by the VBSP when mobilising funds for granting loans for employment creation, maintenance and expansion shall be made up by the government in accordance with legal regulations on the financial management of the VBSP"*. Thereby, the diversification of medium- and long-term capital sources for employment creation loans can be achieved by:

- Increasing government-guaranteed bond issuance limits and increasing the allocation of medium- and long-term capital sources for business loans and job creation loans.
- Developing sources of loans from production and business establishments and workers themselves through deposit savings mobilisation:
- For voluntary deposit savings mobilisation, borrowers make a certain savings deposit amount every month or every quarter in accordance with various forms of deposit contracts in order to encourage borrowers to save for specific purposes, such as study and purchases, etc.
- For compulsory deposit savings mobilisation, borrowers deposit an amount of savings with certain investment interest rates and they can withdraw the savings after a certain amount of time. International experience shows that this requires at least three years after which time the saved amount will make sense because it will provide borrowers with a significant amount of money that can be used for other purposes.
- Mobilising savings from policy non-beneficiaries or attracting investment from investment funds targeting social and community goals. This activity will help banks themselves attract sufficient capital for loans. However, there should be a competitive interest rate policy and clear social and community objectives.

<u>2.2. Expanding the scope of loans to production and business, working capital, and operating expenses</u>

<u>2.3. Supplementing *subjects of the job creation loan programme*</u>

The subjects to be supplemented are vulnerable worker groups *(female workers, untrained/unskilled workers, and informal workers)*, potential worker groups *(young workers, workers in new industries in the post-Covid-19 period)* and SMEs, start-up-enterprises, and newly-established enterprises in labour-intensive industries.

2.4. Adjusting loan limits and equity contributed to projects

Increasing the limits of job creation loans in line with the capital demand of supplemented and expanded subjects and at the same time applying regulations on equity contributed by a certain percentage of enterprises and production and business establishments (similar to the method used by commercial banks).

2.5. Adjusting lending procedures

Applying direct lending, eliminating the stage of verification by local authorities and improving the VBSP's business clients' appraisal capacity when it comes to loans to supplemented subjects

III. Improving the efficiency of loans for enterprises and workers

- Attaching the implementation of policies on agricultural, industrial, forestry and fisheries promotion, scientific and technical transfer, planning of centralised commodity production zones according to value chains, and product consumption of state agencies, non-business units, local governments, etc., to social policy credit to improve capital efficiency.
- Supporting vocational training for workers who have to change jobs due to the impact of Covid-19.
- Strengthening job search and training services, promoting labour market information, and simplifying procedures to ensure workers continue participating in social insurance and unemployment insurance programmes.

IV. Supporting enterprises to promote recovery and create new income opportunities for workers

- The government should strengthen the restructuring process of the economy, formulate supporting policies to develop potential and advantageous fields and areas, and participate extensively in value chains. The government should also support Vietnamese enterprises to meet international standards in order to improve access to global markets, beginning with face masks and personal protective equipment enterprises. Enterprises should diversify and avoid dependence on a single import and export market.
- The Ministry of Industry and Trade (MoIT) should develop domestic markets, strengthen domestic supply chains, and form and develop new supply and value chains based on the exploitation of new market opportunities for essential products and services, such as food processing, medicine, pharmaceuticals, digital transformation, and e-logistics, etc., to create breakthroughs for Vietnamese enterprises.
- The Ministry of Science and Technology (MoST) and other relevant ministries and branches should develop shared technology platforms and core national database systems. They should ensure the security of technical infrastructure and information, develop a system of national, regional, and local innovation centres, and support the development of an innovative start-up ecosystem in order to adapt to changes that may occur in the future.
- Socio-professional organisations should effectively perform the role of bridging, linking, and cooperating among members in production and product consumption, improving the efficiency of members' activities and raising incomes for workers./.

Annex 1

Financial and credit support policies for enterprises and workers affected by Covid-19 in selected countries

I. South Korea

With bold determination and the motto “both fighting against the pandemic and maintaining economic development”, right after the Covid-19 outbreak, the South Korean Government organised the implementation of urgent solutions to respond to the pandemic and ensure economic recovery in two phases: (i) Phase 1 (before 30 March 2020): setting out appropriate contingency scenarios and emergency response measures, thereby creating momentum for the “rebound” of the post-Covid-19 economy; (ii) Phase 2 (from 1 April 2020 until now): focusing on economic recovery after basically controlling the pandemic and gradually loosening restrictions.

In particular, in relation to vulnerable objects such as SMEs, workers, and job maintenance issues, South Korea[12] focused on the implementation of the following financial support solutions:

- Extending loan terms and interest payment deadlines for loans to individual and for loans to SMEs.

- Affected SMEs were supported with an amount of KRW 25 billion (USD 21.1 million) from the Emergency Business Stabilisation Fund (EBSF) of the Korean SMEs and Start-ups Agency (KOSMES), and by KRW 105 billion (USD 88.7

[12] http://world.kbs.co.kr/service/contents_view.htm?lang=v&board_seq=379681

million) from the Kibo Technology Fund (KIBO). The subjects to be supported were SMEs in the sectors and fields affected due to reduced consumption, such as tourism and entertainment, suffering losses due to late supply from key partners, or having difficulty importing and exporting raw materials and goods with China.

KOSMES will reduce lending interest rates with funding from the EBSF, in which each enterprise borrows a maximum loan of KRW 1 billion (USD 846,000) with a five-year term. KIBO will support each enterprise to borrow a maximum of KRW 300 million (nearly USD 254,000). In order to accelerate the capital support for enterprises, KOSMES will send emergency support staff to its local branches to deal with online applications.

The Market Promotion Fund for Micro Enterprises will provide KRW 20 billion (USD 16.9 million) of loans for households experiencing business difficulties, and KRW 100 billion (USD 84.6 million) from the local Korea Credit Guarantee Fund (KODIT). Beneficiaries are small businesses in the service sector such as restaurants, transportation, entertainment, tourism, wholesale and retail, etc., suffering losses due to decreased revenue or disrupted import-export activities with China. In addition to supporting new loans, the government will extend repayment deadlines for SMEs and micro enterprises having difficulty repaying debts.

- Allocating capital resources to extend credit guarantees, insurance guarantees, export guarantee packages, promoting low-interest loans to support overseas bidding packages, reducing insurance premiums by 50%, and providing guarantees for export SMEs, etc.

- Stabilising jobs and supporting workers affected by the pandemic through: (i) Establishing a support fund worth KRW 10.1 thousands of billion (about USD 8.3 billion) in order to maintain jobs for workers at micro enterprises and create emergency jobs by recruiting human resources to work in health departments, pandemic prevention and state agencies; (ii) Establishing an emergency fund worth KRW 40 thousands of billion (about USD 31.8 billion) in order to maintain jobs, especially those in sectors requiring high initial investment capital such as aviation, oil refineries filter, automobiles, shipbuilding, and machinery, etc., to ensure stabilisation of the economy's "backbone" sectors.

In addition, the Economic, Social and Labour Council of South Korea announced an agreement among workers, employers, and the government on overcoming the pandemic together. The agreement comprises close coordination plans between the Government of South Korea, workers, and employers in order to combat economic stagnation due to Covid-19. In particular, the three parties agreed to change working hours towards shortening working time in factories and maintain the recruitment of workers in difficult times. To this end, the Government of South Korea will increase financial support for enterprises to maintain recruitment and loosen eligibility criteria.

- Supporting programmes for specific sectors and fields such as aviation, shipping, and tourism were implemented. Accordingly, the Government of South Korea developed an emergency capital support programme for low-cost airlines while at the same time extending the deadline to pay fees for using airport infrastructure for up to 3 months for low-cost airlines suspending or reducing the number of flights due to the effects of the Covid-19 pandemic.

For shipping enterprises, the government developed an emergency business support budget and minimised all fees for using seaport infrastructure and passenger ship pier rental during the time the enterprises have to suspend shipping services due to the pandemic.

For enterprises active in the tourism industry, the government provided special non-guaranteed loans with the interest rate of 1% to help tourism SMEs to alleviate capital difficulties. In addition, the government expanded the group of beneficiaries for ordinary loans and extended the maturity period by up to 01 year if requested by enterprises. Hotels and guesthouses were exempted from property tax. For restaurants, the government also expanded the scale of capital support and reduced lending interest rates by 0.5%.

- Besides, to overcome the consequences of Covid-19, the Government of South Korea continued to promote strategic solutions to improve the production capacity and competitiveness of South Korean enterprises in the global market through:

- Restructuring production/supply chains in order to reduce the risks of depending on a single source and to improve production capacity.

- Promoting investment in science and technology and start-ups through: (i) Increasing support for SMEs' research and development projects (supporting costs for workers in R&D projects); (ii) Increasing capital support and policies for start-ups, stabilising the confidence of private investors; setting up a support fund worth KRW 2.2 trillion (about USD 1.78 billion) to provide loans and guarantees to expand capital for start-ups *(through 3 support packages including: expanding the scale of the Support Fund for Start-ups and SME Development, and a low-interest loan programme from private banks and special guarantee packages)*; and mobilising direct investment from investment funds.

Thanks to these policies, enterprises and workers in particular and the South Korean economy in general have been maintained and have stood firm against the challenges of Covid-19.

II.The United States of America

The US is the country suffering the most in terms of both public health and the economy. According to information from the US Congressional Budget Office, the pandemic is expected to cause USD 16 trillion worth of damage to the US economy in the next 10 years. After adjusting for inflation, the pandemic is expected to cause USD 7.9 trillion worth of damage, equivalent to 3% of real GDP by 2030. Many iconic department stores and major entertainment companies in the US have had to file for bankruptcy. This shows that enterprises have hit a dead end.

In order to support enterprises and the economy[13], the administration of US President Donald Trump took an unprecedented series of support measures. Particularly, on 27 March 2020 President Donald Trump signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act) worth more than USD 2 trillion. The purpose of the CARES Act was to make a commitment to protect American people and enterprises from negative impacts of Covid-19 on the economy and public health. The CARES Act provided emergency and direct economic support for workers, families, and small businesses in the US in order to maintain jobs in American industrial sectors.

Besides, the CARES Act allocated USD 500 billion to the Economic Stabilisation Fund to support eligible enterprises, states, and cities. The CARES Act also developed a loan programme for small businesses worth USD 669 billion, known as the Paycheck Protection Programme (PPP). Most companies with up to 500 employees were eligible to borrow from the PPP and maintain their

[13] Van Cuong. (2020). The US strengthens support for the economy. Retrieved from https://saigondautu.com.vn/ho-so/my-tang-cuong-ho-tro-nen-kinh-te-82395.html

production and business activities. The CARES Act also authorised the Secretary of the Treasury to provide loans or loan guarantees to eligible states, cities, and businesses.

The US Government also expanded the Small Business Administration's (SBA) Disaster Loans (EIDL) to non-profit organisations, including religious organisations. Accordingly, an EIDL applicant could borrow from USD 25,000 up to USD 2 million. This lending programme offered low interest rates and loan terms of up to 30 years. The EIDL applicant was able to receive an advance fund of USD 10,000.

The CARES Act also allowed employers to defer the employer Social Security tax for up to 2 years. The CARES Act also provided the Employee Retention Credit which is a refundable tax credit for employers whose business was suspended or revenue is sharply reduced due to Covid-19. The credit was 50% of qualified wages paid by an eligible employer between 13 March and 31 December 2020 with the credit limit of USD 5,000/employee.

The CARES Act increased tax deductions for net operating losses (NOLs) from 80% to 100% for the years 2018, 2019 and 2020; and suspended the limit of USD 500,000 on tax-deductible NOLs until 2021, allowing a five-year carryback for a business NOL that arises in a tax year beginning in 2018 through 2020 leading to retroactive tax refund. Under the CARES Act, the limitation on charitable deductions for corporations was increased from 10% to 25% of modified taxable income and the charitable contribution deduction limitation for food inventory contributions was increased from 15% to 25%.

Besides, the US Government provided federal unemployment benefits as part of the relief package worth USD 2.2 trillion passed by the US Congress in March 2020. Accordingly, the US Government supported USD 600 worth of unemployment benefits per week for individuals affected by Covid-19. This was considered a "lifebuoy" to workers who lost their jobs when the US applied lockdown regulations in order to prevent the spread of Covid-19.

III. The United Kingdom

In an effort to save its economy, like any other country in the world, the UK Government launched economic assistance programmes based on fiscal policies that were implemented through supporting enterprises to ensure operating cash flows and incomes for workers[14].

- The first policy group was tax payment deferral and tax reductions worth GBP 29 billion for enterprises. The government also provided financial support for enterprises in the most affected sectors and for SMEs. The most affected sectors were accommodation and restaurant services, which benefitted from VAT reductions; the UK Government even paid half of diners' bills in August to support enterprises in the sector.

- The second policy group was the allocation of GBP 48.5 billion for capacity building in the public health system, the promotion of public services, and for charitable organisations to help people in difficulty. This group also allocated more money, worth about GBPb8 billion, to support vulnerable people through increasing the minimum wage and other benefits.

[14] Dr. David Gray and Dr. Quach Manh Hao. The world's economy and policies in the Covid-19 period: The UK story.

The notable thing in this group was that the government was willing to pay 80% of the salaries of jobless workers, and employers were committed to retain them. The level of the government's financial support was then decreased to 70% and 60% and employers contributed the remaining to assure workers received 80% of their salaries. Especially, the government paid minimum wages for 25 working hours every week during six months for young workers who were likely to be unemployed for a long time. At the same time, the government provided resources to equip them with skills to help them return to work.

- The third policy group was to support monetary policy by providing guarantees for business loans. The government launched 3 programmes to support access to credit for businesses. The programmes were designed depending on the scale of businesses. The government guaranteed 80% of a loan value of up to GBP 5 million for small companies and GBP 300 million for large companies. In addition, SMEs could access 100%-guaranteed loans of up to GBP 50,000.

It can be seen that the fiscal policy solutions are designed and implemented in a specific manner and for specific objects. The highlight of the fiscal policies in the UK is that the budget expenditure is to support operating cash flows of businesses and assure incomes for workers in addition to investing in the health system and social welfare. This is different from public investment spending in normal circumstances. The difference can ensure the efficiency of fiscal policies when it comes to supporting the economy to overcome the pandemic.

In terms of monetary policies, the UK, as well as other countries in the world, has its own way to create cheap money through reducing and maintaining low operating interest rates, enforcing quantitative easing, and providing preferential credit packages for businesses.

Specifically, the basic interest rate was decreased by 0.65% to 0.1% by the Bank of England (BoE). The BoE also increased its holdings of government and non-financial corporate bonds by a total of GBP 300 billion, which meant that it pumped more money into the economy. Additionally, the BoE provided a long-term loan programme with a low interest rate worth GBP 330 billion for credit institutions providing that they lent to the real economy, especially SMEs. The BoE's support serves as a kick to ensure that low interest rate policy is translated into lending, rather than letting the market system self-regulate.

Annex 2

Performance Results of the Viet Nam Bank for Social Policies (VBSP) in Contributing to the Realisation of Poverty Reduction, Job Creation, and Ensuring Workers' Livelihoods

On 4 October 2002, the government issued Decree No. 78/2002/NĐ-CP on credit for poor people and other policy beneficiaries. Accordingly, "credit for poor people and other policy beneficiaries means the use of State-mobilised financial sources to provide preferential loans for poor people and other policy beneficiaries in service of production, business, job creation and life improvement, thereby contributing to the implementation of the national target programme on hunger elimination and poverty alleviation, and social stability." Besides, the Prime Minister issued Decision No. 131/2002/QĐ-TTg dated 4 October 2002 on establishing the Viet Nam Bank for Social Policies (VBSP) based on the re-organisation of the Viet Nam Bank for the Poor with a view to implementing credit policies for the poor and other policy beneficiaries.

I. Performance results of the VBSP contributing to the realisation of the goals of poverty reduction, job creation, and securing living conditions for workers[15]

1. Results of capital mobilisation for the implementation of social policy credit programmes

In order to ensure sufficient capital sources for the implementation of social policy programmes, the Party, the National Assembly, the government, ministries, branches and local authorities at all levels have paid attention to gathering financial resources to meet the borrowing demand of poor people and other policy beneficiaries. Entrusted capital from local state budgets and domestic and foreign investors was transferred to the VBSP to supplement loans.

By 30 September 2020, the total policy credit capital was VND 231,409 billion, up by VND 19,515 billion (9,2%) compared to 2019, in particular: (i) funding from the Central State Budget was worth VND 37,596 billion; (ii) borrowings from the SBV and entrusted funds from organisations and individuals abroad was worth VND 12,132 billion; (iii) deposits of state-run credit institutions being equal to 2% of the balance of mobilised capital were worth VND 81,462 billion; (iv) bond issuance guaranteed by the government was worth VND 36,970 billion; (v) mobilised funds from organisations and individuals in the market were worth VND 33,372 billion; (vi) entrusted capital from the local state budget was worth VND 20 trillion, up by VND 4,566 billion compared to 2019; and (vii) other funds and capital were worth VND 9,877 billion.

2. Results of the implementation of social policy credit programmes

2.1. Currently, the VBSP has launched more than 20 social policy credit programmes to provide loans in the service of (i) production, business, livelihoods and job creation; and (ii) everyday life and essential activities.

- The total loan sales in the first 9 months reached VND 60,231 billion; and nearly 1,653 thousand poor, near-poor households and other policy beneficiaries.

- By 30 September 2020, the total outstanding loans reached VND 223,207 billion, up by VND 16,402 billion (7,9%) compared to 2019. In particular, the outstanding loans from credit programmes according to the growth plan assigned by the Prime Minister reached VND 191,752 billion, up by VND 11,748 billion (7%) compared to 2019, completing 81.6% of the plan. The country currently has nearly 6.5 million poor households, near-poor households and other policy beneficiaries with outstanding loans.

In particular:

+ The outstanding policy loans serving the needs of production, business, livelihoods and job creation reached VND 164,523 billion, accounting for 74% of the total outstanding loans, an increase of VND 12,845 billion (8.5%) compared to 2019.

+ The outstanding policy loans serving the needs of everyday life and essential activities reached VND 58,684 billion, accounting for 26% of the total outstanding loans, an increase of VND 3,557 billion (6,45%) compared to 31 December 2019.

2.2. Social policy credit capital serving production development, livelihoods and job creation, and everyday life and essential activities of the poor and other policy beneficiaries, is focused mainly on 9 large credit programmes, accounting for nearly 98% of total outstanding loans. Specifically:

(1) *Credit programme for poor households:* The outstanding loans reached VND 33,093 billion,

[15] Source: Information collected from the VBSP.

accounting for 15% of total outstanding loans, with nearly 1 million households with outstanding loans. Loans for poor households have met the need for loans of poor households in the country, with a focus on remote, mountainous, and disadvantaged communes.

(2) *Credit programme for near-poor households:* The outstanding loans reached VND 32,935 billion, accounting for 15% of the total outstanding loans, with nearly 870,000 households with outstanding loans. Loans have met the needs for capital for production and business of near-poor households, helping them increase their incomes, improve their lives, and reduce the risk of falling back into poverty.

(3) *Credit programme for households who have just escaped poverty:* The outstanding loans reached VND 37,378 billion, accounting for 17% of the total outstanding loans, with over 1 million households with outstanding loans. Loans for households that have just escaped from poverty have helped the households with capital to continue developing production and business, improving incomes, and making their escape from poverty sustainable.

(4) *Credit programme for clean water and rural environmental sanitation:* The outstanding loans reached VND 37,811 billion, accounting for 17.2% of the total outstanding loans, with nearly 2.8 million households with outstanding loans. The loans have helped the households use clean water and build hygienic latrines, contributing to improving the quality of their lives and building new-style rural areas.

(5) *Loan programme for supporting job creation, maintenance and expansion:* The outstanding loans reached VND 27,569 billion, accounting for 12.6% of total outstanding loans, with nearly 730,000 customers with outstanding loans. The credit capital source has contributed to creating jobs, reducing unemployment, increasing incomes, expanding production, developing industries, implementing the National Target Programme for Sustainable Poverty Reduction, and restructuring the economy towards commodity production in rural areas.

(6) *Credit programme for disadvantaged pupils and students:* The outstanding loans reached VND 10,227 billion, accounting for 4.7% of total outstanding loans, with over 357,000 customers with outstanding loans. This is a credit programme of profound humanitarian significance in economic, political and social terms, maintaining support for pupils and students of poor and near-poor households to help increase the rate of students attending school in difficult and extremely difficult areas. It positively influences poverty reduction, ensuring social security and contributing to creating human resources for the country.

(7) *Credit programme for disadvantaged areas:* The outstanding loans reached VND 26,174 billion, accounting for 11.9% of total outstanding loans, with nearly 713 thousand households with outstanding loans. The programme contributes to promoting the development of agricultural, rural and mountainous areas, levelling economic growth among regions throughout the country, shifting the economic structure of localities towards production associated with the market, and making socio-economic changes in communes in difficult areas.

(8) *Loan programme to support poor households with housing:* The outstanding loans reached VND 5,468 billion, accounting for 2.5% of the total outstanding loans, with nearly 420,000 households with outstanding loans. The programme has supported poor households and other policy beneficiaries to have stable and safe housing, gradually improving the quality of people's lives, contributing to sustainable poverty reduction.

(9) *Social policy credit programmes exclusively for ethnic minority households:* The outstanding

loans reached VND 2,618 billion, accounting for 1.2% of total outstanding loans, with more than 140,000 households with outstanding loans. Poor ethnic minority households are supported with capital to create production land, change jobs, work overseas, and protect and plant forests, thereby increasing their incomes, improving their quality of life, and escaping poverty.

In addition, the VBSP is implementing a number of programmes and projects entrusted by domestic and foreign organisations and individuals, including: the loan programme for SMEs funded through the German Reconstruction Bank (KfW) and the loan programme for the Forest Sector Development Project by the World Bank (WB).

3. Removing difficulties and creating conditions to support borrowers who face risks due to force majeure and objective reasons

In order to create conditions for borrowers who face risks due to objective reasons (natural disasters, epidemics, etc.) to overcome difficulties and continue to have capital for production, the VBSP has regularly coordinated with local authorities and entrusted socio-political organisations to effectively perform debt handling with risks due to objective reasons. This work ensures the correct and timely handling of debt risk, and at the same time supplements capital sources to create favourable conditions for borrowers to continue investing in restoring production, escaping poverty, and avoiding the risk of falling back into poverty[16].

As of 30 June 2020, the total overdue and frozen debts of the VBSP was VND 1,536 billion, accounting for 0.7% of the total outstanding loans, of which: the overdue debt was 0.25%, and the frozen debt was 0.45%[17].

II. Lending interest rates of the VBSP

No.	Targeted Clients	Interest rate
I	**Poor households**	
1	Lending to poor households	6.6%/year
II	**Near-poor households**	
1	Lending to near-poor households	7.92%/year
III	**Households who have just escaped poverty**	
1	Lending to households who have just escaped poverty	8.25%/year
IV	**Pupils and students**	
1	Lending to disadvantaged pupils and students	6.6%/year

[16] From 2016 until 30 June 2020, the VBSP froze 96,296 loans with a total amount of VND 1,407 billion, of which the principal was worth VND 1,206 billion; the interest was worth VND 201 billion. The VBSP cancelled 106,054 loans with a total amount of VND 1,144 billion, of which the principal was worth VND 929 billion and the interest VND 215 billion.

[17] As of 30 June 2020, throughout the country there were 4,595 out of 10,617 communal units without overdue debts (the rate was 43%).

No.	Targeted Clients	Interest rate
V	**People in need of loans for job creation**	
1	Lending to ethnic workers living in extremely difficult areas, people with disabilities	3.96%/year
2	Lending to production and business establishments where at least 30% of the total number of employees are people with disabilities	3.96%/year
3	Lending to production and business establishments where at least 30% of the total number of employees are ethnic minority people	3.96%/year
4	Lending to production and business establishments where at least 30% of the total number of employees are people with disabilities and ethnic minority people	3.96%/year
5	Lending to others	7.92%/year
VI	**Migrant workers going abroad for definite terms**	
1	Lending to poor households or ethnic minority households for labour export according to Decision No. 27/2019/QĐ-TTg	3.3%/year
2	Lending to others in poor districts for labour export according to Decision No. 71/2009/QĐ-TTg	6.6%/year
3	Lending to migrant workers going abroad according to contracts	6.6%/year
VII	**Others mandated by the government**	
1	Loans for clean water and rural sanitation	9.0%/year
2	Lending to production and business households in difficult fields	9.0%/year
3	Lending to traders doing business in difficult fields	9.0%/year
4	Loans for forestry development	6.6%/year
5	Loans for SMEs	9.0%/year
6	Housing loans for poor households	3%/year
7	Housing loans with deferred payment in the Mekong Delta	3%/year
8	Loans to poor households to build houses to prevent storms and floods in the Central region	9.0%/year
9	Social housing loans according to Decree No. 100/2015/NĐ-CP of the Government	4.8%/year

No.	Targeted Clients	Interest rate
10	Loans for forestation for production and raising cattle according to Decree No. 75/2015/NĐ-CP of the Government	1.2%/year
11	Loans for socio-economic development in ethnic minority and mountainous areas according to Decision No. 2085/QĐ-TTg	3.3%/year
12	Loans for projects to extend access to finance for people with disabilities (Nippon project)	6.6%/year
13	Lending to households and HIV-infected people, and people after drug addiction treatment, etc., according to Decision No.29/2014/QĐ-TTg	6.6%/year
14	Lending to youth volunteers in Southern Viet Nam in the resistance war for the period 1965-1975 according to Decree No. 112/2017/NĐ-CP of the Government	6.6%/year

III. Lending process and procedure at the VBSP

1. Entrusted lending

a) A loan application includes:

+ Documents developed by the borrower:

An application form with a loan-use plan (Form 01/TD). For loans for job creation, use Form 01b.

+ Documents developed by Savings and Credit Group (SCG):

- A list of households applying for loans from the VBSP (Form 03/TD)
- A SCG meeting minutes on loan assessment (Form 10C/TD)
- A SCG meeting minutes (Form 10A/TD for the SCG established for the first time)

+ Documents developed by the local VBSP:

Announcement of loan approval results (Form 04/TD).

+ Documents developed by both local VBSP and Stthe borrower: A loan book.

Regulations on loan application mentioned above shall be applied to all entrusted lending programmes.

b) Lending procedure: 8 steps

Step 1: When in need of a loan, borrowers shall draft a loan application form with a loan-use plan (Form 01/TD) and send to his/her SCG. For loans for job creation, use Form 01b. The borrowers must accurately, fully, and clearly fill required contents and sign.

Step 2: After the SCG receives the loan application from the borrower, they shall organise a meeting to assess if the borrowing households are eligible with the participation and direction of mass organisations and the supervision of the Head of the village. They will develop a list of borrowing households according to Form 03/TD to submit to the communal People’s Committee for certification.

This is a very important step. Thereby, the mass organisations must direct the

SCG when assessing the loan to assure "publicity, fairness, democracy, objectivity, and correctly targeted borrowers". To this end, before the assessment meeting, the Head of the village and mass organisations must thoroughly grasp the following:

- Eligible borrowing households must be targeted borrowers as prescribed by a particular lending programme.
- Do not divide the amount of loan and the loan term equally among borrowers.
- The borrowing purpose of each household must be specific and in line with the practical demand for the loan amount, the loan term, and must be agreed by SCG members.
- The assessment must not be based on personal feelings, which may lead to lending to non-targeted borrowers, ineffective use of loans, disrespect for the mass organisations and the VBSP, badly affecting loan-use results.
- SCG members must be responsible for explaining specific conditions to borrowing households so that they are well aware of the preferential credit policy.

Step 3: The SCG sends the loan application dossier to local credit officers in the commune including: Forms 01/TD, 03/TD, 10C/TD, and Form 10A/TD (if the SCG is established for the first time) with the certification of the communal People's Committee.

Note: Before sending the loan application dossier to the local credit officers, the leader of the SCG must carefully check the application (full relevant documents, no erased or deleted text, full signatures of borrowers; the certification of the communal People's Committee must be specific, signed and sealed, and must be the original version, not photocopied).

Step 4: Local credit officers receive the application from the SCG and hold the following responsibilities:

- Checking the validity and lawfulness of the loan application dossier. In case the documents are not sufficient, provide guidance to the SCG to make adjustment to ensure compliance with regulations.
- Submitting to the VBSP's Director for loan approval regarding complete and valid applications.
- Make a notice of loan approval following Form 04/TD to submit to the communal People's Committee, and together with the borrowing households to develop a Loan Book (for households who borrow for the first time).

Note:

- Time for loan approval is longer than 3 working days from the date documents are received.
- In order to reduce costs, it is advisable to set the disbursement date on a fixed date at the commune (except for the case of seasonal disbursement such as loans for students or according to additional or irregular plans).

Step 5: After receiving the notice of loan approval according to Form 04/TD from the VBSP, the communal People's Committee shall inform the communal mass organisations directly.

The VBSP shall send the notice of loan approval to the communal People's Committee in order that the communal People's Committee is aware of the capital source for the commune and develops a supervision plan for relevant departments and branches to help borrowers effectively use the loan. At the same time, they shall arrange staff to coordinate with the VBSP to ensure the safety and security of disbursement.

Step 6: After receiving the VBSP notice of loan approval (Form 04/TD) from the communal People's Committee, the communal mass organisations shall inform the SCG and implement the relevant work, particularly:

- Arranging staff of the mass organisations and urging the leaders to join the disbursement session.
- In case there are many SCGs in the commune to be disbursed loans, the mass organisations shall proactively arrange time so that the members receive money on time, avoiding the wasting of time.
- Grasping information about the SCGs to be disbursed with loans to monitor, supervise and direct the SCGs to check and supervise borrowers to use loans effectively for the right purpose.

Step 7: The SCG shall inform borrowers about the amount of the loan, and the time and location of disbursement.

When informing the borrowers, the leader of the SCG must be specific about time and location; he/she must also ask the borrowers to bring identity cards in order to receive the loan. If borrowers do not receive money in person, they shall authorise a member of their household with an authorisation letter confirmed by the communal People's Committee.

Step 8: The VBSP shall disburse directly to the borrowers at mobile transaction points in the commune.

In order for the disbursement session to be effective, local credit officers directly participating in the disbursement session must actively arrange tasks, such as: loan applications, expected debt collection, interest collection (if any) and to prepare the required amount for disbursement, related documents, and working facilities, etc. The director must assign tasks to each member of the transaction team in a specific and clear manner and in line with the expertise, capacity of each officer. During the transaction process, the officers must be self-conscious, serious and comply with the prescribed process.

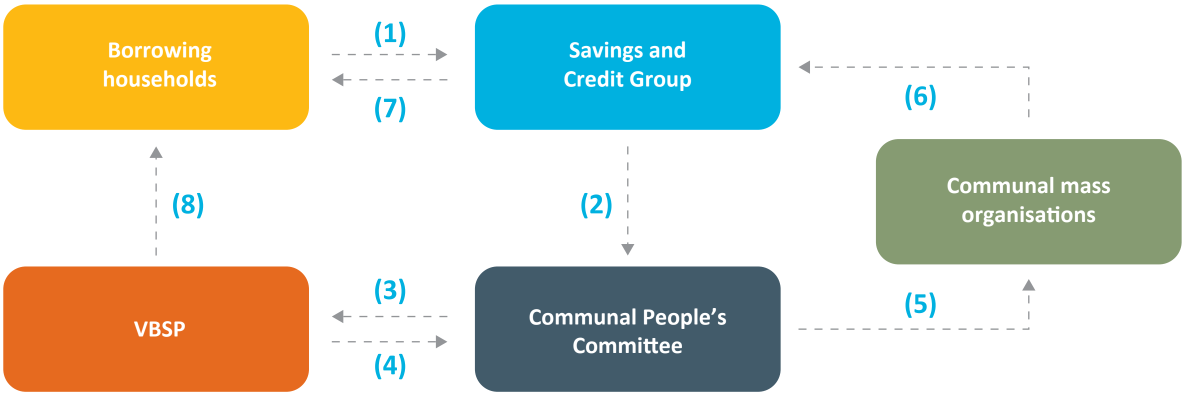


Figure 3: VBSP lending procedure

2. Direct lending

a) Loan application:

+ Documents developed and provided by borrowers:

- In case the borrowers are individuals or households, the loan application dossier only includes the loan application documents.
- In case the borrower is an economic organisation, production and business establishment, etc., the loan application dossier includes: legal documents, economic documents, and loan application documents.

  - *Legal documents:* business registration certificate, investment license, letter of authorisation or loan guarantee issued by a competent authority (if any) for the dependent accounting unit.
  - *Economic documents:* Financial statements and results of production and businesses for two consecutive years in the most recent period.
  - *Loan application documents:* Loan application form, production and business plan, and relevant documents (if any).

+ Documents developed by the VBSP: appraisal form, re-appraisal form (if any).

+ Documents developed by both borrowers and the VBSP: Loan security contract, credit contract or loan book.

Depending on the borrowers in each specific programme, the VBSP has appropriate instruction forms.

b) Lending procedure: 3 steps

Step 1: Borrowers shall develop a loan plan to submit to communal People's Committees where the plan is implemented for certification and sent to the VBSP.

Step 2: The in-charge credit officer shall receive and directly appraise (re-appraise) the loan plan. The appraisal is carried out according to the instructions in the article "Credit appraisal for SMEs". In case a loan is refused, the VBSP shall make a notice of loan refusal according to Form 04/TD to the borrowers, clearly stating the reason for loan refusal.

Step 3: For eligible loan plans, the VBSP shall guide borrowers to make Loan Security Contracts and Credit Contracts for disbursement. The loan security contract must be strict; it must be certified by a notary public or authenticated by a competent level People's Committee.

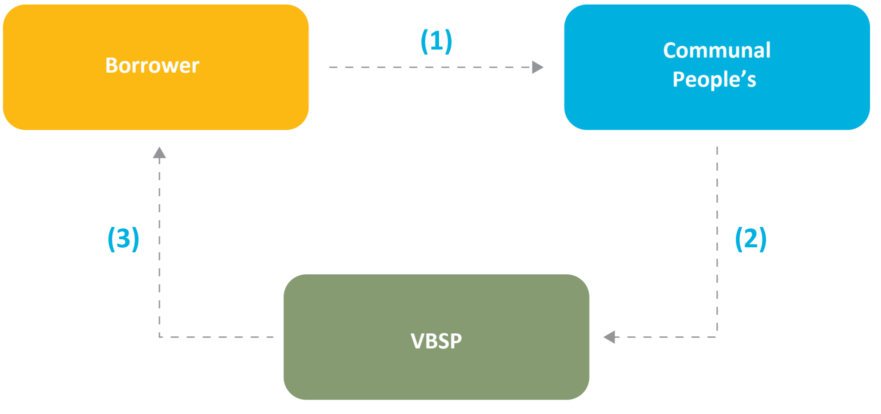


Figure 3: Lending procedure - 3 steps

The "Job Creation Credit Programme" has its own lending procedure as follows:

Step 1: Borrowers shall develop a loan plan according to Form M02 (for production and business establishments), a written request according to Form M01a (for workers) or Form 01b (for households) for submission to the communal People's Committee where the plan is implemented for certification and relevant documents, and sent to the VBSP.

Step 2: The in-charge credit officer shall receive and directly appraise the loan plan, and submit it to the Head of the Credit Department and the Director of the local VBSP.

