

DEVELOPING FINTECH TO SUPPORT SMALL AND MEDIUM ENTERPRISES IN VIETNAM: POTENTIALS, CHALLENGES AND POLICY IMPLICATIONS

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Abstract: *Fintech is emerging as a strategic solution that not only facilitates digital transformation but also fosters the sustainable development of small and medium enterprises (SMEs) in Vietnam by improving access to capital and addressing financial management challenges. This article delves into the analysis of various Fintech models and their potential in advancing the growth of SMEs in Vietnam while identifying the challenges faced by these enterprises. Based on this, the study proposes recommendations to establish a favorable legal environment for the development of Fintech to support SMEs in Vietnam. The article comprises five main sections: an introduction to the research context; a literature review and research methodology; an analysis of Fintech models tailored for SMEs in Vietnam; research findings and discussion; and conclusions with key policy implications.*

• Keywords: *blockchain, e-payment, fintech, insurtech, p2p lending, SMEs.*

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1. Introduction

The rapid development of Fintech over the past decade has profoundly transformed how financial services are accessed and provided globally. In developing countries like Vietnam, Fintech is not only a driver of digital transformation in the financial sector but also a strategic tool to address the capital access challenges faced by small and medium enterprises (SMEs) and micro-enterprises. In this context, peer-to-peer (P2P) lending platforms and digital banking are opening up new opportunities. Specifically, P2P lending enables SMEs and micro-enterprises to access loans directly from individual investors without the need for traditional financial intermediaries. This model not only reduces transaction costs but also enhances transparency and flexibility in financial transactions (Zhang & Beaverstock, 2018). Meanwhile, digital banking is growing rapidly, offering digital-based financial services that provide a seamless user experience, helping businesses optimize their financial management processes, from payments to accounting, in a swift and efficient manner (Nguyen & Pham, 2021).

Alongside the significant benefits Fintech brings, especially for SMEs and micro-enterprises, several challenges remain. The primary issues lie in risk management, information security, and regulatory compliance. These challenges are particularly crucial as

Vietnam's Fintech market is still in its infancy, lacking a comprehensive regulatory framework to govern the operations of P2P lending platforms and digital banks. According to a report by the State Bank of Vietnam (2022), only around 20% of Fintech companies in Vietnam are strictly regulated under current laws, while the majority operate in a partially regulated environment with potential risks for financial fraud and money laundering.

This article will delve into various Fintech models and their potential in promoting SME development in Vietnam, thereby clarifying the challenges these enterprises face. The main content of the article is structured into five sections: Introduction to the research context; Literature review; Fintech models for SMEs in Vietnam; Research findings and discussion; and Conclusion along with policy implications.

2. Literature reviews and research methodology

In recent years, Fintech has been driving significant transformations within the ecosystem of SMEs globally. Fintech encompasses a wide range of applications, including electronic payments, crowdfunding, blockchain, and automated lending platforms (Philippon, 2016). These innovations have opened numerous opportunities for SMEs to access capital, optimize operational processes, and expand their market reach. Research has demonstrated that Fintech not only enhances the financial efficiency of SMEs but also

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boosts their competitiveness and sustainable growth (Gomber, Koch, & Siering, 2017).

One of the primary impacts of Fintech on SMEs is the improved access to financial resources. Traditionally, small and medium-sized businesses often face challenges in securing loans from banks due to stringent credit requirements and lengthy approval processes. Fintech has revolutionized this aspect by introducing peer-to-peer lending platforms and online financial services, making it easier for SMEs to obtain funding at lower costs and with simpler procedures (Puschmann, 2017). This increased accessibility not only fosters the development of new businesses but also supports the expansion of existing enterprises (Zavolokina, Dolata, & Schwabe, 2017).

Additionally, Fintech contributes to operational efficiency and cost reduction for SMEs. Tools such as automated accounting software, electronic invoicing, and integrated payment systems help businesses streamline their financial management, thereby minimizing the time and resources spent on administrative tasks (Dapp, 2014). As a result, SMEs can focus more on their core activities, leading to enhanced productivity and profitability. Furthermore, Fintech enables SMEs to expand their market presence and improve customer engagement. E-commerce platforms and digital marketing tools allow SMEs to reach a larger customer base, while data analytics help them better understand consumer behavior. This enables businesses to tailor their products and marketing strategies effectively, resulting in increased sales and market penetration (Gai, Qiu, & Sun, 2018).

However, the adoption of Fintech also presents several challenges for SMEs. Regulatory compliance, cybersecurity concerns, and the high costs associated with implementing advanced technologies are significant barriers that SMEs must navigate (Haddad & Hornuf, 2019). Moreover, a lack of technological knowledge and resistance to change among business owners can hinder the integration of Fintech solutions into their operations (Lee & Shin, 2018). Addressing these challenges is crucial for SMEs to fully leverage the benefits that Fintech offers.

