



## Legal framework for small and medium-sized enterprise support by business associations in Vietnam

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### Abstract

Business associations (BAs) are increasingly recognized as indispensable intermediary actors in supporting small and medium-sized enterprises (SMEs). In Vietnam, this role has been formally acknowledged in the 2017 Law on Support for SMEs and its implementing regulations. Nevertheless, the practical performance of BAs remains fragmented and uneven. Using qualitative legal research methods, including doctrinal legal analysis, selective policy review, and comparative legal analysis, this article examines the domestic legal framework governing SME support activities conducted by business associations. The findings reveal several structural shortcomings, particularly the absence of detailed provisions on sustainable financial mechanisms, standardized service quality, and monitoring and evaluation (M&E) frameworks. Based on these findings, the article proposes targeted legal reform measures, including the formalization of funding mechanisms and public-private partnership (PPP) models, the standardization of SME support services and M&E frameworks, capacity-building investments for business associations, and supplementary quantitative research. These reforms aim to enhance both the effectiveness and accountability of business associations in supporting SMEs toward sustainable development.

**Keywords:** BAs, SMEs, legal framework, legal reform, sustainable development

### Introduction

SMEs constitute the backbone of most national economies, playing a vital role in job creation, economic growth, and socio-economic development. In the context of deepening international economic integration and rising demands for sustainable development, SMEs simultaneously function as engines of growth and as structurally vulnerable actors due to their limited resources and adaptive capacity. Against this backdrop, BAs are increasingly perceived as key intermediary institutions within the SME support ecosystem, performing functions such as interest representation, information dissemination, enterprise networking, and participation in policy dialogue.

The effectiveness of BA-led support for SMEs, however, is largely contingent upon the legal framework governing the establishment, organization, and operation of these associations. In many developing and transition economies, the regulatory framework for business associations remains fragmented, often failing to clearly define their legal status, degree of autonomy, and mechanisms for substantive participation in SME support. In Vietnam, although legislation on SME support has gradually evolved, regulations concerning business associations remain dispersed and largely principle-based. As a result, the existing framework has yet to provide a sufficiently robust legal foundation for BAs to fully perform their support and policy advocacy roles, particularly in aligning SME support with sustainable development objectives<sup>[1]</sup>.

From an academic perspective, Bennett and Ramsden (2007) demonstrate that business associations positively affect SME performance through service provision, interest representation, and strategic support<sup>[2]</sup>. Empirical studies in countries such as India<sup>[3]</sup> and South Korea<sup>[4]</sup> similarly acknowledge the role of intermediary organizations in SME development. However, much of this literature approaches

the issue from development policy or public administration perspectives, with limited attention to the legal framework governing business associations as a determining factor of support effectiveness. Addressing this gap, this article focuses on analyzing the legal framework regulating business associations in their role of supporting SMEs in Vietnam, thereby providing a foundation for evidence-based legal reform in this field.

### Research methods

This study adopts a qualitative legal research approach combined with policy analysis to examine the legal framework regulating the role of business associations in supporting SMEs in Vietnam. Doctrinal legal analysis is employed to systematically interpret relevant legislative and regulatory instruments, thereby identifying the legal basis, scope, and limitations of SME support mechanisms implemented by BAs. Policy analysis and legal evaluation methods are used to assess the coherence, effectiveness, and enforceability of the current regulatory framework.

In addition, document analysis and selective case studies of representative business associations are conducted to assess practical implementation, highlighting both strengths and institutional constraints. Finally, selective comparative legal analysis and legal reasoning are integrated to formulate context-sensitive recommendations for improving the legal framework governing BA-led SME support in Vietnam. The combination of these methods ensures a systematic and rigorous examination consistent with international legal scholarship standards.

### Results and discussion

#### 1. Overview of Business Association Roles for Small and Medium-Sized Enterprises

A widely applied international reference for SME classification is provided by the European Commission,

which categorizes SMEs into micro, small, and medium-sized enterprises based on employment size, turnover, and balance sheet totals <sup>[5]</sup>.

**Table 1:** SME Classification Criteria According to the European Commission

No.	Category	Micro	Small	Medium-sized
1	Staff	< 10	< 50	< 250
2	Turnover	≤ €2 million	≤ €10 million	≤ €50 million
3	Balance sheet total	≤ €2 million	≤ €10 million	≤ €43 million

In Vietnam, Article 4 of the 2017 Law on Support for SMEs defines SMEs as enterprises with an average annual number of employees participating in social insurance not exceeding 200 persons and meeting either a capital or revenue threshold. Despite differences in specific thresholds, both international and domestic definitions emphasize the limited scale of SMEs in terms of labor, capital, and revenue, while underscoring their critical contribution to economic development <sup>[6]</sup>.