Step 3: The Director of the local VBSP shall sign before submission to the competent authority for issuance of a loan approval decision.

Step 4: After receiving the loan approval decision from the competent authority, VBSP staff shall provide an instruction to borrowers to develop: an asset valuation minutes (Form 10/BĐTV), a mortgage/pledge contract as prescribed (in case of loan security), and a credit contract to submit to the director for disbursement approval. For households/workers, the VBSP shall make a notice of the loan approval (Form 04/TD) to borrowers.

Step 5: The VBSP shall directly disburse to borrowers at the bank's office or at a mobile transaction point in the commune.

<u>Note:</u> Regarding parties involved in the direct lending procedure:

- Borrowers: The loan plan must demonstrate the purpose and effectiveness of the loan. Sufficient and valid documents as prescribed by the VBSP must be provided.
- Communal People's Committee: the certification of the loan plan must comply with regulations.
- VBSP: The loan approval procedure must ensure independence and specific responsibilities for in-charge individuals, and between the appraisal stage and loan approval decision stage. Thereby, the credit officer in charge of appraisal must master credit appraisal knowledge and methods.
- The competent authority for issuance of a loan approval decision is the Chairperson of the district-level People's Committee (for a plan for which the fund source is managed by the provincial People's Committee) and the Head of the provincial agency of the organisation in charge (for a plan for which the fund source is managed by an organisation in charge):
  + complying with regulations regarding time for loan approvals: within 05 working days from the date of loan application receipt by the VBSP.
  + the loan approval must be objective and fair.

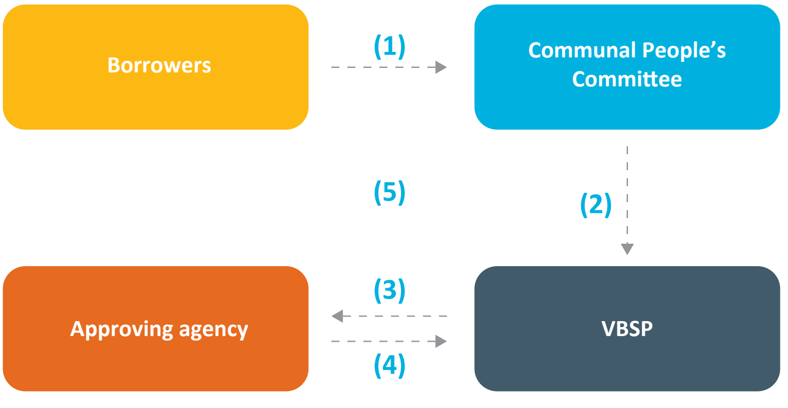


Figure 5: Lending procedure for the Job Creation Credit Programme

Annex 3

The impacts of Covid-19 on labour, employment and the Vietnamese Government's support policies for workers

I. The impacts of Covid-19 on labour and employment[18]

1. The labour and employment situation

Throughout the country, 31.8 million people aged 15 and over have been badly affected by Covid-19:

As of September 2020, 31.8 million people aged 15 and over had been badly affected by Covid-19, such as suffering job losses, layoffs/rotational leave, reduced working hours, and reduced incomes, etc. Specifically, 68.9% of people experienced a decrease in income (slight decrease); nearly 40% suffered reduced working hours/layoffs/rotational leave; and about 14% had to suspend work or production and business activities.

The services sector suffered the most from Covid-19 with 68.9% of workers affected, followed by the industry and construction sector with 66.4%, and agro-forestry-fisheries with 27%.

The number of workers aged 15 and over having jobs in the first 9 months of 2020 was 53.1 million, down by 1.3 million year-on-year. In particular, rural areas witnessed a sharp decrease in the number of employed workers by nearly 1.2 million, including 608,600 male workers and 734,000 female workers.

As of September 2020, the Covid-19 pandemic affected workers in most industries and sectors. The most affected sectors were arts and entertainment (88.6%); accommodation and catering services (81.7%); transportation and

[18] Source: General Statistics Office.

warehousing (79.7%); administrative and support activities (72.7%); processing and manufacturing (70.1%); wholesale and retail, automobile and motorcycle repairs, (68.5%); education and training (68.5%); and real estate (67.8%).

Nearly half of the underemployed workers of working age in the third quarter of 2020 were active in the agro-forestry-fisheries sector, accounting for 49.3%, down by 26.1 percentage points compared to the same period in the previous year; the industrial and construction sector accounted for 25.9%, up by 17.6 percentage points; and the services sector for 24.8%, up by 8.5 percentage points. Thus, underemployment was not only an issue in the agro-forestry-fisheries sector but also in industry, construction, and services sectors.

The rate of underemployed workers in the third quarter of 2020 in the agro-forestry-fisheries sector was 4.8% (an increase of 0.76 percentage points compared to the same period of the previous year); the industrial and construction sector, 2.14% (up by 1.75 percentage points over the same period of the previous year); and the services sector, 1.85% (up by 1.15 percentage points over the same period of the previous year).

For workers of working age, the higher their professional and technical qualifications, the lower the underemployment rate. The underemployment rate among workers of working age in the third quarter of 2020 for workers without professional and technical qualifications was 3.20%; with primary level qualifications it was 2.54%; with intermediate level qualifications 1.71%; college level qualifications 1.59%; and for those with university level qualifications and above the figure was 1.15%.

The average monthly income of informal workers[19] in the first 9 months of 2020 was VND 5.5 million, which is 1.5 times lower than the monthly average income of formal workers (VND 8.4 million). Compared to the same period of the previous year, the monthly average income of formal workers decreased by 1.9%, and that of informal workers by 0.8%.

The more senior the workers were, the lower the income reduction rate was. Compared to the same period of the previous year, in the first 9 months of 2020 the incomes of workers working for at least three years decreased by at least 0.6%, for those working from three months to less than three years it decreased by 3.8%, and for workers working less than 3 months it decreased by 42.6%. This shows that *workers who had recently entered the labour market were more vulnerable to the impacts of Covid-19.*

2. Responses of enterprises

The Covid-19 pandemic has had strong impacts on business activities, forcing 33.4% of enterprises to implement measures to reduce their workforce in the first 9 months of 2020 compared to the same period of the previous year. It was expected that by the end of 2020, 36.4% of enterprises would have to implement measures to reduce their workforce compared to the same period of the previous year.

- SMEs was the group with the biggest labour reduction rate (10%) in the first 9 months of 2020 compared to the same period of the previous year; while for large companies it was 4.5%.
- In the first 9 months of 2020, the sectors witnessing remarkable labour reduction rates were air transportation and tourism[20] (30.4%); accommodation (29.9%); sports and entertainment (17.4%); food and beverage (15.4%); and construction[21] (14.1%).

[19] Workers in agro-forestry-fisheries households were excluded. The average monthly income of the group of workers in the first 9 months of 2020 was VND 2.9 million.

[20] Activities of travel agents, tour businesses, supporting services, tour promotion and organisation.

[21] The construction industry includes the construction of houses of all kinds, civil engineering works, and specialised construction activities.

- Among surveyed workers at enterprises as of 10 September 2020, 7.8% experienced income reduction, 5% had layoffs/rotational leave, and 2.4% had their working hours suspended. 99.5% of workers in the air transportation industry suffered income reduction, which was the highest rate; for tourism the figure was 43.2% and accommodation 27.8%.

- Among surveyed enterprises, 66.6% have applied solutions to respond to the impacts of Covid-19. Particularly, *training to improve employees' capacity was applied by 25.8% of enterprises, which came after finding a new consumer market, which was applied by 41.4%.* In addition, in terms of expectations of supporting government policies in the time to come, about 10% of enterprises said that [they expected] *"to have vocational training support for workers who had to change jobs or lost their jobs due to Covid-19"*. These were the three solutions the government needed to prioritise in order to support production and business activities in the coming time.

II. Results of the government's support policies for people, workers, and business households with significant decreases in income, job cuts, and job shortages[22]

1. From the Ministry of Labour, Invalids, and Social Affairs

After nearly seven months implementing the social welfare relief package (in cash) and through social insurance and unemployment insurance policies, the total amount of financial support as of 20 October 2020 was **VND 27,835.026 billion.** Specifically:

- The amount of VND 12,673.703 billion was disbursed to support 12,742,301 people and 26,437 business households, including: (i) 1,027,809 people with meritorious service to the revolution were supported with VND 1,523.218 billion; (ii) 2,877,975 social protection beneficiaries receiving monthly allowances, VND 4,278.612 billion; (iii) 7,948,538 people from poor and near-poor households, VND 5,947.152 billion; (iv) 887,979 supported workers, VND 898.102 billion[23]; and (v) 26,437 business households, VND 26.52 billion.

- Unemployment allowance were provided to 839,260 people with the total amount of VND 14,828.912 billion (the average allowance was more than VND 3 million/person/month)[24].

- 846 employers were allowed to suspend contributions to the retirement and survivorship fund for 80,705 workers, with a total amount of over VND 332.411 billion[25].

2. The policy of lending to employers to pay wages for suspended employees through the VBSP *(VND 16 trillion of SBV's refinancing loans)*

Employers with financial difficulties were entitled to borrow from the VBSP to pay wages for suspended employees affected by the pandemic with zero interest, and with no collateral required. The SBV issued the full legal basis and refinancing guidance documents[26], made capital sources available, and directed credit institutions to exempt charges for money transfers[27]. The VBSP

[22] According to Resolution No. 42/NQ-CP dated 9 April 2020 and Decision No.15/2020/QĐ-TTg.

[23] Providing VND 59.952 billion to 43,761 workers with suspended working contracts and unpaid leave; VND 753.712 billion to 759,662 workers without labour contracts who lost their jobs; and VND 84.438 billion to jobless workers whose labour contracts were not eligible for unemployment allowances.

[24] According to statistics of the Employment Service Centres in 63 cities and provinces, from the beginning of 2020 until now, throughout the country there were 896,785 people applying for unemployment allowances, up by 33.5% compared to the same period in 2019 (671,806 people).

[25] According to a report by Viet Nam Social Insurance.

[26] Circular No. 05/2020 / TT-NHNN regulating refinancing of the VBSP; Decision No. 9251 / QD-NHNN dated 13 May 2020 on refinancing of the VBSP.

[27] Official Letter No. 3054 / NHNN-TT dated 28 April 2020 instructing credit institutions and foreign bank branches with regards to exemption of charges for transfer of assistance to people affected by the Covid-19 pandemic under Resolution No. 42 / NQ-CP of the Government and Decision No. 15/2020 / QD-TTg of the Prime Minister.

issued documents for implementation throughout the system[28] and organised online training courses for VBSP branches in provinces and cities to guide implementation.

However, the loan disbursement process was not completed. The first reason was that affected enterprises had returned to operations and set aside budgets for salary payment. The second was that enterprises were not proactive in developing loan applications and confirming other kinds of employee benefits; they were concerned about proving financial difficulty, which might affect their production and business activities.

3. Difficulties and problems

a) Local state budgets were unable to cover the required capital. The capital source depended on the allocation of capital from higher levels; the progress of disbursement in some provinces was slow.

b) The United Nations Development Programme (UNDP) in Viet Nam considered the government's relief package under Resolution No.42/NQ-CP and Decision No. 15/2020/QĐ-TTg an important and effective measure in helping workers and households respond to the impacts of the pandemic, especially for poor and near-poor households, vulnerable workers (informal workers who had lost their jobs but were ineligible for unemployment allowances, and informal workers who lost their jobs but were not supported by the social security system, etc.). However, the relief package did not take into account households that became poor during the outbreak of the pandemic and social distancing period. Enterprises also identified three main difficulties in accessing government assistance: (i) difficulty accessing information about the support application process; (ii) difficulty developing applications for support; and (iii) difficulty securing verification and approval for support.

c) The capital source with which the VBSP lent to employers to pay work suspension salaries to employees was refinancing loans from the SBV with zero interest and with no collateral required. However, according to the Law on the State Bank of Viet Nam 2010, refinancing is an instrument of national monetary policy, specifically *"refinancing means a form of extending credit by the State Bank, aiming to provide short-term capital and payment instruments for credit institutions"* (Articles 10 and 11); thereby, the capital source should only be used to implement social security programmes and policies. That it is applied to deal with labour and employment issues is just an emergency and temporary solution. In the long-term, if used, it will change the nature of the instrument, affect the money supply, and distort macroeconomic and monetary balance.

[28] Document No.2129/HD-NHCS dated 27 April 2020 providing guidance on lending operations to employers to pay work stoppage wages to employees; (ii) Document No.2363/NHCS-TDNN dated 7 May 2020 on looking up credit information of loans to pay work suspension wages; and (iii) Document No. 2537/NHCS-CNTT dated 15 May 2020 providing guidance on updating results of processing loan applications on the National Public Service Portal.

Report

02

RESILIENCE OF BUSINESSES IN THE CONTEXT OF THE COVID-19 EPIDEMIC AND SOLUTIONS FOR BUSINESS RECOVERY AND DEVELOPMENT

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December, 2020

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ABBREVIATIONS AND ACRONYMS

ASEAN	Association of Southeast Asian Nations
AUD	Australian Dollar
CAD	Canadian Dollar
Covid-19	Corona virus disease 2019
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
ECB	European Central Bank
EU	European Union
EVFTA	European Union - Viet Nam Free Trade Agreement
FDI	Foreign Direct Investment
Fed	Federal Reserve System
Fintech	Financial technology
GDP	Gross Domestic Product
HAWA	Handicraft and Wood Industry Association of Ho Chi Minh City
IDR	Indonesian Rupiah
IMF	International Monetary Fund
ISO	International Organization for Standardization
KRW	South Korean Won
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
RM	Malaysia Ringgit
RMB	Ren Min Bi
SGD	Singapore Dollar
SME	Small and medium-sized enterprise
THB	Thai Baht
UNWTO	World Tourism Organization
USD	United States Dollar
VAT	Value-added tax
VND	Viet Nam Dong
WTO	World Trade Organization

BACKGROUND

1. Background and purpose

In the period 2011-2019, despite facing many difficulties and challenges, Viet Nam attained several important socio-economic achievements. Economic growth recovered and was maintained at quite a high rate compared to other countries in the region, and was expected to remain stable in the years ahead. By the end of 2019, for four consecutive years, Viet Nam's economy continued to grow with solid and healthier macroeconomic indicators. In the early days of 2020, the year was expected to be another successful one in terms of socio-economic development. However, the emergence of COVID 19 fundamentally reversed the major goals, targets and tasks of the government and local authorities at all levels. The global economy and international trade have been hit hard by Covid-19.

The business sector, which is an important part of the economy, is currently suffering severe losses. Enterprises belonging to those industries that were directly affected, such as tourism, aviation, travel logistics, restaurants, hotels, etc., have fallen into unprecedented difficulties. According to a report by the General Statistics Office, the number of newly established enterprises in September 2020 decreased by 12.6% over the same period in 2019; the number of enterprises suspending business operations for a definite time was 38,600, an increase of 81.8% over the same period in 2019 (General Statistics Office, 2020b). In 9 months, 31.8 million Vietnamese people aged 15 and over lost their jobs, had to take leave or had their workload reduced, in which 68.9% had a slight decrease in income; nearly 40% had to reduce their working hours, take time off, or work on alternate days; and about 14% had to take a break from or stop work. At the same time, the unemployment rate in the third quarter was 1.2 million, an increase of 148,200 over the same period. (General Statistics Office, 2020a).

Up to now, the epidemic has been basically controlled. Business activities and social life are gradually returning to normal nationwide. This proves that the methods for prevention and control of Covid-19 have been appropriate to the country's circumstances. In addition to the very good initial results, the current prevention and control measures have created confidence, which has generated solidarity and unity, and has mobilised and brought into play the spiritual and material strength of the whole state and the people to cope with the Covid-19 epidemic. However, the impact of Covid-19 is serious and continues.

As the economic damage associated with Covid-19 has increased steadily, governments around the world have announced unprecedented policy packages to mitigate its potential effects. Domestically, the government has also introduced lots of incentives and financial support packages to reduce the economic impact of Covid-19. For example, packages on extension, exemption and reduction of taxes, fees, charges and land rent; and interest rate reduction policies to support people and businesses. In general, these preferential and financial assistance packages were offered by the government quite promptly. In practice, however, it is very difficult for businesses to meet the requirements to access this assistance. It can be said that the support is basically ineffective, and thus has little meaning. It has not really met the expectations of businesses, very few of which have been able to access the support packages.

The Covid-19 pandemic has seriously affected businesses, leading to a slowdown in Viet Nam's economic growth. The number of enterprises withdrawing from the market or suspending operations is forecast to increase sharply as many firms, especially small and medium enterprises, are unable to maintain their business operations. Domestic firms are facing challenges, such as: (i) difficulty accessing productive resources (e.g., land, finance, skills, information and technology); (ii) plummeting consumption, exports and revenue; (iii) increased costs; (iv) difficulty connecting with global value chains; and (v) a lack of feasible policies to support business recovery and development. Besides, the employment and employee incomes are considered a challenging problem for enterprises in the current context. Tourism and services sectors are most directly and severely affected.

In general, Covid-19 remains complicated and unpredictable, slowing down growth in almost all sectors and fields. International trade disruption has impacted Viet Nam’s production, export and import activities. The travel and aviation industries have been hit hard. Unemployment and underemployment rates are high. The government's support packages are not very effective or feasible.

For the above reasons, in the framework of GIZ's "Macroeconomic Reform/Green Growth Programme", the Central Institute for Economic Management conducted the study ***“Resilience of***

businesses in the context of the Covid-19 epidemic and solutions for business recovery and development".

2. Research objectives

The research is aimed at studying the resilience of Vietnamese enterprises in the unpredictable context of the Covid-19 epidemic; identifying challenges and prospects for production, business and preparation of businesses; and proposing solutions to restore and develop production and business activities. The specific goals are as follows:

- Evaluating the impact of Covid-19 on production and business activities and the effectiveness of government support packages and policies;
- Assessing the resilience level of businesses in a number of sectors and fields affected by the Covid-19 epidemic;
- Identifying challenges and prospects for production and business activities, and the preparation of enterprises in the context of the "new normal" in the Covid-19 period;
- Reviewing international experiences in supporting businesses to overcome crises caused by the Covid-19 epidemic;
- Proposing solutions for business recovery and development.

3. Research methods

This report has been prepared on the basis of a combination of different research methods, detailed as follows:

Desk-study: This method was mainly applied in the literature review part of the study, which was conducted to review relevant legal documents, and synthesise and analyse international experiences.

Field surveys: The research was conducted based on surveys and collaborations with a number of agencies, line ministries, and business associations/businesses in Hanoi.

In-depth interviews: This method was used during the research process to complete the report outline, collect information and suggestions on writing the research report.

4. Structure of the report

The report is structured into three chapters:

Chapter 1. The impact of the Covid-19 epidemic on businesses and the government's policy responses.

Chapter 2. Business resilience in selected industries and areas affected by Covid-19.

Chapter 3. Business recovery and development in the context of the Covid-19 epidemic: Removing barriers and proposing solutions for the business environment.

CHAPTER 1

IMPACT OF THE COVID-19 EPIDEMIC ON BUSINESSES AND THE GOVERNMENT'S POLICY RESPONSES

1.1. Impact of the Covid-19 epidemic on the production and business activities of enterprises

1.1.1. Impact of the Covid-19 epidemic on the economy

The Covid-19 epidemic has reduced GDP growth to 2.91%, which is the lowest rate compared to the same period during 2011-2020 (see **Figure 1**). CPI in 2020 increased by 3.23% over the same period in 2019. Average core inflation in 2020 rose by 2.31% compared to 2019 (General Statistics Office, 2020c).

Despite the lowest growth rate in 2011-2020, Viet Nam was the only country in ASEAN and one of the few in the world to achieve positive growth; a rare bright spot in the world economy in 2020. This has affirmed the correctness in the direction and administration of economic recovery, disease prevention, and the determination and consensus of the entire political system, the government, and the Prime Minister, as well as the efforts of the people and the business community to effectively implement the goal of “both preventing epidemics and developing the socio-economy".

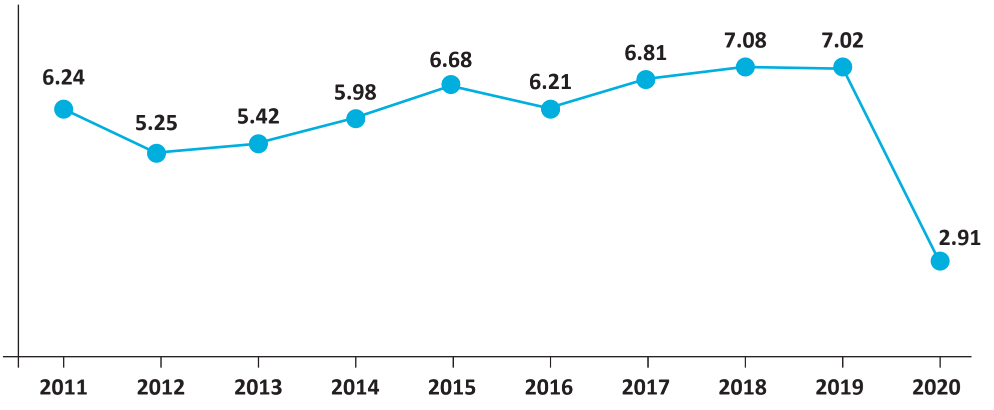

Figure 1: GDP growth rate 2011-2020 (%)

The Covid-19 epidemic has had a great impact on foreign investment inflows into Viet Nam. By 20 December 2020, the total newly registered capital, adjusted registered capital and the value of capital contribution and share purchases by foreign investors reached USD 28.5 billion, 25% lower compared to 2019. Of this figure, there were 2,523 newly licensed projects with registered capital of USD 14.6 billion, a decrease of 35% in number of projects and 12.5% in registered capital compared to the previous year; projects licensed in previous years registered to adjust their investment capital 1,140 times with an additional capital increase of USD 6.4 billion, a rise of 10.6%; and there were 6,141 instances of capital contribution and share purchases by foreign investors with a total capital contribution of USD 7.5 billion, a decline of 51.7%. In the total number of capital contributions and share purchases by foreign investors, there were 1,695 instances of capital contribution and share purchases to increase the equity capital of enterprises with the capital contribution value of USD 3.2 billion; and 4,446 instances where foreign investors bought back domestic shares without increasing the charter capital with a value of USD 4.3 billion. Implemented FDI capital in 2020 was estimated at nearly USD 20 billion, a reduction of 2% from the previous year (General Statistics Office, 2020c).

Given the difficult situation caused by the pandemic, these are still remarkable results, demonstrating the interest of foreign investors in the Vietnamese market.

The total state budget revenue from the beginning of the year to 15 December 2020 was estimated at VND 1,307.4 trillion, equal to 86.5% of the yearly estimate, of which domestic revenue reached VND 1,101.6 trillion, equal to 87.1%; revenue from crude oil was VND 32.7 trillion, equal to 92.9%; and the balance of budget revenue collection from import and export activities was VND 172.3 trillion, equal to 82.8%. Total state budget expenditures by 15 December 2020 were estimated at VND 1,432.5 trillion, equal to 82% of the yearly estimate, of which recurrent expenditure was VND 966.7 trillion, equal to 91, 5%; expenditure for development investment was VND 356 trillion, equal to 75.7%; and interest payments were VND 98.8 trillion, equal to 83.6% (General Statistics Office, 2020c).

The import and export of goods continued to maintain positive growth. Total import and export turnover in 2020 was estimated at VND 543.9 billion, an increase of 5.1% over the previous year, of which exports reached USD 281.5 billion, a rise of 6.5%; commodity imports were USD 262.4

billion, an increase of 3.6%. In 2020, the trade balance was estimated to be a surplus of USD 19.1 billion, the highest level in 5 consecutive years of surpluses since 2016 (General Statistics Office, 2020c).

1.1.2. The impact of Covid-19 on business performancey

a) Market entries and withdrawals

In 2020, the whole country has 134,900 newly registered enterprises with a total registered capital of more than VND 2,235.6 trillion and a total number of 1,043,000 registered employees, a decrease of 2.3% in terms of market entries, a rise of 29.2% in registered capital and a 16.9% drop in labour over the previous year. The average registered capital of a newly established enterprise in 2020 is VND 16.6 billion, 32.3% higher over the previous year. If including VND 3,341.9 trillion of additionally registered capital of 39,500 enterprises registered to increase capital, the total registered capital added to the economy in 2020 is nearly VND 5,577.6 trillion, 39.3% higher than the previous year. In 2020, 101,700 thousand enterprises suspended their business operations for a definite period, stopped operating, were waiting for dissolution procedures or completed dissolution procedures, 13.9% higher than the previous year and including: 46,600 enterprises temporarily suspending operations, an increase of 62.2%; nearly 37,700 enterprises stopped working and were waiting for dissolution procedures, a decrease of 13.8%; and nearly 17,500 enterprises completed dissolution procedures, a rise of 3.7%. On average, nearly 8,500 enterprises withdrew from the market each month. In particular, accommodation and catering services, employment services, tourism, arts, entertainment, education and training, and real estate saw a sharp reduction in the number of newly registered enterprises. These are the sectors considered to be the most severely affected by the Covid-19 epidemic (see **Table 1** and **Table 2**).

Table 1: Newly registered enterprises in 2020 by economic sector

	Number of newly registered enterprises	Newly registered capital (billion VND)	Newly registered employees
Agriculture, forestry and fisheries	2,640	39,627	24,158
Industry and construction	40,277	550,971	533,024
Services	92,023	1,645,027	485,803

Sources: General Statistics Office (2020c)

By October 2020, those areas with the highest rate of businesses suspending their operations in comparison with the same period in 2019 included: wholesale and retail, car and motorbike repairs (15,543 enterprises, an increase of 52.5%); construction (5,740 businesses, an increase of 52%); accommodation and catering services (2,612 businesses, an increase of 86.2%); science and technology, design consulting services, advertising and other professional services (2,597 businesses, an increase of 62.8%); employment services, travel, machinery rental, equipment and other support services (2,532 enterprises, an increase of 85.4%); real estate businesses (1,195 enterprises, an increase of 118.1%); education and training (811 businesses, an increase of 94.5%); other service activities (554 businesses, an increase of 78.7%); and arts, entertainment and recreation (320 businesses, an increase of 75.8%) (Business Registration Management Agency, 2020). For the whole of 2020, those enterprises which completed dissolution procedures focused mainly on the following fields: wholesale, retail, car and motorcycle repairs (6,600 enterprises); processing and manufacturing industries (1,945 enterprises); construction (1,527 enterprises); science, technology, design consulting services, advertising and other professional services (1,084 enterprises); real estate businesses (978 enterprises); accommodation and catering services (987 enterprises); employment services, tourism, machinery and equipment rental, equipment, and other support services (945 enterprises); transportation and storage (698 enterprises); education and training (636 enterprises); and information and communications (581 enterprises) (General Statistics Office, 2020c).

Table 2: Enterprises resuming operations, temporarily suspending operations, and completing closure procedures in 2019 and 2020

	Enterprises resuming operations		Enterprises temporarily suspending operations		Enterprises completing closure procedures	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**
Agriculture, forestry and fisheries	714	777	403	580	364	336
Industry and construction	11,429	12,629	8,189	12,741	3,722	3,832
Services	27,278	30,690	20,139	33,271	12,754	13,296

Sources: General Statistics Office (2020c)

b) Magnitude and sectoral effects of the Covid-19 epidemic

Businesses suffered a very difficult year due to the impact of the Covid-19 epidemic. They faced difficulties from the lack of raw materials and shrunken markets. Production and business activities could not take place normally, leading to great financial hurdles.

The survey results of more than 126,000 enterprises in April 2020 showed that the Covid-19 epidemic had a negative impact on 85.7% of businesses of various sizes and aspects. The group of larger firms were affected most by the Covid-19 outbreak. The group of large companies had the highest proportion of affected enterprises at 92.8%; the rate for medium-sized enterprises was 91.1%; small businesses 89.7%; and micro enterprises 82.1% (General Statistics Office, 2020d).

Economic sectors with a high rate of businesses negatively affected by Covid-19 are aviation (100%); accommodation (97.1%); food and beverages (95.5%); travel agencies (95.7%); education and training (93.9%); and textiles, garment, leather, leather products, electronic products, and car production, all over 90%. The industry, construction and services sectors are those most affected by Covid-19 (**Figure 2**); while agriculture, forestry and fisheries have been less affected. Revenue in the first quarter of 2020 for the entire business sector fell sharply to 74.1% over the same period in 2019 and was forecast to continue to decline if the epidemic is prolonged and not controlled globally.

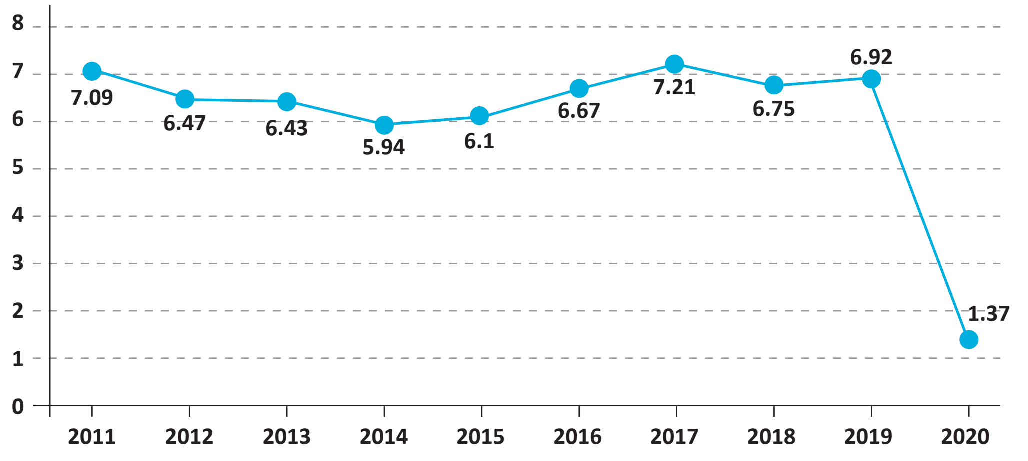

Figure 2: Growth rate of the service sector's added value in the first 9 months of 2020 compared with the same period during 2011-2019 (%)

For those industries dependent on imported materials, the proportion of enterprises that are short of material is also worth considering: garment 70.3%, leather and footwear 71.0%, electronics 62.1%, and automobile manufacturing 58.1%. On the other hand, nearly 58% of businesses faced a sharp decline in consumption and exports. Some key industries faced serious difficulties as they rely mainly on export markets. The rates of enterprises unable to export were 65% for footwear, 65.5% for garment, and over 45% for electronics and automobile manufacturing.

A survey by the Private Economic Development Research Board (2020) in early September 2020 on the impact of Covid-19 on production and business activities also showed enterprises' difficulties. Specifically, 76% of businesses could not balance their revenues and expenditures; 20% suspended operations; 2% dissolved; and only 2% were temporarily unaffected.

In this situation, businesses had to quickly adapt and develop solutions, such as taking advantage and increasing sales in the domestic market, changing prices, promoting e-commerce, etc. (General Statistics Office, 2020e). However, there were still many difficulties due to the complicated development of Covid-19 and the markets for products were also increasingly narrowed due to decreasing purchasing power and the fact that enterprises had not brought into full play the supporting measures from the State.

1.1.3. Impact of the Covid-19 epidemic on employment and incomes

a) Reducing jobs, increasing unemployment

The Covid-19 epidemic has badly affected labour and employment in the world and in Viet Nam. According to estimates, after 10 months, only 1,061,000 million new jobs were created in the whole country, reaching only 65.9% of the annual plan and equal to 78.3% over the same period in 2019. Of this figure, 1,051,000 domestic jobs were created, reaching 68.6% of the plan and equal to 82% for the same period in 2019; and 46,000 people were sent abroad to work, equal to 39.2% for the same period in 2019.

According to a survey by the General Statistics Office, by September 2020, one third of businesses had to take measures to reduce employment, and this number would increase by the end of 2020. Among sectors, the highest number of job cuts were in air transport, and tourism and accommodation enterprises, at 30.4% and 29.9%, respectively (General Statistics Office, 2020a).

By September 2020, the Covid-19 epidemic had had a negative impact on 31.8 million people aged 15 and over, of which 68.9% had reduced incomes (with slight decreases); nearly 40% had to reduce their working hours, were temporarily laid off or had to work on a rotating basis (for example, one day on/one day off); and about 14% had to take a break or stop work. The services sector continued to be hardest hit by the Covid-19 epidemic with nearly 69% of workers affected.

The labour force aged 15 and over had reached 54.4 million people, a decrease of 1.2 million from the same period in 2019. Based on the projected growth of the annual workforce, it can be said that the Covid-19 epidemic may have deprived 1.8 million people from entering the labour market. The labour force in the third quarter of 2020 has shown positive signs (increasing again after a record decline in the second quarter of 2020) but is still 1.1 million people lower than in the same period in 2019.

Employed workers aged 15 and over in the first 9 months of 2020 reached 53.1 million people, a decrease of 1.3 million over the same period in 2019. Employees working in most industries have been affected, notably: arts and entertainment (88.6%); accommodation and catering services (81.7%); transportation and storage (79.7%); administrative activities and support services (72.7%); processing and manufacturing (70.1%); wholesale and retail, car and motorbike repairs (68.5%); education and training (68.5%); and real estate (67.8%). The number of employed workers increased compared to the previous quarter, mainly in the informal sector. The growth rate for informal labour is higher than that for formal labour, suggesting that the current labour market recovery is unsustainable.

By the end of QIII/2020, the unemployment rate was 2.48%, 0.31 percentage points higher than the same period in 2019. Nearly half believed that the current situation was affected by the Covid-19 epidemic. The number of underemployed workers in all three economic sectors increased significantly due to the impact of Covid-19 (General Statistics Office, 2020a).

Box 1. The unemployment situation in Ho Chi Minh City

In Ho Chi Minh City, hundreds of people in occupations such as tour guides, accountants, etc., lined up at the Employment Service Centre to apply for unemployment benefits due to Covid-19.

In June, the Employment Service Centre received more than 23,500 applications for unemployment benefits. According to Mr. Le Minh Phung, Head of the Unemployment Insurance Department, in 10 years implementing unemployment insurance from 2010, 2020 was the year when the centre received the highest number of applications for unemployment benefits.

According to Ms. Tran Minh Bao Tran (District 10), she had never been unemployed before, but after the epidemic the company said she was unable to renew her contract, leaving her no income to pay rent. She had been looking for work from May to July, but companies were facing difficulties, so they were not recruiting workers. Shortly thereafter, a second outbreak of Covid-19 occurred, making the situation even more difficult.

According to Mr. Tran Dao Anh Tuan (Phu Nhuan district), a worker in the field of food and tourism, there were mostly foreign visitors at his workplace. With no foreign visitors since March, the owner was forced to close the hotel. He has had to borrow from relatives and family to cover his expenses.

According to the District 1 Social Insurance Agency, by the end of September 2020, it had made payments to support 2,152 businesses and 54,164 employees; specifically, 611 enterprises and 21,400 employees were subject to benefits according to Resolution No. 42/NQ-CP of the Government; and 1,942 enterprises and 32,392 employees were subject to benefits according to the City's Resolution No. 02/2020/NQ-HDND.

Source: Tuan Viet and Thanh Huyen (2020)

b) Squandering of the labour force

By the end of the third quarter of 2020, the rate of workers not working to their full potential was 5.2%, an increase of 1.3 percentage points over the same period in 2019, corresponding to an increase of more than 700,000 people. This rate increased with the appearance of the Covid-19 epidemic in January 2020.