Despite the extensive global research on the impact of Fintech on SMEs, there remain significant research gaps, particularly concerning the specific context of Vietnamese SMEs. While international studies provide valuable insights, the unique economic and regulatory environment of Vietnam requires focused investigation. One key area lacking sufficient research is the role of financial services in determining appropriate strategies to promote Fintech adoption among Vietnamese SMEs. Understanding

how different financial services can be tailored to meet the needs of Vietnamese businesses is essential for developing effective support mechanisms (Nguyen, 2020).

This study aims to address these gaps by exploring how various Fintech services can be leveraged to enhance the growth and sustainability of SMEs in Vietnam. By identifying the specific financial services that are most beneficial and the strategies that can facilitate their adoption, this research seeks to provide actionable recommendations for Vietnamese SMEs. The findings are expected to support the sustainable development of these enterprises, thereby contributing to the overall economic growth of the country.

3. Fintech frameworks in Vietnam

SMEs in Vietnam make significant contributions to the economy, but they face numerous obstacles in accessing traditional capital sources. According to research by Le et al. (2020), over 70% of SMEs in Vietnam encounter difficulties in obtaining bank loans, mainly due to lack of collateral, unreliable credit history, and prolonged assessment procedures. Consequently, since 2018, a number of Fintech companies in Vietnam have emerged, providing digital banking services and solutions that cater not only to individual consumers but also to small and micro-enterprises (World Bank, 2022). Fintech development in Vietnam has presented vast opportunities for SMEs, particularly in accessing capital, improving operational efficiency, and enhancing competitiveness in the market. Some successful Fintech models in Vietnam include:

E-Payment Model

E-Payment has been one of the most robustly growing Fintech areas in Vietnam, with an increase in companies offering e-wallets, digital banking, and mobile payment solutions. E-wallets like Momo, ZaloPay, VNPAY, and ShopeePay have gained high popularity due to their convenience, ease of use, and compatibility with various types of services. One of the drivers of rapid E-Payment growth is the digital transformation in retail and e-commerce. According to the State Bank of Vietnam (2023), non-cash transactions have grown significantly, with the total transaction value through e-wallets increasing by more than 100% in 2022. This trend became particularly prominent as the COVID-19 pandemic encouraged consumers to adopt online shopping and contactless payments. Fintech companies in the E-Payment sector in Vietnam provide not only swift payment solutions but also multi-service integration models. For instance, Momo functions not only as an e-wallet but also offers consumer loans, microinsurance, and investment services, creating a comprehensive digital financial ecosystem.

P2P Lending Model

Peer-to-peer (P2P) lending is an advanced Fintech model widely implemented in Vietnam. P2P lending connects lenders and borrowers directly through online platforms, eliminating the need for traditional financial intermediaries like banks. Notable platforms in this sector in Vietnam, such as Tima, Vaymuon.vn, and Interloan, have witnessed substantial growth in business customers, indicating an encouraging growth trend for this Fintech model. P2P lending brings considerable benefits to both lenders and borrowers. Specifically, lenders can earn higher interest rates than with traditional bank deposits, while borrowers, especially SMEs, can access capital more easily. According to the Ministry of Finance (2023), the P2P lending model has enabled over 10,000 SMEs in Vietnam to access quick and flexible funding.

Blockchain Technology in Finance

Blockchain is an advanced technology that is increasingly being applied in the financial sector in Vietnam. Blockchain is used not only in cryptocurrency transactions but also in financial services such as payments, international transfers, data management, and information security. Several companies in Vietnam have started to implement blockchain to offer safer and more transparent financial solutions. For example, TomoChain, a prominent blockchain project in Vietnam, provides efficient blockchain solutions for financial transactions and smart contracts. TomoChain has collaborated with several large companies to deploy blockchain-based financial technology solutions that enhance security and reduce transaction costs. Additionally, blockchain is also being used in supply chain management and product authentication, helping to reduce fraud in trade and increase transparency in transactions. Thus, blockchain has the potential to transform the operations of financial services, especially in banking and insurance.

Insurtech Model

Insurtech, or insurance technology, is a rapidly emerging Fintech sector in Vietnam. Insurtech leverages technology to improve the efficiency, flexibility, and accessibility of insurance services. Companies like BaoViet, PTI, and FWD are leading the application of digital technology to offer online insurance packages, making it easier for consumers to access and select suitable insurance products. A notable feature of Insurtech is its ability to use big data and artificial intelligence (AI) to personalize insurance products. This helps reduce risks for insurance companies and provides customers with packages tailored to their specific needs. According to the Ministry of Finance (2023), the Vietnamese insurance market has significant potential for Insurtech growth, with increasing adoption of digital

insurance products. In addition to traditional insurance packages, Insurtech has expanded into microinsurance services, allowing low-income individuals and small businesses to access low-cost insurance packages. This not only contributes to financial security for individuals and businesses but also fosters the growth of an inclusive financial ecosystem.