These structural characteristics simultaneously enable SMEs to demonstrate flexibility and innovation and expose them to constraints related to access to finance, technology, and markets. In this context, business associations play a crucial intermediary role. Internationally, BAs are commonly defined as organized collective entities representing business interests and pursuing shared economic and political objectives. In Vietnam, BAs are classified as social-professional organizations established on a voluntary basis to promote cooperation, protect lawful interests, and provide mutual support among enterprises <sup>[7]</sup>.

Accordingly, the core functions of BAs in relation to SMEs include interest representation, provision of business development services, facilitation of enterprise linkages within value chains, and acting as an institutional bridge between the State and the business community. Through these functions, BAs contribute to enhancing the competitiveness and sustainability of SME members.

**2. Current Legal Framework for Business Association Support to Small and Medium-Sized Enterprises**  
**Legal framework**

**Table 2:** Selected Quantitative Data on SMEs and Business Associations in Vietnam

No.	Content	Result	Source
1	SMEs as a proportion of total enterprises	Approximately 90–98%	OECD <sup>[13]</sup>
2	Number of active business associations	Over 200 nationwide	VCCI <sup>[14]</sup>
3	Membership scale	HANOISME: >11,000 members; VINASME: >63,885 SME members; ASMES: 232 members	Relevant associations <sup>[15, 16, 17]</sup>
4	Scope of activities	Sectoral and regional; uneven SME access	OECD <sup>[18]</sup>

In practice, large associations such as VINASME are capable of organizing training programs, legal consultancy, market linkage support, and fundraising activities. In contrast, many local or sectoral associations face limitations in professional staff, financial resources, and M&E capacity, resulting in uneven access to support services across regions and industries.

**Assessment**

Strengths include the establishment of an official legal foundation recognizing BA roles through the 2017 Law on Support for SMEs and guiding decrees, with some national associations capable of implementing large-scale support

Vietnamese law governing BA support for SMEs is regulated through sector-specific legislation and regulations on association management. The 2017 Law on Support for SMEs was the first to formally recognize the “responsibility of social organizations and social - professional organizations in supporting SMEs.” Specifically, these organizations are tasked with

1. representing and protecting the lawful rights and interests of SMEs;
2. mobilizing resources to support member enterprises;
3. participating in the formulation, review, implementation, and evaluation of SME support policies and programs;
4. providing support services in accordance with law and organizational charters; and
5. promoting linkages between large enterprises and SMEs, thereby enhancing participation in value chains and sustainable development <sup>[8]</sup>.

These provisions are further specified in Decree No. 80/2021/ND-CP, which requires such organizations to coordinate with state agencies, proactively develop plans, propose support needs and funding (submitted to the Ministry of Finance at the central level or Departments of Finance at the local level), implement assigned tasks, report implementation results, and mobilize and use lawful resources to support SMEs <sup>[9]</sup>. Decree No. 126/2024/ND-CP further updates and details regulations on the establishment <sup>[10]</sup>, organization <sup>[11]</sup>, and operational responsibilities of associations <sup>[12]</sup>, contributing to clarification of the legal framework for SME support by BAs.

While these instruments establish a legal foundation recognizing the role of business associations, they remain largely framework-oriented, lacking detailed provisions on sustainable financial mechanisms, service quality standards, and monitoring and evaluation (M&E) mechanisms.

**Practical implementation**

Selected quantitative evidence illustrating the scale of SMEs and the representative role of business associations in Vietnam is summarized below.

programs. However, three main limitations are consistently identified in domestic and international studies. First, despite legal recognition, the framework lacks concrete operational mechanisms - such as financial mechanisms, service standards, and PPP models - leading to heavy reliance on individual association capacity and initiative. Second, significant disparities exist among associations in terms of resource mobilization and service provision, resulting in uneven support impacts <sup>[19]</sup>. Third, existing studies are largely descriptive or case-based, with limited large-scale quantitative research directly measuring the impact of association services on SME performance indicators such as revenue, productivity, or employment <sup>[20]</sup>.

Although the legal framework recognizing BA roles exists, transforming it into an effective operational mechanism requires: (i) detailed regulations on funding and PPP mechanisms; (ii) standardization of support services and M&E frameworks; (iii) capacity-building for small and medium-sized associations; and (iv) additional quantitative research to measure impact.

### **3. Improving the Legal Framework for Business Association Support to Small and Medium-Sized Enterprises**

To enhance the effectiveness of SME support by BAs in Vietnam, further refinement of the legal framework governing the organization and operation of these associations is essential. Legal reforms should focus on strengthening the legal status of business associations, clarifying mechanisms for participation in policymaking and policy review, and enhancing association capacity and accountability in providing SME support services. This paper proposes four key reform measures.