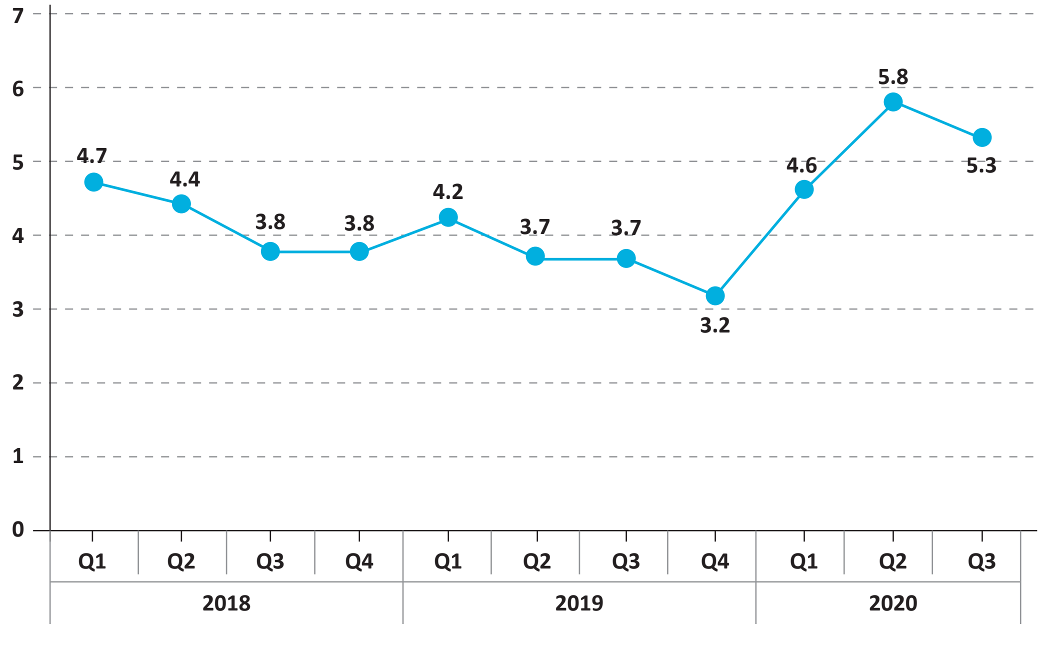

Figure 3: Underperforming labour rate from 2018 to QIII/2020 (%)

Source: General Statistics Office (2020a)

A significant portion of the untapped labour force belongs to the group of young workers. In the context of the Covid-19 epidemic, this labour group is even more under-used.

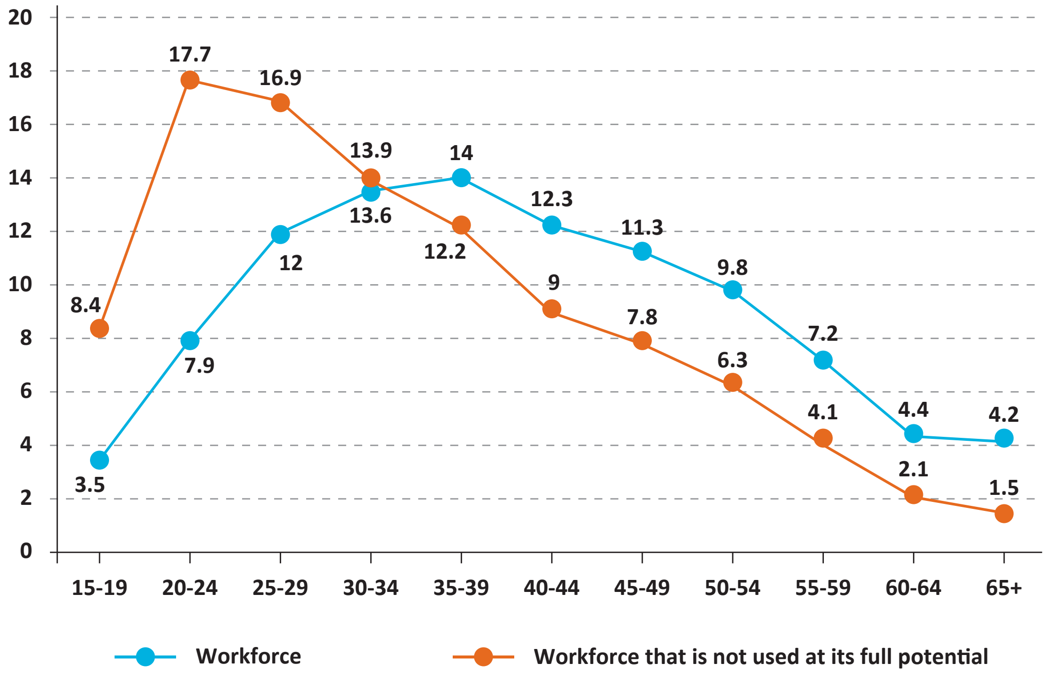

Figure 4: Age structure of the labour force and those who did not work to their full potential by September 2020 (%)

Sources: General Statistics Office (2020a)

c) Reduction of employee incomes

According to a survey by the General Statistics Office (2020a), average incomes decreased by 1.5% over the same period in 2019 (equivalent to a decrease of VND 83,000). The incomes of workers in most industries decreased in which the largest declines were in administrative activities and support services (-6.5%), accommodation and food (-5.9%), and transportation and storage (-4.9%). The survey results also showed that 7.8% of employees received a salary reduction, 5.0% rescheduled or took turns taking time off, and 2.4% temporarily stopped working. The proportion of employees with wage reductions in air transport enterprises was the highest (99.5%), followed by tourism (43.2%), and accommodation services (27.8%).

According to an online survey by market research firm IPSOS, the Covid-19 epidemic has affected the incomes of 90% of Vietnamese workers. Half experienced a decrease in income of at least 20%, mainly in the group of unskilled workers. Reduced incomes caused a significant change in the daily habits of Vietnamese people. Specifically, 17% of low-income households had to tighten their spending, especially on travelling, food, clothes and electronic products (Phuong Dong, 2020).

1.2. Overview of the government's support packages for businesses affected by the Covid-19 epidemic and their effectiveness

1.2.1. Reviewing government policies to support businesses in the context of the Covid-19 epidemic

Immediately after the outbreak of Covid-19 in Viet Nam, with the purpose of implementing the "dual goal" of both effectively fighting epidemics and ensuring production, business activities and economic recovery, authorities at all levels quickly issued solutions to support businesses and ensure social security could cope with the Covid-19 epidemic.

As early as March 2020, the government and line ministries issued policies to support businesses by reducing interest rates on bank loans, rescheduling debt repayment terms, suspending contributions to pension and death funds, postponing payment of trade union fees, and reducing electricity bills, etc. Many meaningful policies were quickly deployed, supporting businesses severely affected by the Covid-19 epidemic. Some notable early policies include:

- Official Letter No. 897/TCT-QLN dated 03/3/2020 of the General Department of Taxation on extension of tax payment and exemption of late payment interest due to the impact of the Covid-19 epidemic.

- Directive No. 11/CT-TTg dated 4/3/2020 of the Prime Minister on urgent tasks and solutions to remove difficulties for production and business, ensuring social security, and coping with the Covid-19 epidemic.

- Directive No. 06/CT-BCT dated 11/3/2020 of the Ministry of Industry and Trade on continuing to focus on implementing solutions to prevent epidemics and remove difficulties for production and business of the industrial and trading sectors before the next evolution of the Covid-19 epidemic.

- Circular No. 01/2020/TT-NHNN dated 13/3/2020 of the State Bank providing for credit institutions and foreign bank branches to restructure repayment terms, exemption and reduction of interest, fees, and maintaining the same debt group for those clients affected by the corona virus (Covid-19).

- Official Letter No. 860/BHXH-BT dated 17/3/2020 of Viet Nam Social Insurance on suspension of payments to pension funds and survivorship allowance funds for subjects affected by the Covid-19 epidemic.

- Official Letter No. 245/TLĐ dated 18/3/2020 of the Viet Nam General Confederation of Labour on delaying payment of trade union fees for enterprises affected by the Covid-19 epidemic.

- Circular No. 14/2020/TT-BTC dated 18/3/2020 of the Ministry of Finance amending and supplementing a number of articles of the Minister's Circular No. 127/2018/TT-BTC dated 27/12/2018 of the Minister of Finance regulating service prices in the field of securities applied at the Stock Exchange and the Viet Nam Securities Depository to assist related organisations and individuals affected by the Covid-19 epidemic.

- Decree No. 41/2020/ND-CP dated 8/4/2020 of the Government on extension of time limits for tax payment and land rental fees.

- Resolution No. 42/NQ-CP dated 9/4/2020 of the Government on measures to support people facing difficulties caused by the Covid-19 pandemic.

- Official Letter No. 2698/BCT-DTĐL dated 16/4/2020 of the Ministry of Industry and Trade on reducing electricity prices and electricity bills for customers affected by Covid-19.

The government and line ministries continued to implement further policies to promote and support businesses, such as shifting from extending and postponing payments to reduction and exemption; and the continued lowering of interbank interest rates, etc. Specific policies can be summarised as follows:

Table 3: Policies to support businesses in the context of Covid-19

No	Solutions	Specific documents
1	General orientation and solutions	- Directive No. 11/CT-TTg dated 04/3/2020 on tasks and urgent solutions to remove difficulties for production and business activities, and to ensure social security is able to cope with the Covid-19 epidemic. - Resolution No. 42/NQ-CP dated 9/4/2020 on measures to support people facing difficulties caused by the Covid-19 pandemic. - Resolution No. 154/NQ-CP dated 19/10/2020 amending and supplementing Resolution No. 42/NQ-CP. - Decision No. 15/2020/QD-TTg dated 24/4/2020 regulating the implementation of policies to support people facing difficulties due to the Covid-19 pandemic. - Decision No. 32/2020/QD-TTg dated 19/10/2020 amending and supplementing a number of articles of Decision No. 15/2020/QD-TTg. - Official Letter No. 2129/HD-NHCS dated 27/4/2020, providing operational guidance on lending for employers to pay working-stoppage wages to employees. - Resolution No. 84/NQ-CP dated 29/5/2020 on tasks and solutions to further remove difficulties for production and business activities, promote disbursement of public investment capital and ensure social order and safety in the context of the Covid-19 pandemic.
2	Solutions on credit and monetary supply	- Circular No. 01/2020/TT-NHNN dated 13/3/2020, regulating credit institutions and foreign bank branches to restructure repayment terms, exemptions, reduction of interest and fees, keeping the debt group unchanged to assist clients affected by acute respiratory infections caused by the corona virus (Covid-19). - Circular No. 04/2020/TT-NHNN dated 31/3/2020 amending and supplementing a number of articles of Circular No. 26/2013/TT-NHNN dated 5/12/2013 of the State Bank of Viet Nam on the issuance of a fee schedule for payment services via the State Bank of Viet Nam: 50% reduction of the fee for interbank payment transactions via the Interbank Electronic Payment System, applicable from 1 April to 31 December 2020. - Directive No. 02/CT-NHNN dated 31/3/2020 on urgent solutions for the banking sector to strengthen prevention and overcome difficulties caused by the Covid-19 epidemic. - The State Bank reduces interest rates for some types of deposits of credit institutions at the State Bank for the second time in accordance with Decision No. 1349/QD-NHNN, 1350/QD-NHNN, 1351/QD-NHNN dated 06/8/2020.
3	Solutions on taxation	- Official Letter No. 897/TCT-QLN dated 03/3/2020 on extension of tax payments and the exemption of late payment interest due to the impact of the Covid-19 epidemic. - Decree No. 41/2020/ND-CP dated 8/4/2020, extending the deadline for paying taxes and land rental fees; Official Letter No. 5977/BTC-TCT dated 20/5/2020 on the implementation of Decree No. 41/2020/ND-CP; Official Letter No. 2058/TCT-CS dated 19/5/2020 on the economic sectors subject to extension of tax payment and land rental fees.

Table 3: Policies to support businesses in the context of Covid-19 *(continued)*

No	Solutions	Specific documents
		- Resolution No. 954/2020/UBTVQH14 dated 2/6/2020 on the adjustment of the family deduction rate of personal income tax: adjusted deduction rate for taxpayers is VND 11 million/month (VND 132 million/year), for each dependent it is VND 4.4 million/month. - Resolution No. 116/2020/QH14 dated 19/6/2020 on reduction of corporate income tax payable by 2020 for enterprises, cooperatives, non-business units and other organisations: 30% reduction of tax revenue for 2020 if the enterprise has a total revenue in 2020 not exceeding VND 200 billion. - Decree No. 70/2020/ND-CP dated 28/6/2020, regulating the registration fee rate for domestically manufactured and assembled cars through 31 December 2020: pre-tax rate registration is equal to 50% of the rate prescribed in Decree No. 20/2019/ND-CP. - Resolution No. 979/2020/UBTVQH14 dated 27/7/2020 amending and supplementing Subsection 2, Item I of the Environmental Protection Tariff specified in Item 1, Article 1 of Resolution No. 579/2018/UBTVQH14 of 26/9/2018 of the National Assembly Standing Committee on the Environmental Protection Tariff: reduction of environmental protection tax on aircraft fuel from the current VND 3,000/litre to VND 2,100/litre, applicable from 1 August to 31 December 2020. - Decision No. 22/2020/QD-TTg dated 10/8/2020 on reduction of land rental fees by 2020 for those affected by the Covid-19 epidemic according to Resolution 84/NQ-CP dated 29/5/2020 of the Government: businesses, households and individuals that are forced to stop production and business for 15 days or more because of the Covid-19 epidemic and those renting state land will receive a 15% discount on the rental rate until the end of the year. The land rental reduction will not be made on outstanding rent of the years prior to 2020 or late payment (if any).
4	Solutions related to payments of pension funds and trade union fees	- Official Letter No. 797/LĐTBXH-BHXH dated 9/3/2020 on guiding the suspension of payments to the pension and survivorship funds for enterprises facing difficulties due to Covid-19; Official Letter No. 1511/LĐTBXH-BHXH dated 4/5/2020 on guiding the suspension of payments to the pension and survivorship funds. - Official Letter No. 860/BHXH-BT dated 17/3/2020 on suspension of payments to the pension and survivorship funds for the those affected by the Covid-19 epidemic; Official Letter No. 1391/BHXH-BT dated 6/5/2020 on the implementation of some content of the Government's Resolution No. 42/NQ-CP and the Prime Minister's Decision No. 15/2020/QD-TTg. - Official Letter No. 2533/BHXH-BT dated 10/08/2020 on continuing to suspend payments to the pension and survivorship funds. - Official Letter No. 245/TLĐ dated 18/3/2020 on delaying payment of trade union fees for enterprises affected by the Covid-19 epidemic.
5	Solutions related to sectors of trade and industry	- Directive No. 06/CT-BCT dated 11/3/2020 on continuing to focus on implementing solutions to prevent and fight against epidemics and solving difficulties for production and business activities in the industry and trade sectors in the face of new developments of the Covid-19 epidemic.

Table 3: Policies to support businesses in the context of Covid-19 *(continued)*

No	Solutions	Specific documents
		- Official Letter No. 2698/BCT-DTĐL dated 16/4/2020 on reduction of electricity prices and electricity bills for customers affected by the Covid-19 epidemic.
6	Other solutions	- As of early July 2020, the Ministry of Finance issued 19 circulars reducing fees and charges in the fields of justice, labour safety, work permits, passports, etc. (Ministry of Justice, 2020). - Circular No. 14/2020/TT-BTC dated 18/3/2020 amending and supplementing a number of articles of Circular No. 127/2018/TT-BTC dated 27/12/2018 of the Minister of Finance stipulating securities service prices applied at the Stock Exchange and the Viet Nam Securities Depository to assist related organisations and individuals affected by the Covid-19 epidemic. - Circular No. 74/2020/TT-BTC dated 10/8/2020 regulating the rates for road use fees: cars used for passenger transport pay 70% of the prescribed rates; trucks, special-use cars and tractors pay 90% of the prescribed rates. In cases where the old fees have been paid during the effective period of the Circular, the difference will be offset against the payable fee amount in the next cycle. - Airports Corporation of Viet Nam (ACV) exempted or reduced prices of 7 types of aviation services for all airlines from 1 March 2020 to the end of August 2020, including: ship navigation services, 50% flight reduction; pipe ladder service, rental of conveyor belts, automatic luggage handling, rental counters, ground service, 10% discount; rental of airline representative offices, airlines that stop flying will be exempted 100%, while airlines still maintaining flights will have rents reduced at the maximum rate of 30% according to state regulations. - The Ministry of Transport instructed the Department of Transport to temporarily abstain from fining passenger transporters that do not guarantee the number of trips operating per route (at least 70% of the trips according to the driving chart) during the period of the Covid-19 epidemic (Official Letter No. 2409/BGTVT-VT dated 18/3/2020). - Decree No. 122/2020/ND-CP dated 15/10/2020 regulating the coordination and continuity of procedures for enterprise registration, branches, representative offices, labour-use reporting, issuance of the number of units participating in social insurance, registering to use invoices, etc.; streamlining and reduction of unnecessary procedures in business establishment.

1.2.2. Evaluating the effectiveness of supporting policies

The government's supporting policies have had certain positive effects, partly improving the difficult situation for people and businesses. For the implementation of Resolution No. 42/NQ-CP, by the end of July 2020, provinces had approved support for nearly 16 million people with a total budget of over VND 17,500 billion. The Central State Treasury disbursed funds to nearly 12 million people and business households with a total budget of VND 12,000 billion. Among them, the main beneficiaries are individuals, while only 13,000 business households had access (Duc Binh, 2020).

For the banking and credit sectors, many practical solutions have also been issued, directly supporting businesses to reduce interest expenses and payables in production and business activities. Specifically, during the Covid-19 period, the State Bank repeatedly adjusted interest rates to stabilise and reduce lending rates, support businesses and people to overcome difficulties and recover production. From September 2019 to the end of June 2020, the State Bank reduced the operating interest rate 3 times with a decrease of 1.75%/year, and at the same time decreased the rate by 0.8-1.25%/year to deposit upper interest rates, and by 1.5%/year on the lending upper interest rate for prioritised sectors. Thus, compared to other countries in the region, in the same period, Viet Nam's interest rate reduction was the largest (Philippines: 1.25%, Thailand: 0.5%, Malaysia: 0.5%, Indonesia: 0.5%, India: 0.75%, and China: 0.3%). The lending rate for those priority sectors is currently below 5.0%/year. In addition, the State Bank also instructed the Viet Nam National Payment Joint Stock Company (NAPAS) and credit institutions to reduce and waive payment transactions, thereby reducing costs for businesses (Ministry of Planning and Investment, 2020).

However, the supporting policies still have limitations and have not yet supported the majority of businesses as expected. Many policies have very difficult conditions, meaning that very few or even zero enterprises are able to access them (for example, policies to support businesses to borrow loans to pay employee salaries, policies on land rent reduction, etc.). The order and procedures that businesses need to follow in order to receive support are still relatively complicated and unsuitable in the context of an epidemic outbreak.

For example, as the conditions of the support package to pay employees are difficult to meet, it was not disbursed to any businesses. By October, acknowledging the recommendations of the business community and associations, the government revised the regulations, reducing requirements to facilitate access to this preferential loan package.

Furthermore, the situation in Ho Chi Minh City shows that workers were more likely to resign and receive unemployment benefits than apply for assistance packages because it was more beneficial, making it difficult for businesses to retain employees.

The results of the preliminary survey of over 153,000 enterprises also reflect these shortcomings. Specifically, only 17.9% of businesses received a support package, meaning that up to 82.1% of businesses were not entitled to any policy. The main reasons include failing to satisfy the conditions and criteria for the support package (about 50% of enterprises); difficult processes and procedures (about 21% of businesses); and no information, no knowledge of policies (about 25% of enterprises), etc. (General Statistics Office, 2020e).

1.3. Conclusions

In general, with the drastic, flexible and timely management and direction of the government and authorities at all levels and in all sectors, many solutions to support businesses have been issued promptly. Some solutions have practical implications, helping businesses cut costs, such as policies reducing land tax, corporate income tax, and other fees, etc.

However, the survey shows that in practice it was quite difficult for businesses to access the support packages. This makes their effectiveness in general still formalistic; they have not been implemented as intended and are not effective in practice. Some emerging issues are as follows:

- Regulations and conditions are not reasonable, making it difficult for businesses to access the support packages. For example, in the banking sector, it is difficult to meet the conditions to receive a loan to pay salaries for employees with the regulation that "enterprises do not have bad debts". They should receive loans without conditions, so they receive immediate support. The revenue regulations are also very difficult to meet; for example, the requirements that there must be absolutely no revenue for one month (while social distancing only lasted 23 days, so businesses could not provide proof); and the revenue must be reduced by 50% (but as the businesses still met pre-outbreak orders, revenues did not drop to this level), etc.

- In order to access the supporting packages, enterprises must explain themselves and prove their losses (how much revenue, labour, etc.). This is not necessary as the Covid-19 epidemic affects virtually all businesses, no matter how large or small. The complicated process of providing evidence sometimes makes the costs even greater than the amount of support on offer. For example, the requirement of recording images as proof of epidemic effects was not appropriate as the time had passed; it was impossible to prove effects. Therefore, to prove that the conditions were met, enterprises must also devote resources, which is not appropriate in the context of social distancing and when businesses' resources have been significantly reduced. In many countries, businesses do not need to explain, but instead the government will use the business database according to actual performance, industry group classification, financial reporting results, etc., to automate the application of necessary and appropriate support options.

- Many policies have been issued in government resolutions but there were often no specific instructions for implementation. Therefore, when enterprises applied, local enforcement agencies were confused and had difficulties implementing the packages. Local authorities had to wait for guidance from ministries and central agencies, which slowed down disbursement. This delay sometimes meant that businesses only received support at the end of the difficult period. Therefore, businesses' attitudes to the support packages were negative, which meant they were unwilling to seek further support.

- The implementation time and duration of a number of policies is not appropriate, leading to minimal impact. For example, in Quang Ninh, the waste collection fee of an accommodation business is nearly VND 70 million/year, but local authorities only waived 1 month even though the company had no activity in that month. Electricity prices dropped in April-June at the time when hotels did not have guests. Meanwhile, the business still has to bear the business electricity price (more than VND 3,000/Kw). Although there were no customers, they still had to pay a certain amount (for basic operations).

- The government's support package of VND 62,000 billion was difficult to access if businesses had funds from the previous year that were used to support employees. It was very difficult to mobilise employees to stop paying social insurance premiums when the company still paid if employees wanted them to, so it was not possible to meet the labour reduction criteria.

- The support package reducing corporate income tax by 30% in 2020 was not very meaningful because businesses were not certain to make profits.

Support packages should have time frames and roadmaps suitable to the resilience of businesses. For example, for businesses in heavily affected sectors such as tourism, accommodation, etc., support packages may need to be longer than a few months because they might only return to normal operations in 2021. In addition, firms can be categorised as those less affected (e.g., food processing and manufacturing) or heavily affected (e.g., tourism, accommodation, and transportation) to appropriately apply support in terms of delays or exemptions of taxes and fees.

The support packages should aim for a longer term vision to create a good foundation for businesses to develop and improve their competitiveness. Currently, the financial support packages are mainly temporary, which can help businesses through times of crisis. However, solutions to reform legal regulations and simplify administrative procedures to create a fair, safe, low-cost business environment will provide the necessary drive for sustainable growth.

CHAPTER 2

RESILIENCE OF BUSINESSES IN CERTAIN INDUSTRIES AFFECTED BY COVID-19

2.1. Evaluating the resilience of businesses in certain industries

The Covid-19 epidemic had a huge impact on many industries, most notably services, tourism, transportation, and non-essential goods production.

2.1.1. Tourism

The report of the Viet Nam National Administration of Tourism showed that immediately after achieving record growth in January 2020, the industry fell into crisis due to Covid-19. In 2020, it is expected that the number of international visitors to Viet Nam will only reach 3.7 million, which means a decrease of over 80% compared to 2019. The number of domestic tourists also decreased by 50% compared to 2020 despite many stimulus programmes and discounts. Without doubt, tourism was the most severely affected sector as the number of both international and domestic tourists was limited due to fears of the spread of Covid-19 (see **Table 4**).

Table 4: The number of foreign visitors to Viet Nam in October 2020 and in the first 10 months of 2020

Unit: visitor

	September 2020 (actual)	October 2020 (estimated)	The first 10 months of 2020 (estimated)	October 2020 year-on-year (%)	The first 10 months of 2020 year-on-year (%)
	13,769	**14,819**	**3,803,305**	**0.9**	**26.2**
By means of transport					
Airline	7,171	7,828	3,064,767	0.6	26.6
Waterway	83	55	144,603	0.2	67.8
Road	6,515	6,936	593,935	2.5	21.5
By nationality					
Asia	**12,516**	**13,103**	**2,783,299**	**1.0**	**24.2**
China	5,096	6,072	943,903	1.0	20.6
Korea	3,104	2,742	833,155	0.8	23.8
Japan	816	678	203,673	0.9	25.9
America	**341**	**426**	**235,597**	**0.6**	**29.2**
United States	225	303	173,516	0.6	27.9
Canada	50	40	42,059	0.4	32.5
Other countries and territories	66	83	20,022	1.4	35.9
Europe	**732**	**1,149**	**669,484**	**0.8**	**38.0**
Russia	43	44	245,997	0.1	47.3
The United Kingdom	96	140	82,089	0.6	31.3
France	146	148	74,963	0.8	31.9
Oceania	**104**	**73**	**102,624**	**0.2**	**27.9**
Australia	80	61	92,574	0.2	28.4
New Zealand	22	12	9,560	0.3	23.4
Other countries and territories	2		490	0.0	43.5
Africa	**76**	**68**	**12,301**	**1.5**	**31.7**

Source: General Statistics Office

Compared to the same period in 2019, in the first 10 months of 2020, foreign visitors to Viet Nam decreased by 73.8% and domestic tourists decreased by 41%. The decrease in the number of visitors led to a sharp fall in the revenues of accommodation services and restaurants. According to preliminary statistics of the Viet Nam National Administration of Tourism, since the second wave of Covid-19, millions of tourists have delayed or cancelled their trips. Major destinations have been through a difficult period; for example, Hanoi has seen about 32,000 guests cancel domestic tours and Ho Chi Minh City has over 35,000 tours and relevant services (hotels, airline tickets, attractions, etc.) that have been cancelled. In September, most hotel and homestay businesses confirmed a cancellation rate of more than 90%, while tour operators said more than 80% of guests had cancelled tours and requested 100% refunds.

In addition to the decline in the number of domestic and foreign tourists, in the context that Viet Nam has stopped air transportation (temporarily reopening some routes since 15 September 2020) and suspended immigration, the impact and damage to tourism was much greater. According to a survey by the Viet Nam Private Economic Development Research Board (under the Prime Minister's Advisory Council for Administrative Procedure Reform), if the Covid-19 pandemic lasts 6 months, 74% of tourism businesses will go bankrupt. Viet Nam's tourism sector lost about USD 23 billion in 2020 due to the impact of the epidemic (Ngoc Ha, 2020). According to the latest data from the World Tourism Organization (UNWTO), the number of international tourists fell by 65% in the first 6 months of 2020. The tourism sector lost 440 million international visitors and about USD 460 billion in revenue.

The above estimate of damage is mainly based on forecasts of customer losses multiplied by average spending, excluding damage from the "exhaustion" of operating firms in tourism, such as travel businesses and companies investing in tourism infrastructure (accommodation services like resorts, hotels, restaurants, entertainment venues, etc.), which were the most affected services. Moreover, tourism has a multi-sector impact, so if it develops strongly, it leads to other industries' development and vice versa. Therefore, it is not possible to calculate all the damage caused by the drop in tourism, and the real loss will certainly exceed the Viet Nam National Administration of Tourism's estimate.

In addition to the epidemic being a primary cause, an internal cause is that the structure of Viet Nam's tourism market depends heavily on a few markets, as follows:

- Regarding international visitors, Vietnamese tourism depends too heavily on Northeast Asian markets (China, Japan, Korea, Taiwan) which accounted for 67% of the total number of international visitors to Viet Nam in 2019. Specifically, in 5 years (2015-2019), the number of Chinese and Korean visitors to Viet Nam increased 3-4 times, from 34-40% on average. These two markets alone accounted for more than 10 million tourists out of a total of 18 million international visitors last year. Meanwhile, high spending markets still accounted for a modest share, such as Europe (12%), America (5.4%) and Australia (2.4%) (Ngoc Ha, 2020). An over-reliance on certain markets leads to heavy losses of markets and revenues in the event of incidents such as the Covid-19 epidemic.

According to the Viet Nam National Administration of Tourism, the proportion of international visitors with high expenditure and long stays is still low. Therefore, in many tourist segments, the number of tourists is high, but the value is not. The average length of stay of international tourists in Viet Nam in 2019 was 8.1 days and the average expenditure per guest USD 1,074. Meanwhile, in Thailand, international tourists stay 9 days and spend USD 1,565 USD/trip. This is also the reason that the total number of international visitors to Viet Nam in the period 2015-2019 increased by an average of 22.7%/year, but total revenue increased by only 20.9%/year.

- Regarding domestic tourists, the potential of this market was recognised thanks to a period of growth in 2019 – a year without Covid-19.

However, while domestic tourists account for 82% of the market structure, 4.7 times higher than the number of international visitors, its proportion of revenue is only 44.3%. Therefore, tourism needs to increase the proportion of expenditure on shopping, entertainment, and other off-tour services for both international and domestic customers.

Undoubtedly, the impact of the Covid-19 epidemic on tourism services (including tourism businesses, hotels, etc.) has surpassed tourism businesses' resilience. In Ho Chi Minh City, after the second outbreak, up to 90-95% of tour operators had to suspend operations; the occupancy of accommodation establishments decreased by 91.5% and the number of employees declined by 61% over the same period in 2019. Of this number, 87% of employees took leave without pay and 12.6% terminated their labour contracts (Thi Hong, 2020).

2.1.2. Transportation

In addition to tourism, transportation, especially aviation, suffered the most from the Covid-19 epidemic. The suspension of international flights and social distancing caused Viet Nam's airlines to lose about VND 30,000 billion in 2020. Of these losses, Viet Nam Airlines lost VND 12,500 billion and Jetstar Pacific expected a decrease of about VND 732.8 billion. Foreign passenger transportation in October 2020 was only equal to 1.4% of that in October 2019 and in the first 10 months of 2020 it was just 20.4% of the figure in 2019 (see **Table 5**).

Table 5: Number of passengers carried in October 2020 and in the first 10 months of 2020

Unit: thousand passengers

	October 2020	The first 10 months of 2020	October 2020 versus September 2020 (%)	October 2020 year-on-year (%)	The first 10 months of 2020 year-on-year (%)
	283,748.0	**2,916,649.7**	**102.9**	**67.4**	**70.3**
By transport sector					
Domestic	283,730.9	2,913,871.2	102.9	67.6	70.4
Overseas	17.0	2,778.5	119.4	1.4	20.4
By types of transport					
Rail	252.1	3,193.2	124.0	51.6	45.1
Maritime transport	712.9	5,744.1	101.3	62.7	71.6
Inland waterway	20,254.8	171,700.2	100.7	91.7	91.2
Road	260,334.6	2,710,672.3	102.9	66.3	69.5
Aviation transport	2,193.6	25,339.9	125.1	49.8	55.4

Source: General Statistics Office

Dealing with changes in the market, Vietjet Air has cut the salaries of managers by 30% since the second quarter. It has ensured employment for its workers by reducing working hours and lowering wages by two-thirds. Viet Nam Airlines was also heavily affected by the epidemic (see Box 2).

Box 2. Covid-19's impact on the incomes of Viet Nam Airlines' pilots and flight attendants

The long-lasting Covid-19 epidemic caused exhaustion in the Vietnamese economy, reflecting the health of big corporations. The case of Viet Nam Airlines is an example. Viet Nam Airlines' pilots' and flight attendants' salaries decreased by about 50% due to the Covid-19 epidemic, and employee incomes dropped sharply.

Accordingly, a pilot's salary was only VND 77 million/month, equivalent to a decrease of 48% compared to 2019. The incomes of flight attendants and ground workers decreased by 52% (VND 13.8 million/month) and 55.5% (VND 14 million/month), respectively. Previously, from April to June, all employees received the minimum wage for their positions; senior managers volunteered to work without pay, and department staff received the regional minimum wage.

In July, when the domestic market was expected to recover, Viet Nam Airlines considered paying 10-30% more to its employees. However, Viet Nam Airlines continued to suspend labour contracts and allowed unpaid leave or part-time employment to match the scale of its operations during the Covid-19 period. Therefore, the average expected labour usage in 2020 was 4,785 employees, down 26% over the same period.

In particular, during the nationwide implementation of the Directive on social distancing (April), about 50% of Viet Nam Airlines' employees had to stop work, all employees had their salaries reduced, and staff at the headquarters volunteered to work without pay. With a total of 20,000 employees, this meant there were more than 10,000 people who had to stop working without pay.

Source: Nhan Dan Newspaper (2020)

Entering the third quarter of 2020, air transportation (domestic) has seen remarkable growth. As of 21 September 2020, Viet Nam Airlines recorded a domestic passenger flight volume of nearly 40 thousand passengers, an increase of more than 12% compared to the same period in 2019. This growth marked an impressive recovery in the context of the controlled second Covid-19 outbreak in Viet Nam. This result was achieved by Viet Nam Airlines' efforts in recent years to optimise its domestic flight network, enhance the efficient operation of its fleet, reopen and increase the frequencies on many routes, implement promotion programmes, and ensure service quality together with disease prevention.

However, in general, the business results of aviation companies have yet to show positive signs. Specifically, Viet Nam Airlines' net revenue from sales and services continued to decline sharply in the third quarter of 2020, equal to a quarter of the same period in 2019. Gross profit recorded a loss of VND 3,942 billion (excluding interest expenses, sales expenses, and administration expenses), while the same period in 2019 generated profits of VND 1,506 billion. In the first 9 months of 2020, Viet Nam Airlines recorded a loss of up to VND 10,504 billion. Moreover, Viet Nam Airlines' financial resources are also gradually weakening. Its cash reserves dropped sharply from VND 1,743 billion at the beginning of 2020 to only VND 802 billion as of 30 September 2020. Its total assets decreased from VND 76,454 billion to VND 62,370 billion. Equity also dropped sharply from VND 18,607 billion to VND 6,610 billion. Liabilities as of 30 September 2020 were VND 55,759 billion, eight times higher than the company's equity.

To deal with this situation, the National Assembly recently passed a resolution on solutions to remove difficulties for Viet Nam Airlines due to the impact of the Covid-19 pandemic. Accordingly, the State Bank will refinance credit institutions excluding credit institutions under special control) to allow Viet Nam Airlines to borrow additional capital for business activities. In addition, Viet Nam Airlines was also allowed to offer additional shares to existing shareholders to increase equity capital.

The difficulties of the aviation industry were also reflected in the finance picture of low-cost airline VietJet Air. In the third quarter of 2020, VietJet Air reported an after-tax loss of VND 971 billion, reversing a profit of VND 1,699 billion in the third quarter of 2019. In the first nine months of 2020, this low-cost airline recorded a loss of VND 924 billion, dropping sharply from the VND 3,680 billion profit recorded in the first nine months of 2019. Cash and cash equivalents plummeted to VND 2,298 billion, while at the beginning of the year, the figure was VND 5,364 billion. Its equity decreased from VND 14,902 billion to VND 13,982 billion. The business cash flow of VietJet Air has continued to be negative since last year, and in the third quarter alone recorded a loss of VND 1,261 billion.