4. Results and discussion

Based on the synthesis of reports from the Ministry of Finance (2023), Ministry of Information and Communications (2022), the State Bank of Vietnam (2022), the World Bank (2022) and other studies by domestic and international scholars, we identify several main challenges faced by SMEs when using Fintech services as follows:

First, an incomplete and unstable legal environment: In recent years, Fintech has developed rapidly, outpacing the regulatory capabilities of the existing legal system. The State Bank of Vietnam report (2023) show that, there are still many gaps in regulations related to data security, violation handling, and the rights of participating parties. The lack of a specific legal framework for digital financial services not only hinders SMEs' access to Fintech but also exposes them to numerous legal risks. Furthermore, instability in the legal environment forces SMEs to cope with unexpected, unpredictable changes. For instance, continuous changes in tax regulations and personal data security can create administrative burdens and high compliance costs for small businesses, which already have limited resources. According to the Ministry of Finance (2023), more than 60% of SMEs enterprises in Vietnam express concerns about the lack of specific guidelines from regulatory authorities when implementing Fintech services.

Second, limited access to technology and infrastructure: Although Vietnam has made significant progress in developing information and communication technology, many SMEs, particularly in rural or remote areas, still struggle to access modern technology. Data from the Ministry of Information and Communications (2022) shows that only about 45% of SMEs in Vietnam have sufficient investment in robust technology infrastructure to effectively deploy Fintech services. The lack of high-speed network connectivity, outdated hardware, and a shortage of skilled technological workforce are major barriers to the implementation and use of Fintech services. This is especially important as digital financial services require advanced and secure technology infrastructure to ensure stability and security.

Third, cybersecurity and data protection: This is a top concern for SMEs using Fintech. Digital financial services, which rely heavily on the internet and networked technologies, are always at risk of

cyberattacks and data breaches. Kaspersky report has shown that, Vietnam ranks among the top Southeast Asian countries in the number of cyberattacks, especially in the financial sector. For SMEs, investing in advanced security solutions to protect customer data and financial information often faces limitations due to tight budgets. Moreover, the lack of cybersecurity skills and knowledge within the enterprise also makes SMEs more vulnerable to security threats. This poses risks not only to finances but also to the reputation of businesses if they fail to ensure the safety of customer data. According to the State Bank of Vietnam (2023), more than 70% of SMEs in Vietnam do not have adequate cybersecurity measures to protect financial transactions through fintech. This highlights a significant gap in raising awareness and training in cybersecurity for SMEs.

Fourth, limitations in capital and deployment costs: While Fintech brings many opportunities to improve capital access, SMEs in Vietnam still struggle to access Fintech services due to capital limitations. Many small businesses lack the financial resources to invest in technology infrastructure, upgrade systems, and train staff. Additionally, the deployment costs of Fintech services pose a significant barrier. According to the International Finance Corporation (IFC, 2023), SMEs in Vietnam often have to pay high service fees when using Fintech platforms, which makes it difficult for them to maintain profitability and competitiveness. Furthermore, the lack of financial support packages from banks and traditional credit institutions also limits small businesses' ability to access Fintech services.

Fifth, lack of technology skills and knowledge: One of the final but equally important challenges is the lack of technology skills and knowledge within SMEs. To use Fintech services effectively, businesses need a team with in-depth knowledge of technology and digital finance. However, according to Le et al. (2020), most SMEs in Vietnam lack personnel with sufficient skills to manage and deploy Fintech services. This shortage not only affects the effectiveness of Fintech services but also increases the risk of errors and operational risks. Training and enhancing the technological capabilities of SME staff is an urgent need, but it is also a significant challenge due to time constraints and training costs.

5. Conclusions and policy implications

In Vietnam today, Fintech is revolutionizing the provision of financial services for SMEs and micro-enterprises, from P2P lending platforms to digital banking services. We cannot deny that Fintech has created revolutionary opportunities for expanding financial service access for SMEs. This reflects a clear reality: SMEs are recognizing Fintech's potential to

address financial issues that traditional banking cannot meet (Nguyen, 2020).

However, to address significant challenges and maximize Fintech's benefits, some policy recommendations to create a favorable regulatory environment for Fintech development and support SMEs in accessing new financial services are as follows:

Firstly, the government should direct the State Bank and relevant ministries to expedite the completion of the legal framework for Fintech.