First, amending and supplement more detailed provisions on funding mechanisms and public - private partnership (PPP) models

To ensure the sustainability of SME support activities delivered through business associations (BAs), it is necessary to amend and supplement specific provisions of the 2017 Law on Support for Small and Medium-Sized Enterprises and its implementing instruments. At the statutory level, provisions on sources of funding for SME support should be revised to explicitly recognize non-budgetary funding sources and co-financing mechanisms between the State and BAs; additional clauses should be introduced to allow the State to enter into contracts with BAs for the provision of SME support services under PPP arrangements, clearly defining financial responsibilities, output-based objectives, and performance evaluation criteria. For example: “The State encourages the mobilization and use of funds prescribed in Point d, Clause 1 under public - private partnership mechanisms; competent state authorities may enter into contracts with eligible organizations to provide SME support services on the basis of clearly defined financial responsibilities, output objectives, and effectiveness assessment criteria <sup>[21]</sup>.”

With regard to the responsibilities of socio-professional organizations, the law should be amended to strengthen the legal standing of BAs as strategic partners in PPPs, enabling them to proactively propose support schemes, mobilize private resources, participate in the development of service standards, and take part in the evaluation of support outcomes <sup>[22]</sup>. As for implementing regulations, for instance Decree No. 80/2021/NĐ-CP should be supplemented with a separate chapter on PPPs in SME support, clearly stipulating appropriate cooperation models (such as service provision contracts with BAs), principles for risk and resource sharing, as well as procedures for contracting, monitoring, and performance evaluation based on quantitative indicators. The introduction of these provisions would establish a transparent funding framework, enhance accountability, and enable BAs to effectively leverage private-sector resources and expertise. This is regarded as a foundational legal condition, as it underpins other solutions such as service standardization and capacity building for associations.

Second, standardizing SME support services provided by business associations

Current legislation lacks specific provisions on quality standards for support services. To address this gap, the 2017 Law on Support for Small and Medium-Sized Enterprises should be amended to require BAs to develop and apply service standards for SME support, particularly for services provided under contracts with the State or financed by public funds. Such standards should cover the scope of services, capacity requirements, transparency obligations, and indicators for assessing support outcomes <sup>[23]</sup>. In addition, Decree No. 80/2021/NĐ-CP should be revised to detail a minimum set of criteria applicable to SME support services provided by associations, while linking the obligation to disclose service standards and performance evaluations to eligibility for participation in State support programs. These amendments would yield several tangible benefits: (i) enhancing the consistency of support policies; (ii) strengthening accountability; and (iii) establishing a legal basis for results-based financing mechanisms aimed at ensuring the sustainability of SME support programs.

Third, establishing a monitoring and evaluation (M&E) framework and a system of key performance indicators (KPIs)

The current legal framework on SME support and the management of associations remains largely confined to administrative reporting obligations and has yet to establish a standardized monitoring and evaluation (M&E) framework or a unified system of key performance indicators (KPIs) applicable to SME support activities implemented by business associations (BAs), particularly where state budget funds or public resources are involved. The absence of an M&E framework means that the assessment of support effectiveness is still primarily based on the number of activities conducted and the amount of funds disbursed, rather than on actual outcomes and impacts on beneficiary enterprises. It is therefore necessary to further refine the legal framework at the level of decrees or circulars by requiring BAs to apply a standardized M&E framework, linked to a set of specific KPIs on outputs, outcomes, and impacts for each category of support services. Such regulation would not only enhance the accountability of BAs but also provide a legal basis for results-based resource allocation mechanisms, thereby contributing to the overall effectiveness of the SME support system.

Fourth, supplementing data infrastructure and quantitative research for policy formulation

In addition to shortcomings in M&E, the existing legal framework lacks specific provisions on the establishment of a unified database and the collection of quantitative data on SME support activities carried out by BAs, resulting in fragmented information and limited capacity to measure the socio-economic impacts of support measures. Most available data remain descriptive in nature, failing to capture changes in business performance, competitiveness, or innovation capacity of SMEs following support interventions. Accordingly, it is necessary to supplement sub-law instruments with provisions aimed at establishing a centralized database, ensuring interoperability between state management authorities and BAs, and imposing obligations for periodic data collection based on standardized indicators and measurement methodologies. Institutionalizing these requirements would lay the foundation for evidence-based

policy impact assessment, thereby enhancing the effectiveness and sustainability of SME support mechanisms implemented through business associations.

### Conclusion

This study analyzes the legal framework governing SME support activities by business associations in Vietnam. Although current legislation formally recognizes the indispensable role of business associations, the framework remains largely principle-based and lacks concrete operational provisions - particularly regarding sustainable financial mechanisms, service quality standards, and M&E systems thereby limiting effectiveness and consistency of support activities. These gaps result in uneven implementation across sectors, regions, and localities. Accordingly, the paper emphasizes the need for legal reforms aimed at specifying funding mechanisms, standardizing support services, and establishing measurable M&E requirements to strengthen accountability and enhance the effectiveness of SME support provided by business associations.

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