For Bamboo Airways, although there was no detailed explanation, the owner, FLC, in the third quarter of 2020 recorded revenue from sales and service provision of VND 3,346 billion, a decrease of 33.8% compared to the third quarter of 2019. The costs of goods sold exceeded revenue, making the company a gross loss of nearly VND 327 billion.

The shipping industry, seaport operations and maritime services have also been affected negatively. Vinalines, whose fleet is mainly operating on Southeast and Northeast Asia routes, in which the output and revenue related to the Chinese market accounts for about 30%, is a typical example. Beside routes to and from China, the epidemic also affects the entire regional and global shipping market, causing scarcity of cargo, an increase of freight costs and waiting times, and empty cargo hulls, etc. For seaport operations, enterprises also face difficulties. For instance, the annual volume through Vinalines's ports used to be over 100 million tons, of which the volume of goods from China and Taiwan accounted for about 35-40% of the total. However, due to the fact that ships did not arrive, together with long anchoring times and a lack of cargo, the enterprise was also severely affected. It is estimated that in the first 6 months of 2020, the volume of the companies' ports decreased by nearly 19 million tons, revenue was reduced by VND 992 billion and profit declined by about VND 224 billion. The shipping output of Vinalines' fleet decreased by 10-15%, revenue fell by about VND 600 billion and the losses of the entire fleet increased by about VND 500 billion. Particularly, for new ships built using loans, the repayment of principal and interest was extremely difficult. Indeed, according to a representative of Vinalines, if the epidemic lasts until the middle of the second quarter of 2020, most of Vinalines' fleet would have to stop working, leading to a lack of cash flow to repay debt and cover maintenance costs.

In general, most large enterprises in the transportation industry are facing difficulties as a result of the Covid-19 pandemic. Many businesses have had to cut labour and costs, etc., to reduce their losses.

2.2. Covid-19 and new opportunities for business

In addition to its adverse impact, the Covid-19 epidemic has also created a new awareness and shifting trends in consumer tastes, increased commercial transactions on digital platforms, and the emergence of new online business. These movements also create a change in demand for a number of essential products and services, bringing new opportunities for Vietnamese enterprises to restructure their value chains and achieve breakthrough development. Moreover, some international integration policies, such as free trade agreements, will create advantages for Vietnamese enterprises to participate in global value chains. In a number of industries, many businesses have actively changed to adapt to opportunities for resilience and growth after difficult periods caused by the Covid-19 epidemic and have created strong shifts towards development.

2.2.1. Opportunities for e-commerce

The Fourth Industrial Revolution and the Covid-19 pandemic have created a suitable context to encourage Vietnamese businesses to use online channels to participate more deeply in the global supply chain. Under the impact of the epidemic and requirements for social distancing, people and businesses have had to turn to online shopping. Demand for shopping and e-commerce has seen a marked increase since the outbreak of the pandemic. Online business models have become an indispensable tool for businesses to expand their operations, export goods, and improve their competitiveness. This has created a great push for Viet Nam's e-commerce market to accelerate its development. Statistics show that the average e-commerce growth rate in the first 3 quarters of 2020 reached 14%, a bright spot in economic development. It is predicted that the growth rate of e-commerce in 2020 may reach 30% and the size of this market could exceed USD 15 billion, despite the Covid-19 epidemic. The e-commerce development trend in Viet Nam is similar to that of the region.

In recent years, e-commerce in Viet Nam has accelerated miraculously, becoming one of the fastest growing e-commerce markets in Southeast Asia. According to the e-Conomy Southeast Asia 2019 report, Viet Nam and Indonesia are the two markets with breakthrough growth in digital economic development compared to other countries in Southeast Asia, with growth rates exceeding 40%/year, while that of other countries is only 20-30% (Google, Temasek & Bain & Company, 2019). The report also showed that the digital economy in Viet Nam reached USD 12 billion in 2019 and could reach USD 43 billion by 2025, including e-commerce, online travel, online communications and ride sharing. Of this figure, e-commerce could reach USD 23 billion in revenue by 2025. In recent years, Viet Nam's e-commerce market has also received extensive participation and competition from foreign businesses. Specifically, SBI Holdings of Japan invested USD 51 million in Sendo at the beginning of 2018. Also, in 2018, Alibaba invested an additional USD 2 billion in Lazada Southeast Asia, and SEA added VND 1,200 billion, equivalent to USD 50 million, to Shopee Viet Nam’s charter capital.

According to the World Trade Organization (WTO), the Covid-19 pandemic has proven that e-commerce is not only a useful tool for consumers in times of crisis, but also a driving force for the growth of domestic and international trade, thereby helping to support small and medium enterprises. The Viet Nam E-commerce Association (2020) also points out that Vietnamese businesses have quickly adapted their operating, organisational and management habits. Many businesses have deployed training programmes to improve the skills of both leaders and employees, exploiting online platforms for internal operations and connecting with customers.

A typical example is the case of Phuc Sinh Group, a large pepper exporter in Viet Nam and globally. In the first 3 months of 2020, despite both domestic and export markets being heavily affected by the Covid-19 epidemic, Phuc Sinh Group still grew at about 10% over the same period. This positive effect is due to customers' confidence in product quality and the company’s rapid digital transformation through expanding its business on e-commerce platforms. When the pandemic struck, many customers wanted to postpone or cancel orders, so Phuc Sinh restructured its operations, redirecting its business to digital platforms for better marketing and sales. Thanks to the timely repositioning of business operations, the company's export performance in major markets around the world was maintained. Regarding the domestic market, due to customers’ changing consumption habits that limited shop visits, in addition to promoting its supermarket distribution channels, Phuc Sinh has also strengthened online sales channels and implemented promotion programmes. As a result, sales were not affected. The online sales channel, which had previously accounted only for 5% of total revenue, increased to 25% (Mai Ca, 2020).

2.2.2. The growth of essential goods

In a context where Covid-19 is developing unpredictably in many countries around the world, food and foodstuffs still play a very important role and demand for these essential items will continue to grow. Therefore, the Vietnamese agricultural sector must seize the opportunity to recover export growth on the basis of diversifying products in accordance with the new awareness and habits of people at home and overseas regarding canned and processed products instead of fresh, raw ones.

Recently, Viet Nam's Covid-19 epidemic prevention and control results have created confidence for people and businesses to continue to invest in production, thereby creating a timely supply for processing and export enterprises. This creates an advantage for Viet Nam against competitors such as India, Ecuador, Indonesia and Thailand, which are still struggling with lockdown and quarantine measures. These countries have not recovered normal production to supply to the global market. In addition, although the epidemic situation in the main markets importing Vietnamese agricultural products, such as China, the United States, EU, and Japan, has not been completely controlled, these countries or regions have initially managed the outbreak and will have a high demand for processed agricultural and aquatic products from Viet Nam in the coming time. Therefore, this is a golden period for Viet Nam's agricultural products to turn challenges into opportunities.

According to data from the Ministry of Agriculture and Rural Development, the production value of the entire agricultural sector in the first 6 months of 2020 increased by 1.18% over the same period in 2019. Some key products achieved remarkable results, namely:

- Rice exports: good volume and price due to increased world demand, and many unsigned large contracts in previous years could be finalised this year. Markets, such as the Philippines and China, have seen quite a strong increase in demand for food.

- Wood exports: with a large export volume, wood, despite difficulties in logistics and orders, still maintains its growth momentum. The export turnover of wood and wood products reached nearly USD 1 billion just in June, while it had been estimated at approximately USD 700 million.

- Fruit exports: although it has not achieved clear growth, there is much hope for opportunities in the coming time thanks to the rapid and strong recovery of import demand from China – a big market for many Vietnamese fruits. Besides, although the quantity exported to high quality markets such as Japan, the United States, and Australia, etc., was limited, it has opened up great potential. Notably, the prestige of Vietnamese fruits on the Australian market is on the rise, with potential for development not only this year but in the coming years.

- Seafood exports: although the seafood sector is facing difficulties in the EU market due to the application of a yellow card, export activities are basically being maintained.

With optimistic signals in the epidemic context as shown above, together with the leverage of EVFTA, CPTPP and the fact that agriculture, forestry, and fishery products are mostly essential commodities, the biggest problem for businesses in the industry at the moment is to optimise operations, increase competitiveness, and build brands and quality for products to reach the global market.

2.3. Preparation of businesses in the context of the Covid-19 epidemic

The Covid-19 epidemic has spread around the world, not only disrupting productions chains but also affecting business activities everywhere. In this context, many Vietnamese businesses have been looking for new markets, new products, new ways to maintain and stabilise production, and to be ready for opportunities to recover after the difficult period caused by Covid-19.

This epidemic is a test for Vietnamese businesses to re-evaluate their capacity as well as their resilience and adaptability to market events. To recover production, businesses need to prepare and adjust their strategies to suit the new situation. This is also an opportunity for Vietnamese enterprises to focus on renovating equipment and technology at cheaper costs, promoting linkages and domestic supply chains, reducing dependence on foreign countries, increasing product quality, and reducing product and service prices to take advantage of opportunities to dominate and consolidate market share. Below are some typical examples of enterprises' preparations to adapt to the context of Covid-19.

<u>a) Development of a new supply chain - a typical example in the garment industry</u>

The epidemic caused the breakdown of import and export activities, making it difficult for manufacturing enterprises due to the shortage of input materials and a significantly narrowed consumer market, especially for businesses operating in the field of processing and manufacturing, including textiles and garments. The Covid-19 epidemic has changed people's consumer habits, with a shift to spending on essential products. This has resulted in a 30-40% decrease in global purchasing power. Currently, textile companies are facing many obstacles due to the Covid-19 epidemic when the supply of raw materials is interrupted, and the output market is also frozen due to countries applying social distancing and the shutdown of global product distribution systems and stores. Many businesses have had to face a situation where manufactured goods cannot be exported to two major markets, the United States and the EU. In order to maintain operations as orders declined, it was imperative that businesses let workers take rotational leave (for example one week on/one week off) and produce in moderation; if they pushed production, the inventory of goods may increase and cause further burdens on enterprises.

Facing the breakdown in demand, many textile and garment enterprises developed new markets, with the highest criterion being partially compensating for the shortage of traditional orders and finding new jobs to retain workers. Starting in February, many businesses in the industry decided to turn to exporting medical masks. Along with masks, many textile and garment enterprises have promptly invested in machinery for the production of protective medical suits. These products have opened up new opportunities, partly compensating for the fashion apparel supply chain that has been temporarily frozen due to the pandemic.

However, opening up a new supply chain for masks and medical protective equipment to export to demanding markets like the United States or Europe is not easy, and not all textile enterprises have been able to do this. The raw materials for masks are basically easy to obtain as companies can import antibacterial fabrics or chemicals, produce materials with anti-water and antibacterial properties using silver nano technology, or create antibacterial fabrics completely from domestic bio-materials. However, to be able to export goods to the EU and the United States, it is also necessary to comply with the regulations of importing partners or countries. Some designate that fabric for the manufacture of masks must be imported from Korea, Taiwan or Japan, or that chemicals must be imported from Europe, Japan or Thailand.

Moreover, in order to export to Europe and the

United States, enterprises must obtain OeKO-Tex® 100[1] certification on the origin of fabric materials. This certification process is not easy to obtain and is time-consuming, especially in the context of government restrictions to prevent the pandemic. However, so far, many textile and garment enterprises have overcome these technical barriers, opening up new supply chains for masks and protective medical products for Europe and America. On the other hand, in European and American markets, the masks used are commonly known as medical masks, so fabric masks have not become popular. Therefore, in addition to technical barriers, businesses also have to educate customers so that they know the benefits of cloth masks and switch to using them.

b) Change in business strategy - an example from the wood industry

Covid-19 has seriously affected the wood processing and export industry. However, since July 2020, the wood industry promptly regained its growth momentum as soon as the disease was controlled. In the first 10 months of 2020, the export value of wood and forest products was nearly USD 9 billion, up 12% over the same period in 2019. Of this figure, wood and wood products reached USD 8.38 billion and non-timber forest products USD 589 million, which meant an increase of 11% and 26%, respectively, over the same period in 2019. The trade surplus therefore reached USD 6.137 billion. While the market has seen many unpredictable fluctuations, especially the complicated situation of Covid-19, Viet Nam's wood industry has made changes to adapt to and overcome these challenges, ensuring the supply chain remained unbroken and even developed more than in the pre-pandemic period.

One of the important bases for the wood industry to thrive is the timely adjustment of business strategies, clearly defining the main strategic products and markets according to new contexts. In the past, the main exported wood products were outdoor furniture, but currently, Vietnamese enterprises in the wood industry have selected wooden furniture and decorative boards as strategic products. It has come as a surprise that the demand for furniture products has increased dramatically in the Covid-19 context. The epidemic caused many people to work from home, which unintentionally allowed them to pay more attention to home appliances and equipment. If Vietnamese people can use a kitchen cabinet for decades, foreigners tend to replace old cabinets with new ones if they feel that it is no longer suitable, and kitchen cabinets come along with kitchen items such as dining tables and other products.

In addition, in the complex context of the epidemic, the Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA) has launched an initiative for an online exhibition platform - HOPE (HAWA Online Platform for Exhibition) to link businesses in the wood and furniture sectors of Viet Nam with international buyers. On this platform, exhibitors can demonstrate their competitiveness through visualising and professional presentations of their products to increase sales opportunities to international markets. On the other hand, buyers can experience, search, and select potential suppliers based on various information verified by HAWA.

[1] The OeKO-Tex® 100 Standard is a worldwide uniform testing and certification system for raw materials, semi-finished products and textile products, covering all levels of production with the purpose of ensuring that they do not contain harmful substances as a whole. To achieve OeKO-Tex® 100 standard, there are more than 100 criteria that must be tested, such as formaldehyde concentrations, pesticides, heavy metals, organic chloride-based derivatives and preservatives such as Tetra and pentachlorophenol, etc.

Box 3. Online exhibition platform for wood enterprises

Digital transformation is an unavoidable trend in the economy and for many businesses to create breakthrough growth in various industries. In the context of the Covid-19 epidemic, due to the requirements of social distancing and border closures between countries that have caused business to encounter difficulties in marketing, promoting, trading, and sales, etc., this is the "one and only" option for businesses to maintain operations. However, according to a preliminary assessment by major associations in the wood and wood processing industry in Viet Nam, wood companies' capability for digital transformation is among the lowest compared to other industries. The speed and application rates are slow within enterprises themselves, between enterprises, and in response to origin tracking requirements.

The United States - China trade war opened up huge opportunities for wood products from Viet Nam to replace similar products from China. Besides, the participation in important free trade agreements such as EVFTA also gives Viet Nam companies new opportunities. However, to be able to expand exports in key markets and join the global value chain, Viet Nam's wood industry must overcome challenges quickly while ensuring sustainability and effectiveness.

Stemming from the above-mentioned issues, the Handicraft and Wood Industry Association of Ho Chi Minh City (HAWA) actively discussed with the Viet Nam Timber and Forest Product Association, and Binh Duong Furniture Association (BIFA) to build a strategic cooperation programme with digital service providers to strengthen digital transformation capacity and solve traceability problems for the wood and wood processing industry. One of the key products is HOPE, the online exhibition platform for Vietnamese wood products. While the whole world is still facing difficulties in travel and connecting due to the pandemic, with this approach Vietnamese wood products can still reach customers around the world. This is not only about improving the shortcomings of Vietnamese businesses, but also a "one step ahead" solution compared to many companies in the region'. HOPE has initially focused on B2B activities (Business-to-Business). Next year, HOPE will be expanded to B2C functions (Business-to-Customer) to allow businesses to directly access end-buyers through online platforms.

Source: Ho Mai (2020)

c) Agricultural sector and agricultural product processing

Under the negative impact of Covid-19 paralysing product circulation and consumption in many markets around the world, the export of agriculture, forestry and fishery products in particular and commodities in general in 2020 has faced many challenges. Also, due to the impact of the epidemic, there were times when exports to China, the biggest market for Vietnamese agricultural products, were suspended. Export activities to other major export markets, such as the United States, Japan, and South Korea, etc., also faced serious challenges. This caused the export value of many agricultural products to plummet in the first 3 quarters of the year. In detail, in the first 9 months of 2020, the export value of key products decreased significantly compared to the same period in 2019, specifically: vegetables and fruits (-11%), coffee (-1%), tea (-5%), pepper (-17.6%); cashew (-4%); rubber (-4%); husbandry (-19.7%); and seafood (-3%).

However, since agricultural products are essential goods, demand for these products remains more or less the same under any circumstances. Therefore, despite difficulties caused by Covid-19, Viet Nam's agricultural exports still grew, with the total value of agricultural, forestry and fishery exports in the third quarter of 2020 reaching more than USD 30.05 billion, equivalent to a 1.6%

increase over the same period in 2019. For the whole year, the entire agricultural sector's exports are expected to earn USD 41 billion.

On the positive side, the crisis is an opportunity for Viet Nam's agriculture sector to break through, not only maintaining production but also reaching higher levels. The main export products of Viet Nam, such as rice, fresh vegetables, etc., are still products with global demand, and after the epidemic demand is even higher than in the pre-pandemic period. Therefore, if fresh products such as vegetables, fruits, and seafood can be processed into frozen and canned products, this will better meet global demand after the epidemic. Many businesses have also created and reformed their business administration systems, shifting from traditional methods to modern ones, such as the application of e-commerce, helping to increase revenue for businesses.

Besides, the Free Trade Agreement between the European Union and Viet Nam took effect on 1 August 2020 and is a lever to create momentum for Viet Nam's agricultural, forestry and fishery exports. After just one month since EVFTA took effect, the export value of agricultural, forestry and fishery products to the EU in August 2020 reached USD 350 million, up 17% compared to July 2020. Of this figure, rice, fresh vegetables, coffee, etc., were the main products taking advantage of export opportunities to the EU thanks to EVFTA. This export growth also reflects the positive impact of this agreement in promoting the export of seafood products with 0% tax incentives right after EVFTA came into effect.

The Covid-19 pandemic has been severely affecting industries and consumers around the world, and purchasing power will take time to recover. However, in this new context, consumers also pay more attention to choosing safe and quality food products. This is an opportunity for manufacturers to build prestige regarding product quality.

2.4. Assessment and comments

The complicated outbreak of Covid-19 in the early months of 2020 caused many challenges for Viet Nam's export industries: the supply of raw materials was interrupted; many importing partners suspended or cancelled orders; and customs clearance was slow due to increased inspection for disease at both export and import gates. The influence of the epidemic on Vietnamese enterprises has been significant so each business needs to be flexible in its strategies and implementation.

Covid-19 also changed global consumers' perceptions of value and behaviour. According to the EY Future Consumer Index in May 2020, 89% of surveyed consumers were likely to change the way they consume, 76% were likely to change products and services, and 50 % would spend only on essential products and services (Dang Khoi, 2020). These changes certainly have far-reaching effects on business operations. Therefore, adapting to these changes and maintaining operations, reviewing business models and strategies, as well as defining market position, are tasks businesses need to prioritise for long-term growth.

Although the epidemic has had a negative impact on many sectors, some industries have seen opportunities for growth and expansion, including e-commerce and essential consumer goods. For example, for the agricultural sector, because Viet Nam has basically controlled Covid-19, this is an opportunity for domestic agricultural businesses to build a reputation for quality, food safety and hygiene.

From a positive perspective, Covid-19 is driving the redevelopment of infrastructure, technology and workflows in the direction of moving everything towards online models and digitalisation. This is a great catalyst for digital transformation and innovation for enterprises to ultimately enhance their own value chain from inputs to outputs, from production to distribution. In the complicated context of the Covid-19 epidemic, the application of e-commerce and the digital economy to promote exports is a prerequisite. Online business can be a difficult problem for small and medium enterprises, but this is an inevitable trend and businesses must quickly grasp its complexities to make a breakthrough after the epidemic.

In addition, the successful control of Covid-19 has also become a remarkable advertisement for Viet Nam in attracting multinational corporations. The recent fast and active process of reforming and improving the business environment has also helped Viet Nam become a more attractive investment destination. Moreover, Viet Nam's participation in free trade agreements also gives investors new opportunities in the Vietnamese market while barriers in many countries are increasing.

CHAPTER 3

ENTERPRISE RECOVERY AND DEVELOPMENT IN THE CONTEXT OF COVID-19: THE REMOVAL OF BARRIERS AND RECOMMENDATION FOR THE BUSINESS ENVIRONMENT

3.1. International experience supporting businesses to overcome the Covid-19 epidemic crisis

When the Covid-19 pandemic struck, the global economy fell into crisis, forcing countries to quickly issue solutions to support people and businesses. From the first outbreak of Covid-19 to the end of September 2020, governments and central banks around the world committed to disbursing USD 19.5 trillion to support their economies. In particular, economic stimulus packages announced by governments were worth nearly USD 12 trillion, while those of central banks were at least USD 7.5 trillion (IMF, 2020a).

The solutions that countries mainly focus on are tax reductions, support for salary payments, record low interest rates, and small business loans. Although there have been many different approaches, these policies are considered to be of a scale not seen before.

For example, Singapore focuses on four main business support packages, including finance, market expansion (both online and offline), digital transformation, and general support (such as aid for businesses to maintain jobs, meeting the costs of cleaning and disinfection for SMEs, free connection to databases of ISO standards, etc.) (Enterprise Singapore, 2020). Meanwhile, Ireland's support focuses on finance, training and improving the quality of human resources to quickly return to normal operations, as well as industry-specific support (Ireland's Department of Enterprise, Trade and Employment, 2020; Citizens Information, 2020).

The United Kingdom and Scotland mainly concentrate on financial support, including salary support, corporate income tax reduction, and business support loans. In addition, support policies are divided by subject: self-employed workers, SMEs, large enterprises, and food and beverage outlets (Government of the United Kingdom, 2020; FindBusinessSupport, 2020). In addition, some regions/cities in the United Kingdom (for example, Leeds) also have separate financial support policies for businesses in their areas, granting businesses more resources to cope with the complicated disease situation (Leeds City Region Enterprise Partnership, 2020).

In addition to the unprecedented monetary and fiscal policy packages, many countries and regions have also adopted or are drafting comprehensive strategies and plans to support economic recovery after the pandemic, and to restructure economies to adapt to the new context. These include the strategies of Korea, Japan and the European Commission. In particular, there are many solutions to encourage and motivate businesses to restructure their global supply chains, and reduce the excessive dependence on the Chinese market.

The following pages present Covid-19 support policies from selected countries as of September 2020.

Table 6: International policy responses in support of businesses during the Covid-19 pandemic

No.	Economy	Fiscal policy	Monetary policy	Other policy
1	United States of America	1. USD 483 billion Paycheck Protection Program and Health Care Enhancement Act, including: + USD 321 billion for additional forgivable Small Business Administration loans and guarantees to help small businesses that retain workers. + USD 62 billion for the Small Business Administration to provide grants and loans to assist small businesses. + USD 75 billion for hospitals. + USD 25 billion for expanding virus testing. 2. USD 2.3 trillion (around 11% of GDP) Coronavirus Aid, Relief and Economy Security Act ("CARES Act"), including: + USD 293 billion to provide one-time tax rebates to individuals. + USD 268 billion to expand unemployment benefits. + USD 25 billion to provide a food safety net for the most vulnerable. + USD 510 billion to prevent corporate bankruptcy by providing loans, guarantees, and backstopping Federal Reserve 13(3) program. + USD 349 billion in forgivable Small Business Administration loans and guarantees to help small businesses that retain workers. + USD 100 billion for hospitals. + USD 150 billion in transfers to state and local governments.	1. Lowering federal funds rate to 0-0,25%; purchasing of Treasury and agency securities in the amount as needed; expanding overnight and term repos; lowering cost of discount window lending; reduced existing cost of swap lines with major central banks and extended the maturity of foreign exchange operations; broadening USD swap lines to more central banks; offering temporary repo facility for foreign and international monetary authorities. 2. Federal Reserve introduced facilities to support the flow of credit, including: + Commercial Paper Funding Facility to facilitate the issuance of commercial paper by companies and municipal issuers. + Primary Dealer Credit Facility to provide financing to the Fed's 24 primary dealers collateralised by a wide range of investment grade securities. + Money Market Mutual Fund Liquidity Facility (MMLF) to provide loans to depository institutions to purchase assets from prime money market funds (covering highly rated asset backed commercial paper and municipal debt). + Primary Market Corporate Credit Facility to purchase new bonds and loans from companies. + Secondary Market Corporate Credit Facility to provide liquidity for outstanding corporate bonds. + Term Asset-Backed Securities Loan Facility to enable the issuance of asset-backed securities backed by	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ US $ 49.9 billion for international assistance (including SDR28 billion for the IMF's New Arrangement to Borrow). 3. USD 8.3 billion Coronavirus Preparedness and Response Supplemental Appropriations Act, in addition to USD 192 billion Families First Coronavirus Response Act (totally around 1% of GDP), for: + Virus testing; transfers to states for Medicaid funding; development of vaccines, therapeutics, and diagnostics; support for the Centers for Disease Control and Prevention responses. + 2 weeks paid sick leave; up to 3-month emergency leave for those infected (at 2/3 pay); food assistance; transfers to states to fund expanded unemployment insurance. + Expansion of Small Business Administration loan subsidies. + USD 1.25 billion in international assistance. + 60-day suspension of federal student loan obligations.	student loans, auto loans, credit-card loans, loans guaranteed by the Small Business Administration, and certain other assets. + Paycheck Protection Program Liquidity Facility (PPPLF) to provide liquidity to financial institutions that originate loans under the Small Business Administration's Paycheck Protection Program (PPP) which provides a direct incentive to small businesses to keep their workers on the payroll. + Main Street Lending Program to purchase new or expanded loans to small and medium-sized businesses. + Municipal Liquidity Facility to purchase short term notes directly from state and eligible local governments. 3. Supervisory action: + Federal banking supervisors encouraged depository institutions to use their capital and liquidity buffers to lend, to work constructively with borrowers affected by Covid-19, and indicated Covid-19 related loan modifications would not be classified as troubled debt restructurings. + Holdings of U.S. Treasury Securities and deposits at the Federal Reserve Banks could be temporarily excluded from the calculation of the supplementary leverage ratio for holding companies. + Offered regulatory reporting relief and adjusted supervisory approach to temporarily reduce scope	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			and frequency of examinations and give additional time to resolve non-critical, existing supervisory findings. 4. Regulatory action: + Lowered the community bank leverage ratio to 8%. + Provided extension transition for the Current Expected Credit Loss accounting standard. + PPP covered loans would receive a zero percent risk weight, and assets acquired and subsequently pledged as collateral to the MMLF and PPPLF facilities would not result in additional regulatory capital requirements. + Allowed early adoption of "the standardized approach for measuring counterparty credit risk" (with a gradual phase-in of restrictions on distributions when a firm's capital buffer declines). 5. Fannie Mae and Freddie Mac provided mortgage forbearance for 12 months; waived related late fees; suspended reporting to credit bureaus of delinquency related to the forbearance; suspended foreclosure sales and evictions of borrowers for 60 days; and offered loan modification options.	
2	Canada	- CAD 317 billion package (15% GDP), including: + CAD 20 billion (0,9% GDP) to the health system to support increased testing, vaccine development, medical supplies, mitigation efforts, and greater	- Reduced the overnight policy rate to 0.25%. - Extended the bond buyback programme across all maturities. - Launched the Bankers' Acceptance Purchase Facility.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		support for Indigenous communities. + CAD 212 billion (10% GDP) in direct aid to households and firms, including wage subsidies, payments to workers without sick leave and access to employment insurance, an increase in existing goods and services tax credits and child care benefits, and a new distinctions-based Indigenous Community Support Fund. + CAD 85 billion (4,0% GDP) in liquidity support through tax deferrals. - Financial support for SMEs, who have had difficulty accessing previous state subsidies, through local development agencies.	- Expanded the list of eligible collateral for Term Repo operations to the full range of eligible collateral for the Standing Liquidity Facility (SLF), except the Non-Mortgage Loan Portfolio (NMLP). - Purchased Canada Mortgage Bonds (CMB) in the secondary market. - Temporarily increased the amount of NMLP a participant can pledge for the SLF and for those participants that do not use NMLP. - Increase in the target for settlement balances from CAD 250 million to CAD 1,000 million. - Enhanced the provision of liquidity via the standing USD liquidity swap line arrangements. - Launched the Standing Term Liquidity Facility providing loans to eligible financial institutions in need of temporary liquidity support. - Implemented the Provincial Money Market Purchase (PMMP) program, the Provincial Bond Purchase Program (PBPP), the Commercial Paper Purchase Program (CPPP), the Corporate Bond Purchase Program (CBPP), and the purchase of Government of Canada securities in the secondary market. - Lowered the Domestic Stability Buffer for D-SIBs to from 2.5% to 1% of risk weighted assets. - The government purchased up to CAD 150 billion of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC).	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			- CAD 95 billion in credit facilities (including CAD 13.8 billion in forgivable loans) to lend to firms under stress. - The federal government supported Farm Credit Canada, resulting in an additional CAD 5.2 billion in lending capacity to producers, agribusinesses, and food processors.	
3	United Kingdom	- Additional funding for the NHS, public services and charities (£48.5 billion). - Measures to support businesses (£29 billion), including property tax holidays, direct grants for small firms and firms in the most-affected sectors, and compensation for sick pay leave. - Strengthened the social safety net to support vulnerable people (by £8 billion) by increasing payments under the Universal Credit scheme as well as expanding other benefits. + The Coronavirus Business Interruption Loan Scheme to support SMEs (80% guarantee for loans up to £5 million). + The Coronavirus Large Business Interruption Loans Scheme to support bigger firms (80% guarantee for loans up to £300 million). + The Bounce Bank loan scheme for SMEs (100% guarantee for loans up to £50,000). + Deferred VAT payments for the second quarter of 2020 until the end of the financial year and income tax payments of the self-employed by six months.	- Reduced Bank Rate by 0.65% to 0.1 percent. - Expanded the central bank's holding of United Kingdom government bonds and non-financial corporate bonds by £300 billion. - Introduced a new Term Funding Scheme to reinforce the transmission of the rate cut, with additional incentives for lending to the real economy, and especially SMEs. - Temporarily extended the use of the government's overdraft account at the Bank of England to provide a short-term source of additional liquidity to the government if needed. - Launched a £330 billion package of loans and guarantees available to businesses (15% of GDP). - Activated a Contingent Term Repo Facility to complement the Bank's existing sterling liquidity facilities. - Enhanced the provision of liquidity via the standing USD liquidity swap line arrangements. - Reduced the United Kingdom countercyclical buffer rate to 0%, which would remain for at least 12 months, from a pre-existing path toward 2% by December 2020.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ The government paid 80% of the earnings of self-employed workers (under Self Employment Income Support Scheme, SEISS) and furloughed employees (under Coronavirus Job Retention Scheme, CJRS) (to a maximum of £2,500 per employee per month) initially for the period March-May. The scheme for furloughed employees was extended until the end of October. Since July, employers have been allowed to furlough employees for part of the daily working hours. Government coverage fell to 70% of wages in September (up to £2,187) and 60% in October (up to £1,875) with employers required to contribute the difference to 80% of wages (up to £2,500). The scheme for the self-employed was extended for 3 more months but at a reduced level of 70% of earnings. - Up to £10 billion of government guarantees through the Trade Credit Reinsurance scheme, available for 9 months, for trade credit insurance for business-to-business transactions. - A £1billion package through grants and loans to support firms driving innovation and development. - Provided £150 million to the IMF's Catastrophe Containment and Relief Trust and a new £2.2 billion loan to the IMF Poverty Reduction and Growth Trust (PRGT) to help low-income countries respond to Covid-19. - A package of measures to protect and create jobs and support the economic recovery: + Provided firms £1,000 per furloughed employee retained until end-January.	- Set out supervisory expectation that banks should suspend dividends and buybacks until end-2020, cancel outstanding 2019 dividends and pay no cash bonuses to senior staff. - Amended regulations to mitigate the possibility of pro-cyclical market risk capital requirements. - Proposed firms to offer a payment freeze on loans and credit cards for up to 3 months.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ Paid the minimum wage for 25 hours per week for six months for young workers at risk of long-term unemployment. + Increased resources to enhance skills and facilitate reinsertion in the job market. + Temporarily reduced the VAT rate for hospitality, accommodation and attractions and the real estate transactions tax. + Increased public spending on infrastructure (including on green projects such as retrofitting houses to improve energy efficiency). + Subsidised dining out during the month of August.		
4	Australia	1. AUD 164 billion fiscal stimulus (8,6% GDP), including: + JobKeeperwage subsidies (4.5% of GDP), income support to households, cash flow support to businesses, investment incentives, and targeted measures for affected regions and industries (including the HomeBuilder program supporting the construction industry). + Financed a series of fast-track infrastructure projects across states and territories (AUD 3.9 billion) and the arts and screen industries to support job creation. + Home care package to support senior citizens (AUD 0.3 billion). + Free childcare to around one million families through mid-July (AUD 0.3 billion) and targeted support to the education system.	1. Twice cut cash rate by 25 basis points to 0,25%. Purchased government bonds in the secondary market with aim of yield targeting on 3-year government bonds at around 0.25 percent. 2. Conducted one-month and three-month repo operations daily. Repo operations of longer-term maturities (six months or longer) are held at least weekly. 3. Broadened the range of eligible collateral for open market operations to include securities issued by non-bank corporations with an investment grade. 4. Established a swap line with the Fed for the provision of USD liquidity up to USD 60 billion. 5. Established a AUD 90 billion Term Funding Facility (TFF) for banks to access three-year funding at 25 basis points until September 2020.	- The exchange rate has been allowed to adjust flexibly to absorb economic shocks.

