PROMOTING INNOVATIVE ENTREPRENEURSHIP
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<th>Full Form</th>
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<tbody>
<tr>
<td>AED</td>
<td>Agency for Enterprise Development</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BOP</td>
<td>Balance of payments</td>
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<td>BPS</td>
<td>Basis points</td>
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<td>CIT</td>
<td>Corporate Income Tax</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>DOST</td>
<td>Department of Science and Technology</td>
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<tr>
<td>EPT</td>
<td>Environmental Protection Tax</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FX</td>
<td>Foreign exchange</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GSO</td>
<td>General Statistics Office</td>
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<tr>
<td>ICT</td>
<td>Information and communication technology</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IP</td>
<td>Intellectual property</td>
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<td>LF</td>
<td>Labor force</td>
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<td>LHS</td>
<td>Left-hand scale</td>
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<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoST</td>
<td>Ministry of Science and Technology</td>
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<tr>
<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<tr>
<td>NATEC</td>
<td>National Agency for Technology Entrepreneurship and Commercialization Development</td>
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<td>NATIF</td>
<td>National Technology Innovation Fund</td>
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<tr>
<td>NIC</td>
<td>National Innovation Center</td>
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<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
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<tr>
<td>NSA</td>
<td>Not Seasonally Adjusted</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PCI</td>
<td>Provincial Competitiveness Index</td>
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<tr>
<td>PE</td>
<td>Private equity</td>
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<tr>
<td>PIT</td>
<td>Personal Income Tax</td>
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<tr>
<td>PMI</td>
<td>Purchasing Managers’s Index</td>
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<td>PPG</td>
<td>Public and Publicly Guaranteed Debt</td>
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<tr>
<td>R&amp;D</td>
<td>Research and development</td>
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<tr>
<td>REER</td>
<td>Real Effective Exchange Rate</td>
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<tr>
<td>SATI</td>
<td>State Agency for Technology Innovation</td>
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<td>SBV</td>
<td>State Bank of Viet Nam</td>
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<td>--------</td>
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<tr>
<td>SME</td>
<td>Small and medium enterprise</td>
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<td>SMEDF</td>
<td>SME Development Fund</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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<tr>
<td>STEM</td>
<td>Science, technology, engineering, and math</td>
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<tr>
<td>TIPS</td>
<td>Tech Incubator Program for Startups</td>
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<tr>
<td>TTO</td>
<td>Technology Transfer Office</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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<tr>
<td>VC</td>
<td>Venture capital</td>
</tr>
<tr>
<td>VND</td>
<td>Viet Nam Dong</td>
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<tr>
<td>Y/y</td>
<td>Year-over-year</td>
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Overview
Viet Nam’s growth decelerated substantially in 2023

Viet Nam’s economy slowed sharply in 2023 with three key drivers of growth – exports, consumption, and private domestic investment – losing momentum. Real GDP growth decelerated to 5 percent from 8 percent in 2022. Cooling demand from key markets led to a contraction in exports by 2.5 percent (y/y) compared to 4.9 percent growth in 2022. Despite this outcome, net exports of goods and services (exports minus imports) contributed 1.6 percentage points to GDP growth, as imports also contracted sharply (-4.3 percent y/y) amid softer domestic demand. At the same time, the slowdown in labor-intensive export manufacturing – which accounts for around a quarter of Viet Nam’s employment – weakened labor market conditions with slower job creation and sluggish growth in real household incomes that weighed on consumer confidence. Private consumption growth slowed abruptly to 3.5 percent (y/y) in 2023 from 7.2 percent (y/y) in 2022. Meanwhile, amid the ongoing real estate market downturn, private domestic investment decelerated to 2.8 percent (y/y) from 5.6 percent (y/y) in 2022, dampening overall investment growth to 4.1 percent in 2023 from 5.8 percent in 2022, despite resilient FDI and stronger public investment.

On the production side, the slowdown was led by industrial production. Reflecting the contraction in export demand and the real estate market downturn, the industrial sector (industry and construction) grew by a tepid 3.7 percent compared to 7.8 percent in 2022. Meanwhile, services sector growth in 2023 slowed to 6.8 percent in contrast to 10 percent a year earlier, as moderating retail and wholesale trade more than offset the recovery in domestic and foreign tourism. The agricultural sector inched up by 3.8 percent in 2023, compared to 3.4 percent in 2022.

And showing mixed signs of recovery in early 2024

In the first quarter of 2024, the economy registered 5.66 percent (y/y) growth, mostly driven by the low base effect in exports, with consumption and investment recovering more gradually. Merchandise exports rebounded strongly, growing 17.2 percent y/y in first quarter of 2024 compared to -11.6 percent y/y a year ago, on the back of a sharp increases of exports to the US and Euro Zone (25.5 percent and 16.3 percent increases respectively compared to the same period a year ago). Both consumption (4.9 percent) and investment (4.7 percent) quarterly growth numbers remain below growth rates seen in the pre-pandemic period (7.1 and 6.2 percent, respectively, in first quarter of 2019). Domestic consumption grew by 4.9 percent in the first quarter of 2024 compared to 3.0 percent a year ago. Real investment increased by 4.7 percent y/y compared to zero growth of

1 Source: Ministry of Industry and Trade
the first quarter in 2023, driven by strong FDI contribution, subdued public investment, while private investment remained weak.

**The cooling economy affected the labor market, income growth, and consumption**

**Employment growth slowed and real average monthly incomes stagnated.** Total employment growth slowed, dipping steadily from 2.2 percent (y/y) from the first quarter of 2023 and to 0.3 percent (y/y) in the first quarter of 2024, substantially lower than the pre-COVID average of 4 percent. Employment in manufacturing sectors saw a 2.3 percent annual contraction. Meanwhile, average monthly real income growth slowed to an estimated 1.3 percent during 2022–23 compared to 8.3 percent in 2017–19. A consumer survey recorded a 2023 fall in reported consumer spending from a year earlier on durable goods, including home appliances, personal electronics, and cars1.

**Despite global headwinds, Viet Nam’s external position improved**

**Viet Nam’s external position improved in 2023, underpinned by a large current account surplus.** The balance of payments (BOP) registered a surplus of 1.3 percent of GDP compared to a deficit of 5.6 percent of GDP in 2022. The current account surplus widened to 6.7 percent of GDP in 2023 from a deficit of 0.3 percent of GDP in 2022. This was due to a large surplus in the merchandise trade balance (10 percent of GDP), robust inflows of remittances (estimated at 3.1 percent of GDP), and a narrowing deficit in the services trade account (to -2.2 percent of GDP in 2023 from -3.1 percent of GDP in 2022) as foreign tourism continued to recover, reaching almost 12.6 million in 2023 compared with 3.7 million in 2022. The expanding merchandise trade surplus was driven by a contraction in imports (-14.1 percent y/y), which outpaced that of exports (-8.5 percent y/y). On the other hand, the financial account registered a shallow deficit of 0.8 percent of GDP, as a net outflow of short- and medium-term capital outweighed robust FDI disbursement (4.6 percent of GDP). Persistent differences between domestic and international interest rates contributed to this net capital outflow. The BOP surplus helped boost international reserves from US$87.1 billion at the end of 2022 to US$93.3 billion by the end of 2023, equivalent to 3.3 months of imports.

**As inflation eased and growth slowed, the SBV adopted a more supportive monetary policy**

**Headline and core inflation fell as the economy cooled.** Average headline inflation in 2023 came in at 3.25 percent (y/y) and registered a small uptick in the first quarter of 2024 (3.8 percent y/y) but remained well below the 4.5 percent inflation target as transport costs softened and domestic consumption moderated. The CPI for food and foodstuffs fell from 6 percent (y/y) in January 2023 to 2.9 percent in December, sharply reducing its overall CPI contribution. Core inflation averaged 4.1 percent (y/y) in 2023, notably above pre-pandemic levels due to higher housing prices and

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1 Infocus Mekong Research, IFM Consumer Confidence Index Report, January 2024. Survey of 1,026 respondents by mobile phone. The index is based on 11 expenditure categories in terms of consumer spending “more - same - less” than the previous period.
construction materials. Core inflation continued to decline in the first quarter of 2024, reaching 2.8 percent (y/y) in March.

**As inflation slowed and growth decelerated, monetary policy was eased.** The State Bank of Viet Nam reduced discount and refinancing rates by a cumulative 150-200 basis points (bps) through a series of four policy rate cuts between March and June 2023 to 3 percent and 4.5 percent, respectively. Despite these cuts, credit growth registered 13.7 percent for 2023, slightly lower than the SBV’s target (14 percent), with a notable pick-up in credit growth during the fourth quarter registering half of the year’s total loan growth. Despite the re-introduction of regulatory forbearance measures, asset quality deteriorated with non-performing loans (NPLs) rising from 1.9 percent in December 2022 to 4.55 percent in December 2023.

**Fiscal policy was moderately expansionary**

**The fiscal position was moderately expansionary in 2023 as revenue performance weakened and the authorities supported the slowing economy through increased public investment.** Total government revenue fell by 5.4 percent compared to 2022, as tax revenues dropped by 13.8 percent (y/y) in 2023 due to the economic slowdown. Meanwhile, total expenditure rose by 12.8 percent (y/y), largely a result of public investment that climbed to 5.7 percent of GDP (from 4.6 percent of GDP in 2022). Despite the pick-up in capital budget implementation, procedural bottlenecks in land acquisition, resettlement, and public procurement, amongst others, led to under-execution of overall public investment, with disbursement remaining about a quarter below the investment budget approved by the National Assembly.

**Viet Nam’s economic growth prospects are positive, with risks to the forecast broadly balanced**

**Viet Nam’s economy is forecast to grow by 5.5 percent in 2024.** This projection assumes a continued recovery of manufacturing exports in 2024 (3.5 percent real growth y/y), reflecting a gradual improvement in global demand. The real estate market is forecast to turn the corner in late 2024 and into 2025, as the bond market freeze appears to have eased. With the gradual recoveries of exports and the real estate market, domestic demand is set to firm up as investors and consumers regain confidence, with total real investment and real private consumption expected to grow by 5.5 and 5.0 percent, respectively.

**Inflation is projected to pick up slightly from an average of 3.2 percent in 2023 to 3.5 percent in 2024.** This is mainly due to an expected increase in government-administered prices, such as education and health services, which constitute 6.2 and 5.4 percent, respectively, of weight in the CPI basket. The CPI will moderate to 3.0 percent in 2025 and 2026 based on the expectation of stable commodity and energy prices.
The government is expected to maintain moderately supportive fiscal policy in 2024 but resume fiscal tightening in the outer years. In 2024, the fiscal deficit is projected to further widen to 1.6 percent of GDP as revenues continue to remain weak, while expenditures are set to rise due to a planned civil service salary increase and continued efforts to accelerate public investment. Thereafter, the fiscal deficit is projected to shrink to 1.1 percent in 2025 and 1.0 percent in 2026.

The risk to the outlook are broadly balanced. Slower-than-expected growth in advanced economies and China could further dampen external demand for Viet Nam’s export sector. Moreover, an escalation of geopolitical tensions and climate-related disasters pose additional downside risks for Viet Nam. Domestically, a slower-than-forecast real estate market recovery could affect investor sentiment and weigh on private sector investment. The continued worsening of the financial sector’s asset quality resulting from the real estate market’s downturn could undermine growth prospects as capital buffers, especially at some larger State-owned commercial banks, are relatively thin. On the upside, stronger-than-expected global growth could support a faster recovery of Viet Nam’s export sector.