The legal environment is a core factor affecting Fintech's sustainable development. In Vietnam, the legal framework for Fintech remains incomplete, lacking specific regulations for transparently and securely managing digital financial services. One of the government's top priorities should be to build a comprehensive legal framework with clear criteria for consumer rights protection, data security, and responsibilities of participants in the Fintech ecosystem.

The United Kingdom, one of the world's most developed Fintech markets, provides an example where the Financial Conduct Authority (FCA) has established a detailed legal framework for Fintech through the Regulatory Sandbox program. This program allows Fintech companies to test new financial products and services under regulatory supervision, helping the government gather data to adjust policies appropriately. Vietnam could learn from this model, supporting Fintech companies and SMEs in accessing digital financial services safely while minimizing legal risks.

Secondly, the Ministry of Information and Communications, in coordination with other ministries, should develop technological infrastructure, addressing cybersecurity and data protection issues.

Technological infrastructure plays a crucial role in driving Fintech's growth and enhancing SMEs' access to new financial services. However, in Vietnam, technology infrastructure, especially in rural and remote areas, remains insufficient to support effective Fintech solutions. Vietnam could learn from India, which has made significant strides in expanding internet connectivity and telecommunications infrastructure through national programs like Digital India. This program includes upgrading telecommunications networks nationwide and promoting the application of IT in public services. As a result, India has seen explosive growth in Fintech, particularly in mobile payment and digital banking platforms (Mehra, 2020). Vietnam could implement similar programs to improve digital infrastructure, allowing SMEs, especially in rural areas, easier access to Fintech services. Additionally, Vietnam needs stronger public-private partnerships to develop telecommunications services, data infrastructure, and cloud computing. The government could encourage

businesses to invest in building data centers and technical infrastructure, providing conditions for Fintech companies to develop advanced, secure, and flexible digital financial solutions.

Cybersecurity and data protection are also critical elements of the Fintech ecosystem, especially as SMEs often lack the means to protect against cybersecurity threats. Fintech services based on internet and digital technologies are always at risk of cyberattacks and data loss, which could result in significant losses for small businesses. An essential policy Vietnam could adopt is establishing a mandatory cybersecurity framework for all Fintech companies and SMEs using digital financial services. The experience of the European Union with the General Data Protection Regulation (GDPR) has demonstrated that a strict data security legal framework protects consumer rights and fosters trust in Fintech services. Vietnam could create a similar version of GDPR to ensure that businesses' and consumers' financial information is protected.

International cooperation to share information on cybersecurity threats and preventive measures is also essential to safeguard Vietnam's Fintech ecosystem. The government should strengthen cybersecurity training programs for businesses and provide consulting services and advanced security solutions at reasonable costs to help SMEs protect their data and digital assets.

Thirdly, the government should continue to promote digital human resource training and development.

Human resources are a core factor in ensuring that SMEs can effectively utilize Fintech services. However, the lack of technology skills and digital finance knowledge in small businesses is a significant challenge in Vietnam. A feasible solution is for the government to direct the Ministry of Education and Training to take the lead in developing specialized Fintech training programs for small businesses, focusing on digital financial management skills and technology application in business activities. Israel, known for its strong Fintech ecosystem, has heavily invested in technology education and training programs for businesses. Universities and financial institutions in Israel frequently organize specialized Fintech courses for entrepreneurs and managers (Cohen, 2019). Vietnam could partner with universities and research institutions to develop similar training courses, helping SMEs improve their competitiveness in the digital era.

The Vietnamese government should also establish mechanisms to encourage collaboration between Fintech companies and training centers, ensuring that courses and training programs are designed to meet business needs. These programs should be supported by preferential financial packages to ensure feasibility and sustainability.

Fourthly, the government should implement policies to support SMEs' access to Fintech costs.

Currently, the costs of deploying and maintaining Fintech services remain a significant obstacle for SMEs in Vietnam. Limited capital and the lack of financial support packages from traditional banks restrict many small businesses' access to these services. The government could direct the Ministry of Finance and the State Bank to establish preferential financial programs specifically for SMEs using Fintech services, for example, low-interest loans or financial support packages from state financial institutions, tax exemptions for newly established Fintech companies. Singapore serves as an example, with its Startup SG Fintech program providing financial and support services for SMEs to access digital financial services at reasonable costs (MAS, 2021).

Furthermore, Vietnam should establish a Fintech support fund, collaborating with international financial institutions to provide development capital for Fintech, especially for SMEs. In order for Vietnam to effectively establish a Fintech support fund for SMEs, it is first necessary to mobilize capital from both the state budget and international financial institutions such as the World Bank or ADB, with cooperation from international investment funds and Fintech enterprises. This collaboration not only ensures sufficient capital but also brings fund management expertise and international financial standards, helping to enhance transparency and management efficiency.

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