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ Extensions of the JobKeeper wage subsidies through March 2021 and of the additional income support to households through December 2020, with payment reductions to facilitate a gradual transition to a recovery. + JobTrainer skills package (AUD 2 billion). 2. Allocation of up to AUD 15 billion to invest in residential mortgage-backed securities and asset backed securities to help funding for small banks and non-bank financial institutions. 3. Loan guarantees (up to AUD 20 billion) between the central government and participating banks to cover the immediate cash flow needs of SMEs. The latter scheme was extended through June 2021, with the maximum loan size raised from AUD 250,000 to AUD 1 million and the maximum maturity extended to five years. 4. Spent an additional amount of AUD 9,4 billion (0,5% GDP) to strengthen the health system and protect vulnerable people, including those in aged care, from the outbreak of Covid-19. The Commonwealth government and the state and the territory governments agreed to share the public health costs incurred by the states and territories in treating the Covid-19. 5. States and territories' own fiscal stimulus packages (up to AUD 32,9 billion or 1,7% GDP), including: payroll tax relief for businesses and relief for households, such as discounted utility bills, cash payments to vulnerable households, support for health spending, construction, infrastructure packages, and green investment (renewable energy and technologies).	6. Provided temporary relief from capital requirement, allowing banks to utilise some of their current large buffers to facilitate ongoing lending to the economy. 7. Deferred scheduled implementation of the Basel III reforms in Australia by one year to January 2023. 8. Temporarily suspended the issuing of new licenses for at least six months in response to the economic uncertainty created by Covid-19. 9. Recommended banks and insurers to consider deferring decisions on the level of dividends or approve a dividend at a materially reduced level, with a 50% cap on pay-out ratios for the remainder of this calendar year. 10. Guided banks to conduct regular stress testing to inform decision-making and make use of capital buffers to absorb the impact of stress to continue to lend to households and businesses. 11. Loans on repayment deferrals in the context of Covid-19 were not be treated as being in arrears for a period of up to six months for capital adequacy and regulatory reporting purposes for borrowers who have been meeting their repayment obligations (announced in March, 2020). In July, 2020, banks decided to extend the period of deferred repayments by up to another 4 months for affected borrowers; and extended the regulatory approach on deferred repayments to cover a maximum period of up to 10 months until 31 March 2021. Loans that are restructured before 31 March 2021 to allow the borrower on a sustainable financial footing may continue to be regarded as performing loans for capital adequacy purposes.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		6. Other support for SMEs: - Push of depreciation: Businesses with revenue below AUD 500 million are entitled to 50% of the cost of an asset, the rest would be applied according to the current depreciation regulations. - Cash support: support from AUD 2,000 to 25,000 for businesses with revenue below AUD 50 million and do not tax. - Support 50% of the salary to help businesses retain workers. - Support AUD 20,000 for small businesses to upgrade equipment and reduce power consumption.		
5	Germany	- Adopted two supplementary budgets: €156 billion (4.9% of GDP) in March and €130 billion (4% of GDP) in June. Planned to issue €218.5 billion in debt to finance the packages. - Spent on healthcare equipment, hospital capacity and R&D (vaccine). - Expanded access to short-term work ("Kurzarbeit") subsidy to preserve jobs and workers' incomes, expanded childcare benefits for low-income parents and easier access to basic income support for the self-employed. - €50 billion in grants to small business owners and self-employed persons severely affected by the Covid-19 outbreak in addition to interest-free tax deferrals until year-end.	1. Monetary policies of European Central Bank (ECB): - Additional asset purchases of €120 billion until end-2020 under the existing programme (APP). - Temporary additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favourable terms on existing targeted longer-term refinancing operations (TLTRO-III) between June 2020 and June 2021, with interest rates that can go as low as 50 basis point below the average deposit facility rate. - Introduced a new liquidity facility (PELTRO), including non-targeted Pandemic Emergency Longer-Term Refinancing Operations carried out with an interest rate that is 25 basis point below the average main refinancing	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		- €2 billion of venture capital funding for start-ups. - Temporarily expanded duration of unemployment insurance and parental leave benefits. - The stimulus package in June comprises a temporary VAT reduction, income support for families, grants for hard-hit SME's, financial support for local governments, expanded credit guarantees for exporters and export-financing banks, and subsidies/investment in green energy and digitalisation. - Expanded the volume of available guarantees and access to public guarantees for firms of different sizes, credit insurers, and non-profit institutions, some eligible for up to 100% guarantees, increasing the total volume by at least €757 billion (24% of GDP). - Introduced facilities for public equity injection into firms with strategic importance. - Local governments had their own measures to support their economies, amounting to €141 billion in direct support and roughly €63 billion in state-level loan guarantees.	operations (MRO) rate prevailing over the life of the operation. PELTRO will mature in a staggered sequence between July and September 2021. - €1,300 billion asset purchase programme of private and public sector securities (Pandemic Emergency Purchase Program, PEPP), which lasts until June, 2021; and ECB will reinvest in maturity securities until at least the end of 2022. - Expanded range of eligible assets under the corporate sector purchase program (CSPP). - Expanded relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs). - Introduced a broad package of collateral easing measures for Eurosytem credit operations such as: + A permanent collateral haircut reduction of 20% for non-marketable assets. + Temporary measures for the duration of the PEPP (with a view to re-assess their effectiveness before the end of 2020) such as a reduction of collateral haircuts by 20%, an expansion of collateral eligibility to include Greek sovereign bonds as well as an expansion of the scope of so-called additional credit claims framework to include public sector-guaranteed loans to SMEs, self-employed individuals, and households. - Set up the Eurosystem repo facility for central banks (EUREP) to provide precautionary euro repo lines to central banks outside the euro area.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			- Loosen capital regulations: + Allowed significant institutions to operate temporarily below the Pillar 2 Guidance (P2G), the capital conservation buffer, and the liquidity coverage ratio (LCR). + Applied new rules on the composition of capital to meet Pillar 2 Requirement (P2R). + Considered appropriate release of the countercyclical capital buffer (CCyB) by the national macro-prudential authorities. + Temporarily exercise flexibility in the classification requirements and expectations on loss provisioning for non-performing loans (NPLs) that are covered by public guarantees and Covid-19 related public moratoria. + Required banks avoid pro-cyclical assumptions for the determination of loss provisions and opt for the International Financial Reporting Standard 9 (IFRS9) transitional rules. + Asked banks to consider dividend payments and share buybacks until January 2021 to have enough time to restore reserves and not to take cyclical action. + Adjusted the prudential floor to banks' current minimum capital requirement. - Provided targeted and exceptional legislative changes to the capital requirements regulation (CRR 2), including greater flexibility in the application of the EU's accounting	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			and prudential rules, aiming at facilitating bank lending to support the economy. - On 24 July, the European Commission proposed a Capital Markets Recovery Package with targeted adjustments to capital market rules to encourage greater investment in the economy, allow for the rapid re-capitalisation of companies, and increase banks' capacity to finance the recovery.	
6	France	- €135 billion emergency spending to address the crisis (nearly 6% GDP, including liquidity measures). - €315 billion in guarantees for bank loans and credit reinsurance schemes (nearly 14% GDP). - Other key fiscal support measures include: + Streamlined and boosted health insurance for the sick or their caregivers. + Increased spending on health supplies. + Postponed social security and tax payments for companies and accelerated refund of tax credits (e.g. corporate income tax and VAT). + Support for wages of workers under the reduced-hour scheme. + Direct financial support for affected microenterprises, liberal professions, and independent workers, as well as for low-income households. + Postponed rent and utility payments for affected microenterprises and SMEs.	1. Monetary policies of the European Central Bank (ECB): see Germany section. 2. Other measures: - Reduced the counter-cyclical bank capital buffer to 0% (an increase from 0.25% to 0.5% became effective by April). - A temporary ban on short-selling stocks until May 18. - Credit mediation to support renegotiation of SMEs' bank loans.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ Additional allocation for equity investments or nationalisations of companies in difficulty. + Facilitated granting of exceptional bonuses exempt from social security contributions. + Extended expiry of unemployment benefits until the end of the lockdown and preservation of rights and benefits under the disability and active solidarity income schemes. - Gradually stop support measures from June, except for industries that still face opening restrictions (e.g., tourism, which will benefit from targeted exemptions from taxes and social security contributions, and extended support through the reduced-hour scheme and the solidarity fund until end-2020). - Support measures for the hardest-hit sectors (e.g., incentives to purchase greener vehicles and green investment support for the auto and aerospace sectors).		
7	Italy	- €25 billion (1.6 percent of GDP) "Cura Italia" emergency package, including: + Funds to strengthen the Italian health care system and civil protection (€3.2 billion). + Measures to preserve jobs and support incomes of laid-off workers and self-employed (€10.3 billion). + Other measures to support businesses, including tax deferrals and postponement of utility bill payments in the most affected municipalities (€6.4 billion). + Measures to support credit supply (€5.1 billion).	1. Monetary policies of the European Central Bank (ECB): see Germany section. 2. Other measures: - A moratorium on loan repayments for some households and SMEs, including on mortgages and overdrafts. - State guarantees on loans to all businesses. - Deferred tax for financial and non-financial companies. - State guarantee to the state development bank -	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		- The Liquidity Decree for additional state guarantees of up to €400 billion (25% GDP). - €55 billion (3.5% GDP) "Relaunch" package of fiscal measures, including: + Income support for families (€14.5 billion). + Funds for the healthcare system (€3.3 billion). + Other measures to support businesses, including grants for SMEs and tax deferrals (€16 billion). - €25 billion (1.6% GDP) deficit deviation for additional income support for families and workers.	Cassa Depositi e Prestiti - to support lending and liquidity to banks to enable them to finance medium- and large-sized companies. - Co-insurance scheme for exporters. - Allowed banks and non-bank intermediaries to temporarily operate below selected capital and liquidity requirements. - Extended some reporting obligations for banks and non-bank intermediaries. - Rescheduled on-site inspections of the Bank of Italy. - Extended the additional credit claim frameworks to include loans backed by Covid-19-related public sector guarantees. - Asked insurance companies to be prudent about dividends and bonus payments to protect their capital position; and to provide updated Solvency II ratios on a weekly basis. - Maintained lower minimum threshold beyond which is required to communicate the participation in a listed company until October.	
8	Spain	1. €36 billion (3.5% GDP) measures, including: + Budget support from the contingency fund to the Ministry of Health (€1.4 billion). + Advance transfer to the regions for the regional health services (€2.8 billion). + Additional healthcare related spending, including	1. Monetary policies of the European Central Bank (ECB): see Germany section. 2. Guarantee policies: + Extended up to €100 billion government guarantees for firms and self-employed. + Launched a new Instituto de Crédito Oficial (ICO) line	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		research related to Covid-19 (€46 million). + Unemployment benefits for workers temporarily laid off under the Temporary Employment Adjustment Schemes (ERTE) due to Covid-19, with no requirement for prior minimum contribution or reduction of accumulated entitlement (about €18 billion), expanded ERTE to cover workers and companies with significant activity reduction in sectors considered essential. + Increased sick pay for Covid-19 infected workers or those quarantined, from 60 to 75% of the regulatory base (€1.4 billion). + An extraordinary benefit for self-employed workers, including seasonal self-employed, affected by economic activity suspension (about €3.8 billion). + Introduced a new "Minimum Income Scheme" (about €3 billion annually). + Strengthened unemployment protection for workers under permanent discontinuous contracts who cannot resume work but are not qualified for unemployment benefits (€99 million). + Extended unemployment benefits to cover workers laid off during the probation period, as well as those switching jobs but with the new offer falling through (€42 million). + A temporary monthly allowance of about €430 for temporary workers whose contracts (at least two months' duration) expire during the state of emergency and are not entitled to collect	of guarantees to promote investment activities – particularly in the areas of environmental sustainability and digitisation – and liquidity provision (€40 billion). + Created a state rescue fund to support strategic business (€10 billion). + Introduced €2 billion public guarantees for exporters. + Guarantees for loan maturity extensions to farmers using the special 2017 drought credit lines. + Guarantees to provide financial assistance on housing expenses for vulnerable households (€1.2 billion). + additional loan guarantees for SMEs and self-employed (€1 billion). 3. Other measures: + Additional funding for the ICO credit lines (€10 billion). + Expansion of ICO credit lines for the tourism sector (€200 million). + Loans for the industrial sector to promote digital transformation and modernisation (€123.5 million). + Temporarily authorised ICO to participate as a buyer of new commercial paper issued at MARF. + Three-month moratorium on mortgage payments for the most vulnerable, including households, self-employed and homeowners who have rented out their mortgaged properties.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		unemployment benefits (€17.6 million). + A temporary subsidy for household employees affected by Covid-19 with an amount equal to 70 percent of their contribution base (€3 million). + New rental assistance programmes for vulnerable renters and additional state contribution to the State Housing Plan 2018-21 (€400 million). + Additional budgetary funds of €300 million and further budget flexibility for the provision of assistance to dependents. + €25 million to autonomous communities funding meals for children affected by the school closure. + Extension of the social benefit for energy provision. + Subsidy for vehicle renewal under the MOVE II program (€100 million). + Additional €50 million fund for R&D. 2. Exemptions of social contributions: + Exempted social contributions for impacted companies that maintain employment under the ERTE and those that reinstate jobs for ERTE workers (around €2.2 billion). + Exempted social contributions for self-employed that receive the extraordinary benefits (about €1 billion). + 6-month tax payment deferrals for small and medium enterprises and self-employed, with the first three/four months exempt from interest.	+ Moratorium or reduction of rent payments for vulnerable tenants whose landlord is a large public or private housing holder. + Moratorium on non-mortgage loans and credit, including consumer credit, for the most vulnerable. + Suspension of interest and repayment of loans granted by the Secretariat of State for Tourism for one year with no need for prior request. + Deferral of repayment of loans granted to businesses by the Ministry of Industry, Trade, and Tourism. + Deferral of payments on certain loans granted by the Institute for the Diversification and Saving of Energy (IDAE). + Adoption of a mechanism for renegotiation and deferment of business premises rent. + Reduced notary fees for novation of non-mortgage loans. + Banned short-selling Spanish shares in the stock market from 16 March -18 May. + Authorised special government screening of FDI in strategic sectors. + Modified requirements applicable to management companies of Collective Investment Schemes. + Empowered the Consorcio de Compensación de Seguros to act as a reinsurer of credit insurance risks. + Changed time-bound to corporate resolution	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ Extended the deadlines for filing tax returns and self-assessment to May 30 for SMEs and self-employed. + Flexibility for SMEs and self-employed to calculate their income tax and VAT instalment payments based on the actual profit in 2020 (about €1.1 billion). + Temporary zero VAT rate until 31 July on purchases of medical material essential to combat Covid-19 (about €1 billion). + Reduced VAT on digital publications from 21 to 4% (€24 million). + Exempted 50% of the employer's social insurance premium for employees with intermittent long-term contracts in the field of tourism and related activities from February to June 2020. + Exempted social contribution for the self-employed (from May to July) and companies (from April to June) in selected industries (€352 million). + Extended social contribution debts for the self-employed and companies (€340 million). + No surcharge for late payment of tax debts for companies obtaining financing through the Instituto de Crédito Oficial (ICO) Guarantee Lines. 3. Other measures: + More flexibility for workers to access savings from their pension plans. + Budget flexibility to enable transfers between budget	frameworks to reduce insolvency cases. + Applied the flexibility provided by the legal system in relation to the setting of transition periods and the intermediate minimum requirements for own funds and eligible liabilities (MREL) targets; applied expert judgement for the credit-risk classification of forborne exposures.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		lines and for local governments to use budget surplus from the previous years for supporting measures in the area of housing. + Modified spending ceilings for certain lines of ministries and subnational governments. + Centralised medical supplies, streamlined emergency management process for the procurement of all goods and services needed by the public sector to implement any measure to address Covid-19.		
9	China	- Discretionary fiscal measures about RMB 4.6 trillion (4.5% GDP), including: + Increased spending on epidemic prevention and control. + Production of medical equipment. + Accelerated disbursement of unemployment insurance and extension to migrant workers. + Tax relief and waived social security contributions. + Additional public investment. - Local policies on supporting R&D costs, remote work services, reducing interest rates and deferring tax payments, with the active participation of banks, technology companies, etc., to support SMEs digital transformation.	1. Improving liquidity: - Liquidity injection into the banking system via open market operations (reverse repos and medium-term lending facilities). - Expanded re-lending and re-discounting facilities by RMB 1.8 trillion to support manufacturers of medical supplies and daily necessities, micro-, small- and medium-sized firms and the agricultural sector (of which 0.8 trillion was phased out at end-June). - The People's Bank of China reduced interest rates by 50 basis points (re-lending facilities) and 25 basis points (re-discounting facility); reduced interest on excess reserves from 72 to 35 basis points. - Cut reserve requirement ratio (RRR) by 50-100 basis points for large- and medium-sized banks that meet inclusive financing criteria which benefit micro- and small-sized enterprises (MSEs), an additional 100 basis points for eligible joint-stock banks, and 100 basis points for small- and medium-sized banks to	- Adjust the exchange rate flexibly. - Raised the ceiling on cross-border financing under the macro-prudential assessment framework for financial institutions by 25%. - Removed restrictions on the investment quota of foreign institutional investors (QFII and RQFII).

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			support SMEs. - Expanded policy banks' credit lines to private firms and MSEs (RMB 350 billion). - Introduced new instruments to support lending to SMEs, including a zero-interest "funding-for-lending" scheme (RMB 400 billion) to finance 40% of local banks' new unsecured loans and incentivising them to further extend payment holidays for eligible loans by subsidising 1% of loan principles (RMB 40 billion). 2. Improving credit: - Encouraged lending to SMEs, including supporting uncollateralised SME loans from local banks, raising the target for large banks' lending growth to SMEs from 30 to 40%. - Delayed loan payments, with the deadline extended to the end of March 2021 or later, and eased loan size restrictions for online loans and other credit support measures for eligible SMEs and households. - Tolerance for higher non-performing loans (NPL) and reduced NPL provision coverage requirements. - Supported bond issuance by financial institutions to finance SME lending. - Increased bond issuance by corporates, including relaxing rules on insurers for bond investments. - Increased fiscal support for credit guarantees. - Flexibility in the implementation of asset management reform. - Easing of housing policies by local governments.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
10	Korea	- USD 35.4 billion package to increase anti-epidemic spending, support affected businesses and people, reduce and delay tax payment and social contribution for small businesses and low-income households, invest in digital transformation and green industries.	- Lowered the Base Rate from 1.25% to 0.5%. - Made unlimited amounts available through open market operations (OMOs). Expanded the list of eligible OMO participants to include select non-bank financial institutions. Expanded eligible OMO collateral to include bank bonds, certain bonds from public enterprises and agencies, and government-guaranteed mortgage-back securities (MBS) issued by Korea Housing Finance Corporation (KHFC). Eased collateral requirements for net settlements in the Bank of Korea payments system. - Purchased Korean Treasury Bonds (about USD 2.5 billion). - Increased the ceiling of the Bank Intermediated Lending Support Facility by a total of KRW 10 trillion (0.5% GDP); Lowered the interest rate to 0.25%. - Introduced a financial stabilisation plan of KRW 100 trillion (5.3% GDP). - Established KRW 25 trillion additional measures (1.2% GDP) mainly through purchasing corporate bonds and commercial paper (KRW 10 trillion), and additional funds for SME lending (KRW 10 trillion). - A KRW 36 trillion package (1.9% GDP) to ease financing constraints for exporters. - A KRW 40 trillion industry stabilisation fund (2.1% GDP) to support seven key industries: airlines, shipping, shipbuilding, autos, general machinery, electric power, and communications.	- Bank of Korea opened a bilateral swap line with the United States Federal Reserve for USD 60 billion. - Other measures taken to facilitate funding in foreign exchange include: raising the cap on foreign exchange forward positions; temporarily suspending the 0.1 percent tax on short-term non-deposit foreign exchange liabilities of financial institutions; temporarily reducing the minimum foreign exchange liquidity coverage ratio for banks, etc.

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
11	Japan	- The Emergency Economic Package Against Covid-19 of ¥117.1 trillion (20.9% of 2019 GDP), together with the two Covid-19-response packages announced on 13 February and 10 March, to develop preventive measures against the spread of infection and strengthen treatment capacity, protect employment and businesses, regain economic activities after containment, hand out cash to every individual and affected firms, deferral of tax payments and social security contributions, support the application of information technology to work remotely and develop e-commerce channels, etc. - Increased funding to the IMF to support poor and affected countries.	- Increases the size and frequency of the Bank of Japan's purchases of Japanese government bonds (JGB), Exchange Traded Funds (ETFs) and Japan-Real Estate Investment Trusts (J-REITs), etc. - Raised the maximum value of additional purchases of commercial paper and corporate bonds to USD 186 billion. - USD 838 billion SME loan support package. - Established important bilateral and regional swap arrangements; lowered the pricing on the standing USD liquidity swap arrangements. - Expanded the volume of concessional loan facilities (interest free without collateral) primarily for micro, small and medium-sized businesses affected by Covid-19; simplified regulations and cut fees to boost credit liquidity. - Extended the deadline for regional banks' application for government capital injection from 31 March 2022 to 31 March 2026; expanded the limit of government guarantees for capital injections into regional banks from ¥12 trillion to ¥15 trillion.	- The exchange rate has been allowed to adjust flexibly.
12	Singapore	- 5 fiscal support measures amounting to SGD 92.9 billion (19.7% GDP), including: + Spending on epidemic prevention (SGD 800 million) (mainly to the Ministry of Health). + Support to households includes a cash pay out to all Singaporeans (higher for families with children under	1. A package of measures to help individuals and SMEs facing temporary cash flow difficulties, including to: (i) help individuals meet their loan and insurance commitments (which were broader then); (ii) support SMEs with continued access to bank credit and insurance cover; (iii) ensure interbank funding markets remain liquid and well-functioning.	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		20), and additional payments for lower-income individuals and the unemployed. + Support to businesses includes wage subsidies, support to cover rental costs, an enhancement of financing schemes, and additional support for the self-employed and industries most directly affected. - Increased contingency funds for unforeseen expenditure needs and also set aside loan capital of SGD 20 billion to help businesses and individuals facing cash flow challenges with loan obligations and insurance premium payments. - Supported R&D investment, a national stockpile of health supplies, and a programme on food resilience.	2. Established a USD 60 billion swap facility with the United States Federal Reserve to provide USD liquidity to Singapore banks, extended to end-March 2021. 3. Adopted a 0% annual rate of appreciation of the policy band and reduced the mid-point to the prevailing level of the Singapore dollar nominal effective exchange rate ($NEER), with no change to the width of the band. 4. Adjusted selected regulatory requirements and supervisory programmes to enable financial institutions to better deal with issues related to the pandemic. 5. SGD 125 million support package to sustain and strengthen financial services and FinTech capabilities, focusing on three main pillars: (i) supporting workforce training and manpower costs; (ii) strengthening digitalisation and operational resilience; and (iii) enhancing FinTech firms' access to digital tools. 6. Asked locally incorporated banks headquartered in Singapore to cap their total dividends per share to 60% of the FY2019 level and offer shareholders the option to receive dividends in scrip (as shares) instead of cash.	
13	Thailand	- A fiscal package worth THB 1.5 trillion (9.6% GDP), including: + Health-related spending. + Assistance for workers, farmers, and entrepreneurs affected by Covid-19 (5,000 THB/month/person for 3 months for about 14 million non-farm workers outside the social security system and 10 million farmers). + Support for individuals and businesses through soft	- Reduced the policy rate from 1.25% to 0.5%. - Reduced the contribution from financial institutions to the Financial Institutions Development Fund (FIDF) from 0.46 to 0.23% of the deposit base. - Soft loans by the Bank of Thailand (BOT) to financial institutions amounting to THB 500 billion for on-lending to SMEs; the government covers the first 6 months of interest and guarantees up to 60-70 percent of these loans.	- Bank of Thailand provided some liquidity in the foreign exchange market, allowed the exchange rate to adjust.

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		loans and tax relief. + Lower water and electricity bills, and social security contributions. + Measures to support local tourism: THB 22 billion in subsidies for tourists and THB 100 billion in soft loans for SMEs in this sector. From 15 July until end-October, there was also a tourism subsidy package, "We Travel Together," covering up to 40 percent of certain travel costs for up to 5 million domestic tourists.	- Relaxation of repayment conditions for businesses. - A Corporate Bond Stabilization Fund (BSF) to provide bridge financing of up to THB 400 billion by 31 December 2021 to high-quality firms with bonds maturing during 2021, at higher-than-market 'penalty' rates. - Bank of Thailand purchased government bonds, reduced bond issuances.	
14	Malaysia	1. A first stimulus package of RM 6 billion (0.4% GDP) including increased health spending; temporary tax and social security relief; cash transfers to affected sectors; and rural infrastructure spending. Additional measures (electricity discounts and temporary paid leave) amounted to RM 0.62 billion (less than 0.1% GDP). 2. A second stimulus package of RM 25 billion (1.7% GDP) including additional health spending; cash transfers to low-income households; wage subsidies to help employers retain workers; and infrastructure spending in East Malaysia. 3. A third stimulus package of RM 10 billion (0.7% GDP), including grants for micro-SMEs, scaled-up wage subsidies, and a 25% discount on foreign workers' fees. 4. A fourth stimulus package of RM 21 billion (1.4% GDP), including an extension of the wage subsidies scheme, hiring and training subsidies, support for business digitalisation, and additional tax relief. 5. A RM 50 billion fund for working capital loan guarantees	- Lowered the Overnight Policy Rate by 1.25% to 1.75%. - Lowered the Statutory Reserve Requirement (SRR) Ratio from 3% to 2%. Allowed banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to fully meet the SRR compliance until May 2021. - Increased its Financing Facilities by RM 4 billion to RM 13.1 billion (0.9% GDP). - RM 6 billion (0.4% GDP) to help business financing by both the private sector and public banks. - Temporarily eased regulatory and supervisory compliance on banks to help support loan deferment and restructuring. - Provided a targeted loan payment moratorium extension following the 6-month blanket moratorium expiring on 30 September 2020 and repayment flexibility to borrowers affected by Covid-19 as follows: + Individuals who have lost their jobs in 2020 and have	

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		for all Covid-19 affected businesses. 6. Employees are allowed special withdrawals from their Employment Provident Fund (EPF) account for a 12-month period and businesses are allowed to reschedule their EPF payments.	yet to find a job are offered an extension of the loan moratorium for a further 3 months. + Individuals who are still in employment, but their salaries have been affected due to Covid-19 are offered a reduction in loan instalment in proportion to their salary reduction, depending on the type of financing. The flexibility is offered for a period of at least six months. + Other individuals and all SME borrowers affected by Covid-19. - Support for the stock market: suspended short-selling to 30 July; waived annual licensing fees for capital market licensed entities; introduced regulatory relief measures for public listed companies; implemented measures to enhance protection of distressed companies against liquidation. - Support for real estate sector: exempted stamp duty for properties between RM 300,000 to RM 2.5 million until 31 May 2021; lifted the Loan-to-Value requirement of 70% for third mortgages (properties valued above RM600,000); exempted Real Property Gains Tax for disposal of residential homes until 31 December 2021; supported for rental cost.	
15	Indonesia	1. Fiscal packages amounting to IDR 33.2 trillion (0.2% GDP) to: + Support for tourism. + Support for low-income households.	- Reduced the policy rate from 5% to 4%. - Lowered reserve requirement ratios for banks. - Increased the maximum duration for repo and reverse repo operations (up to 12 months).	- BI has intervened in the spot and domestic non-deliverable foreign exchange

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
		+ Exempt income tax for workers in industries. 2. Fiscal packages amounting to IDR 677.2 trillion (4.2% GDP) including: + Support to the health care sector to boost testing and treatment capacity for Covid-19 cases. + Increased benefits and broader coverage of existing social assistance schemes to low-income households such as food aid, conditional cash transfers, and electricity subsidies. + Expanded unemployment benefits, including for workers in the informal sector. + Tax relief, including for the tourism sector and individuals (with an income ceiling). + Permanent reductions of the corporate income tax rate from 25% to 22% in 2020-21 and 20% starting in 2022. + Capital injections into state-owned enterprises and interest subsidies, credit guarantees and loan restructuring funds for micro, small, and medium enterprises.	- Introduced daily repo auctions. - Increased the frequency of foreign exchange swap auctions for 1-, 3-, 6- and 12-month tenors from three times per week to daily auctions. - Increased the size of the main weekly refinancing operations. - Adjusted macro-prudential regulation to ease liquidity conditions and support bond market stability. - Facilitated Bank of Indonesia (BI) liquidity assistance to banks, allowing BI to purchase government bonds in the primary market, financing the deposit insurance agency (LPS) for bank solvency problems, providing funding to LPS through repo transactions and purchases of government bonds owned by LPS. - Economic recovery in 2020 includes: + BI's purchases of government bonds with coupons at the BI's policy rate to finance priority spending on public goods, such as health and social protection. + The budgetary interest cost of spending support to firms is subsidised by BI transfers to the budget. + BI acts as buyer of last resort for long-term local currency bonds to finance other spending. - Strengthened financial deepening, access to financial services and monetary operations, including: + Facilitated collaboration between the banking industry and fintech companies. + Supported digital payment in various sectors.	markets, and in the domestic government bond market to maintain orderly market conditions. - BI allowed global investors to use global and domestic custodian banks to conduct investment transactions in Indonesia. - Lifted restrictions on imports and exports, aiming to ease global supply-chain disruptions.

Table 6: International policy responses in support of businesses during the Covid-19 pandemic *(continued)*

No.	Economy	Fiscal policy	Monetary policy	Other policy
			- Introduced a new share buyback policy (allowing listed companies to repurchase their shares without a prior shareholder meeting) and introduced limits on stock price declines. - Relaxed loan classification and loan restructuring procedures for banks to encourage loan restructuring; and extended the deadline by 2 months for publicly listed companies to release their annual financial reports and hold annual shareholder meetings.	

Source: IMF (2020b); OECD (2020); TMF Group (2020); National Economics University (2020)

3.2. Lessons learned from supporting businesses in the context of the Covid-19 epidemic

From international experiences implementing business and economic support packages, some lessons can be drawn for Viet Nam as follows:

1. Policies to support businesses, especially SMEs, can be divided into four main groups: (i) employee support and job maintenance (unemployment benefits, wage subsidies, support for the self-employed); (ii) deferral of tax and social contribution payments, land rental, and due debts; (iii) financial instruments (loan guarantees, business loans, grants); (iv) improving businesses' capacities, adjusting the operational structure of businesses (finding new markets, switching to remote work, implementing digital transformation and innovation, and re-training labour).

2. Some lessons to be noted in policy responses to support enterprises and employees to cope with the Covid-19 epidemic:

- Some countries minimised their requirements for support. To access a subsidy package for labour costs in Germany, for example, the government changed its requirement that businesses have a third of their workers affected, reducing the figure to 10%.

- Countries mainly defer taxes, debt payment (Columbia deferred income tax for the tourism and aviation industry; the United Kingdom deferred taxes for the retail, hotel, and entertainment services for 12 months; Sweden, Greece, Columbia, and Turkey deferred value added tax for a certain period of time; Hungary postponed social contribution payments; many postponed housing, property and equipment taxes; and some extended the repayment period for businesses, etc.). Several countries do not charge interest or enforce penalties for late payments (the United Kingdom, Canada, Netherlands, Germany, Czech, etc.). In addition, some countries even reduced taxes (Norway reduced value added tax from 12% to 8% until the end of October; Thailand reduced withholding tax by 1.5% and personal income tax, etc.).

- Policies on public investment and procurement in many countries are adjusted flexibly to defer or reduce costs for businesses. For example, France and Belgium did not penalise businesses for late payments on public contracts, and sped up the progress of infrastructure and chemical projects. New Zealand public agencies expedited payments in 10 days when making purchases. Denmark and Israel implemented a new mechanism to pay for bidding activities in advance. South Korea simplified the process by limiting on-site inspections. China and Israel, on the other hand, promoted purchases from domestic SMEs.

- Many economies flexibly adjusted regulations in the financial and banking sectors to facilitate financial institutions and commercial banks to increase capital supply for businesses, especially SMEs. The main measures are: reducing or flexibly regulating the rate of reserves for a certain period of time; raising the ceiling of loan guarantee rates (some countries increased to 80-85%; Germany, France, and Switzerland even increased to 100% for certain loans); increasing the size of guaranteed funds and expanding the portfolio of eligible loans; changing inspection plans and reporting, etc.

- Some countries set up new funds or increased the size of existing funds to lend directly to businesses, especially SMEs. Some priority industries have their own supporting programmes (for example, Austria had a EUR 100 million loan package for hotels that lost more than 15% of their revenue and Spain had a EUR 400 million loan package for heavily affected industries such as tourism and transportation). Interest rates have also been reduced significantly and process and terms are easier.

- Some countries provide direct subsidies to businesses (France, Switzerland, the United Kingdom, Korea, etc.). Conditions for businesses to receive these subsidies are also relatively clear (for example, percentages of decrease revenue, or whether business are operating in affected sectors, etc.). This is also how China helped businesses in areas critical to epidemic control and how Germany bought shares in distressed businesses.

- Non-bank financial instruments have been utilised by some countries (for example, crowdfunding, financial debt instruments issued by intermediaries other than banks, equity investments, etc.) to provide capital for businesses, especially start-ups.

- Some countries have suspended short selling, mainly in from March to May (France, Spain, Malaysia), and combined many other solutions to maintain stability of the stock market.

- Some countries define priority sectors and have separate financial support policies (Korea, Canada). European countries gave priority to green, digital transformation industries. Some countries promoted investment in R&D and digital transformation (Singapore).

- Some countries have policies (mainly amending legal regulations) to prevent and respond to corporate bankruptcy and control FDI inflows in order to acquire enterprises. Australia increased the threshold of debt that businesses are required to hold to go bankrupt, and extended the debt resolution period for borrowers from 21 days to 3 months. The United Kingdom restricted lending institutions from taking remedial measures during the period when a business was looking for an option or restructuring and allowed companies to continue to work with suppliers of necessary goods and services.

- Many countries are implementing solutions to improve business capacity and performance. For example, many countries supported enterprises, especially SMEs, to find new markets and customers through online sales channels, and promoted exports (Korea, Indonesia, Switzerland, etc.). Countries also launched support packages to encourage digital transformation and remote working, such as free digital service packages in Austria; financial support and subsidies for transformation activities, and connecting SMEs with domestic technology enterprises in Malaysia; and encouraging changes to and application of new business models and digital skills in China, etc. Many activities contributed to implementation of 4.0 development strategies. Countries also used funds for technology investment and application, and organised programmes to promote innovation in business. Several countries implemented support packages focusing on improving employees' skills to meet future needs (Australia, New Zealand, Portugal, etc.).

- Several countries have separate support programmes worth billions of euros for start-ups such as France, Germany, and the United Kingdom. The goals of these programmes are to provide financial support for fledgling businesses to survive the pandemic, as well as to foster research and innovation.

- In some countries, the private sector, business associations, and non-governmental organisations, etc., have increasingly participated in promoting entrepreneurship, encouraging flexible responses to the pandemic as well as the adoption of a new and innovative business model. In France and Malaysia, packages were provided by private organisations and business associations to promote digital transformation. Large businesses also expanded their funding to support innovative start-ups and small businesses.

- Several countries have housing support policies (China, Spain).

- Several countries disburse money to their citizens, low-income households, or affected citizens (Japan, Singapore, Thailand, Malaysia).

- Several countries established specific mechanisms to monitor and promote the implementation of policy measures. Austria established a unit to track and evaluate the impact of the pandemic on all businesses as quickly as possible. Social development banks and local and central governments deployed specialised groups to accelerate implementation of financial solutions. The Danish Government coordinated with the business sector to establish a specialised unit to recommend solutions to support businesses. Israel deployed a network connecting central and local government representatives to share knowledge and effective solutions.

3.3. Recommendations to assist the recovery and development of businesses in the context of Covid-19

3.3.1. General solutions

In order to support people, businesses and the economy to overcome the crisis caused by the pandemic, it is necessary to continue to implement measures to control Covid-19 and prevent it from spreading, ensuring the safety of all the people. At the same time, state agencies should focus on the following main solutions:

First, macroeconomic policies have an important influence on the resilience of the economy and on minimising the negative impacts of the epidemic. In particular, they determine whether an economy is able to recover quickly once the disease is under control. Therefore, macro policies should focus on the following areas:

- Policies should aim at improving liquidity, extending the resilience of businesses and ensuring social security. They should also pay special attention to vulnerable areas, such as employees and SMEs in the short term (especially in the most affected sectors) while at the same time avoid the breakdown of large enterprises to prevent spread to other areas.

- Demand stimulus policies should be implemented mainly through increasing state investment in infrastructure. The government must avoid the abuse of monetary policy that causes macroeconomic instability in the long run.