Continued expansionary fiscal measures could support the economic recovery, while financial sector stability should be a top priority

Continued policy support is warranted to bolster the recovery. Sustaining efforts to accelerate implementation of public investment would support aggregate demand in the short run, while also helping to close emerging infrastructure gaps. On the monetary side, the space for additional interest rate cuts is more limited, given the interest rate differentials between domestic and international markets and the pressure it could bear on the exchange rate.

Building on recent reforms, further steps to mitigate financial sector risks and vulnerabilities remain crucial. The authorities could adopt policies to improve bank capital adequacy ratios and strengthen the institutional framework for prudential supervision (including to detect and address issues arising from the affiliation of banks with business groups), early interventions and bank resolution and crisis management. While the Law on Credit Institutions has been improved with a recent amendment, gaps

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Table 0.1: Selected economic indicators, Viet Nam 2021-26

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2021</th>
<th>2022</th>
<th>2023e</th>
<th>2024f</th>
<th>2025f</th>
<th>2026f</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>2.6</td>
<td>8.0</td>
<td>5.0</td>
<td>5.5</td>
<td>6.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Consumer Price Index (average, %)</td>
<td>1.8</td>
<td>3.1</td>
<td>3.2</td>
<td>3.5</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-2.2</td>
<td>-0.3</td>
<td>1.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Fiscal balance (*) (% of GDP)</td>
<td>-1.4</td>
<td>-0.2</td>
<td>-1.2</td>
<td>-1.6</td>
<td>-1.1</td>
<td>-1.0</td>
</tr>
<tr>
<td>Public &amp; publicly guaranteed debt (**) (% of GDP)</td>
<td>43.0</td>
<td>37.9</td>
<td>39.8</td>
<td>40.4</td>
<td>37.0</td>
<td>35.3</td>
</tr>
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</table>

Source: GSO; MoF; SBV; IMF; and World Bank staff calculations.

Note: e = estimate; f = forecast, *: excluding unallocated expenditures and following Government Finance Statistics (GFS), **: calculated based on Decision No. 458/QD-TTg (April 28, 2023) related to the plan for borrowing and repaying public debt in 2023 and for 2023-25, Resolution No. 105/2023/QH15 (November 10, 2023) related to the government’s 2024 budget.
remain in some areas including supervision of bank and credit institution consolidated groups, resolution powers for dealing with non-viable banks, and legal protection of supervisors. Strengthening the mandate of the SBV in these areas should be a priority in upcoming legal reforms in the financial sector, including through the amendment of the Law on State Bank of Viet Nam.

**Finally, structural reforms are crucial to sustain long-term growth prospects.** Beyond providing short-term stimulus, enhanced public investment management is also important to address emerging infrastructure gaps - for example in the energy, transport, and logistics sectors - which are becoming a growing constraint on growth. In parallel, implementation of structural reforms is needed to strengthen the regulatory environment in critical backbone services (information and communication technology, electricity, transport), to green the economy, build human capital and improve the business environment, including through supporting innovative entrepreneurship (discussed in more detail in the following subsection and Chapter 2).

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**SPECIAL FOCUS: PROMOTING INNOVATIVE ENTREPRENEURSHIP**

**Viet Nam needs to increase domestic private sector productivity to realize its ambitious target of becoming a high-income country by 2045, and innovative entrepreneurship is essential to drive this growth.** Previous studies have evidenced the impact of startups on innovation\(^1\) and economic growth\(^4\). Innovative entrepreneurship is especially relevant to middle-income countries, where productivity growth is typically driven by innovation and technology absorption. This is particularly relevant to Viet Nam, with its traditional sources of growth losing steam. Capital accumulation is constrained by relatively low public investment due to a conservative fiscal policy and implementation challenges, while the labor supply contribution is also declining due to a fast-ageing work force.

**Improving the conditions for entry and growth of innovative startups, through development of a conducive entrepreneurial ecosystem, can help build a pipeline of highly productive firms in new and established sectors.** While Viet Nam has made some progress in creating a favorable environment for innovative entrepreneurship, challenges within its entrepreneurial ecosystem impede the entry of innovative firms and undermine their high growth potential. Based on a recent World Bank study,\(^5\)

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\(^1\) Spender et al. 2017.
\(^4\) Audretsch, Kielbach, and Lehmann 2006; Gries and Naude 2009; and Aghion et al. 2009.

\(^5\) This chapter is based on the World Bank report "Promoting Innovative Entrepreneurship in Viet Nam: An Ecosystem Diagnostic", the most comprehensive analysis of Viet Nam's innovative entrepreneurship ecosystem to date (Aridi et al., 2023).
the special topic chapter of this edition identifies challenges and solutions to further promote innovative entrepreneurship in Viet Nam and accelerate innovation-driven growth:

- **The overall quality and level of public sector support in Viet Nam for innovative entrepreneurship and startups is low.** This existing policy mix is underdeveloped, underfunded, fragmented, and not aligned with international good practices. The agenda is generally focused on promotional activities and R&D tax incentives, the majority of which go to a relatively small number of large multinational firms. Almost no direct financial support is provided to startups or domestic firms. The quality of services delivered by public entrepreneurship intermediaries (incubators, accelerators, innovation centers) is also low. This undermines the government’s efforts to build a pipeline of investment-ready, innovative startups.

- **Despite reform efforts, entrepreneurs and investors face barriers within the regulatory framework.** Obtaining business sub-licenses for selected economic activities is burdensome, while a lack of clarity on the legality of a broad range of business segments deters investment. For domestic investors, the legal framework for registering investment funds locally is incomplete and restrictive. Additionally, Viet Nam’s intellectual property (IP) and technology transfer framework is not aligned with global best practices and suffers from contradictory policies and inconsistencies that inhibit technology transfers.

- **While a source of talent and skills to fuel entrepreneurship ecosystem growth, universities and public research institutions could be more impactful through technology transfers, industry collaboration, and spin-offs.** Universities and public research organizations also face funding and human capital constraints that will likely continue to limit their contributions to market innovation.

- **Finding skilled talent, mid-level managers, and C-level executives is an increasing challenge for innovative startups.** Viet Nam has a solid base of technical talent, but competition for skilled workers is intensifying among domestic firms and foreign-invested enterprises. While universities are adept at producing raw programming and engineering talent, Viet Nam’s education system does not currently have the financial resources to scale-up its supply of technically skilled workers, which could limit development of knowledge-based firms. Available skills also do not often match the market demand.

- **Many startup teams struggle with key aspects of running a business, such as developing product market fits, growth strategies, and team building.** There is a strong need for entrepreneurship support organizations that can offer better and more tailored training, mentoring, and acceleration programs to prepare entrepreneurs for developing new products and running businesses.

- **Risk capital investments have grown rapidly, but funding gaps remain for early-stage companies.** While Viet Nam has seen an influx of international venture capital funds and investment,

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6 Spin-offs are start-ups established by a university faculty, researchers, or students to further develop and commercialize intellectual property.

7 Such as chief executive officers, chief operating officers, and chief financial and technology officers.
which exceeded US$1.5 billion in 2021, funding gaps for early-stage activities are apparent. This is especially the case for knowledge and IP-based firms that usually have a higher risk profile and require larger and longer-term funding to develop minimum viable products. Angel investors, who generally play a key role in early-stage funding, are scarce and not professionalized.

- **The risk capital market is heavily dependent on foreign funds and investors**, making it vulnerable to shocks in global capital markets, which contributed to a dramatic drop in risk capital investments in 2022. Domestic Vietnamese investors face restrictions in their activities and are not incentivized to participate in risk capital investing.

These findings inform the following set of policy recommendations for improving entrepreneurial outcomes and enabling innovative firms to enter high-growth trajectories:

- **Reorient the national flagship Program 844 on "Supporting the National Innovation Initiative to 2025" toward building a pipeline of investment-ready, innovative startups.** This includes upgrading key support instruments - such as the support provided to university incubators and innovation centers, to align with international good practices. Moreover, there is a need to attract qualified private operators and fund managers to run entrepreneurship support intermediaries and establish early-stage funds locally, with capacity building of key ecosystem stakeholders.

- **Address regulatory barriers through fast-track reforms.** Key steps include revising the Law on the Establishment of Domestic Investment Funds (Decree No. 38) and simplifying procedures for inward and outward investments, particularly small-sized ones in innovative firms.

- **Increase the public research sector’s contribution to the innovative startup agenda.** This requires modernizing the IP and tech transfer framework, enhancing performance evaluations for commercialization of research, and building capacity for technology transfers at key universities and public research organizations.
Chapter 1.

Economic Developments and Prospects
Viet Nam’s growth decelerated substantially in 2023

Real GDP growth decelerated to 5 percent from 8 percent in 2023 as three drivers of growth - exports, consumption, and private domestic investment - lost momentum. Cooling demand from key markets led to a contraction in exports by 2.5 percent (y/y). Despite this contraction, net exports of goods and services (exports minus imports) contributed 1.6 percentage points to GDP growth, as imports also contracted strongly (-4.3 percent y/y) amid softer domestic demand. At the same time, the slowdown in labor-intensive export manufacturing weakened labor market conditions with slower growth in real household incomes weighing on consumption. Private consumption slowed sharply to 3.5 percent (y/y) in 2023 from 7.2 percent (y/y) in 2022. Meanwhile, amid the ongoing downturn in the real estate market, private domestic investment decelerated to 2.8 percent (y/y), dampening overall investment growth to 4.1 percent in 2023 from 5.8 percent in 2022, despite resilient FDI and stronger public investment (Figure 1.1).

On the production side, the slowdown was led by industrial production. Reflecting the contraction in export demand and the downturn in the real estate market (Box 1.1), the industrial sector (industry and construction) grew by a weak 3.7 percent and added 1.4 percentage points (or 28 percent) to GDP growth in 2023, compared to 7.8 percent in 2022. Industrial production rose by only 1.5 percent for the year, while the Purchasing Manufacturing Index (PMI) remained in contractionary territory for 10 months.8

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8 Source of manufacturing inventories: GSO and World Bank staff calculations.
Manufacturing inventories growth rose from 13.9 percent (y/y) in December 2022 to 19.8 percent (y/y) in December 2023. Meanwhile, services sector growth slowed to 6.8 percent compared to 10 percent in 2022, adding 3.4 percentage points (or 67 percent) to overall GDP growth in 2023 (Figure 1.2). The services sector’s contribution to GDP reflected a moderating retail and wholesale trade that more than offset the recovery of domestic and foreign tourism.9 Agricultural sector grew by 3.8 percent in 2023, compared to 3.4 percent in 2022, contributing 0.5 percentage points to real GDP growth.