Second, the impact of epidemic diseases on economic sectors is varied. Some industries are heavily affected and businesses in those sectors are likely to go bankrupt (aviation, tourism, and services). However, some industries still have notable growth opportunities (agricultural products, food, pharmaceuticals, etc.). Therefore, it is necessary to have a reasonable selection of policies as well as subjects of support. At the same time, it is important to clearly formulate short-term and long-term support packages such as:

- In all cases, Viet Nam needs to ensure the security of food and essential goods for all people. Although these are the least affected sectors, enterprises supplying these goods need to be closely monitored and provided support if necessary to avoid production and supply chain breakdown.

- Viet Nam needs to proactively develop different economic policy response scenarios depending on the duration and severity of the epidemic. The proposed solutions need to take into account the delay in the promulgation and implementation process to ensure timeliness and efficiency.

Third, the nature of Covid-19 makes it difficult to predict the duration of its impact on the Vietnamese economy. In the context of Viet Nam's deep integration into global value chains and other countries' social isolation measures, if the pandemic is controlled in Viet Nam but remains unstable in other countries, it will not be easy for the economy to recover as soon as expected. This requires developing a variety of economic policy scenarios from short to long term to cope with the epidemic situation in both Viet Nam and in other countries around the world.

Fourth, the Government of Viet Nam should have policies to encourage businesses to restructure their markets. It is unavoidable, especially in the context where in a joint effort to reduce spread of the disease, most countries have implemented border closures and limited the movement of people. The world's consumer demand for many products has also been reduced, leading to a decrease in prices for most goods on the international market. The role of the global value chain is also being re-examined because of its vulnerability to the compounding effects of factory closures, border closures, and declines in demand. Thus, the government can leverage recent economic development and disease control achievements to initiate a new trade and investment strategy to complement Viet Nam's advantages of cheap labour and socio-economic stability.

Fifth, it is necessary to encourage businesses to conduct digital transformation as stated in Decision No. 749/QD-TTg dated 3 June 2020 as well as stimulate businesses to research new business models and utilise cashless payment. The regulations on border closures and social distancing during Covid-19 have demonstrated the potential of e-commerce and the utility of e-payments in connecting sellers with buyers instantly, reducing transaction costs, and creating new markets in accordance with the needs of consumers; many new business models have been created. The pandemic also shows the convenience and benefits of electronic payments in paying the most vulnerable. Its contribution to the development of e-commerce (an alternative to traditional shopping) in recent times has played an important role in business recovery, including for small and medium-sized enterprises. However, many businesses still face difficulties, which are not due to a lack of internet access but from the lack of a secure non-cash payment system.

The development of cashless payments is an important pillar of development of the digital economy, and it is also one of the factors boosting development in other areas of the digital economy, such as e-commerce.

3.3.2. Solutions to improve the business environment

In the context where enterprises are seriously affected by the epidemic, the creation of favourable procedures to support businesses and exports should be taken into careful consideration. Therefore, the government should pay attention to the following solutions:

First, the heads of ministries and localities need to direct and be accountable to the government and the Prime Minister for implementation of the government's resolutions on improving the business environment and cutting costs for businesses, and regularly monitor and evaluate implementation results. Practical actions from ministries and localities will help businesses feel confident to invest and commit to seeking opportunities to recover and develop business activities.

Second, ministries should continue to evaluate the effectiveness of reform activities for business conditions in their field in the 2016-2020 period, thereby removing barriers that cause difficulties for business. At the same time, they must continue to implement comprehensive reforms of specialised inspection and connectivity between the National Single Window and the ASEAN Single Window. They must also immediately resolve problems and shortcomings in regulations and procedures on specialised inspection to promote import and export activities.

Third, the government should continue promoting e-Government, deploying online public services at levels 3 and 4, ensuring real efficiency and avoiding superficiality and resource dissipation.

Fourth, ministries and localities should urgently implement solutions under their jurisdiction to allow people and businesses to apply non-cash payments by many different means (especially in the electricity, water bill payment, or periodic subsidy payment, etc.); speed up the provision of their online public services in level 4; and immediately issue regulations to apply mobile money payments and non-cash payments for customers who do not have bank accounts.

Fifth, the government should effectively deploy Resolution No. 02/NQ-CP on continuing to implement solutions to improve the business environment and enhance national competitiveness in the period 2020-2021. At the same time, the government should evaluate the results of reform and improvement of the business environment according to Resolution No. 19/NQ-CP (2014-2018) and Resolution No. 02/NQ-CP (in 2019, 2020); and identify problems, lessons and build a programme to reform and improve the business environment in the period 2021-2025.

Sixth, the government should quickly perfect a law on e-commerce and strengthen the capacity of relevant state agencies to support e-commerce development.

3.3.3. Financial solutions to support business recovery

First, it is necessary to strengthen measures to support businesses affected by Covid-19, focusing more on solutions including: (i) Monetary policy: loosening credit conditions; (ii) Fiscal policy: taxes and fees exemptions, reductions in social contributions, suspension of payments for trade union fees, reduction of trade union fees, and a decrease of infrastructure costs, etc.

The conditions to access these measures need to be transparent and coherent about the procedures and the beneficiaries. Difficulties accessing support packages, especially the financial verification process, should be minimised. Moreover, it is important to review, amend and ease regulations, conditions and requirements of packages to match reality and improve implementation so that businesses can quickly benefit from the programmes. The government should set aside a fixed source of revenue for a certain period to ensure sufficient resources for the state budget to provide funds or concessional loans for businesses so they can have adequate capital to overcome difficulties.

As the economy gradually recovers from the pandemic, fiscal policy should focus on key sectors to reach the appropriate beneficiaries. Fiscal policy should aim at both creating a driving force for domestic investment development and selecting and attracting foreign investment to take advantage of the global supply chain shift caused by the Covid-19 epidemic.

Second, the method of support should be suitable for businesses in each industry and at each stage and give priority to small and medium-sized businesses, whose resilience is weak. At the same time, it is necessary to classify, evaluate and select businesses to support, and focus on businesses in industries that are vulnerable to the impacts of epidemics and which have good governance systems to overcome such impacts.

The impact of the epidemic on economic sectors varies greatly. Some industries are heavily affected, such as aviation, tourism, restaurants, dining, entertainment, etc., but some have potential growth opportunities such as information technology, e-commerce, etc. Therefore, it is vital to build solutions suitable for each industry to avoid policy misuse and ethical risk.

Third, the government should prolong the validity period of the support packages so that businesses have enough time to pay the deferred payments and recover in a sustainable way.

Fourth, the government should continue to flexibly manage interest rates and lower interest rates in line with the macroeconomic situation, and restructure repayment terms and reduce interest and fees. Also, the government should flexibly implement preferential credit policies and promote consumer credit, and especially utilise solutions to support capital for small and medium enterprises so they can access the necessary financial resources to overcome their difficulties and recover.

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Report

03

PRIVATE SECTOR DEVELOPMENT IN VIET NAM IN THE POST-COVID-19 PERIOD

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December, 2020

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INTRODUCTION

Background

In Viet Nam, the role of the private sector is being increasingly cemented in the Party's guidelines and policies, especially Resolution No. 10-NQ/TW dated 3 June 2017 of the 5th Plenum of the 12th Party Central Committee on developing the private sector[1] towards becoming an important driving force of the economy. The private sector currently contributes over 42% of GDP, creating jobs for over 80% of the workforce. However, private sector development has not reached its potential nor met expectations. The private sector's contribution to GDP has remained largely unchanged over the past 10 years and has mainly relied on household businesses. The number of newly established private firms has increased continuously; however, although the number of household businesses and enterprises is large the quality of private sector development is inadequate. Labour productivity remains low as does financial capacity, technology and business efficiency. Resilience is poor and the number of enterprises suspending their operations or going bankrupt is increasing.

[1] In a broad sense, the private sector includes domestic private enterprises and business households (or non-farm individual business establishments).

Notably, in the context of the Covid-19 pandemic, the private sector has faced many difficulties in almost all sectors and fields, which showed its limited resilience. According to a survey of nearly 130,000 enterprises conducted by the Ministry of Planning and Investment (the General Statistics Office – GSO) in April (from 10 April to 22 April 2020), approximately 86% of enterprises had been affected negatively by the Covid-19 pandemic. This outcome was similar to the results of a survey conducted by the Viet Nam Chamber of Commerce and Industry (VCCI) in late March and early April 2020, which showed that nearly 85% of enterprises participating in the survey had lost or experienced narrowed markets for their products.

It can be said that the development of the Vietnamese private sector is facing many barriers due to various causes, from mind-set, mechanisms and policies to internal resources; and these issues are being revealed to a greater extent in the context of the Covid-19 pandemic.

On the basis of proposing solutions to develop the private sector, especially in the recovery process during the post-Covid-19 period, the Central Institute for Economic Management (CIEM) conducted a study on "Private sector development in Viet Nam during post-Covid-19". The research outcomes will contribute to raising awareness as well as the pro-activeness of CIEM in advising, proposing and discussing policies on private sector development in the coming time and in the post-Covid-19 period. The study outcomes are also an important input for CIEM to implement the "Reviewing of three years' implementation of the Government's Resolution No. 98/NQ-CP dated 3 October 2017 on implementing Resolution No.10-NQ/TW dated 3 June 2017 of the 5th Plenum of 12th Party Central Committee on private sector development" report which will be submitted to the government at the end of 2020.

Objectives of the study

Goal

The main goal of the study is to propose a system of solutions to promote development of the private sector and prompt business production recovery, resilience, and growth in the future, especially in the post-Covid-19 period.

Specific objectives:

The specific objectives of the study are to:

- Assess the current situation of private sector development in Viet Nam.
- Identify barriers to private sector development in Viet Nam.
- Analyse and clarify the new context and conditions affecting private sector development, especially during the post-Covid-19 period.
- Propose solutions to remove barriers to private sector development in Viet Nam.

Methodology

The study mainly employs qualitative methods, including a literature review, a synthesis of data and statistics, comparisons, and descriptions. By reviewing and synthesising available studies, the report analyses and clarifies the current situation regarding difficulties and barriers to private sector development in Viet Nam, especially in the context of the COVID-19 pandemic. The main inputs of the report are thematic research under the framework of the Macroeconomic Reforms/Green Growth Programme in Viet Nam (GIZ).

Report structure

The report consists of three main parts:

- Part 1. Guidelines and policies for private sector development in Viet Nam.
- Part 2. The current situation of private sector development and impacts of the COVID-19 pandemic.
- Part 3. Solutions for private sector development in the context of the post-COVID-19 period.

PART 1

GUIDELINES AND POLICIES ON PRIVATE SECTOR DEVELOPMENT IN VIET NAM

1.1. The perspectives and guidelines of the Communist Party of Viet Nam on private sector development

The perspective of private sector development in Viet Nam is closely linked to the developmental mind-set of a multi-sector economy. During the 6th National Congress (in December 1986), the Communist Party of Viet Nam made important changes in perception and steering on the issue of ownership and economic sectors, recognising the objective existence of various economic forms and sectors, including the private sector. Over more than 30 years of reform, especially since the 9th National Congress, the Communist Party of Viet Nam has issued many resolutions recognising and affirming the role and position of the private sector in the economy.

Additionally, entrepreneurs have made contributions to Viet Nam's recent economic development achievements that have been recognised and affirmed in Party documents. The private sector plays a key role in the industrialisation and modernisation of the country. For entrepreneurship development, various important policies have been proposed, such as promoting the potential, active and creative role of entrepreneurs; setting mechanisms and policies to support entrepreneurs' interests; and honouring entrepreneurs who have made great contributions to national development, etc.

1.2. Legal system on private sector development

Along with the change and affirmation of the role and position of the private sector in the economy, through the implementation of the Party's resolutions, the perception, guidelines and policies of the Party have been institutionalised into a legal system with specific regulations on private ownership, the private sector, and types of enterprises belonging to the private sector. The system of mechanisms and policies has been increasingly improved, creating a favourable business investment environment for the development of the private sector, for example:

• *Firstly,* market access mechanisms and policies have been improved, which facilitates people and entrepreneurs to conduct business freely.

• *Secondly,* to ensure fair and transparent competition among all economic sectors, regulations and policies have been developed and fostered to facilitate private sector development.

• *Thirdly,* policies related to the operations of business entities in the market also facilitate business freedom and development.

• *Fourthly,* many other synchronous mechanisms and policies have also been issued and implemented with great determination from central to local authorities.

PART 2

THE CURRENT SITUATION OF PRIVATE SECTOR DEVELOPMENT AND THE IMPACTS OF THE COVID-19 PANDEMIC

2.1. The current situation of private sector development

2.1.1. Quantity

According to the General Statistics Office, as of 31 December 2019, there were 758,610 enterprises in operation and 5,378,907 household businesses in Viet Nam. Among 610,637 enterprises nationwide that had reported their business results as of 31 December 2018, the private sector made up 97% of the total with 591,499 enterprises, which was 2.2 times as many as that of 2010. The number of household businesses increased from 4,124,980 in 2010 to 5,378,907 in 2019.

Table 1: Number of business entities in operation by economic sector

Year	Number of operating enterprises	Operating enterprises reporting business results				Business households
	Total	Total	SOEs	Domestic enterprises in the private sector	FDI enterprises	
2010	-	279,360	3,281	268,831	7,248	4,124,980
2015	-	442,485	2,835	427,710	11,940	4,754,826
2016	-	505,059	2,662	488,395	14,002	4,909,827
2017	654,633	560,417	2,486	541,753	16,178	5,142,978
2018	714,755	610,637	2,728	591,499	20,371	5,198,735
2019	758,610	-	-	-	-	5,378,907

Source: General Statistics Office (2020)

The number of domestic enterprises in the private sector and household businesses entering the market has increased over the years. In the period 2016-2019, the average number of newly established enterprises per year exceeded 100,000; in which, the year of 2019 hit a record with 138,000. In the first 10 months of 2020, there were over 111,000 newly established enterprises, accounting for 97% over the same period in 2019. The number of enterprises returning to operation has also increased over the years. In the first 10 months of 2020, there were 48,613 enterprises returning to operation, an increase of 38% over the same period in 2019.

Table 2: Newly established private sector enterprises and enterprises returning to operation 2010-2020

	Number of newly established enterprises	Number of enterprises returning to operation	Total number of registered employees of newly established enterprises	Capital of newly established enterprises (VND billion)	Total registered capital added to the economy (VND billion)
2010	77,548	-	-	-	-
2015	94,754	21,506	1,471,920	601,519	1,452,543
2016	110,100	26,689	1,267,961	891,094	2,520,913
2017	126,859	26,448	1,161,321	1,295,911	3,165,233
2018	131,275	34,010	1,107,101	1,478,101	3,886,892
2019	138,139	39,421	1,254,368	1,730,173	4,003,127
10 months of 2020	111,160	48,613	850,315	1,594,038	3,892,036

Source: http://dangkykinhdoanh.gov.vn

The number of registered employees of newly established enterprises in the first 10 months of 2020 reached over 830,000, which equalled approximately 83% of the number of registered employees of newly established enterprises in the same period in 2019. However, the indicators of registered capital and total registered capital added to the economy in the first 10 months of 2020 were both higher than in the same period in 2019.

2.1.2. Scale

The scale of the private sector is mainly on the micro, small and medium levels, in which micro businesses accounted for a high proportion. 65-70% of enterprises in the private sector employ less than 10 workers, which is an increasing trend. The proportion of enterprises with less than 10 employees in the private sector was much higher than that of the FDI sector (approximately 30%), and of the SOE sector (about 7.7-13.4%). In terms of capital scale, in the 2010-2018 period, the proportion of enterprises in the private sector with chartered capital under VND 10 billion accounted for 63.5-82%. This proportion was much higher than that of the FDI and SOE sectors.

Meanwhile, almost all household businesses/establishments are micro with about 1.7-1.8 people per business establishment on average. The average number of employees in the industry and construction sectors is higher than in the trade-services sector, at approximately 2.34-2.47 people per business establishment compared with 1.5-1.6 people.

Although the majority of business establishments in the private sector are micro and small, the number of economic groups in the private sector has increased significantly in recent years. In 2007, there were only 103 enterprises in the private sector in the list of 500 largest enterprises in Viet Nam. In 2017, this number was 286 and in 2019, 291.

Table 3: Private sector enterprises in the list of Viet Nam's 500 largest enterprises in the period 2016-2019

	2016	2017	2018	2019
Top 500 VNR	263	286	271	291
Top 100 VNR	34	36	41	49
Top 50 VNR	11	16	17	18
Top 20 VNR	0	5	3	5
Top 10 VNR	0	0	1	1

Source: http://vnr500.com.vn/

2.1.3. Labour

In the period 2010-2019, the proportion of the workforce over the age of 15 working in the non-state sector fluctuated from 83% to 86%. Meanwhile, the proportion of employees in the state sector tends to decrease from over 10% (in 2010) to approximately 7.7% (in 2019).

Table 4: Proportion of employees working in the economy by economic sector in 2010-2018

Year	Total *(1,000 people)*	By economic sector (%)		
		State sector	Non-state sector	FDI sector
2010	49,048.5	10.23	86.25	3.52
2015	52,840.0	9.06	84.98	5.96
2016	53,302.9	8.81	84.45	6.73
2017	53,703.4	8.56	83.61	7.83
2018	54,282.5	8.34	83.30	8.37
2019	54,659.2	7.73	83.54	8.72

Source: Statistical Yearbook

The total number of employees working in enterprises and business households (hereinafter referred to as the business sector) was approximately 24 million in 2018 (including 15.26 million working in enterprises), accounting for over 43.2% of the total number of employees working in the economy. The number of employees working in the private sector was over 17.8 million, accounting for 74.3% of the total workforce. The average employment growth rate in the private sector in the period 2011-2018 reached 3.6%; for domestic private enterprises it was nearly 5.4%.

The proportion of employees working in domestic private enterprises in the period 2011-2018 fluctuated from 59.3% to 61.8% of the total number of employees working in the private sector.

In the period 2011-2018, the non-state sector created annually around 366,000 jobs, accounting for approximately 60% of the country's total workforce.

Table 5: Number of employees by business sector in the period 2010-2018

Unit: 1,000 people, %

	2011	2012	2013	2014	2015	2016	2017	2018
Total	18,374	18,952	19,204	19,995	20,844	22,274	23,213	24,041
Enterprise groups *	58.87	58.07	59.70	60.26	61.68	62.91	62.52	63.47
- SOEs	*14.65*	*13.87*	*13.60*	*12.04*	*10.67*	*9.18*	*8.28*	*7.56*
- Domestic private enterprises	*61.76*	*61.41*	*59.79*	*59.33*	*59.98*	*61.18*	*60.64*	*59.53*
- FDI enterprises	*23.58*	*24.71*	*26.61*	*28.62*	*29.35*	*29.65*	*31.08*	*32.91*
Business households *	41.13	41.93	40.30	39.73	38.32	37.09	37.48	36.53

*Note: *: Compared with the total number of employees in the business sector*

Source: Statistical Yearbooks

2.1.4. Business areas

According to the data, enterprises operated mainly in service areas and this tended to increase in the period 2010-2019, from 65.65% in 2010 to 67.07% in 2019. Meanwhile, the proportion of firms in the industry and construction areas tended to decrease, from 33.42% in 2010 to 31.6% in 2019. Enterprises in the agriculture, forestry and fishery areas were an insignificant minority (accounting for approximately 1% of the total number of enterprises in operation).

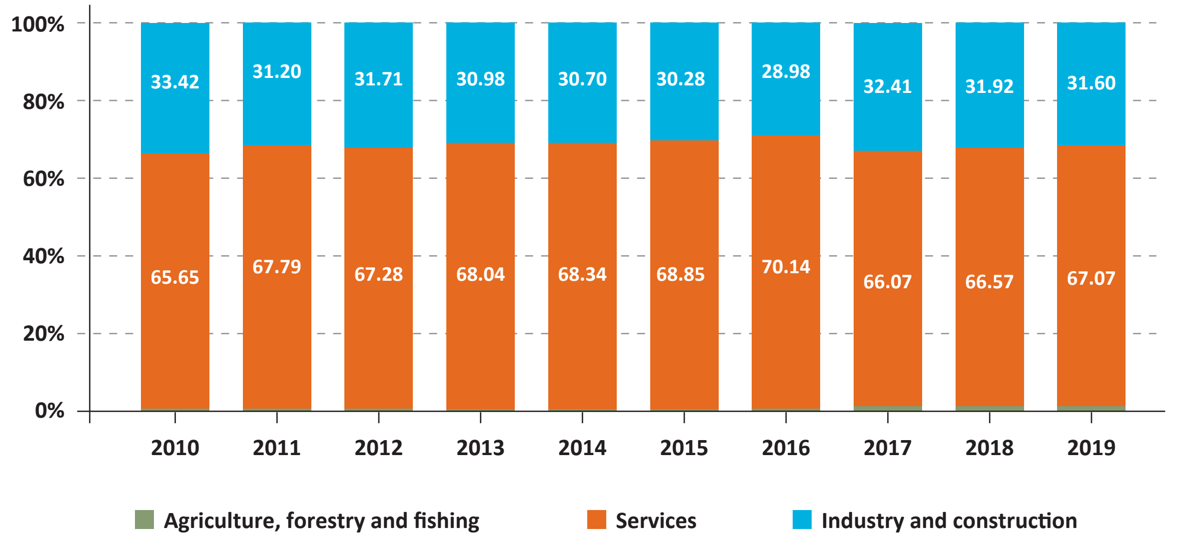


Figure 1: Proportion of firms in operation by business area in the period 2010- 2019 (%)

Source: Annual Statistics Yearbooks

Meanwhile, the proportion of household businesses operating in commerce and services accounted for a large proportion, up to 82.07% of the total number of household businesses (in 2019). The increase in the number of household businesses mainly comes from commerce and services, from nearly 3.2 million in 2010 to over 4.4 million in 2019. The proportion of business households in industry and construction showed a downward trend in the same period, from 22.66% in 2010 to 17.93% in 2019.

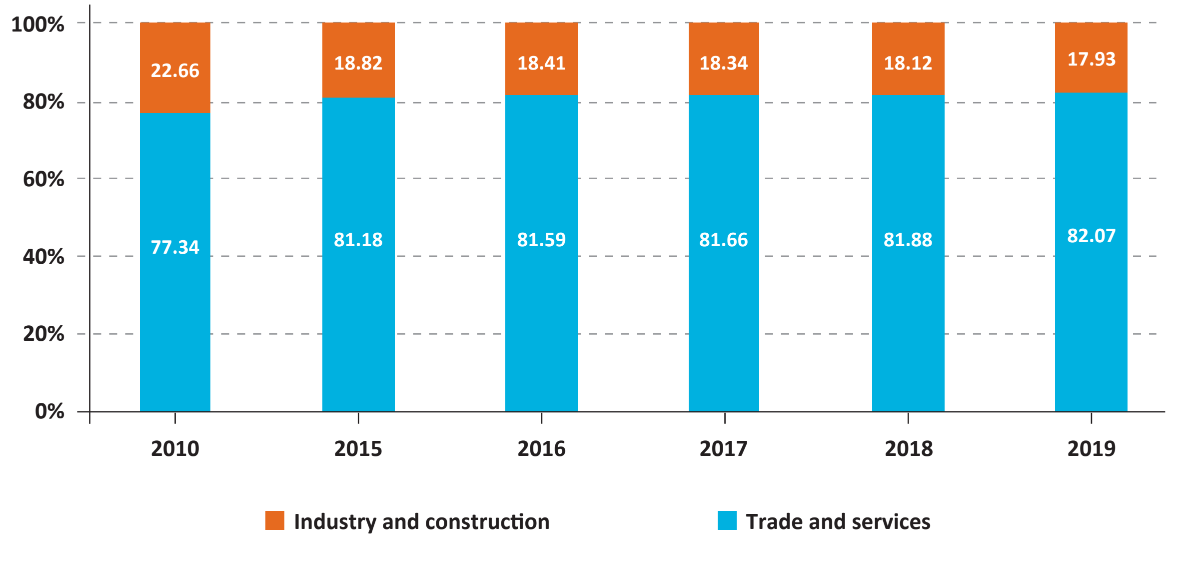


Figure 2: Proportion of household businesses by industry in the period 2010-2019 (%)

Source: Annual Statistics Yearbook

2.1.5. Contribution and performance of the private sector

<u>*Contribution of the private sector to GDP*</u>

The contribution of the private sector to GDP in the period 2010-2019 fluctuated from 37% to 39%, of which the formal private sector (domestic private enterprises) fluctuated between 9% and 10%, with the remainder individual sector business households.

Table 6: Proportion of GDP by economic sector in the period 2010-2019

Year	State sector	Cooperative sector	Private sector			FDI sector	Product taxes, less subsidies on production
			Total	Private enterprises	Business households		
2010	29.34	3.99	38.97	6.90	32.07	15.15	12.55
2015	28.69	4.00	39.22	7.88	31.33	18.07	10.02
2016	28.81	3.92	38.64	8.21	30.43	18.59	10.04
2017	28.63	3.76	37.99	8.64	29.34	19.63	10.00
2018	27.67	3.74	38.34	9.1	29.24	20.28	9.97
2019	27.06	3.63	39.05	9.68	29.37	20.34	9.92

Source: Statistical Yearbook

<u>*Contribution of the private sector to the state budget*</u>

The contribution of the private sector to the state budget has continuously increased over the years. According to the General Statistics Office, the contribution of the domestic private industry and service sector to the total domestic revenue increased from over VND 70 trillion in 2010 to over VND 238.3 trillion in 2019. Since 2017, the private sector's contribution to the state budget has surpassed that of state-owned enterprises and foreign-invested enterprises.

<u>*Contribution of the private sector to investment*</u>

The private sector’s contribution to total investment ranked second during the period 2011-2014 and has achieved the first place since 2015, reaching 38.7% in 2015 and 46% in 2019. In contrast, the state sector showed a downward trend, from 47.1% in 2005 to 38% in 2015 and 31% in 2018. The Foreign-invested sector remained stable from 2010-2019, contributing around 23-24%.

Table 7: Structure of total social investment capital and investment growth by economic sector

Year	Total capital (VND 1,000 billion)	Structure (%)			Growth rate (%)		
		State sector	Private sector	FDI sector	State sector	Private sector	FDI sector
2011	924.5	36.95	38.51	24.54	60.56	18.86	5.78
2015	1,366.5	38.05	38.68	23.28	5.49	12.81	19.86
2016	1,487.6	37.48	38.92	23.60	13.92	9.54	10.37
2017	1,670.2	35.69	40.59	23.72	21.12	17.10	12.85
2018	1,856.6	33.35	43.27	23.39	-7.84	18.50	9.59
2019	2,046.8	31.00	46.00	23.00	3.88	16.33	9.47

Source: Statistical Yearbook 2019

The private sector achieved the most stable growth rate for investment capital among the three sectors in the period 2011-2019, with an average annual growth rate of 10.6%; in particular, the growth rate has been around 15% since 2017. The private sector has played a key role in providing additional investment to cover the decline of the state sector.

Contribution to imports and exports

At present, there are no official statistics on the private sector's total import and export value – only statistics on the domestic economic sector and the FDI sector were calculated. However, the private sector is an important economic component contributing to exports. By attracting FDI, the FDI sector has strongly increased its share of exports and the domestic economic sector's share of exports decreased sharply in the period 2010-2017. However, since 2018, there has been a clear increase in the domestic economic sector's share of exports, from 28% in 2017 to 32.2% in 2019. The private sector has significantly contributed to this increasing trend.

Performance of the private sector

- The debt-to-equity ratio of private enterprises in the period 2010-2017 fluctuated from 1.83 to 2.3 times and was lower than the average of all enterprises in the economy. In 2018, the debt-to-equity ratio of private enterprises was 1,9 times; meanwhile, the debt-to-equity ratio of state-owned enterprises was 3.4 times and for FDI enterprises it was 1.7 times.

- The capital turnover of private enterprises was 0.7 times in 2018, higher than state-owned enterprises (0.4 times) and lower than FDI enterprises (1.0 times).

In the period 2010-2017, business households had a capital turnover ratio of 2.12-3.34 times.

The capital turnover for this sector increased rapidly in the period 2010-2014 and then decreased slightly in the period 2015-2017. The high turnover of business households is partly due to the majority of business households operating in the commercial sector, especially retail; therefore, capital flows often flow in at a high rate.

- The labour productivity of the private sector was very low. In the period 2010-2017, the labour productivity of the private sector was only equivalent to around 15-18% of the state sector and 14-30% of the FDI sector. If calculating the enterprise sectors separately, the labour productivity of private enterprises has improved over time. At current prices, the labour productivity of private enterprises increased from VND 121.4 million in 2011 to VND 228.4 million in 2017. However, compared to the labour productivity of state-owned enterprises and of FDI enterprises, the labour productivity of private enterprises was much lower. For example, in 2017, the labour productivity of private enterprises equalled only 33.68% of state-owned enterprises and 69% of FDI enterprises.

Table 8: Average revenue per employee by economic sector

Unit: VND 1,000/ month

	2011	2012	2013	2014	2015	2016	2017
General	185.1	210.4	213.6	214.3	236.8	276.8	298.7
SOEs	393.9	487.0	545.5	528.4	526.7	684.2	678.1
Private enterprises	121.4	130.6	126.4	141.6	162.7	193.3	228.4
FDI enterprises	218.4	235.1	251.2	243.1	291.0	314.6	330.8

Source: Statistical Yearbook

- Average income per month for employees of private enterprises was at the lowest level, at around VND 3.4-7.4 million/person/month in the period 2010-2017, equal to around 49-65.5% of state-owned enterprises and 73-83% of FDI enterprises. However, the annual growth rates of average incomes in private enterprises gained the highest level, 16.5%, compared to 16.1% in FDI enterprises and 11.7% in state-owned enterprises.

Table 9: Average incomes per month by enterprise sector in the period 2011-2017

	2011	2012	2013	2014	2015	2016	2017
Average incomes per month (VND 1,000)							
State-owned enterprises	7,909	8,464	8,970	9,793	9,509	11,411	11,909
Private enterprises	3,857	4,398	4,733	5,327	6,225	6,405	7,370
FDI enterprises	4,994	5,996	6,768	6,955	7,502	8,504	9,035
Growth rate of average incomes per month (%)							
State-owned enterprises	20.7	7.0	6.0	9.2	-2.9	20.0	4.4
Private enterprises	12.8	14.0	7.6	12.6	16.9	2.9	15.1
FDI enterprises	17.5	20.1	12.9	2.8	7.9	13.4	6.2

Source: Statistical Yearbook

- Business performance. The rate of return on assets of the private sector in the period 2011-2017 was the lowest among the three sectors, fluctuating from 0.86% to 1.86%. Meanwhile, the foreign-invested business sector had the highest rate of return on assets, fluctuating from 4.4% to 6.6% in the same period.

In terms of return on equity, enterprises in the private sector still had the lowest rate of the three sectors, ranging from 2.63% to 5.5% in the period 2011-2017.

2.2. Impacts of the COVID-19 pandemic and government policies

2.2.1. The impacts of the COVID-19 pandemic

Impacts on business establishment and operation

In Viet Nam, the Covid-19 pandemic struck at the beginning of 2020 and has had significant negative impacts on business activities, including the establishment and operation of enterprises in the private sector. In the first 9 months of 2020, the number of newly established enterprises decreased compared to the same period in 2019 (there was a high growth rate in all the previous years).

Table 10: Growth rate of the number of enterprises and investment capital of newly registered enterprises by month, in the period 2018-2020 (%)

	The number of newly established enterprises			Capital of newly established businesses			Capital of additionally-registered businesses		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
January	20.57	-7.01	-17.89	8.85	53.77	-18.49	90.24	121.94	-51.61
February	29.42	-14.56	9.14	29.35	25.36	-11.07	111.02	62.50	-32.26
March	1.16	6.22	4.43	2.67	34.83	-6.43	49.19	48.83	-23.54
April	4.33	4.87	-13.18	11.47	31.65	-17.92	64.36	16.42	-21.91
May	3.54	3.20	-10.51	6.43	29.58	-16.69	26.94	9.44	-17.21
June	5.31	3.76	-7.33	8.85	32.55	-18.96	38.76	9.91	-24.87
July	3.89	4.64	-5.12	11.63	29.61	-6.30	49.07	1.12	-21.56
August	2.45	3.48	-2.03	6.87	30.96	6.48	51.54	-4.53	24.30
September	2.81	5.86	-3.25	6.73	33.98	10.67	51.60	-8.05	25.60

Note: From February to September, cumulative value is calculated

Source: The Agency for Business Registration

The resilience of enterprises in the private sector is quite limited. In the first 9 months of 2020, the impact of the Covid-19 pandemic revealed the limited resilience of these enterprises. According to the Agency for Business Registration, in the first 9 months of 2020, 78,306 enterprises withdrew from the market, of which 38,629 registered to suspend their business operations for a definite period (an increase of 81.8% compared to the same period in 2019, 3.7 times higher than the average increase in the period 2015-2019 (21.9%)). On average, 8,701 enterprises withdrew from the market each month, an increase of 27.2% compared to the average of 9 months in 2019.

Table 11: Resilience of enterprises in the private sector

	2014	2015	2016	2017	2018	2019	9 months in 2020
Registration for business suspension	11,723	15,649	19,917	21,684	27,126	28,731	38,629
In dissolution procedures	46,599	55,742	40,750	38,869	63,525	43,711	27,588
Completing dissolution procedures	9,501	9,467	12,478	12,113	16,314	16,840	12,089
Number of enterprises withdrawing from the market	67,823	80,858	73,145	72,666	106,965	89,282	78,306
Number of enterprises entering the market (newly established and re-joined)	90,261	116,260	136,789	153,307	165,285	177,560	133,586
Withdrawal/Entry (%)	75.1	69.5	53.4	47.4	64.7	50.3	58.6
Withdrawal/Newly established (%)	91.6	85.3	66.4	57.2	81.4	64.6	79.1

Source: The Agency for Business Registration

The decrease in the number of newly established enterprises, the number of registered employees in these enterprises, and the increase in the number of businesses withdrawing from the market in the first 9 months of 2020 compared to the same period in 2019 indicates the significant impact of the Covid-19 pandemic on the private sector.

Data on the situation of new registrations, closures, dissolution and returning to operations in the period 2011-2019 showed a significant improvement in the Vietnamese business environment in the period 2016-2019 compared to 2011-2015. The number of newly established enterprises increased rapidly, the proportion of the total number of newly established enterprises closing and dissolving decreased; and the number and proportion of suspended enterprises returning to operation increased. However, the Covid-19 pandemic in 2020 had a negative impact on business activities with a decrease in the number of newly established enterprises compared to the same period in 2019 and an increase in the number of enterprises having to suspend operations. The number of employees registered in newly established enterprises also decreased.

Additionally, the private sector mainly operates in business areas that have been heavily affected by the pandemic. These are the trade and services sector (tourism, accommodation, food and beverage, and transportation) as well as textiles, footwear, etc. Therefore, the impact of Covid-19 on activities in the private sector is much greater than for the state sector. According to the General Statistics Office (2020), in a survey of over 153,000 enterprises, nearly 84% of private enterprises had their operations affected by the Covid-19 pandemic compared to about 79% in the state sector.