**With the economy showing mixed signs of recovery in early 2024**

In the first quarter of 2024, the economy showed tentative signs of recovery, partly driven by low base effect in exports, with consumption and investment recovering more gradually. The economy registered 5.7 percent (y/y) growth. Merchandise exports rebounded strongly, growing 17.2 percent y/y in first quarter of 2024 compared to -11.6 percent y/y a year ago, on the back of a sharp increases of exports to the US and Euro Zone (25.5 percent and 16.3 percent increases compared to the same period a year ago).10 Reflecting this rebound, industrial sector grew 6.3 percent y/y in the first quarter of 2024 compared to a contraction of 0.3 percent in the same period of 2023. While real investment increased by 4.7 percent (y/y) compared to zero growth of the first quarter in 2023 on the back of strong FDI investments, it remained below growth rates seen in the pre-pandemic period (6.2 percent in first quarter of 2019).11 The Purchasing Managers Index (PMI) hovered around 50 for the first quarter of 2024, signaling the fragility of the recovery. Meanwhile, domestic consumption grew by 4.9 percent in the first quarter of 2024 compared to 3.0 percent a year ago, still well below pre-pandemic period (7.1 percent in first quarter of 2019) as job creation and income growth remained sluggish. Consequently, services sector slowed in the first quarter of 2024, registering 6.1 percent (y/y) growth compared to 6.9 percent (y/y) the same period of 2023. Agriculture sector continued to perform on trend.

**The cooling economy affected the labor market, income growth, and consumption**

Employment growth slowed and real average monthly incomes stagnated. The labor force participation rate held at 68.9 percent throughout 2023 and the first quarter of 2024 but remained below average pre-COVID levels (71.1 percent). Total employment growth slowed, dipping steadily from 2.2 (y/y) from the first quarter of 2023 and to 0.3 percent (y/y) in the first quarter of 2024 (Figure 1.3), undershooting the pre-COVID average of 4 percent. Employment in the manufacturing sectors shrunk throughout 2023, bottoming out in May (-5.1 percent y/y), registering a 2.3 percent

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9 According to the GSO, tourism and travel services grew by 54.1 percent in 2023, while accommodation and restaurant services climbed by 14.7 percent, compared with 265.1 percent and 47.9 percent, respectively, in 2022. The number of foreign visitors increased more than three-fold to 12.6 million in 2023, from 3.7 million in 2022. The rebound in foreign tourists was boosted by the easing of visa requirements in August 2023, which contributed to more than one million tourists per month entering the country between August and December. (Vietnamreport.net.vn: https://vietnamreport.net.vn/Phong-tri-du-lich-hai-duong-da-nang-va-quang-nam-10733-1067.html). The number of domestic visitors also increased from 101.3 million in 2022 to 108 million in 2023.

10 Source: Ministry of Industry and Trade

11 In nominal terms, investment increased by 5.2 percent y/y in the first quarter of 2024 compared to 3.7 percent y/y in the first quarter of 2023, again due to a strong FDI contribution (1.6 percentage points), while public investment remained subdued (0.6 percentage points) typical in the first quarter of the year, and private investment growth remained weak (2.7 percentage points). Data from GSO, Viet Nam.
annual contraction (Figure 1.4). This partly reflected normalization after a high base effect in 2022, especially in the case of the machinery subsector, and partly mirrored the bottoming out of manufacturing exports in May 2023 (-18.1 percent y/y) and subsequent slow export recovery in the second half of 2023 and early 2024. Meanwhile, average monthly real income growth slowed to an estimated 1.3 percent during 2022–23 compared to 8.3 percent in 2017–19. This reduction in income growth means that each worker has forgone an estimated additional VND 561,000 per month over the last two years.

The slowing employment and income growth in 2023 negatively impacted household consumption. After normalizing from the tail end of the post-COVID rebound in the first quarter of 2023, retail sales growth\(^2\) - a proxy for private domestic consumption - continued to slow to 2.7 percent (y/y) in the first quarter of 2024, below pre-pandemic levels (Figure 1.5). This slowdown reflects a substantial deceleration in real final consumption to 3.5 percent (y/y) in 2023 from 7.2 percent (y/y) in 2022. The gradual recovery of real final consumption observed in the first quarter of 2024 (4.9 percent y/y) (Figure 1.6) appears at odds with the data on retail sales, suggesting that recovery of consumption is still fragile. This is further supported by January 2024 consumer survey suggested that the Consumer Confidence Index had weakened during 2023 (57 in January 2023 to 54 in June 2023) and hit a new low of 51 in January 2024.\(^3\) The survey also recorded a fall in reported household large expenditure on durable goods, including home appliances, personal electronics and

\(^2\) Retail sales grew 15.0 percent (y/y) in the first quarter of 2024.
\(^3\) Infocus Mekong Research, IFM Consumer Confidence Index Report, January 2024. Survey of 1,026 respondents by mobile phone. The index is based on 11 expenditure categories in terms of consumer spending “more - same - less” than the previous period.
cars in 2023 compared with 2022. Industry data, including from Viet Nam Automobile Manufacturers Association and Viet Nam Association of Motorcycle Manufacturers, confirmed this trend.

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14 Ibid.
15 Data from Viet Nam Automobile Manufacturers Association and Viet Nam Association of Motorcycle Manufacturers showed a sharp decline in sales in 2023. Total car sales in 2023 were 25 percent lower than 2022, while motorbike sales in the first nine months of 2023 were down by 15.5 percent against the same period in 2022 (https://vamm.vn/bao-cao-ban-hang-1/).
**Box 1.1.**

**Real estate market downturn and its impact on the economy**

The real estate market has experienced a sharp downturn since late 2022, with supply and demand factors contributing. On the supply side, the loss of confidence in the corporate bond market in the aftermath of the Saigon Commercial Bank scandal in October 2022, and precautionary measures taken by the authorities to improve the institutional framework around such bonds, led to a sharp downturn in their issuance and constrained financing for commercial developers. This constraint exacerbated chronic delays in securing land use titles and construction permits. Consequently, the number of projects and newly licensed residential housing fell sharply in 2023 compared to 2020–22 (Figure B1.1). Data also shows that during 2022 and 2023, more than 2,400 real estate enterprises were dissolved, and more than 6,200 real estate enterprises temporarily ceased operations, 80 percent higher than during the COVID-19 pandemic (Figure B1.3). On the demand side, the rise in interest rates in October 2022 by the State Bank of Viet Nam (SBV) to quell exchange rate pressures and the loss of confidence associated with the Saigon Commercial Bank case affected buyer confidence and investment decisions. Consequently, housing market transaction volumes fell from the fourth quarter of 2022 and throughout 2023, compared to 2021–22 (Figure B1.2).

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**Figure B1.1: Residential housing (newly licensed)**

<table>
<thead>
<tr>
<th></th>
<th>Units (RHS)</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1-21</td>
<td>100</td>
<td>45</td>
</tr>
<tr>
<td>Q3-21</td>
<td>90</td>
<td>40</td>
</tr>
<tr>
<td>Q1-22</td>
<td>80</td>
<td>35</td>
</tr>
<tr>
<td>Q3-22</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Q1-23</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>Q3-23</td>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Ministry of Construction

**Figure B1.2: Number of transactions**

<table>
<thead>
<tr>
<th></th>
<th>Number of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1-21</td>
<td>80,000</td>
</tr>
<tr>
<td>Q3-21</td>
<td>70,000</td>
</tr>
<tr>
<td>Q1-22</td>
<td>60,000</td>
</tr>
<tr>
<td>Q3-22</td>
<td>50,000</td>
</tr>
<tr>
<td>Q1-23</td>
<td>40,000</td>
</tr>
<tr>
<td>Q3-23</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Source: Ministry of Construction

**Figure B1.3: Real estate market entries and exits**

- New entry
- Return to operate
- Temporary stop
- Exit

Source: GSO

**Figure B1.4: Percentage of total inputs of real estate sector**

Source: ADB 2019 Input-Output table
Given the sector’s inter-connectivity with other economic activities, the real estate downturn impacted upstream and downstream sectors within the economy. While construction sector growth slowed due to the real estate sector slump, the 22 percent (y/y) rise in public investments in 2023 helped mitigate this impact (Figure B1.6). Consequently, the construction sector growth slowed to 6.8 percent (y/y) compared to an average of 8.7 percent during 2017-19. Downstream, close linkages between the real estate sector, wholesale and retail sales (input from the real estate sector is 13.5 percent with post-home sales expenditures, such as white goods and furnishings), partly explains lackluster growth in retail sales from mid- to late-2023 (Figure B1.5).

Close linkages between the financial system and real estate sector pose significant macro-financial risks for Viet Nam. There are two-directional spillovers between financial and real estate markets. Financial uncertainty is affecting the highly leveraged real estate sector through liquidity constraints and, especially 2022, higher interest rates. Conversely, the real estate sector slowdown is amplifying financial risks through large exposure to property developers, mortgages, and property collateral. To satisfy rapid real estate market growth from 2021 to mid-2022, as reflected by the high number of newly licensed projects and transactions (Figure B1.2), bank credit to the real estate sector increased by 18.8 and 24.7 percent in 2021 and 2022, respectively, much higher than in 2019 and 2020 (Figure B1.7). Developers’ bond issuances also rose sharply from VND60.8 trillion in 2019 to VND270.1 trillion in 2021. As a result, the real estate sector had the largest outstanding bond value (average 30 percent of total bonds outstanding) and accounted for an average 20 percent of total credit during 2020-22. The slowdown in real estate transaction activity as demand weakened (Figure B1.2) and increased financing costs due to rising interest rates in late 2022 has led to a decline in developers’ profitability. Additionally, after the revelation of fraud cases at some major real estate groups, bond issuances came to an abrupt halt in 2022, leading to increasing financial stress among highly leveraged developers. Consequently, by the end of November 2023, the real estate sector accounted for more than 70 percent of total defaults in bond payments (Figure B1.8). Real estate sector non-performing loans also increased from 1.7 percent in 2022 to 2.7 percent in December 2023 (source: SBV).
The authorities announced a series of measures to counter real estate and financial sector stresses. Recent support policies – such as reducing policy rates,16 Resolution No. 33/2023/NQ-CP,17 Decree No. 08/2023/ND-CP18 and Circular No. 02/2023/TT-NHNN19 – are expected to help problematic issuers through debt restructuring, issuing new bonds to refinance, or easing access to funding for the real estate sector.

Despite global headwinds, Viet Nam’s external position improved in 2023

The balance of payments (BOPs) registered a surplus of 1.3 percent of GDP in 2023, underpinned by a large current account surplus. The BOP surplus in 2023 compares well to the deficit of 5.6 percent of GDP in 2022. The current account surplus widened to 6.7 percent of GDP in 2023 from a deficit of 0.3 percent of GDP in 2022. This was due to a large surplus in the merchandise trade balance (10 percent of GDP), robust inflows of remittances (estimated at 3.1 percent of GDP), and a narrowing deficit in the services trade account (to -2.2 percent of GDP in 2023 from -3.1 percent of GDP in 2022). The expanding merchandise trade surplus was driven by a contraction in imports (-14.1 percent y/y), which outpaced that of exports (-8.5 percent y/y). The narrowing services trade deficit was due to a strong rebound in international tourism, with foreign tourist arrivals reaching almost 12.6 million in 2023 compared with 3.7 million in 2022.