According to the Report on Impacts of COVID-19 on Firms in Viet Nam (BPS)[2] by the World Bank, during the lockdown period in April 2020, a large number of enterprises had to suspend business for a definite period. It was estimated that nearly 50% of enterprises were closed during the lockdown period (April 2020) due to the direction of the government or their own decision, of which 50% of small enterprises and over 40% of medium firms had to close temporarily or permanently. In contrast, only about 30% of large firms closed during the lockdown period. A growing number of enterprises in the services area had to close, while most agri-businesses remained open. By June, about 80% of enterprises had reopened, while 20% had only partially opened or remain closed.

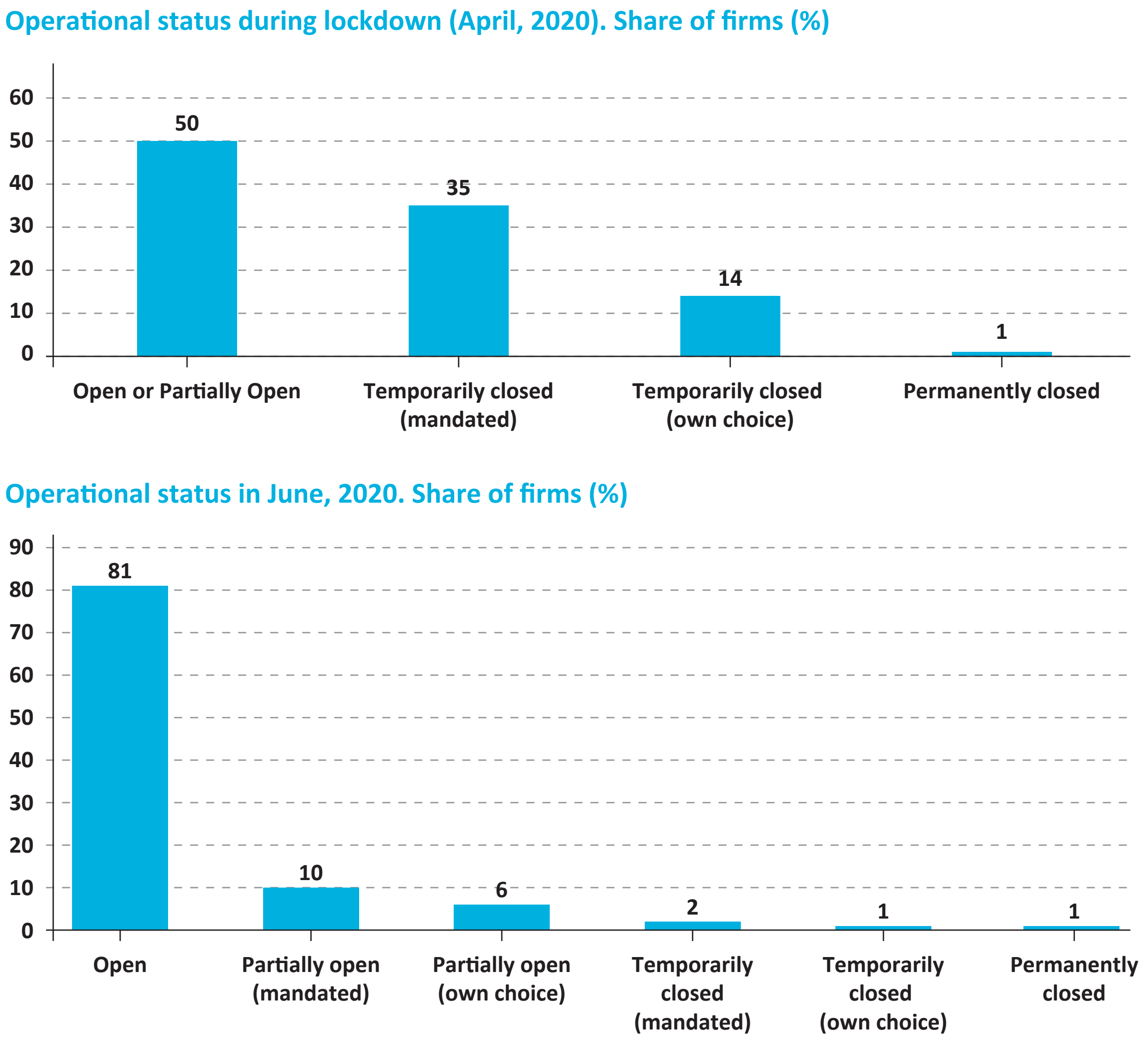


Figure 3: Operational status from April to June, 2020

Source: Impacts of COVID-19 on Firms in Viet Nam (BPS), World Bank

[2] The World Bank collaborated with the General Statistics Office to conduct the first round of research on the Impacts of COVID-19 on Firms in Viet Nam (BPS) in June 2020.

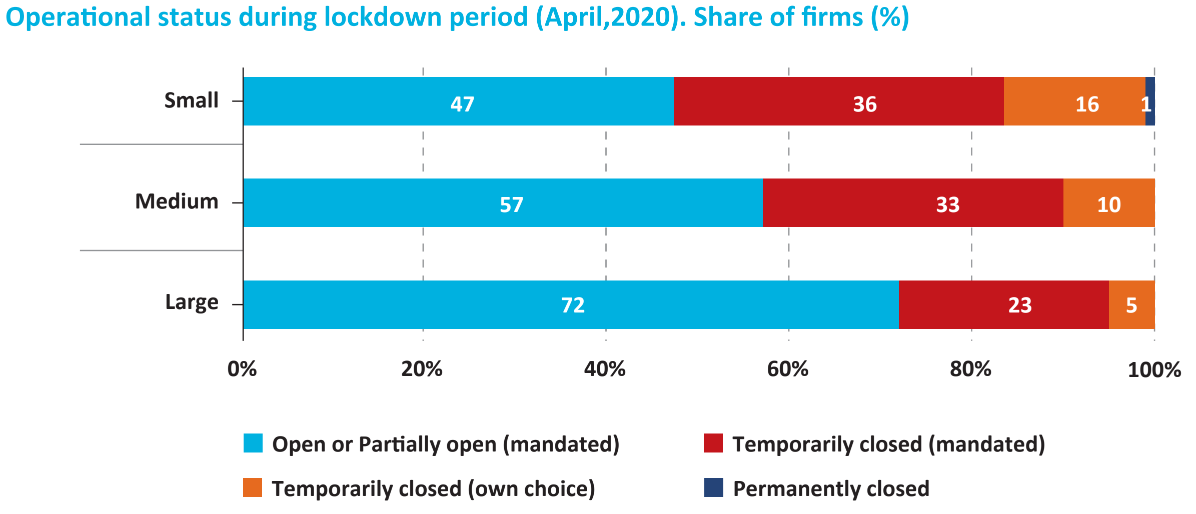


Figure 4: Operational status during lockdown (based on scale)

Source: Impacts of COVID-19 on Firms in Viet Nam (BPS), World Bank

A report by the Private Economic Development Research Board (2020)[3] identified the difficulties enterprises faced during the second outbreak of the pandemic; 81% of enterprises said that order cancellations and a lack of new contracts was the biggest difficulty. 72% of enterprises said that employee-related expenses, such as salaries and insurance payments, trade union fees and other fees was their second biggest difficulty. 42-45% of enterprises worried about costs for raw materials, fuel inputs, and rents for warehouses, factories, offices, etc.

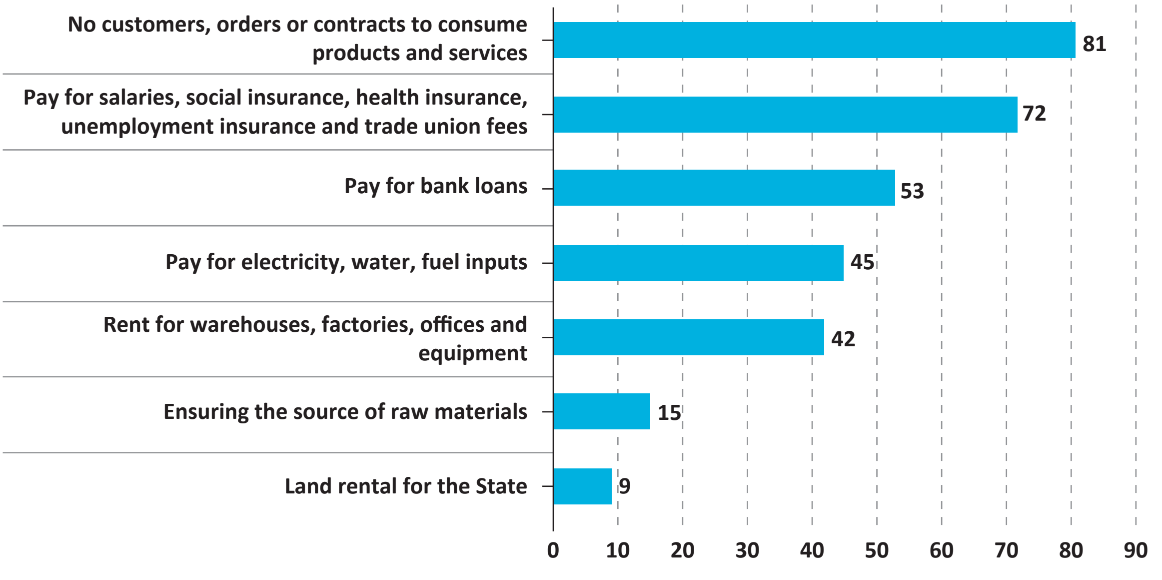


Figure 5: Difficulties in the coming time

Source: The Private Economic Development Research Board

[3] Report on examining the impact of the second outbreak of COVID-19 on businesses by the Private Economic Development Research Board under the Advisory Council for Administrative Procedure Reform conducted a survey of nearly 400 enterprises and 15 associations.

According to the survey, in the first wave of the pandemic, the biggest difficulty for enterprises was supply chain breakdown and in the second wave, the problem was cash flow, reduced revenue (even no revenue) and inability to make payments. Specifically, 76% of respondents said that their revenues and expenditures were not balanced, of which 54% said that their cash inflows met only 50% of costs. Production capacity of enterprises in the private sector decreased significantly.

Business households were also strongly affected by the Covid-19 pandemic. A survey by the ADB Institute (ADBI) shows that 66% of Vietnamese households (mainly business households) experienced a 75% reduction in their total income. In Hanoi, in the first 2 months of 2020, over 9,000 business households had to dissolve, close or temporarily close, of which over 3,000 said that they had to close or temporarily close due to the Covid-19 pandemic.

Impact on labour and employment

The number of jobs registered in newly established enterprises in the first 10 months of 2020 also decreased compared to the same period in 2019. Additionally, the number of people losing their jobs in the private sector was high. According to the General Statistics Office (2020), the proportion of employees no longer working in enterprises in the private sector due to the impact of Covid-19 was 8.6% compared to only 0.5% in SOEs and over 4% in the foreign-invested sector. Small firms were the group impacted the most with nearly 11% of employees having no chance to continue working in these firms.

According to a report on the Impact of COVID-19 on labour and employment in the third quarter of 2020 by the General Statistics Office[4], the Covid-19 pandemic has affected employees working in almost all areas. In which, the processing and manufacturing industry is one of the areas with a large proportion of employees (70.1) being negatively affected. The monthly average income of employees in all sectors decreased compared to 2019.

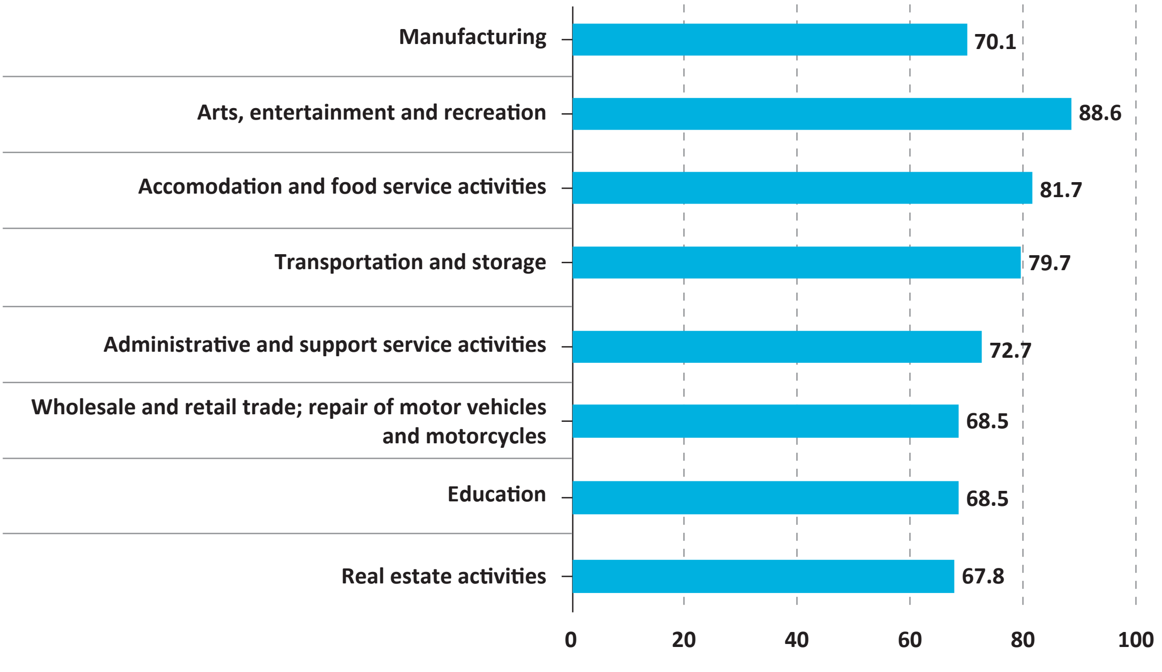


Figure 6: Proportion of employees negatively affected by COVID-19 by business area

Source: General Statistics Office

[4] https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2020/10/bao-cao-tac-dong-cua-dich-Covid-19-den-tinh-hinh-lao-dong-viec-lam-tai-viet-nam-quy-iii-2020/

This report also indicated that 33.4% of enterprises had to reduce labour in the first 9 months of 2020 compared to the same period in 2019. Air transport, tourism and accommodation services observed the highest numbers of job cuts. It is estimated that by the end of 2020, the rate of enterprises having to take measures to reduce their workforces was 36.4% compared to the same period in 2019. In the first 9 months of 2020, the industries that witnessed a significant decrease in the number of employees were air transport and tourism (30.4%); accommodation services (29.9%); sports, recreation and entertainment (17.4%); food and beverage (15.4%); and construction (14.1%). Among employees working in the surveyed enterprises as of 10 September 2020, 7.8% experienced a reduction in pay, 5.0% took time off work alternately/worked alternate shifts (for example, one week on, one week off) and 2.4% went on furlough. The proportion of employees with reduced salaries in enterprises in the air transport industry was highest (99.5%), followed by the tourism industry (43.2%), and accommodation services (27.8%).

Impacts on investment

Travel restrictions due to the outbreak of the pandemic have negatively affected domestic investment, especially private sector investment. Data on the proportion of investment and the investment growth rate by economic sector showed that investment growth in 2020 has decreased significantly compared to previous years. The growth rate in the first three quarters of the year was only 4.8% over the same period. Meanwhile, the investment growth rate of similar quarters in the period 2016-2019 reached two digits (except for the first 9 months of 2016 - 9.6%). In terms of economic sector, in 2020, the state sector had the highest investment growth rate (13.4% in the first 9 months of the year) among the three sectors (for the state sector it was only 2.8%, and for the foreign invested sector 2.5%).

During the first 7 months of 2020, additional capital to the economy from newly established businesses declined significantly compared to the same period in 2019, from 15.4% to 44 %. Registered capital of newly established enterprises decreased, from 6.3% to 19%, and additional capital of operating businesses decreased significantly over the same period, from 17% to 51.6%. However, the last two months of the third quarter of 2020 witnessed an increase. The accumulated registered capital of newly established enterprises by the end of August and September reached 6.5% and 10.7%, respectively. Additional investment capital also increased by 24.3% and 25.6% by the end of August and September, respectively.

The structure of total social investment by economic sector in 2020 also changed. In the previous years, the proportion of investment capital of the state sector showed a downward trend; in 2020, the proportion of this sector increased, from 31% by the end of the third quarter of 2019 to 33.5% at the same point in 2020. The proportions of the total social investment capital of both two remaining sectors decreased compared to 2019 (a reverse trend compared to previous years). The private sector decreased from 45.3% to 44.4% and the foreign invested sector from 23.7% to 22.1%.

The Covid-19 pandemic can be considered a key reason for this decline. In August and September 2020, these indicators showed a significant improvement as they both increased compared to the same period in 2019, showing the optimism and trust of the domestic business community in the government's management of economic development as well as disease prevention. This was demonstrated in the second wave of Covid-19 at the end of July 2020, which was quickly controlled despite its more rapid spread and larger scale.

Table 12: Proportion of investment and investment growth rates by economic sector in the period 2016-2020 (%)

		2016	2017	2018	2019	2020
Investment growth (%)						
General	First quarter	10.3	11.2	10.0	10.2	3.4
	6 months	10.3	11.2	10.0	10.2	3.4
	9 months	9.6	12.3	10.6	10.3	4.8
State sector	First quarter	5.9	5.3	3.0	2.6	5.8
	6 months	5.4	6.5	2.4	2.8	7.4
	9 months	6.0	7.0	3.3	3.2	13.4
Private sector	First quarter	14.5	15.0	17.2	14.8	4.2
	6 months	12.9	15.6	17.5	16.5	4.6
	9 months	10.3	16.6	17.9	16.8	2.8
FDI sector	First quarter	12.8	7.1	8.1	7.5	-5.4
	6 months	14.3	11.6	9.0	9.7	-3.8
	9 months	14.1	13.5	9.1	8.4	-2.5
Investment structure (%)						
State sector	First quarter	34.7	33.4	31.3	29.4	30.5
	6 months	37.2	35.6	33.2	30.9	32.2
	9 months	37.2	35.5	33.2	31.0	33.5
Private sector	First quarter	37.6	39.5	42.1	44.4	45.2
	6 months	37.2	38.7	41.3	43.7	44.2
	9 months	38.6	40.1	42.7	45.3	44.4
FDI sector	First quarter	27.7	27.1	26.6	26.2	24.3
	6 months	25.6	25.7	25.5	25.4	23.6
	9 months	24.2	24.4	24.1	23.7	22.1

Source: The Agency for Business Registration

Other impacts

Besides its negative impacts, the Covid-19 pandemic has been a "catalyst" to promote digital transformation and new business models. According to a survey of 500 enterprises on the resilience capacity of enterprises after the Covid-19 pandemic conducted by the UEH Financial Technology Institute, in order to cope with the negative impacts of COVID-19 enterprises have: reduced working hours (23%); reduced wages (20%); implemented labour layoffs (15%); and placed employees on leave (26%). In addition, about 47% of enterprises actively use digital platforms, 7% are willing to invest in digital solutions and the majority have used digital platforms for revenue growth, flexible modes of payment, marketing, administration and delivery services. The Covid-19 pandemic also created an opportunity for businesses to assess their resistance and adaptability to the new situation through self-assessment on current production and business situation, strengths, weaknesses and competitive advantages to improve business models for efficiency and sustainability. According to a survey conducted by VCCI (2020), 29.4% of domestic enterprises have started to apply digital technology since the Covid-19 pandemic struck and intend to continue using this technology.

The Covid-19 pandemic is an opportunity for enterprises to understand and re-examine their true capacity and resilience to market incidents. They have taken the opportunity to review, evaluate, and restructure their sources of raw materials and customers. Enterprises have explored new and more active directions, developing plans to renovate production models and new sales channels, as well as strategies to optimise costs to ensure financial resources to sustain and recover when the Covid-19 pandemic ends. Some enterprises implemented changes in business processes to take advantage of digital platforms, effective business data, and to minimise direct contact activities.

2.2.2. Government support policies and initial results

Support policies from the government

Facing the impact of the COVID-19 pandemic, the government has continuously issued support policies for individuals and enterprises to achieve the dual goals of “controlling the pandemic while maintaining economic growth." From January to the beginning of October, the government issued 87 steering documents related to the prevention of the COVID 19 pandemic. 36 of these were issued in March and April – the peak month of pandemic prevention.

The table below summarises the key legal documents related to the government's support packages for individuals, enterprises and the economy to overcome and reduce the impact of the Covid-19 pandemic.

Table 13: The main government support programmes for the private sector

	Document	Date of issue	Main content
General guidance documents	Directive No.11/CT-TTg	4 March 2020	Urgent tasks and solutions for assisting businesses facing difficulties and the assurance of social welfare during the Covid-19 pandemic
	Resolution No.84/2020	29 May 2020	Tasks and solutions to continue to remove difficulties in production and business, accelerate the disbursement of public investment and ensure social order and safety in the context of the Covid-19 pandemic

Table 13: The main government support programmes for the private sector *(continued)*

	Document	Date of issue	Main content
	Resolution No.42/2020	9 April 2020	Assistance for people affected by the Covid-19 pandemic
Fiscal support packages	Resolution No. 10/2020/QH14	10 June 2020	On extension of the time limit for agricultural land-use tax exemption
	Decree No.41/2020 ND-CP	8 April 2020	Extending the deadline of tax and land rental fee payment for enterprises
	Resolution No.116/2020/QH	19 June 2020	On reduction of enterprise income tax amounts payable in 2020 for enterprises, cooperatives, non-business units and other organisations
	Resolution No. 979/2020/NQ-UBT VQH14	27 July 2020	30% reduction of environmental protection tax on aviation fuel
	Decision No.22/2020/QD-TTg	10 August 2020	The reduction of land rental by 2020 for those affected by the Covid-19 pandemic
	Decree No.70/2020/ND-CP	28 June 2020	50% reduction of registration fees - a stimulus for domestic cars until the end of 2020
	Decree No. 109/2020/ND-CP	15 September 2020	The extension of time limits for excise tax payment for domestically manufactured or assembled cars
	21 Circulars of the Ministry of Finance	5 May - 12 August 2020	Exemption or reduction of fees and charges in the fields of justice, labour safety, work permits, passports, etc.
	Resolution No. 954/2020/ UBTVQH14	2 June 2020	Changes to Personal Income Tax exemptions
Monetary support packages	Resolution No.11/NQ-CP	14 February 2020	Restructuring repayment terms, exempting or reducing loan interest, keeping the group of debt risk classification for restructured loans, new loans to stabilise production and business, support and removal of difficulties for businesses, people who borrow money due to the effects of the Covid-19 pandemic

Table 13: The main government support programmes for the private sector *(continued)*

	Document	Date of issue	Main content
	Resolution No.41/2020 NQ-CP	9 April 2020	The implementation of Directive No. 11/CT-TTg of the Prime Minister
	Directive No.02/CT-NHNN	31 March 2020	Requesting credit institutions to promote effective solutions to support affected customers; cost savings to reduce interest rates to the maximum extent possible
	Circular No.01/2020/TT-NH NN	12 March 2020	Instructing credit institutions to restructure repayment terms, exempt or reduce loan interest, keep the debt group intact, and support customers affected by Covid-19 that incur liabilities from 23 January 2020 until 3 months after the Prime Minister's announcement of the end of the pandemic
	Circular No. 04/2020/TT-NHNN	31 March 2020	Adjust the 50% transaction fee for interbank payments through the electronic payment system, applied from 1 April to 31 December 2020
Social security support packages	Resolution No. 42/NQ-CP	9 April 2020	Assistance for people affected by the Covid-19 pandemic
	Resolution No.37/NQ/CP	29 March 2020	Allowances for isolated people and people involved in fighting Covid-19
	Decision No. 15/2020/QD-TTg	24 April 2020	Implementation of policies on assistance for people affected by the Covid-19 pandemic
	Decision No. 32/2020/QD-TTg	19 October 2020	Amendments Decision No. 15/2020/QD-TTg policies for people due to Covid-19
	Resolution 154/2020 NQ-CP	19 October 2020	Amendments to Resolution No. 42/NQ-CP
	Document No 2698/BCT-ĐTĐL	16 April 2020	Reducing electricity prices for customers due to impacts of the Covid-19 pandemic

Table 13: The main government support programmes for the private sector *(continued)*

	Document	Date of issue	Main content
Promoting public investment and improving the business environment	Resolution No. 117/2020 / QH14	19 June 2020	Conversion from public-private partnership investment using part of the state budget to public investment using all of the state budget for three component projects of the North-South Expressway: Mai Son - National Highway No 45, Vinh Hai - Phan Thiet, and Phan Thiet - Dau Day
	Law No. 62/2020 / QH14	17 June 2020	Amendments to the Construction Law
	Resolution No.108 / NQ-CP	17 July 2020	On tasks and solutions for difficulties in implementation of Decree No. 68/2019/ND-CP on management of construction investment expenditure
	Decision No. 1691/QD-TTg	29 October 2020	On adjusting and supplementing the medium-term investment plan for domestic central budget capital in the period 2016-2020; adjustments to the central budget capital investment plan for 2018, 2019 has been extended to 2020 and 2020 by ministries, central and local agencies
	Decision No. 1814/QD-TTg	14 November 2020	Regarding the adjustment and supplement of the medium-term investment plan with the central budget capital for the 2016-2020 period; adjustments to the central budget capital investment plan for 2017, 2018, and 2019 have been extended to 2020 by ministries, central agencies and localities
	Official request No.8299/BTC-NSNN	8 July 2020	Reduce conference costs and promote disbursement of local public investment
	Decree No.122/2020/ND-CP	15 October 2020	Regarding procedures for starting a business
	Circular No. 47/2020/TT-BTC	27 May 2020	The time of submission of proof of origin and the form of proof of origin for imported goods applied during the period of acute respiratory infections caused by coronavirus
	Decree No. 111/2020/ND-CP	18 September 2020	Viet Nam's Preferential Export Tariff and Special Preferential Import Tariff to implement the Free Trade Agreement between the Socialist Republic of Viet Nam and the European Union during 2020-2022

The Vietnamese government's support packages can be divided into four groups:

Firstly, the fiscal support package:

The fiscal support package is worth about VND 73,100 billion (1.2% of GDP) (Can Van Luc et al. 2020). This support package includes measures for exemption and reduction of taxes, fees and charges (about VND 69,300 billion) and extension of tax and land rental payments (about VND 180,000 billion in 5 months, but it is actually deferred payments; individuals, enterprises still have to pay at the revised due date. The support value is the interest-free extension, equivalent to VND 3,825 billion).

Secondly, the monetary - credit support package:

This support package is estimated at VND 36,600 billion (0.6% of GDP), including the interest rate reduction while credit institutions provide new loans with preferential interest rates (down 1-2.5%/year) with a committed scale of about VND 600,000 billion; credit institutions reschedule the repayment period while maintaining the same debt group (excluding interest and penalties); interest exemption or reduction (0.5-1.5% reduction for affected existing loans); fee exemptions and reduction, especially payment fees and other service fees. Along with these measures, the State Bank of Vietnam has also reduced the operating interest rates three times, enabling credit institutions to reduce interest rates.

Thirdly, the social security support package:

The social security support package is also known as the VND 62,000 billion package. The actual value of this package is about VND 45,800 billion (0.8% of GDP) because the cost of the salary payment loan support package excludes interest (zero percent interest rate) equivalent to VND 390 billion. On the due date, enterprises still have to repay the loans.

The social security support package is implemented under Resolution No. 42/NQ-CP, Decision No. 15/QD-TTg. After a period of implementation, the government issued Resolution No. 154/NQ-CP and Decision No. 32/QD-TTg to supplement and amend the supporting provisions in this package.

Besides social security support for individuals, business households and business owners with jobless workers, other support for families and businesses in the form of electricity and telecommunications subsidies were implemented at a total value of VND 26,000 billion (0.43% of GDP). This subsidy includes a 10% reduction in electricity prices by Viet Nam Electricity (EVN) worth VND 10,900 billion and a subsidy package for telecommunications services worth VND 15,000 billion.

Fourthly, promoting public investment and improving the business environment

Besides the direct support packages for individuals and businesses in the private sector, the government has also issued many policies to accelerate the progress and disbursement of public investment, including public investment re-adjustment.

According to IMF statistics, the Vietnamese government aims to disburse 100% of public investment capital, equivalent to VND 686 trillion (11.4% of GDP) of which 225 trillion was accumulated from the previous year. Although they made great efforts, in October, the disbursement rate only reached 68% of the plan.

The beneficiaries of the support are defined as follows:

- According to Resolution No. 42/CP, the following employees will be supported due to the COVID-19 pandemic:

  - Employees working under labour contracts who have had to agree with their employers to suspend their contracts or take unpaid leave for a period of one month or more (due to the COVID-19 pandemic, there is no source of income to pay salaries):

    VND 1,800,000 per month will be provided

The period for the support is based on the actual duration of the contract suspension or the amount of unpaid leave taken, calculated from 1 April 2020, but shall not exceed three months.

- Employees whose labour contracts are terminated and are who not eligible for unemployment insurance, and employees working without a labour contract who lose their jobs.

  VND 1,000,000 per month will be provided.

  The period for support will be calculated from April to June 2020.

In addition, a number of other subjects are also supported with funds, such as people with meritorious services to the revolution, who are enjoying preferential monthly subsidies; social protection subjects who are receiving the monthly social allowance; poor households; and near-poor households, etc.

• Enterprises and business households receive support due to the Covid-19 pandemic:

  Employers are affected by the Covid-19 pandemic, leading to a reduction of at least 50% of their employees with social insurance by the time the competent agencies announced the pandemic (including suspended employees, and those that had their contracts suspended or had to take unpaid leave). The employee and the employer may temporarily suspend payment to the retirement fund and death benefit for no more than 12 months.

  At the same time, employers facing financial hardship who have paid at least 50% of suspended employees' salaries under Clause 3, Article 98 of the Labour Law from April to June 2020 can obtain a loan at 0% interest without collateral for up to 50% of the regional minimum salary for each employee according to the actual salary payment but for no more than 3 months. The maximum loan term is 12 months at the Vietnam Bank for Social Policies for enterprises to pay the remaining salary and monthly disbursements directly to suspended employees.

  Business households with tax revenue of under VND 100 million/year that have suspended their operations since 1 April 2020 are supported at a rate of VND 1,000,000/household/month depending on the actual situation of the pandemic but for no more than 3 months.

Based on the implementation of Resolution No. 42 NQ-CP and Decision No. 15/2020/QD-TTg, the Ministry of Labour, Invalids and Social Affairs has cooperated with relevant agencies to submit to the government the Prime Minister's Resolution No. 154/NQ-CP dated 19 October 2020 amending and supplementing Resolution No. 42/NQ-CP and Decision No. 32/2020/QD-TTg amending and supplementing a number of articles of Decision No. 15/2020/ QD-TTg, with the main contents as follows:

Regarding subjects: Expanding support for employees to postpone labour contracts and leave unpaid jobs at "private educational establishments, public educational institutions to ensure their recurrent expenditure in kindergartens, primary schools, secondary schools, high schools" stipulated at Point 1, Section II of the Government's Resolution No. 42/NQ-CP and Clause 3, Article 1 of Decision No. 15/2020/ QD-TTg of the Prime Minister.

Regarding the conditions to verify that an enterprise can borrow from the Vietnam Bank for Social Policies to pay suspended employees' salaries: The content of the Resolution and Decision has reduced conditions and procedures, facilitating employees and employers to access the VND 16,000 billion support package, specifically:

In Resolution No. 154/NQ-CP: Eliminating the regulation that enterprises must have provided at least 50% of salaries for suspended workers. Eliminating regulations on direct monthly disbursement to suspended employees. Adding provisions: Employers shall directly submit applications to the Vietnam Bank for Social Policies. They must self-declare and take responsibility before the law for the accuracy and truthfulness of the number of suspended employees and the figures to determine the turnover to meet the loan conditions as prescribed.

In Decision No. 32/2020/QD-TTg: Replacing the regulation that "at least 20% of the workers or at least 30 workers who have social insurance are suspended continuously for at least 01 month; and at least 50% of the suspension pay has been provided for these workers during the period from 1 April to 30 June 2020" with "if there is an employee participating in compulsory social insurance that is required to stop working continuously for 1 month or more during the period from 1 April 2020 to the end of 31 December 2020".

Replacing the regulation "that facing financial hardship and thus does not have sufficient funds to provide suspension pay after using the backup wage fund" with "The employers whose revenue in the first quarter of 2020 decreased by at least 20% compared to the fourth quarter of 2019 or the revenue of the preceding quarter prior to the time of consideration for entitlement decreased by at least 20% compared to the same period in 2019."

Eliminating all of Article 14 of Decision No.15/2020/QD-TTg including documentation and procedures for submission to the District People's Committee.

Amending and re-stipulating Article 15 of Decision No.15/2020/QD-TTg to state: Employers are responsible for honestly declaring necessary information and content, taking responsibility before the law for accuracy of the declared information, directly submitting the application to the Vietnam Bank for Social Policies to approve loan applications in order to facilitate businesses to obtain loans to provide suspension pay for workers according to the conclusion of the Prime Minister.

Some initial results

- For measures to support individuals and employees:

  According to the report of the Vietnam State Treasury as of 20 October 2020, VND 12,673.703 billion has been disbursed to support 12,742,301 people and 26,437 household businesses, which includes: 1,027,809 people with meritorious services to the revolution, with a budget of VND 1,523.218 billion; 2,877,975 social protection subjects who are receiving the monthly social allowance with a budget of VND 4,278.612 billion; 7,948,538 people of poor or near-poor households, with funding of VND 5,947.152 billion; 887,979 employees with a budget of VND 898.102 billion; and 26,437 business households, with a budget of VND 26.52 billion.

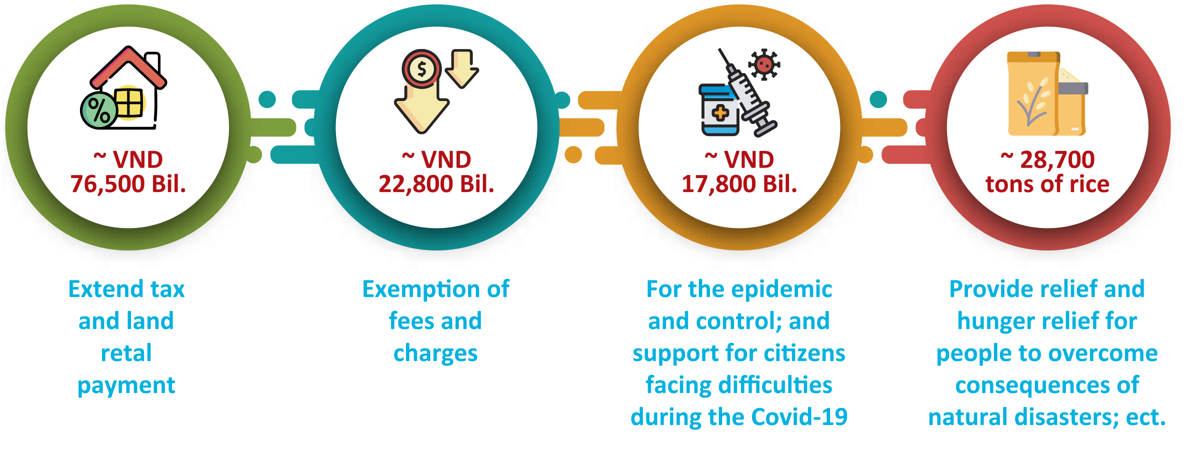


Figure 7: Statistics of major grants carried out as of October 2020

Statistics of major grants carried out as of October 2020

From the beginning of 2020, 896,785 people have applied for unemployment benefits, an increase of 33.5% over the same period in 2019 (671,806 people). 839,260 people received unemployment benefits, with a total subsidy of VND 14,828.912 billion (the average rate is over VND 3 million/person/month).