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17 Resolution No. 33/2023/NQ-CP (March 11, 2023) on solutions and promotion of real estate market development.
18 Decree No. 08/2023/ND-CP (March 5, 2023) on amending, supplementing, and suspending articles of decrees prescribing private placement and trading of privately placed corporate bonds.
19 Circular No. 02/2023/TT-NHNN (April 23, 2023) on providing instructions for credit institutions and foreign branch banks on debt rescheduling and retention of debt categories to assist borrowers in difficulty.
On the other hand, the financial account registered a shallow deficit of 0.8 percent of GDP in 2023. The deficit was due to the net outflow of short- and medium-term capital (-5.4 percent of GDP) outweighing robust FDI disbursement (4.6 percent of GDP) (Figure 1.9). Persistent differences between domestic and international interest rates are likely to have contributed to this net capital outflow. In the same vein, Viet Nam continued to record significant net errors and omissions (4.5 percent of GDP in 2023), partly reflecting continued unrecorded outflows (Figure 1.7).

Source: SBV and World Bank staff calculations

Note: fob = free on board; cif = cost, insurance, and freight; LHS = left-hand scale
Despite a large positive merchandise trade surplus, weaker external demand weighed heavily on Vietnamese manufactured exports in 2023. The contraction in merchandise exports (-4.5 percent y/y) affected industrial production (Figure 1.11) and was triggered by a broad-based decline in exports of key manufactured products (Figure 1.12) to principal markets, such as the United States, European Union, and ASEAN. Exports by the FDI-driven export sector fell by 5.8 percent, compared with a small 0.3 percent contraction in domestic sector exports, reflecting Viet Nam’s integration into global value chains. The export contraction bottomed out in April 2023 (-15.9 percent y/y) before a gradual recovery from September onwards. Total merchandise imports mimicked the same dynamics, but contracted more sharply than exports, bottoming out at -23 percent (y/y) in April and falling by 9.1 percent (y/y) in 2023 as both domestic demand for imports and demand for imported inputs for production of exports slowed. This sharper import contraction is the driver of the trade surplus.

**Firming external demand in the first quarter of 2024 also strongly impacted Vietnamese manufactured exports.** Merchandise exports grew 17.2 percent y/y in first quarter of 2024 compared to -11.6 percent y/y a year ago, on the back of a sharp increases of exports to the US and Euro Zone (25.5 percent and 16.3 percent increases compared to the same period a year ago). The recovery of exports was broad-based across key manufactured products (Figure 1.12), with computer exports, which had been surprisingly resilient in 2023 (+12.9 percent y/y) soared by 30.4 percent (y/y).

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**Figure 1.11: Index of Industrial Production and exports**

<table>
<thead>
<tr>
<th>Percent (y/y, NSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IIP</td>
</tr>
<tr>
<td>Export of goods</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Q1-2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

**Source:** GSO and World Bank staff calculations

**Figure 1.12: Exports growth by main products**

<table>
<thead>
<tr>
<th>Percent (y/y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
</tr>
<tr>
<td>Mobile Phones</td>
</tr>
<tr>
<td>Machines</td>
</tr>
<tr>
<td>Textiles</td>
</tr>
<tr>
<td>Footwear</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>3M-2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>-20</td>
<td>-10</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>

**Source:** GSO, Haver Analytics and World Bank staff calculations

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20 The fall in exports across 2023’s first three quarters was headlined by the United States (-17.3 percent y/y), European Union (-8.9 percent y/y), and ASEAN (-7.0 percent y/y). Only exports to China registered growth (4 percent y/y), according to Viet Nam Customs, Haver Analytics, and World Bank staff calculations. Data available for the first nine months of 2023.

21 Imported inputs for production of exports which accounted for 94 percent of total imports in Viet Nam.

22 Source: Ministry of Industry and Trade

23 The fall in exports across 2023’s first three quarters was headlined by the United States (-17.3 percent y/y), European Union (-8.9 percent y/y), and ASEAN (-7.0 percent y/y). Only exports to China registered growth (4 percent y/y), according to Viet Nam Customs, Haver Analytics, and World Bank staff calculations. Data available for the first nine months of 2023.
Amid decelerating inflation and weaker growth, the SBV loosened monetary policy

After peaking in January 2023 at 4.9 (y/y), headline and core inflation fell during 2023 as transport costs softened and domestic consumption moderated and has remained below the 4.5 percent inflation target in the first quarter of 2024. Headline inflation in 2023 came in at 3.25 percent (y/y). Declining transport costs (price of gasoline) contributed an average -0.24 percentage point (y/y) to inflation for the year. The CPI for food and foodstuffs also fell from a high of 6 percent (y/y) in January 2023 to 2.9 percent in December, sharply reducing its overall contribution to the CPI.\(^{24,25}\) CPI picked up again slightly in the first quarter of 2024 (3.8 percent y/y compared to 3.6 percent in the fourth quarter of 2023) on the back of increased food prices. Core inflation (which excludes food, fuels, and government-administered prices) peaked at 5.1 percent (y/y) and averaged 4.16 percent (y/y) in 2023, remaining above pre-pandemic levels, due to higher housing prices and construction material. However, core inflation declined during 2023 and in the first quarter of 2024, reaching 2.8 percent (y/y) in March (Figure 1.13).

Amid decelerating inflation and weaker growth, the SBV loosened monetary policy. It reduced discount and refinancing rates by a cumulative 150-200 basis points (bps) through a series of four policy rate cuts between March and June 2023 to 3 percent and 4.5 percent, respectively (Figure 1.15). Caps on interest rates for deposits with maturities of less than six months and lending rates for priority sectors

\(^{24}\) The fall in CPI for food and foodstuffs from 6 percent to 2.9 percent reduced its overall contribution to the CPI from 1.8 to 1 percentage point.

\(^{25}\) While the CPI fell for the whole year, inflation ticked up during the second half due to a 5.1 percent (y/y) increase in education services prices in August 2023 and a 4.5 percent (y/y) hike in electricity tariffs in November 2023.
were also reduced by the same magnitude to encourage commercial banks to provide new, cheaper loans to enterprises and individual customers. Through the year, the average 12-month deposit rate offered by commercial banks fell by 360 bps to 5.1 percent, while lending rates for new loans declined by more than 200 bps on average to 6.7 percent (as reported by the SBV). Efforts were also made to accelerate implementation of the interest rate subsidy program as well as introduction of the social housing credit program to support the economy. However, by the fourth quarter of 2023, the interest rate subsidy program had only disbursed 1.95 percent of its budget, while the social housing initiative had disbursed 55.5 percent, due to slowed private investment and a sluggish real estate market (Box 1.1) as well as complex eligibility criteria and application procedures.

The SBV rebuilt reserves, while ensuring a stable exchange rate. The large current account surplus and resulting BOP surplus helped boost international reserves from US$87.1 billion at the end of 2022 to US$93.3 billion by the end of 2023, equivalent to 3.3 months of imports. The current account surplus also more than offset capital outflows due to the interest rate differential that led investors to seek higher returns abroad (as noted in the discussion on formal and informal capital outflows on page 22). The authorities continued to use a more flexible trading band (+5/-5 percent) around the central rate introduced since October 2022 and smaller, more frequent adjustments to the nominal bilateral VND/US$ rate to ensure FX market stability. Consequently, the nominal VND/US$ exchange rate depreciated by 2.2 percent in 2023 (Figure 1.14). It further depreciated 4.8 percent in the first quarter of 2024 but remained within the +/-5 percent policy band set by the SBV.

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26 The interest rate subsidy program is part of the Socio-Economic Recovery and Development Program approved by the National Assembly in early 2022. The interest rate subsidy program, with an allocated budget of US$1.7 billion, provides an interest subsidy of 2 percent for targeted businesses to recover from pandemic scarring. In March 2023, the government approved a US$5.1 billion credit program to promote social housing developments in Viet Nam. Credit is provided by four State-owned commercial banks with preferential interest rates for developers and home buyers.

27 Government report to the Standing Committee of the National Assembly in October 2023 on implementation of Economic Support Package under Resolution No. 43/2022/QH15.

28 In 2022, Viet Nam's international reserves lost US$22.7 billion, as the SBV intervened in the FX market to defend the value of the Vietnamese dong, decreasing from a peak of US$110 billion (Q4-2021) to just above US$87 billion (Q4-2022).

29 Data on balance of payments components is only available up to the third quarter of 2023. Fourth quarter data will be available in March 2024.

30 State Bank of Viet Nam, January 8, 2024.
Credit growth slowed slightly, while asset quality diminished

Credit growth registered 13.7 percent in 2023, slightly lower than the SBV’s target (14 percent) and 2022’s outcome (14.2 percent). While credit growth was sluggish during the first three quarters of 2023 due to slowed private investment and demand for consumer credit, it picked up strongly in the fourth quarter and contributed almost half (49 percent) of total loan growth for the year (Figure 1.16). This sharp increase may be attributed partly to the reduction in lending rates and seasonal factors. The corporate bond market experienced a similar recovery, registering 27 percent (y/y) growth. Most of this growth occurred in the fourth quarter, with issuances reaching VND135.1 trillion - equivalent to 50 percent of total issuances in 2023.

Meanwhile, asset quality deteriorated in 2023, despite renewed regulator forbearance. On-balance sheet non-performing loans (NPLs) at commercial banks swelled to 4.5 percent in December 2023 from 1.9 percent at the end of 2022. This is despite the re-introduction of forbearance measures in April 2023 (Circular No. 02/2023), which saw a total of VND171.0 trillion in loans restructured by December 2023, equivalent to 1.3 percent of total credit. The increase in banks’ NPLs was not accompanied by a proportional rise in loan provisioning by commercial banks, resulting in a significant decline in loan-loss coverage to 95 percent on average in Q4-2023, from 123 percent at the end of 2022. The provisioning level among banks varied widely, from 7 to 230 percent, with some banks having negligible reserves to cover loan losses. Such slow loan provisioning may have allowed banks to record an increased capital adequacy ratio to 11.9 percent in December 2023, from 11.5 percent at the end of 2022.

The fiscal position was moderately expansionary in 2023 as revenue performance weakened and the authorities supported a slowing economy through increased public investment

Total government revenue decreased by 5.4 percent, in nominal terms, compared to 2022. The weaker revenue performance was due to a 13.8 percent (y/y) drop in tax revenues in 2023 (Figure 1.17) because of weaker growth and temporary tax relief measures. Apart from Corporate Income Tax which increased by 5.5 percent (y/y), the collection of all other taxes fell compared with 2022. Reflecting the sharp contraction in imports, VAT and Customs duties on imported goods dropped by 39.4 and 20 percent (y/y), respectively. Weak domestic consumption also led to a 10.2 percent reduction in special consumption tax and VAT on domestic goods and services.

31 While credit growth in the fourth quarter has historically been the highest in recent years, 2023’s 49 percent was one of the most robust in the past seven years and only eclipsed by 50 percent in 2020. Before COVID-19, the average fourth quarter contribution to the total annual loan growth was 32 percent.

32 For 27 commercial banks which publish their quarterly financial statements.

33 In 2023, the National Assembly allowed for continued reductions of 2 and 50 percent in the VAT and Environmental Protection Tax rates, respectively. These tax support measures were extended to June 2024, and will be subject to a National Assembly review in May 2024.

34 This increase is partly due to tax payments deferred from 2022 (tax support measures included in the 2022-23 Socio-Economic Recovery and Development Program).
While total expenditure rose by 12.8 percent (y/y) in 2023, implementation challenges led to a continued accumulation of carry-overs. Recurrent expenditure - including wages and salaries, social security, and pensions - climbed by 5.3 percent compared with 2022, as the government implemented a 20.8 percent increase in the public sector base salary\textsuperscript{35} on July 1, 2023. Reflecting government efforts to support a slowing economy, the planned public investment budget was boosted by VND200 trillion (1.8 percent of GDP)\textsuperscript{36} and its disbursement accelerated in 2023, reaching VND580 trillion by the end of December (33.3 percent higher than 2022) and 73.5 percent of the plan approved by the National Assembly in 2023, compared to 67.3 percent in 2022 (Figure 1.18). Notwithstanding these improvements, public investment continued to experience delays resulting from bottlenecks in land acquisition and resettlement as well as lengthy public procurement procedures, especially for large contracts. Implementation delays over the years have led to a build-up of investment-related carryovers estimated at VND400 trillion (or 4 percent of GDP) by the end of 2023.\textsuperscript{37}

\textbf{Figure 1.17: Government revenues}

\textit{Percent (y/y)}

- Corporate income tax
- Personal income tax
- Value added tax
- Special consumption tax
- Trade
- EPT

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.17}
\caption{Government revenues}
\end{figure}

\textbf{Figure 1.18: Government expenditure}

\textit{Percent (y/y)}

- Public investment disbursement (as of 31/12) (y/y)
- Recurrent expenditures (y/y)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.18}
\caption{Government expenditure}
\end{figure}

\textbf{Source: MoF and World Bank staff calculations}

\textsuperscript{35} The public salary scale ranges from 1.65 to 8.0 depending on job categories and positions. Gross monthly salaries for individual public sector staff are calculated from a base salary (which increased from VND1,490,000 to VND1,800,000 per month, effective from July 1, 2023), multiplied by a scale relevant to the job position.

\textsuperscript{36} The planned 2022 investment budget was VND526.1 trillion, while for 2023 it was VND726.7 trillion. This increased investment program was part of the government’s 2022–23 Socio-Economic Recovery and Development Program, approved in January 2022 by the National Assembly.

\textsuperscript{37} World Bank staff calculation based on Government cash deposits at the SBV and commercial banks comprise of deposits by public entities (including Social Insurance Authority), operational cash reserves, sinking fund for salary reforms, balances of provincial budgets, and accumulated carry-overs resulting from higher-than-planned revenue collection and delayed implementation of public investment.
Public and publicly guaranteed (PPG) debt remained sustainable, highlighting ample fiscal space for counter-cyclical fiscal policy and infrastructure investment for future growth. PPG debt was estimated at 39.8 percent of GDP for 2023, continuing a decline from 2016 (51.4 percent of GDP), and well below the mandated threshold of 60 percent set by the National Assembly. Viet Nam’s estimated 2023 public debt compares well with regional comparators – Indonesia (40.9 percent of GDP), the Philippines and Thailand (both 60.9 percent of GDP) and India (89.2 percent of GDP). The authorities are also continuing to extend the tenure of public debt to domestic, low interest and long maturity bonds, partly through captive bond purchases by the State Pension Fund. In 2023, 68.7 percent of public debt was domestically held compared to 58.6 percent in 2016. Total bond issuances reached VND298.5 trillion (equivalent to 74.6 percent of the annual plan). About 95 percent of State Treasury bond issuances had long maturities (10-35 years).  

---

40 MoF, December 2023.
Viet Nam’s economic growth prospects are positive

Viet Nam’s economy is forecast to grow by 5.5 percent in 2024 and gradually inch up to 6.5 percent by 2026, contingent on the recovery of external demand and private sector investment (Table 1.1). This projection assumes a moderate recovery of manufacturing exports in 2024, anchored on the rebound growth of 8.5 percent (y/y) in the fourth quarter of 2023 and 17.2 percent (y/y) in first quarter of 2024, and reflecting firming in global demand.41 This recovery in manufacturing exports is expected to continue over the next two years based on subdued growth projections and external demand from major trade partners such as the United States, Euro zone, and China (Figures 1.19 and 1.20). The real estate market is forecast to turn the corner in late 2024 and into 2025 as the corporate bond market freeze appears to have eased and the Land Law, adopted in January 2024, comes into effect in January 2025. The corporate bond market started to recover in the last quarter of 2023, with issuance reaching VND135.1 trillion, which constitutes 50 percent of total bond issuance of 2023. By the end of February 2024, the market also saw an issuance of VND14.8 trillion confirming gradual recovery is underway. The adoption of the land law, which will go into effects in January 2025, will clarify the methodology on land pricing and institute new regulations on land use. With the gradual recovery of exports and the real estate market, domestic demand is set to firm up from the second half of 2024 as investors and consumers regain confidence, with total real investment and real private consumption expected to grow by 5.5 and 5.0 percent, respectively.
Inflation is projected to pick up slightly from an average 3.2 percent in 2023 to 3.5 percent in 2024. This projection reflects an expected increase in government-administered prices, such as education and health services which constitute 6.17 percent and 5.4 percent, respectively of weight in the CPI basket. On the other hand, despite the continued conflicts in Ukraine and the Middle East, oil and commodity prices are tipped to soften slightly in 2024. The CPI will moderate to 3.0 percent in 2025 and 2026 based on the expectation of stable commodity and energy prices.

The current account is projected to maintain a surplus in 2024, primarily driven by the merchandise trade balance. This surplus may decrease in 2025-26 as import growth picks up with the gradual recovery in private consumption and in imported intermediate inputs to exports. FDI inflows are expected to remain stable in the short to medium terms, reflecting foreign investors’ sustained interest in Viet Nam.

<table>
<thead>
<tr>
<th>Table 1.1: Selected economic indicators, Viet Nam 2021-26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
</tr>
<tr>
<td>GDP growth (%)</td>
</tr>
<tr>
<td>Growth of expenditure components</td>
</tr>
<tr>
<td>Private consumption</td>
</tr>
<tr>
<td>Public consumption</td>
</tr>
<tr>
<td>Investment</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Imports</td>
</tr>
<tr>
<td>Consumer Price Index (average, %)</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
</tr>
<tr>
<td>Fiscal balance (*) (% of GDP)</td>
</tr>
<tr>
<td>Public &amp; publicly guaranteed debt (**) (% of GDP)</td>
</tr>
</tbody>
</table>

Source: GSO; MoF; SBV; IMF; and World Bank staff calculations.

Note: e = estimate; f = forecast *: excluding unallocated expenditures and following Government Finance Statistics (GFS).
**: calculated based on Decision No. 458/QD-TTg (April 28, 2023) related to the plan for borrowing and repaying public debt in 2023 and for 2023-25, Resolution No. 105/2023/QH15 (November 10, 2023) related to the government’s 2024 budget.

While overall GDP growth slowed in 2023, quarterly dynamics showed a shallow recovery in exports and industrial production starting in the third quarter. The contraction by 11.6 percent (y/y) in exports during the first two quarters of 2023 dampened performance of Viet Nam’s export-oriented manufacturing sector with the Index of Industrial Production decreasing by 15.4 percent (y/y) in the same period. Starting from Q3-2023, exports gradually became less contractionary compared with the same period in 2022 and registered a growth rate of 8.5 percent (y/y) in Q4-2023, reflecting a pick-up in global demand during the second half of the year. Mirroring this improvement, manufacturing and related employment started a shallow recovery, with growth rates increasing to positive levels of 5.6 percent (y/y) in Q4-2023 and 0.1 percent (y/y) by the end of December 2023, respectively.
The government is expected to maintain moderately supportive fiscal policy in 2024 but resume fiscal tightening in the outer years. In 2024, the fiscal deficit is projected to further widen to 1.6 percent of GDP as revenues continue to remain weak, while expenditures are set to rise due to a planned civil service salary increase and further efforts to accelerate public investment. The fiscal deficit is projected to shrink from 1.6 percent of GDP in 2024 to 1.1 percent in 2025 and further to 1.0 percent in 2026.

**The risks to the outlook are broadly balanced**

This outlook is subject to heightened external and domestic downside risks. Given Viet Nam’s openness to the global economy, the main uncertainty stems from slower-than-expected global growth, particularly among major trading partners such as the United States, European Union, and China. Such developments could impact the recovery of Viet Nam’s manufacturing exports, and by extension that of industrial production and growth. An escalation of geopolitical tensions could affect the level and direction of exports. Domestically, the real estate market recovery could take longer than expected, dampening investor sentiment and slowing private sector investment, an important contributor to economic growth. The continued worsening of the financial sector’s asset quality - resulting from the real estate market downturn - could undermine growth prospects as capital buffers, especially at some larger State-owned commercial banks, are relatively thin. Climate-related disasters pose additional downside risks for the country. Viet Nam has been known for its exposure to typhoon during August to November, and incur economic costs every year. For instance, in 2020, the country’s central region experienced six storms in October, causing loss of life and US$2 billion in damage.

But the outlook could also be subject to potential upside developments. Stronger-than-expected global growth could support a faster recovery of Viet Nam’s export sector. The United States’ economic performance, particularly its consumption, could continue to surprise on the upside, leading to stronger demand for Vietnamese exports than forecast. Also, the loosening of monetary policy in major advanced economies, particularly the United States, could reduce the interest rate gap between international and domestic markets, and ease global financing costs, with potential positive spillovers into the banking and financial sector in Viet Nam.
Continued expansionary fiscal measures could support the economic recovery, while financial sector stability should remain a top priority

**Box 1.2:**
Impact of shocks on growth - a sensitivity analysis

A simple sensitivity analysis of the direct impact of exogeneous shocks on exports and consumption, suggests that in turn, GDP growth would be affected.\(^{42}\) This analysis is not dynamic and does not include the second-round impact of the shocks on jobs, household income, and domestic consumption. We assume three shock scenarios and compare them to the baseline 2024 estimates. Our results highlight the high exposure of the economy to export shocks, and the importance of private domestic consumption as a contributor to the growth. We estimate that a 1 percentage point slowdown in exports growth would shave 0.9 percentage points off the GDP growth rate for the year. If domestic consumption slowed by 1 percentage points it leads to a loss of 0.5 percentage points of real GDP growth. On the upside, improved exports growth of 0.5 percentage points increases the GDP growth by 0.5 percentage points.

**Table B1.2.1: Selected sensitivity analysis, Viet Nam 2021-26**

<table>
<thead>
<tr>
<th></th>
<th>Baseline 2024</th>
<th>Less exports growth</th>
<th>Less private consumption</th>
<th>Higher export growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>5.5</td>
<td>4.6</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Growth rates:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>5.0</td>
<td>5.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Public consumption</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Investment</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Exports</td>
<td>3.5</td>
<td>2.5</td>
<td>3.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Imports</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

**Continued expansionary fiscal measures could support the economic recovery, while financial sector stability should remain a top priority**

**Continued policy support is warranted to bolster the recovery.** Sustaining efforts to speed up implementation of public investment would support aggregate demand in the short run, while also helping to close emerging infrastructure gaps. An increase in public investment by one percentage point of GDP could lead to a rise in GDP of 0.1 percent.\(^{43}\) Thanks to fiscal consolidation in recent years, there is fiscal space to provide further targeted support. On the other hand, the space for additional interest rate cuts is more limited, given the interest rate differentials between domestic and international markets and the pressure it could bear on the exchange rate.