Nationwide, 926 employers were allowed to temporarily stop contributing to the retirement fund and death benefit for 74,980 employees, with a total budget of over VND 322.182 billion. Thus, the total funding for direct support to people and through social insurance and unemployment insurance policies is VND 27,824,797 billion.

The implementation of the welfare support package under the Government's Resolution No. 42/NQ-CP dated 9 April 2020 and the Prime Minister's Decision No. 15/2020/QD-TTg still faces difficulties and obstacles such as: funding sources, allocation from upper levels, and delays in payment.

In general, payments have basically been disbursed to the right subjects, but progress remains slow. The implementation by a number of cadres at districts, communes and localities on the contents of conditional support, processes, procedures and application under the Prime Minister's Decision No. 15/2020/ QD-TTg dated 24 April 2020 remains confused.

Payment for labour-related groups remains slow because local authorities duplicate procedures. The work of checking and screening is not thorough, affecting classification and payment. Reviewing and identifying beneficiaries is still subject to wrong-doing, which causes some beneficiaries to benefit multiple times while eligible beneficiaries are overlooked. This has led to a high number of ineligible beneficiaries.

- Measures to support enterprises:

  According to a Report by the Ministry of Planning and Investment sent to the Economic Committee of the National Assembly at the end of August 2020, the due date for debt payment, exemption, or reduction has been rescheduled; new loans with preferential interest rates with a total of over VND 3 million billion; reduction of electricity prices by VND 9.2 trillion; extension of tax and land rental payments by over VND 66 trillion.

The total amount of the extension as of 30 August 2020 is VND 66 trillion, accounting for about 37% of the total support package. The reason is that among loss-making enterprises and enterprises with no revenue or with slow operations, some paid corporate income tax for 2019 in the first quarter of 2020. Additionally, some enterprises have paid land rental from the beginning of the year and the outstanding amount is small so there is no demand for rescheduling debt. There are also concerns about cumbersome and complicated procedures.

According to the State Bank of Vietnam, regarding the loan package to support enterprises to pay wages (worth VND 16,000 billion), by 22 September 2020, although there had been only one eligible enterprise that enterprise had managed to fund its employees' salaries itself. In other words, the support package under Decision No. 15/QD-TTg could not be disbursed after half a year of implementation.

The reason is that the strict and impractical loan regulations make it inaccessible and also make enterprises are unwilling to apply. According to Article 13 of Decision No. 15, employers who want to obtain the loan from this support package need to meet 3 conditions: (i) At least 20% of the workers or at least 30 workers who have social insurance are suspended for at least 01 whole month; at least 50% of the suspension pay has been provided for these workers during the period from 1 April to 30 June 2020; (ii) The employer is facing financial hardship and thus does not have sufficient funds to provide suspension pay after using all backup wage funds; (iii) The employer does not have bad debts at credit institutions or foreign bank branches as of 31 December 2019.

In fact, most of the troubled enterprises would be small or medium enterprises and the relationship between business owners and their employees is largely family oriented. Therefore, in difficult times, they agree to reduce salaries and working hours to support each other. However, this does not meet the requirement of "suspended for at least 01 whole month".

For small businesses with under 100 employees, if 20% (or at least 30 workers) who have social insurance are suspended, it is very likely that the enterprise is going to be dissolved without support.

Additionally, it is very sensitive to ask businesses to prove financial hardship because nobody wants to transact with a financially troubled business. Even when corporate identity is confidential, the process also leads to unnecessary costs related to preparing and double-checking information.

Enterprises are only allowed to borrow 50% of the basic salary – a very low level compared to actual incomes, which are already low (because suspended employees are usually low-income workers). Therefore, in reality, the loan is too small in relation to the cost for businesses to provide the required information. This makes businesses unwilling to apply.

To solve this problem, the government issued Resolution No. 154/NQ-CP of the Government and Decision No. 32/2020/QD-TTg to loosen the conditions. However, according to experts' judgment, this move is insufficient.

Specifically, Decision No. 32/2020/QD-TTg still has two regulations that require enterprises' employees with social insurance to be suspended for at least 01 whole month from 1 April to 31 December 2020. However, this provision is considered unrealistic. Because in fact, enterprises only allow employees to take rotational leave, they do not terminate labour contracts.

Additionally, enterprises that want to obtain the loan must have no bad debts at credit institutions or foreign bank branches as of 31 December 2019. This is considered a rather strict and rigid regulation. Bad debt and loan support to pay employees during the pandemic are two separate and unrelated issues. Therefore, it was impossible for a business with bad debt in the past to access this support package.

2.3. Constraints and obstacles to private sector development

2.3.1. Limitations from the private sector

The current situation of private sector development indicates that beside achievements, there are still has many limitations, including:

Firstly, the limited resilience of the private sector. The number of economic units in the private sector has increased significantly, especially the number of newly established enterprises, but they are mainly micro or small in scale. The proportion of closed, dissolved and bankrupt enterprises is still high, especially due to external shocks like the Covid-19 pandemic.

Secondly, the quality and performance of domestic private enterprises has improved slowly. Profitability ratios, such as Return on assets (ROA), Return on equity (ROE), and Return on sales (ROS) or Social labour productivity are much lower than that of state-owned enterprises and FDI enterprises.

Thirdly, the contribution of the private sector to economic growth is inadequate compared to its potential. The proportion of the private sector in GDP is slowly changing. The formal private sector (domestic private enterprises) only contributes under 10% of GDP. Household businesses contribute the largest share (approximately 30%).

Fourthly, financial capacity and technology remains low; product quality and competitiveness are not good enough; private enterprises mainly operate in the domestic market or participate in export markets requiring low quality. Almost all private enterprises have limited ability to participate in production networks or regional/global value chains.

2.3.2. Obstacles to private sector development

Firstly, obstacles originating from mind-set and perceptions

Although the legal regulations basically no longer distinguished between economic sectors, and perceptions of the private sector have changed drastically over 30 years of reform, discrimination against the private sector, especially by cadres and civil servants, remains high.

The private sector still has to face many barriers and prejudices, leading to discrimination in accessing resources and opportunities over state and the foreign-invested enterprises.

Secondly, barriers from mechanisms and policies

- Although the investment and business environment has improved, some barriers still exist, hindering business activities in general, and the private sector in particular.

  The legal framework, mechanisms and policies are still restrictive and uncoordinated, hindering business activities. The level of business insecurity due to rapid and unpredictable change in policy remains high. In the medium term, micro institutional risks (such as tax policies, labour and business licensing), and macro risks will negatively affect investment and private sector development[5]. The low ranking of Viet Nam's property rights from all international indexes shows the need to solve these problems and ensure property rights and intellectual property rights. Access to resources for production and business is still restricted. Law compliance costs and business costs remain high. Some types of markets are still underdeveloped and ineffective. Policies to protect domestic production, anti-smuggling and business fraud are inappropriate and still have many limitations.

  According to the World Bank's ranking, for the period 2010-2020, Viet Nam's ranking for starting a business has not improved (ranked 116th in 2010, 125th in 2018 and 115th in 2020).

  According to the World Heritage Foundation, Viet Nam's rule of law index in 2017 achieved 32 out of 100 points, which is much lower than most countries in the ASEAN region.

  The effectiveness of the legal framework has barely improved according to the World Bank's rankings (ranked 58/139 in 2010 and 59/141 in 2019).

- State management still has many shortcomings, especially the implementation of regulations and policies, with low effectiveness and efficiency.

  Although administrative reform has improved, it has not met demand. It has been inconsistent at all levels and procedures are still complicated and overlap. Inspection and auditing still cause difficulties for business establishments, especially regarding inter-agency coordination, which takes up large amounts of time. There is still inconsistency in inspection and auditing of business establishments, causing many difficulties for business operations. Support activities are still ineffective and inefficient.

  Inequality persists in the private sector, particularly between enterprises. According to a report on the Provincial Competitiveness Index (PCI) in 2018, 45% of enterprises said that FDI enterprises were given priority over domestic enterprises; 37% of enterprises indicated that provincial authorities prioritised attracting FDI

[5] Centre Party Economic Commission and USAID, 2017.

over the development of the domestic private sector; and 27% of enterprises said that FDI enterprises had more favourable conditions for accessing land, etc. As for tax incentives, the FDI sector is enjoying more incentives (the proportion of FDI enterprises eligible for tax exemption or reduction was 76% for the whole country); the percentage of FDI enterprises receiving preferential corporate income tax exemptions or reductions was 48%, for state-owned enterprises this was only 4.6% and for domestic private enterprises it was 14% (National Institute for Finance, 2019).

According to the Provincial Competitiveness Index (PCI) in 2019, 21% of enterprises agreed with the statement “state-owned enterprises find it easier to win state contracts"; 51.1% of enterprises affirmed their perception that "favouritism towards big companies posed obstacles to their business operations"; 42% of enterprises said that FDI enterprises are given priority in solving problems over domestic enterprises; 36% of enterprises believed that provincial authorities give priority to attracting FDI over private sector development; and 23% assumed that FDI enterprises have advantages accessing land, etc.

The FDI sector is always subject to preferential mechanisms, policies, and incentives, especially tax incentives, land access and input prices (such as land rental, energy prices, and environmental fees, etc.). Regulations on business conditions, administrative procedures, inspection and auditing, and punishment for violations are significantly reduced, creating more discrimination against the private sector.

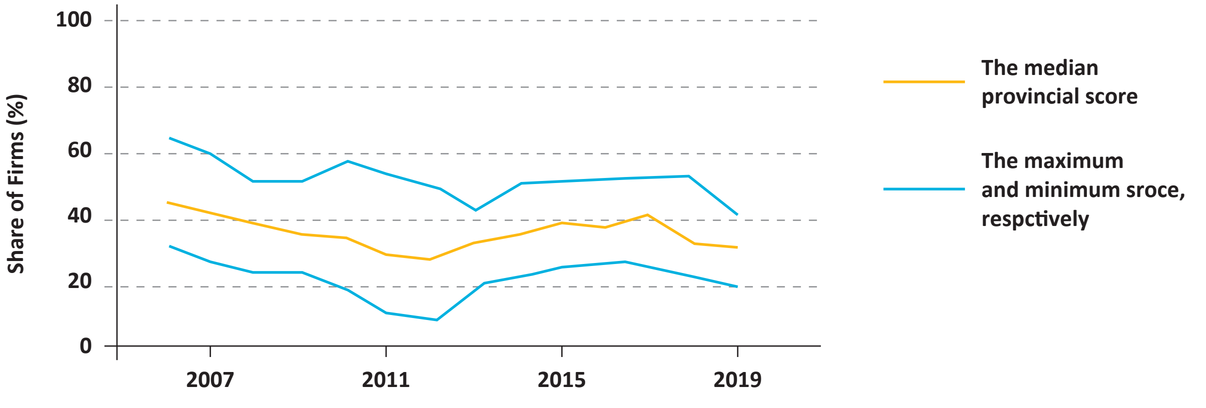
The Party's Resolution also indicates the necessity to remove all discrimination between the private sector and other economic sectors with regard to the right to business freedom and property rights, to accessing business opportunities and social resources, thus creating favourable conditions for private sector development. The government should promote the advantages of the private sector while strengthening inspections and supervision to enhance transparency and prevent "crony capitalism", "group interest", unfair competition, policy manipulation.

Table 14: Selected component indicators of the Policy Bias Index in 2019

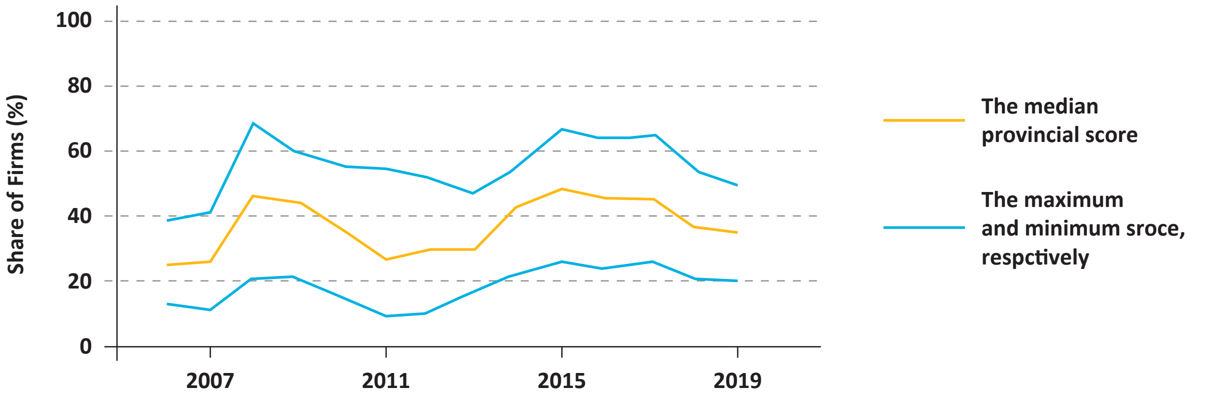
	Min	Median	Max
Province gives privileges to SOEs causing difficulties to private businesses	20%	31%	41%
Land access as a privilege to SOEs	14%	24%	35%
Credit access as a privilege to SOEs	13%	22%	36%
Mineral exploitation license as a privilege to SOEs	7%	15%	27%
Faster and simpler administrative procedures as a privilege to SOEs	11%	20%	32%
Ease in getting local government's contracts as a privilege to SOEs	10%	21%	33%
Province gives priority in solving difficulties to foreign invested enterprises over domestic ones	27%	42%	56%
Province gives priority to FDI attraction over private sector development	20%	36%	50%
Land access as a privilege to foreign invested enterprises	7%	23%	38%
Corporate income tax reduction/ holidays as a privilege to foreign invested enterprises	6%	19%	34%
Faster and simpler administrative procedures as a privilege to foreign invested enterprises	7%	18%	31%
More local government support during foreign invested enterprises operation	10%	22%	32%
Contracts and resources go to connected firms	51%	63%	78%
Preferential treatment to big companies is an obstacle to firm's operations	35%	51%	66%

Source: VCCI-USAID (2020)

Favoritism towards State Corporations



Favoritism towards FDI



Favoritism towards Connected Firms

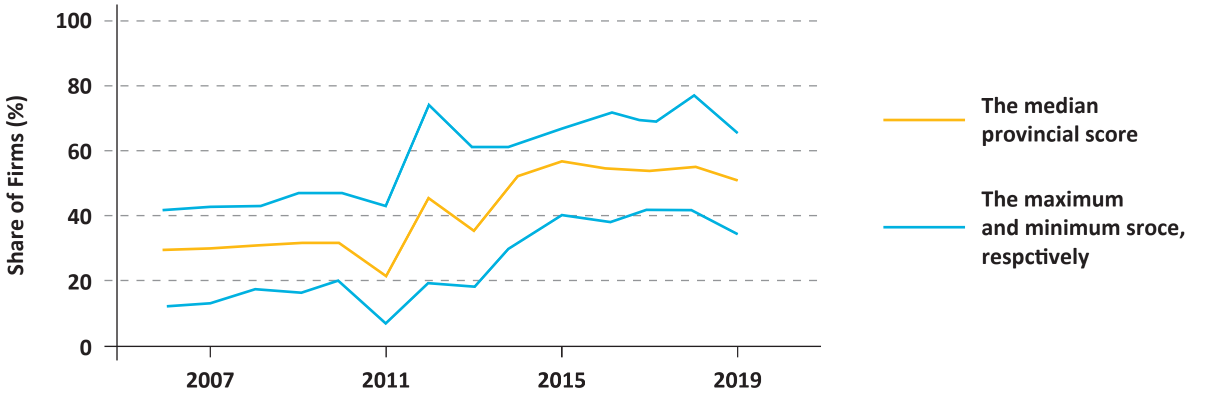


Figure 8: A sample of indicators in the Policy Bias Sub index over time

Source: VCCI-USAID (2020)

Thirdly, barriers internal to the private sector

The main component of the private sector are business households, small or even micro enterprises whose sustainable development is limited, especially their resilience to external shocks. Many large enterprises develop mainly on the advantages of resource utilisation or rely on their “relations”. The business activities of many large enterprises in the private sector are related to fast-growing and unstable fields, such as mining and real estate.

Production capacity and competitiveness of the private sector in terms of both quality and price are still limited. Most business entities in the private sector face difficulties competing, even in the domestic market.

The majority of business units have weak financial capacity and lack financial transparency among owners, individuals and businesses. Their cash flow management capacity is limited and they are incapable of formulating long-term business or financial plans.

Most business units in the private sector also lack innovation and technology. According to the World Bank, research and development costs of Vietnamese enterprises have not increased. Viet Nam's capacity to apply new technology is the lowest in the region due to a lack of linkages between the private sector and the foreign invested sector.

The proportion of enterprises with innovative activities has remained low. In recent years, private enterprises have paid more attention to product innovation. According to a survey by the Ministry of Science and Technology, although 61.69% of enterprises in the private sector said that they have innovative activities, this is lower than the SOE sector (71.04%). 23% of firms in the private sector (mainly large firms) said that they had product innovation.

Product sales derived from innovation accounted for 62% of total corporate product sales. This was highest in foreign invested enterprises (65.6%); 59.1% in private enterprises and 43.3% in state-owned enterprises. The total product sales derived from innovation accounted for 98% for large enterprises, 7% for medium-sized enterprises and 4% for small enterprises; the figures for foreign-invested enterprises were 64%, 32% and 3% for private enterprises and state-owned enterprises, respectively.

Limited spending on research and development (R&D) and technology innovation: Investment in R&D and technological innovation is mainly in start-ups (accounting for 99%). The expenditure structure for R&D remains low (only 12% compared to 88% for technological innovation). Large enterprises are responsible for the highest volume of spending on R&D and technological innovation (accounting for over 80%). Foreign-invested enterprises account for 70% of total R&D expenditure and 77% of total innovation expenditure. Private enterprises account for 27% of R&D expenditure and 19% of technology innovation expenditure while state-owned enterprises account for only 3% and 4%, respectively.

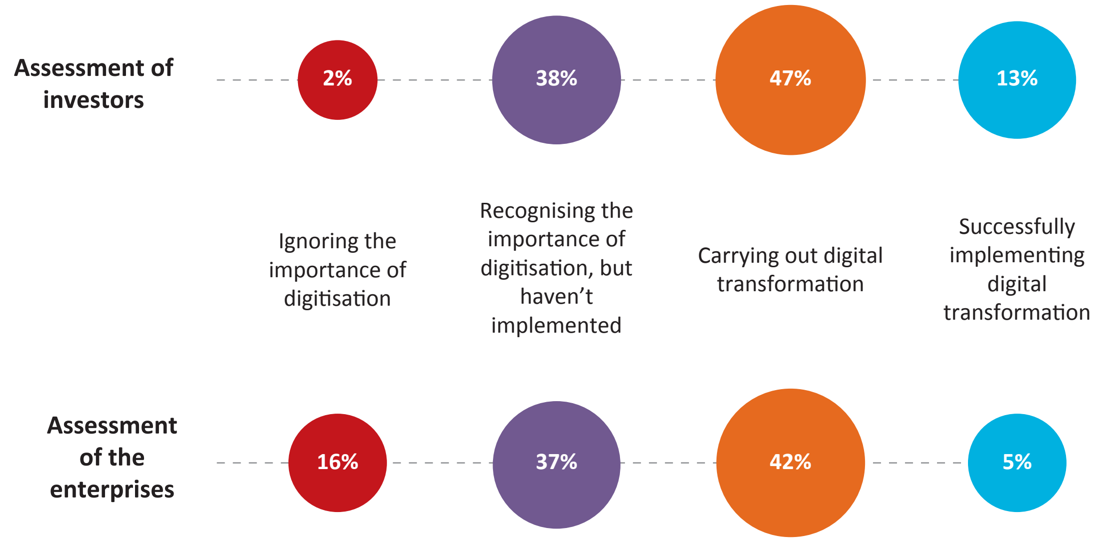


Figure 9: Digitalisation levels of Vietnamese enterprises in the private sector

Source: Grant Thornton (2019)

Digital transformation is still limited: Vietnamese private enterprises are mostly in the early stages of digital transformation. If large enterprises have abundant potential, most private enterprises are small and medium scale, leading to a delay in using digital technology. According to a Private Investment Survey in 2019 by Grant Thornton, almost all Vietnamese firms in the private sector are at the first level of digitalisation. 16% of enterprises in the private sector admitted they had not realised the importance of digitalisation.

Many private enterprises and almost all business households lack a long-term vision. They do business on a temporary basis and lack a proper business strategy. Capacity and openness to participate in linkage activities and value chains remain low. Enterprises only undertake simple stages and low value-added stages in production networks or value chains.

Entrepreneurship and legal compliance are still limited. There are enterprises established for the purpose of illegal acts (such as the purchase and sale of invoices, tax evasion, social welfare evasion, etc.) for their own benefit, ignoring social responsibility.

Enterprises lack experience, especially in operating in international markets. They lack the capacity to manage production and business activities because of limited knowledge and understanding of the law.

Low-quality human resources: A large proportion of employees in the private sector have not been trained on labour discipline. Many come from rural and agricultural areas. They lack knowledge and teamwork skills and hesitate to raise initiatives or share work experiences. The rate of trained employees remains low and their physical strength and working style is weak, leading to low economic efficiency.

The qualifications of many owners' enterprise/business households are still limited. They lack experience in financial management and operations and are indecisive in making investment decisions, leading to the ineffective use of funds.

Private enterprises have the lowest labour productivity among the three sectors. Despite the participation of a large workforce in the private sector, the majority are in business households and small businesses, which are labour-intensive. Therefore, their productivity remains low. Enterprises lack capital to invest in technology, lack skilled labour, which makes it difficult for them to participate and integrate into the value chains led by FDI enterprises, and they fail to exploit the economic efficiency through the advantage of scale.

PART 3

SOLUTIONS FOR PRIVATE SECTOR DEVELOPMENT DURING POST-COVID-19

3.1. Background of the COVID-19 pandemic

The COVID-19 pandemic is still complicated and unpredictable. Many countries have faced unprecedented outbreaks, especially in Europe and the USA. The number of new cases and deaths is increasing significantly. Many studies indicate that the future is unknown; the pandemic might last for several months or years. Only when a sufficient proportion of a population is immune through vaccination (creating herd immunity) will the COVID-19 pandemic come to an end.

In Viet Nam, the risk of COVID-19 infections from abroad is permanent and could cause an outbreak at any time. Meanwhile, the resilience of the private sector to shocks, especially external shocks, is limited.

In the coming time, the private sector should be supported by the government and make their own efforts to overcome difficulties and challenges caused by the pandemic, and strengthen resilience to uncertainties.

3.2. Some solutions for private sector development in the coming time

3.2.1. Solutions from the government

First, it is necessary to resolve difficulties and problems in order to effectively implement solutions for enterprises that have been heavily affected by the Covid-19 pandemic.

- Simplify procedures for enterprises and business households affected by the Covid-19 pandemic to access effective support packages; minimise incurred expenses.
- Continue to implement tax exemptions and reductions; extend the deadline for tax and land rental payments.
- Facilitate and support enterprises to reduce financial difficulties; facilitate domestic private enterprises to enhance their access to public investment projects as vendor partners to provide products and services for the implementation of these projects.
- Expand the targeted beneficiaries of supporting measures. Instead of supporting exhausted and broken enterprises, policies could be issued to balance cash flow and maintain production and business through the expansion of the 30% corporate income tax reduction to more beneficiaries (not only for enterprises whose total revenue does not exceed VND 200 billion), or value-added tax reductions and cost reductions for consumers to stimulate consumer demand after the pandemic, etc.

Second, renew perceptions of policies and undertakings in private sector development

- Continue to raise awareness on the role of the private sector in the economy as a driving force for the national economy to facilitate and enhance its strengths and potential.

  The private sector should be encouraged to develop in all fields that are not prohibited by law. Government activities should include: Supporting enterprises and economic groups with a high level of competitiveness; encouraging domestic private enterprises to cooperate with state-owned enterprises, cooperatives and household businesses; and developing joint stock companies with the wide participation of social groups, especially employees.

  Encourage the development of the private sector, specifically “the development of strong, highly competitive private enterprises and economic groups" is also a way to "maintain independence and autonomy in the determination of the policy, guidelines and strategies of national economic development. Developing Vietnamese enterprises becomes the core of the country's economy. Maintaining great balance, focusing on ensuring economic security; constantly strengthening the national economic potential”.

- The multi-sector economic policies, the perspectives, undertakings and policies on private sector development issued by the Party and the government should be consistent. The private sector should be considered as the key and long-term driving force for the economy. Private sector development has played a decisive role developing an independent, autonomous and resilient economy. Encourage and facilitate the private sector for fast, sustainable and diversified development with a high growth rate in both quantity, scale, quality and contribution to GDP.

- Eliminate all obstacles and prejudices, and facilitating private sector development consistent with the orientation of national socio-economic development. The private sector should be developed in all fields that are not prohibited by regulations. Encourage the development of multi-owned and private-owned economic groups contributing capital to state economic groups which are capable of participating in regional and global production networks and value chains. Promote the positive and beneficial sides of the private sector for the country, while enhancing inspection, auditing, monitoring, supervision, disclosure and transparency to prevent and restrict the negative aspects, especially preventing "crony capitalism", "group interests", policy manipulation, and unfair competition.

- Thoroughly communicating and disseminating the Party and State's undertakings and policies on private sector development to minimise discrimination against the private sector. Ensure that good performance in the private sector is rewarded and recognised as it is for the public sector.

- Facilitate and create spaces, resources and opportunities for favourable private sector development, with keywords such as "equality" in development, "protection", "encouragement" and "opportunities".

- Design Vietnamese enterprise development strategies for a new stage of development, with the foundation of private enterprises and the core axis of economic groups. Identify the modernising functional role of each component and economic force in accordance with market principles. Avoid the prejudice of "political status" towards economic sectors dominating the policy-making process.

  Develop the national enterprise development strategy, which is recognised and guaranteed by law, and the equality of economic sectors in policies, management mechanisms and behaviour. Issue specific sanctions against any violation of business freedom.

  Consider the private sector as the foundation of market economic development, the backbone of which are private economic groups, especially Vietnamese economic groups.

Third, unifying perceptions, understanding and action in the implementation of policies and guidelines on private sector development.

- Strictly implement the steering of the 5th plenary meeting of the 12th Communist Party of Viet Nam "Eliminating all barriers and prejudices to facilitate healthy and on-track private sector development." This is considered as imperative in mind-set and action for private sector development.

- Unify perceptions of the political system and all segments of Vietnamese society, creating a consensus in society on encouraging and facilitating private sector development. Continue to consistently implement undertakings and guidelines to enhance the role of the private sector in the Vietnamese market economy, and realise these in specific and consistent policies.

- Create a fair, non-discriminatory business environment, from legal frameworks to law enforcement so that the private sector operates under the spirit of the Enterprise Law; remove barriers to the private sector.

- Diversify increasingly important resources in private sector development. Due to their diversity and abundance, it is necessary to choose and implement specific strategies and measures to exploit resources in a reasonable manner, consistent with the characteristics of the business.

- Promote the strengths and potential of the private sector in socio-economic development and effectively overcome downsides arising during the private sector development.

- Renew the state management mind-set for the private sector, especially enterprises. The State must consider enterprises as both customers to serve and subjects to manage. All enterprises should be guaranteed their rights in accessing resources and business opportunities, regardless of their type or economic sector.

- Foster, train, and raise political awareness, self-reliance, patriotism, national pride, self-esteem, and the combination between the interests of the nation and the interests of business owners. Strengthen Vietnamese Entrepreneurs that obey the law, undertake social responsibility, improve their leadership and management skills, and develop corporate culture.

Fourth, concentrate on completing mechanisms, policies and laws, creating a favourable and equal business environment for the private sector.

- Improve the legal framework related to private sector development, including:

    Complete and promulgate regulations related to the establishment, organisation and operation of private sector businesses such as the Enterprise Law (amended), the Investment Law (amended), the Law on Tax Administration, the Land Law (amended), the Law amending and supplementing the Law on Social Insurance 2014, the Law on Investment in Form of Public Private Partnership (PPP) and others; draft and issue documents guiding implementation which are feasible and manageable to ensure consistency and transparency. Regarding the Law on Enterprises, it is necessary to define business households as an object of the law to ensure its consistency and synchronisation

    Effectively implement the legal system, monitoring law implementation on improving the business investment environment; develop science, technology and innovation; promote growth; and build, plan and develop social infrastructure systems.

    Improve mechanisms and policies to attract private investment and ensure the operation of the private sector under the market mechanism.

- Coordinate and effectively deploy the solutions for private sector development in governmental resolutions such as Resolution No. 98/NQ-CP dated 3 October 2017 on promulgating the government's action programme on implementation of Resolution No. 10-NQ/TW of 3 June 2017 of the 5th plenum of the 12th Central Committee of the Communist Party of Viet Nam, on development of the private economic sector; Resolution No. 35/NQ-CP dated 16 May 2016 on enterprise development policy and guiding documents, and resolutions on improving the business environment, enhancing national competitiveness.

    Maintain and ensure macroeconomic stability and control inflation; improve productivity, quality, efficiency, competitiveness, internal capacity and autonomy of the economy. Accelerate economic restructuring in association with conversion of the growth model towards improving quality and efficiency; proactively and flexibly manage monetary policies under the market mechanism, controlling inflation at a reasonable level. Coordinate synchronously and effectively between monetary policies, fiscal policies and other macroeconomic policies.

Ensure business freedom and facilitate business activities.

Ensure the transparency, consistency and predictability of regulations; directly apply the provisions of the Constitution, laws and ordinances; minimise risks for people and businesses; enhance the confidence of people and businesses in laws and policies.

Complete and ensure a strict and effective contract enforcement law. Improve the stability, sustainability and predictability of commercial and civil contracts.

Expand the ability to enter the market and promote equal competition: Strongly, smoothly and synchronously develop markets, and the circulation and distribution of goods and services; remove barriers, policies, and administrative measures to directly intervene in the market, production and business.

- Strongly and effectively deploy solutions to reduce costs for production and business activities, especially those proposed in Resolution No. 139/NQ-CP dated 9 November 2018 of the Government on Promulgating the Action Programme to reduce costs for enterprises
- Synchronously develop market factors and types of markets to facilitate the private sector to access resources for production and business.
- Effectively implement regulations and policies to support the private sector, including:

Develop mechanisms and policies to facilitate the private sector to actively participate in international economic integration. Support the private sector to access and exploit opportunities in international integration. Facilitate the private sector to develop and enhance its capacity to participate in regional and global value chains.

Guarantee mechanisms and policies to encourage and support private sector development under market mechanisms; avoid violating international commitments or market principles; promote autonomy and competitiveness of the private sector, preventing their supporting mechanisms and policies from subsidising or serving "group interests".

Effectively strengthen, complete and deploy regulations and policies related to private sector support, especially those on supporting small and medium-sized enterprises.

- Develop an innovation ecosystem, support and encourage start-ups; promote entrepreneurship, concentrating on advantageous and potential start-ups; create an equal business environment between new and traditional business models by reviewing and eliminating unsuitable regulations for traditional business sectors; develop a pilot institutional framework for new business models with high-risk potential. Quickly issue documents guiding the organisation and operation of the innovation centre to create a legal framework for its effective operation.
- Adopt policies to strengthen linkages between large enterprises and small and medium-sized enterprises. Develop value chains and production networks in which large-scale enterprises are the nucleus to promote the development of the entire value chain and production network.
- Encourage and support the private sector to participate in the process of sustainable socio-economic development, especially public investment projects.

Fifth, improve the efficiency of state management and strengthen the enforcement of legal institutions.

- Build a lean and effective state apparatus; develop the contingent of cadres and civil servants with firm political ideology and high professional qualifications. Strengthen discipline and drastically prevent corruption, waste, and negation.
- Improve capacity to develop and organise the effective implementation of laws, mechanisms, policies, plans, and development strategies, facilitating a favourable and safe business and investment environment for the private sector.
- Strengthen effectiveness and efficiency of supervision, inspection, auditing and accountability.
- Reform and improve the operational efficiency of judicial authorities in resolving economic, commercial and civil disputes. Issue strict sanctions and effective enforcement mechanisms to strengthen discipline.
- Accelerate administrative reform, concentrating on administrative procedure reform. Strengthen the application of information technology and modernise public administrative services.
- The socio-economic information systems, databases, legal documents, development plans, strategies, management mechanisms and policies should be disclosed and transparent to facilitate access and use for individuals and enterprises. Set up and develop a centralised, unified and integrated database system on the private sector.
- Develop a tectonic government which serves the business community. Issue strict sanctions and effective mechanisms to build a business environment based on regulations and contractual and civil relations as prescribed by laws.

Sixth, encourage cooperation and connection between enterprises; strengthen business linkages; and establish and develop economic groups in the private sector.

- Develop enterprises in the private sector to form large economic groups as “leading cranes", promoting the growth of an entire industry, value chain or business cluster. The linkages between these large firms and smaller enterprises will become the driving force for the development of an industry.
- Strengthen the linkages of enterprises in the private sector with other types of businesses, especially FDI enterprises, to capture opportunities and participate with regional and international corporations.

Seventh, support the improvement of labour productivity.

- Promote the development and supply of high-quality human resources to the market. Improve the quality of training (especially in universities), vocational training, and high-quality human resources to meet the demand for both quantity and quality for private sector development.
- Issue mechanisms and policies to encourage and support private investors to invest in high-tech application fields and advanced technology research and development, application and transfer.
- Promote enterprises in the private sector to apply science and technology to improve production and business efficiency.

3.2.2. Recommendations for the private sector

First, identify opportunities arising from the COVID-19 pandemic and adjust. A number of new business lines have emerged due to the pandemic, especially those related to digital transformation and digital business platforms.

Social distancing policies and the development of digital technologies during the pandemic have led to the development of e-commerce. The growing trend of online shopping during the pandemic has changed spending habits and accelerated the growth of cashless payments, which creates opportunities for the development of e-commerce businesses.

Second, due to the heavy impacts of the COVID-19 pandemic, "soft" assets such as business culture and business ethics are important "keys" for businesses to overcome challenges and build trust with consumers. Therefore, to remove mind-set barriers, the awareness, especially social awareness, of the private sector must change to combine economic efficiency, social responsibility, natural resources and environmental protection. In other words, enterprises themselves need to build their brands, business culture, and ensure the confidence of the State, communities, customers, shareholders and employees.

Third, concentrate on renovating machinery, equipment, and technology. Improve management skills, management capacity, and human resources to improve productivity and efficiency in production and business, and ensure high-quality and competitive products to connect with the production and value chains of large enterprises.

Fourth, set out short-term and long-term plans and strategies under the direction of the Party and the State. It is clear that human resources, management capacity, and business plans should be developed carefully.

CONCLUSION

A number of important guidelines and policies have been issued to promote the development of the private sector. However, its development has not gone as expected. During the COVID-19 pandemic, limitations and shortcomings have been revealed.

This report has clarified the current situation of private sector development and the impacts of the COVID-19 pandemic on this sector in 2020. It has identified obstacles to private sector development, including mind-set and perceptions, and the government's mechanisms and policies. Based on the impact of the COVID-19 pandemic, the report proposes a number of solutions for implementation by both the State and the private sector.

However, due to the compressed timeline, the study did not have the opportunity to conduct surveys or engage with experts to identify specific issues or case studies. Hopefully, the study will be more detailed in future updates.

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