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\(^{42}\) Sensitivity analysis undertaken using World Bank MFMod Model.

\(^{43}\) World Bank staff calculations.
Building on recent reforms, further steps to mitigate financial sector risks and vulnerabilities remain crucial. The authorities could adopt policies to improve bank capital adequacy ratios and strengthen the institutional framework for prudential supervision (including to detect and address issues arising from the affiliation of banks with business groups), early interventions and bank resolution (to prevent banks from failing and causing systemic problems), and crisis management. While the Law on Credit Institutions was improved with a recent amendment, gaps remain in some areas, including supervision of bank and credit institution consolidated groups, resolution powers for dealing with non-viable banks, and legal protection of supervisors. Strengthening the mandate of the SBV in these areas should be a priority in upcoming legal reforms in the financial sector, including through the amendment of the Law on State Bank of Viet Nam.

Finally, structural reforms are crucial to sustain long-term growth prospects. Beyond providing short-term stimulus, enhanced public investment management is also important to address emerging infrastructure gaps – for example in the energy, transport, and logistics sectors – which are becoming a growing constraint on growth. In parallel, the authorities should accelerate structural reforms to strengthen the regulatory environment in critical backbone services (information and communication technology, electricity, transport), to green the economy, build human capital and improve the business environment, including through support of innovative entrepreneurship (discussed in more detail in the following special topic section of this edition).
References


Chapter 2.

Promoting Innovative Entrepreneurship
Viet Nam needs to increase domestic private sector productivity to meet its target of becoming a high-income country by 2045 as traditional sources of growth lose steam. Capital accumulation is constrained by relatively low public investment due to a conservative fiscal policy and implementation challenges, while the labor supply contribution is expected to decline because of a fast-ageing workforce (World Bank, 2023a). This leaves productivity growth, in addition to further private sector capital accumulation, as the key growth engine going forward.

However, over the past decade, productivity growth has largely been driven by foreign direct investment (FDI), with the domestic private sector lagging. To highlight this gap, private sector labor productivity, as measured by valued added per worker, in 2020 was around a quarter of that posted by the State sector (22.4 percent) and FDI sector (26.7 percent). In comparison, domestic private sector labor productivity in 2015 was only one-fifth of the FDI sector. While the number of domestic private enterprises increased sharply over the past decade, they tend to be smaller, less productive, and innovative than foreign-invested enterprises (FIEs), with limited integration into global value chains. Most domestic private firms are micro and small enterprises that operate in relatively low productivity service areas, such as small retail and restaurants, while simple manufacturing activities target the domestic market rather than export opportunities.

Innovative startups can play key roles as drivers of productivity growth in Viet Nam’s private sector. The contributions of innovative startups are evident in economic literature, especially related to economic growth, innovation and productivity. Innovative startups are especially relevant to middle-income countries, such as Viet Nam, as their future productivity growth must be increasingly driven by innovation and technology absorption. For entrepreneurs to flourish, they require a conducive enabling environment in the form of an ‘entrepreneurial ecosystem.’ In other words, a set of institutional, policy and market factors that nurture and enable entrepreneurial activities.

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44 This chapter is based on the World Bank report “Promoting Innovative Entrepreneurship in Viet Nam: An Ecosystem Diagnostic”, the most comprehensive analysis of Viet Nam’s innovative entrepreneurship ecosystem to date (Aridi et al., 2023). This report can be found at https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099116231325114991787640340880840895603a423252410.
46 Innovative startups are defined as knowledge- or technology-intensive firms that have or aim to develop new-to-market or new-to-world products or services.
47 According to Alon et al. (2018) and Haltiwanger (2022), startups contribute disproportionately to productivity growth.
48 Audretsch, Kielbach, and Lehmann 2006; Gries and Naude 2009.
50 Aghion et al. 2009.
However, challenges within Viet Nam’s entrepreneurial ecosystem could obstruct the entry of innovative firms and undermine their growth potential. Impeding factors include an outdated and burdensome regulatory environment, growing shortages of skilled workers, low rates of innovation activities, and difficulties in accessing finance – especially for innovative startups. Numerous sectors – such as education, financial services, health care and logistics – also suffer from high entry costs and regulatory uncertainty (World Bank Group 2021).

This chapter assesses the performance of Viet Nam’s innovative entrepreneurial ecosystem and provides a set of recommendations for improving entrepreneurial outcomes. The chapter features an analysis of factors that contribute to the pipeline of innovative startups, an assessment of the policy mix, availability of finance throughout a firm’s lifecycle and an examination of the underlying conditions of the whole ecosystem. The chapter concludes with a set of recommendations that aim to boost the number and quality of innovative startups in Viet Nam, close gaps in innovation finance, and alleviate current barriers to new firms’ entry and growth.

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51 Innovation activities generally represent the rate of firms introducing new products, production processes or management practices.
2. VIET NAM ENTREPRENEURIAL ECOSYSTEM: AN ANALYTICAL APPROACH

The analysis follows an analytical approach developed by the World Bank\(^{52}\) that assesses the level of development of all relevant elements of the entrepreneurship ecosystem to help identify gaps and challenges facing Viet Nam’s innovative entrepreneurs and startups. Figure 2.1 presents this approach, and the demand and supply factors in the entrepreneurship ecosystem needed to develop a pipeline of innovative startups that could help drive future productivity growth and high-quality job creation. The analysis consists of three parts: 1) a demand-side assessment focused on the flow of ideas, skills and technology that contribute to the pipeline of innovative startups, 2) a supply-side analysis of the policy mix and availability of finance throughout a firm’s lifecycle and 3) an analysis of the ecosystem framework conditions, such as regulatory environment, tax regimes and the role of intermediaries.

Figure 2.1: Framework for assessing an innovative entrepreneurship ecosystem

![Framework for assessing an innovative entrepreneurship ecosystem](image)

Source: Adapted from Aridi et al. (2018)

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\(^{52}\) Aridi et al. (2018).
**Demand-side Analysis**

Viet Nam’s research sector lacks resources and has yet to contribute to the pipeline of business ideas and ventures that feed into the country’s entrepreneurship ecosystem. Research and development (R&D) by government institutions is insignificant and characterized by low quality and little relevance to the private sector (World Bank 2021). The share of State R&D funding allocated to universities and public research institutes as part of total R&D spending has also declined substantially, from 74 to 27 percent during 2011-19. In addition, public research organizations’ outputs are primarily not market oriented as they lack incentives, including to collaborate with firms. Public-private linkages are weak, and enterprises rarely find public sector R&D a useful source of knowledge to drive innovative (World Bank 2021). Investors interviewed by the World Bank noted they generally did not look to universities or public research organizations as part of their deal flow pipeline due to a limited supply of investable companies, with sufficiently attractive ideas and business prospects, from such institutions.

Universities notable progress in terms of access to education, and training providers are not effectively preparing future workers for positions in high-tech sectors. As evidenced by recent World Bank analysis, 80 percent of surveyed training institutions believed their graduates were adequately prepared for entry-level positions, but fewer than 40 percent of surveyed employers viewed their recent graduates as prepared, especially for higher-skilled positions (Truong, 2022; World Bank, 2023b). The 2021 Global Competitiveness Index ranked Viet Nam 127th out of 140 countries on the industry-relevant skills set of university graduates. Companies interviewed by the World Bank team stated that universities were adept at producing raw engineering and programming talent, but many recent graduates from universities and colleges did not have sufficient experience to take on positions in emerging technology areas such as biotech, nanotechnology, and artificial intelligence (Aridi et al, 2023).

Firms from across industries, including startups, report challenges in finding workers with suitable foundational skills for innovation. In the 2021 Provincial Competitiveness Index (PCI) company survey, 27 percent of respondents reported challenges recruiting technicians and managers, most acutely in the ICT sector (PCI 2021). Of the 200 startup firms that participated in the World Bank Innovative Startups Survey in 2023 (Aridi et al. 2023), 44 percent labored to recruit suitably qualified and skilled staff. Companies interviewed by the World Bank team reported that computer science and engineering students were often hired before finishing degrees due to rising competition for their skills (Aridi et al, 2023). Recent research by the World Bank (2023b) found a need for education and training investments focused on high-growth occupations and necessary skills, including improvements to career orientation services to reduce mismatches between workers’ aspirations and high-growth occupations, particularly among medium-skilled workers. There is also a need for updated and user-friendly labor market information and interventions to help direct workers toward growing occupational fields.

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53 As part of the study to produce the 2023 report “Promoting Innovative Entrepreneurship in Viet Nam: An Ecosystem Diagnostic” (Aridi et al. 2023).
Managerial skills are also in high demand. In a 2015 World Bank enterprise survey, 37 percent of firms reported difficulties in finding employees with sufficient managerial and leadership skills. The respondents also reported a dearth of workers with product management, business development and marketing skills, especially C-level executives, such as chief executive officers, chief operating officers, and chief financial and technology officers. While these managerial positions are prevalent within Viet Nam’s growing and FDI-driven industrial sector, they have been predominantly occupied by foreign nationals. This limits the supply and mobility of local managerial talent in the domestic sector. Additionally, as there is a small pool of serial entrepreneurs, those who have founded multiple startups, the number of executives with experience and skills for scaling a business is limited. Companies need to be competitive in salaries and other benefits, such as stock options, to attract and retain executives.

The country’s higher education capacity to continue developing a high-skilled workforce is limited. Over the last decade, tertiary enrollment has stabilized at around two million students, and the share of those in science, technology, engineering, and math (STEM) fields has stayed at around 35 percent of total enrollment (World Bank, 2023b). Under resource constraints, many leading science and engineering universities are focusing on quality enhancement (including improving curricula, hiring more PhDs, better quality control and certification) rather than increased enrolment of students. Without further tertiary education system investments to improve the quality and quantity of graduates, including by further increasing the university school enrollment ratio, the availability of skilled technical labor will likely remain a challenge for innovative startups.

While investment readiness of startup businesses has improved in the last five years, founders still struggle with key aspects of running and growing a business. Investors interviewed by the World Bank in 2023 noted that the quality of presentation pitches had improved dramatically in recent years, as this was an area of focus for new entrepreneurial training curricula, accelerator courses, and pitch competitions (Aridi et al, 2023). However, many founder teams still struggled with core startup business functions, such as creating product-market fits, financial management, developing growth strategies, and team building. There is also a need for better and more tailored training and mentoring to prepare entrepreneurs for developing products and running businesses, rather than making a pitch. Other factors hindering investment readiness include weak English language and negotiation skills, limited knowledge and experience of deal terms, scant intellectual property awareness and a reluctance to hire external consultants (Pham and Tan 2021).

Supply-side Analysis

Despite success in promoting the entrepreneurial agenda, government policies supporting entrepreneurship and innovation remain fragmented. Two key ministries are tasked with supporting startups in Viet Nam: the Ministry of Science and Technology (MoST) is responsible for innovation policies, while the Ministry of Planning and Investment (MPI) oversees small and medium enterprises (SMEs) and entrepreneurship. However, policy implementation is spread across multiple subordinate agencies, which results in overlaps and limited coordination (Figure 2.2).
The design and implementation of SME and startup support programs in Viet Nam is not aligned with international good practices. Unlike in more developed countries (Cirera et al., 2020), publicly funded intermediaries provide a limited number of support services to startups, while a lack of private sector participation in designing and running entrepreneurship support programs compromises the quality of support. Public-private partnerships, where private actors are better positioned and equipped to implement entrepreneurship support programs, have an impactful track record in more developed ecosystems. For example, the Republic of Korea’s Tech Incubator Program for Startups (TIPS) shows that, when a public-private partnership is well designed and implemented, it can be effective in promoting innovative entrepreneurship. A recent World Bank assessment of the TIPS program showed that during 2013–21, its support led to better startup performance in terms of innovation inputs, outputs, and the ability to raise subsequent funding among 1,650 recipients. This also had a multiplier effect on private investment by reducing risk levels during early-stage startups, with the cumulative amount of follow-on investments about 10.4 times the amount of public spending on TIPS.54

Public financial support for innovation and entrepreneurship is not always known to beneficiaries and is limited in size and scope. Startup founders interviewed by the World Bank team were largely unaware of public support programs (Aridi et al, 2023). National programs that provide grants for R&D and soft loans for technology adoption and equipment purchases are limited and each supported fewer than 100 projects over the last five years. The Ministry of Science and Technology’s Project 844 is considered the flagship entrepreneurship support public program.

Public financial support for innovation is mostly directed at a few large multinationals, leaving little for domestic firms. An analysis of Viet Nam’s science and innovation support programs (World Bank 2021) found that the country’s largest innovation program provides R&D tax incentives to FIEs, yet innovation and entrepreneurship support of the domestic private sector is at a much lower level than in regional peer countries. To illustrate the point, in 2017, direct support for

**Figure 2.3. Key challenges facing surveyed startups**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>69%</td>
</tr>
<tr>
<td>Business regulations</td>
<td>65%</td>
</tr>
<tr>
<td>Collaboration among ecosystem actors</td>
<td>51%</td>
</tr>
<tr>
<td>Access to qualified and skilled labor</td>
<td>44%</td>
</tr>
<tr>
<td>Knowledge support services</td>
<td>40%</td>
</tr>
<tr>
<td>Access to markets</td>
<td>37%</td>
</tr>
<tr>
<td>Managerial capabilities</td>
<td>37%</td>
</tr>
<tr>
<td>Access to infrastructure</td>
<td>34%</td>
</tr>
<tr>
<td>Entrepreneurial mindset</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Aridi et al. (2023)
business innovation amounted to US$237 million in the Philippines (0.07 percent of GDP), compared to US$69 million (0.02 percent of GDP) in Viet Nam (World Bank 2021).

**Venture capital (VC) investments in Viet Nam have grown rapidly in the last five years, a testament to the growth potential of the entrepreneurial ecosystem.** VC investments in Viet Nam hit a record level in 2021 in terms of the value (US$1.5 billion) and number (165) of deals, both substantial increases from previous years (Figure 2.4a), before dipping in 2022 to US$634 million and 134 deals due to a global capital crunch. Nevertheless, the overall size of the country’s VC market remains well below the region’s more developed markets, such as Singapore and Indonesia. Compared to Viet Nam’s peak of 165 deals in 2021, Singapore reported 303 deals (Figure 2.4b).

**Figure 2.4. VC investments in Viet Nam and share of VC investments by country in Southeast Asia**

**A. Venture Investments in Vietnam, 2014-2022**

<table>
<thead>
<tr>
<th>Year</th>
<th>VC investments (USD)</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$400</td>
<td>20</td>
</tr>
<tr>
<td>2015</td>
<td>$450</td>
<td>40</td>
</tr>
<tr>
<td>2016</td>
<td>$500</td>
<td>60</td>
</tr>
<tr>
<td>2017</td>
<td>$600</td>
<td>80</td>
</tr>
<tr>
<td>2018</td>
<td>$800</td>
<td>100</td>
</tr>
<tr>
<td>2019</td>
<td>$1,000</td>
<td>120</td>
</tr>
<tr>
<td>2020</td>
<td>$1,200</td>
<td>140</td>
</tr>
<tr>
<td>2021</td>
<td>$1,400</td>
<td>160</td>
</tr>
<tr>
<td>2022</td>
<td>$1,600</td>
<td>180</td>
</tr>
</tbody>
</table>

**B. Share of VC investments by country, 2017-2021**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2%</td>
<td>19%</td>
<td>23%</td>
<td>8%</td>
<td>33%</td>
<td>8%</td>
</tr>
<tr>
<td>Singapore</td>
<td>9%</td>
<td>18%</td>
<td>14%</td>
<td>13%</td>
<td>27%</td>
<td>8%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>52%</td>
<td>57%</td>
<td>67%</td>
<td>67%</td>
<td>52%</td>
<td>67%</td>
</tr>
<tr>
<td>Thailand</td>
<td>65%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Philippines</td>
<td>65%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>65%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: Sources: Do Ventures, NIC, and Cento Ventures Research (2022)

At the same time, gaps in early-stage funding and limited “patient capital” willing to invest on longer time horizons are apparent. Only 15 percent of firms in the World Bank Innovative Startups Survey in 2023 reported receiving VC investments prior to launching products, well below the share of firms that self-financed or received friend and family investments during early-stage development. This early-stage funding gap is a bigger challenge for hardware-based startups that need more capital to develop minimum viable products. A gap in “patient capital”, whereby investors are willing to invest over longer time horizons usually beyond five years, was also noted. Instead, numerous VCs active in Viet Nam are focused on software and copycat models that localize ideas for a Vietnamese market that lacks investors willing to support firms with longer time horizons or those with novel business models or technologies. Angel investors, who generally play a key role in early-stage funding, are scarce55 and their activities are not professionalized. Syndication, a risk-sharing investment approach where some investors pool resources and invest together in a larger number of deals, is not common practice among angel investors in Viet Nam.

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55 Interviews with multiple ecosystem members revealed that the number of active angel investors in Viet Nam appeared to be under 100. However, many such investors in other geographies would be classified as “friends and family” investors, as most investments occurred due to personal or family connections between the founder team and investor. The number of angel investors investing in companies without personal connections to the founder team is likely much lower.
Domestic investors and funds face restrictions and lack incentives to participate in risk capital markets. Despite Decree No. 38 (2018) establishing a legal framework for registering “innovative investment funds”, potential investors in local VC funds are not incentivized and funds face investment restrictions not encountered by foreign-registered competitors. As a result, only a few local funds registered under this decree have deployed less than US$50 million in total investments since 2018, out of US$3.2 billion in total VC investments over this period (Aridi et al., 2023). Traditional institutional investors, such as pension funds and insurance companies, are not active investors in VC or private equity (PE) funds in Viet Nam due to legislative restrictions.

Ecosystem Framework Conditions: assessing underlying factors that may enable or constrain startup activity

Despite recent improvements to the business environment, Vietnamese startups and investors face regulatory challenges. While establishment costs are only slightly higher than the OECD average and below that of many other middle-income countries (OECD 2023), processes for obtaining business sub-licenses can be burdensome and there is a lack of clarity on the legality of a broad range of economic activities, especially for startups. For investors, the legal framework for registering an investment fund locally is restrictive and lacks incentives, resulting in few funds registered locally.

Administrative processes for obtaining business sub-licenses for selected economic activities are burdensome, adding to the costs of doing business for innovative startups. Firms in Viet Nam must obtain one or more conditional business sub-licenses to engage in any one of more than 200 economic activities specified in the Investment Law, which can place large administrative and cost burdens on startups – especially in e-commerce, financial services, biotech, and health. For example, fintech firms must go through the Ministry of Industry and Trade for approval of apps/websites and e-commerce licenses, the State Bank of Viet Nam for interbank payments, and the Ministry of Information and Communications if digital content is related to the business. In the 2021 PCI survey, 22 percent of firms reported that challenges in securing sub-licenses caused them to delay or cancel business plans in 2020. Petty corruption is also common in business sub-licensing, with 61 percent of firms surveyed in the 2021 PCI reporting making informal payments as part of the process to gain sub-licenses. Of firms that responded to the World Bank Innovative Startups Survey in 2023, 65 percent had an unfavorable view of Viet Nam’s business regulations.

Legal grey areas within a broad range of economic activities may deter investment in some sectors. Startup founders and investors interviewed by the World Bank team (Aridi et al, 2023) highlighted several economic activities – such as the storage of health data or use of public space for vehicle charging infrastructure – that are surrounded by legal uncertainty and compounded by the absence of a focal point government agency or counterpart. Startups operating in these regulatory grey areas face legal risks that also act as a deterrent for some interviewed funds to invest in fintech, health care, logistics and education business models, amongst others. In response to these legal ambiguities, investors and startup founders have called for the creation of regulatory sandboxes to allow startups to operate in such markets. Regulatory sandboxes are pilot legal frameworks which allow new business models to operate legally for a specific period, usually two years, until legal ambiguities are addressed. The State Bank of Viet Nam released a second draft of a decree for a fintech sandbox in 2022, but there is currently no timeline for its implementation.
**Despite the efforts, the legal framework for registering an investment fund locally remains restrictive and lacks incentives for investors.** While Decree No. 38 (2018) created the legal basis for registering “innovative startup investment funds” domestically, such funds are restricted in their investment activities and local investors have no incentives to invest as limited partners. Under current legislation, as a fund is not viewed as a taxable legal entity, a fund management company is subject to tax obligations and must pay corporate tax on profits from the sale of investments before distributing profits to investors, in contrast to global best practices in taxation for investment funds. Moreover, funds are limited to a maximum of 30 investors, a small number in comparison to international practice. As an example, the United States permits up to 100 limited partners before an exception is required from the United States Securities and Exchange Commission. Like other domestic investors, local VC funds cannot make investments in firms registered outside Viet Nam without permission from the State Bank of Viet Nam. Yet, most investment-ready firms in Viet Nam are registered outside the country to receive funding from foreign VCs.

**Public agencies and funds in Viet Nam are not permitted to participate or invest in venture capital or private equity funds, affecting the flow of domestic funds to innovative entrepreneurs.** State-owned enterprises do not participate in VC or PE because the 2014 Law on the Management and Use of State Capital Invested in Business Operations of Enterprises and its guiding decrees require State-owned companies to preserve State capital. Officials responsible for investment losses risk penalties. In contrast, pension funds are major sources of capital for VC and PE funds globally. In 2014, 20 percent of all capital raised by VC funds in the United States came from public pension funds, with an additional 7 percent from corporate pensions (Bloomberg 2014). In addition, from the mid-1990s, public funds in European countries were allowed to flow into VC and PE funds to increase the available capital for investments in thousands of young and innovative companies (Alperovych et al. 2020). In Viet Nam, the Viet Nam Pension Fund is only permitted to invest in government bonds, savings accounts with deposit certificates issued by commercial banks, and to lend directly to the government (Article 92, Law on Social Insurance 2014).

**Contradictory policies and inconsistencies in Viet Nam’s intellectual property and technology transfer framework inhibit knowledge and technology diffusion to the private sector.** A key impediment is the varying treatment of research results from publicly funded R&D, dependent on whether IP is generated within three years of project completion (Aridi et al, 2023). Furthermore, public research organizations and researchers face restrictions on ownership and management of IP-based startups. According to the Law on Science and Technology (2013) and Law on Higher Education (2018), public research organizations and universities are permitted to create enterprises, including startups. However, the Enterprise Law (2020), Law on Public Employees (2010), and Law on Anti-Corruption (2018) place restrictions on government employees from managing private businesses. As a result, employees of public research organizations and universities are prevented from directly working for startups or as directors or board members of startups they found.

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Viet Nam has implemented significant structural reforms to its product markets, but access remains uneven. Despite multiple reforms, including in the run-up to World Trade Organization accession, Viet Nam continues to lag its regional peers in product market openness. Of firms that participated in the World Bank Innovative Startups Survey in 2023, 38 percent reported challenges in accessing markets. Regulatory constraints are particularly binding in the service sector, especially in transport and communications. In addition, State-owned enterprises and private conglomerates seem to hinder competition from smaller, less established firms (World Bank Group, 2021).

Despite strides towards improving infrastructure, logistics costs remain high and seasonal electricity shortages in northern Viet Nam in the past two summers have raised reliability concerns. Viet Nam’s ranking in the World Bank’s Logistics Performance Index improved from 53rd in 2010 to 39th out of 160 economies in 2018. However, a lack of adequate infrastructure and excessive transportation regulations hinder last-mile delivery services, while freight services are inefficient due to a fragmented industry and limited aggregators. While high logistics costs have not hindered Viet Nam’s rapid integration into global value chains, they can represent a significant burden to startups—particularly in the rapidly growing e-commerce sector (World Bank Group, 2021). In recent years, lack of investment in power generation—especially in the north as well as in transition lines connecting the north to the south, where electricity supply is abundant, has led to power shortages in the northern peak season (May to July). In 2023, the preliminary estimate of economic costs for the May-June power outages was US$1.4 billion (or 0.3 percent of GDP). Overall, nearly one-third of firms that participated in the World Bank Innovative Startups Survey 2023 had an unfavorable view of the country’s infrastructure.

While the number of intermediaries supporting entrepreneurship (incubators, accelerators, innovation centers) has grown, the quality of services tends to be low. Notably, the number of incubators, accelerators and co-working spaces has jumped from 104 in 2020 to 1,400 in 2022. However, only 22 percent of firms that participated in the World Bank Innovative Startups Survey 2023 reported receiving support from an incubator or accelerator, and just 18 percent benefited from a mentoring or consulting program. The dominant State-funded National Program supports a network of more than 40 public incubators and innovation centers around the country, but they tend to lack resources and provide poor quality services. Investors interviewed by the World Bank team noted that the quality of presentations had improved dramatically in recent years, as this was a focus of new entrepreneurial training curricula, accelerator courses, and pitch competitions. However, many founder teams still struggle with core startup business functions, such as creating product-market fits, financial management and driving growth (Aridi et al, 2023).

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57 World Bank Logistics Performance Index https://lpi.worldbank.org/
59 Incubators support startups through provision of co-working spaces, rented office spaces, shared facilities and utilities, and may include training and mentoring services.
60 Accelerators support startups through entrepreneurial training curricula and may include shared facilities and mentoring.
61 Innovation centers support startups through entrepreneurship training courses and may include shared facilities and mentoring.
62 Truong Thinh Pham and Aimee Hampel-Milagrosa, 2020, “Viet Nam’s ecosystem for technology startups”, ADB.
63 Pham and Tan, 2022.
64 Although many offer no services beyond provision of office space.
Entrepreneurship and innovative startups can play a key role in driving national productivity growth. While Viet Nam creates new and high-growth firms, the productivity of domestic enterprises remains low and could undermine national aspirations to attain high-income status by 2045. Innovative entrepreneurs matter more for middle-income countries, such as Viet Nam, where growth is increasingly driven by technology absorption and innovation. Thus, there is an urgent need for policymakers to support the entry of more innovative and productive local firms into the market.

For entrepreneurs to flourish, they require a conducive enabling environment. At present, challenges impede the entry and growth of innovative firms, including an outdated and burdensome regulatory environment, growing skills shortages, and difficulties in accessing finance, especially for innovative startups beyond the digital sector. Many industries – including education, financial services, health care and logistics – also suffer from high entry costs and regulatory uncertainty.

Multi-faceted action can be taken to boost the number and quality of innovative startups, reduce gaps in financing of innovation, and alleviate entry and growth barriers. Table 2.1 lists a set of specific policy recommendations with suggested implementation arrangements based on findings from the World Bank analysis (Aridi et al., 2023). Additional work is needed to realize the potential of firms across the broader economy, including orientation of the enterprise support system toward capacity upgrades through adoption of technology and digital solutions, investment in R&D, skills development, improved managerial practices, and access to finance (World Bank Group, 2021).

### Table 2.1: Summary of policy recommendations

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Recommendation</th>
<th>Implementation</th>
<th>Counterpart institutions</th>
<th>Priority timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-quality services provided by intermediaries to startups. Funding gaps for early-stage firms, especially technology and engineering-based ventures. Scarce angel investments, and angel investors not professionalized.</td>
<td>Reorient Program 844 toward building a pipeline of investment-ready innovative startups.</td>
<td>• Design a public co-financing scheme to attract qualified private operators and fund managers to run entrepreneurship intermediaries (incubators, accelerators, innovation centers). Co-support early stage (pre-minimum viable product) development, and eventually increase the local early-stage investor base.</td>
<td>MoST, NATEC, MPI, NIC, private sector intermediaries and investors, international donor organizations.</td>
<td>Short term</td>
</tr>
<tr>
<td>Challenge</td>
<td>Recommendation</td>
<td>Implementation</td>
<td>Counterpart institutions</td>
<td>Priority timeframe</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
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<td>-------------------------------------------------------------------------------------------------</td>
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<tr>
<td>Restrictions on domestic investor activities. Small-sized base of domestic investors.</td>
<td>Address regulatory barriers through fast-track reforms.</td>
<td>• Facilitate the formation of business angel associations and networks to improve the number and capacity of domestic angel investors.</td>
<td>Government Office, State Bank of Viet Nam, Ministry of Finance, MoST, MPI.</td>
<td>Short to medium term.</td>
</tr>
<tr>
<td>Burdensome processes to obtain business sublicenses for numerous economic activities. A lack of clarity on the legality of a broad range of economic activities.</td>
<td></td>
<td>• Revise regulations (Decree No. 38) to build the domestic base of risk capital investors.</td>
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<td></td>
<td></td>
<td>• Pilot regulatory sandbox(es) in the fintech sector, scale to other areas if experiences prove successful.</td>
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<td></td>
<td></td>
<td>• Simplify procedures for making inward and outward investments, particularly for small investments (e.g., under US$5 million) in innovative firms.</td>
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<tr>
<td>Research sector lacks resources and contributes little to the pipeline of new ideas and companies. University/public research organization-based startup activity limited by opaque IP and technology transfer frameworks. Lack of skills and resources for technology transfer and commercialization activities. Weak incentive frameworks.</td>
<td>Boost public research sector contributions to the innovative startup pipeline.</td>
<td></td>
<td>MoST (SATI, NATEC), Ministry of Education and Training, national universities, international donors.</td>
<td>Medium to long term.</td>
</tr>
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<td></td>
<td></td>
<td>• Modernize the IP and tech transfer framework in line with international best practices.</td>
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<tr>
<td></td>
<td></td>
<td>• Include metrics related to research commercialization, technology transfers and collaboration in career development and salary progression frameworks of public researchers.</td>
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<tr>
<td></td>
<td></td>
<td>• Build capacity for commercialization and technology transfers at key universities and public research organizations.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Annex

**Select public support programs for entrepreneurship and innovation**

<table>
<thead>
<tr>
<th>Program</th>
<th>Implementor</th>
<th>Objective(s)</th>
<th>Objective(s)</th>
<th>Type of support</th>
<th>Number of projects supported</th>
<th>Funding, 2018–2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program 844 (2016-2022)</td>
<td>MoST Project 844 Office</td>
<td>Development of startup ecosystem</td>
<td>Intermediaries, higher education institutions, local governments</td>
<td>Grants</td>
<td>Short term</td>
<td>US$85 million</td>
</tr>
<tr>
<td>National Product Development Program until 2020</td>
<td>MoST</td>
<td>Product development</td>
<td>Firms</td>
<td>Grants</td>
<td>13</td>
<td>US$24.7 million</td>
</tr>
<tr>
<td>National Program for Development of Advanced Technologies until 2020</td>
<td>MoST</td>
<td>Applied research and development</td>
<td>Research organizations, researchers, and firms</td>
<td>Grants</td>
<td>49</td>
<td>US$18.8 million</td>
</tr>
<tr>
<td>S&amp;I Market Development Program until 2020</td>
<td>MoST/NATEC</td>
<td>Commercialization and product development</td>
<td>Research organizations, intermediaries, and firms</td>
<td>Grants</td>
<td>63</td>
<td>US$8.2 million</td>
</tr>
<tr>
<td>SME Development Fund (SMEDF) 2014-2022</td>
<td>MPI SMEDF</td>
<td>Improving competitiveness of SMEs</td>
<td>Innovative SMEs and those engaging in global value chains and clusters.</td>
<td>Indirect soft loans</td>
<td>25</td>
<td>US$7.6 million</td>
</tr>
</tbody>
</table>

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65 Decision No. 844 (May 18, 2016) on approving the project “Supporting the national innovation startup ecosystem until 2025.” Data on Program 844 projects and funding are drawn from the MoST website but have not been officially reported and may differ from those reported here.

66 Decision No. 2441 (December 31, 2010) on approving the National Product Development Program until 2020. The new program for 2021-2030 was approved by Decision No. 1322 (August 31, 2020).

67 Decision No. 2457 (December 31, 2010).

68 Decision No. 2075 (November 8, 2013).
<table>
<thead>
<tr>
<th>Program</th>
<th>Implementor</th>
<th>Objective(s)</th>
<th>Objective(s)</th>
<th>Type of support</th>
<th>Number of projects supported</th>
<th>Funding, 2018-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAID-funded LinkSME (2018–2023)</td>
<td>MPI AED</td>
<td>SME linkages, capacity upgrading</td>
<td>Intermediaries and SMEs</td>
<td>Technical assistance</td>
<td>1,050 firms supported, with 79 firms receiving intensive assistance. 40 business support organizations assisted</td>
<td>About US$12 million⁶⁹</td>
</tr>
<tr>
<td>Supporting Development of Ho Chi Minh City Innovative Startup Ecosystem 2021-2025</td>
<td>Ho Chi Minh City DOST</td>
<td>Ecosystem support</td>
<td>Intermediaries and firms</td>
<td>Training, events</td>
<td>3,500 innovation projects, 1,500 startups, 40 incubators, 80 investors, 3,887 enterprises</td>
<td>US$55.3 million in 2021-2025 (US$11 million a year)</td>
</tr>
<tr>
<td>Program of Scientific Research, Technological Development and Enhancement of Scientific and Technological Potential in Ho Chi Minh City 2021-2025</td>
<td>Ho Chi Minh City DOST</td>
<td>Technology development</td>
<td>Firms, universities, and research institutes</td>
<td>Grants</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Aridi et al. (2023)

⁶⁹ The total budget of LinkSME is US$20 million, with supporting SMEs one of three components that receive funding.
References


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