

THE OVERVIEW OF SME DEVELOPMENT SITUATION IN TEN CITIES/PROVINCES AND SOME INITIAL FINDINGS

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I- THE OVERVIEW OF SME DEVELOPMENT SITUATION IN STUDIED CITIES/PROVINCES

1. The development situation of SMEs in Vietnam

For about twenty years of Doi Moi with the transition to a market-based economy, oriented to socialism and consistent realization of multi-sector economic development policies in Vietnam, SMEs have witnessed significant steps in their development, increased very fast in terms of number. It can be said that SMEs have had an important role in the liberalizing and developing production force, mobilizing internal resources for socio-economic development, making a critical contribution to economic restoration and growth, increase in export value, budget income as well as effectively addressing social issues such as employment creation, poverty reduction and hunger eradication.

According to GSO, by December 31 2004, the number of firms of different economic sectors (excluding cooperatives working in agricultural sector) which are actually in operations, was of 91,755¹. Of them, 88,223 SMEs (that are classified by criterion of workers used, accounting for 96.1%²), or 79,420 firms (defined by capital amount, accounting for 86.6%).

The growth rate of SMEs is always higher than 20% (in 2004 it was 28.44% as compared to 2003). The density of firms also saw significant increase, from one firm per 1178 (in 2003) to one per 930 people (in 2004).

SMEs play a substantial role in the socio-economic development of the country, making about 24%-25.5% to GDP (in 2004). In addition, they attract hundreds of workers annually as an important contribution to solving social problems of the country.

¹ According to the information of registered firms, by December 12 2004, the total number of registered firms is 164,648.

² As it is stipulated by Decree 90/2001/NĐ-CP: an SME is one that uses less than 300 permanent workers and less than VND ten billion.

2. The present situation of SMEs' development in studied provinces/cities

2.1. The development of SMEs

In general, along with the development of SMEs in the country, SMEs in 10 studied provinces/cities (Hanoi, Hai phong, Ha Tay, Phu Tho, Nghe An, Quang Nam, Khanh Hoa, HCMC, Lam Dong and Long An) have been fast developing, making a significant contribution to the development of provinces/cities for the period of toime of 2001-2005. Namely:

Table 1: The number and ration of SMEs currently operating (by labor used)

	2002		2003		2004	
	Number	Ratio	Number	Ratio	Number	Ratio
Total	59,831	100,00%	68.687	100,00%	88.223	100,00%
Hanoi	9.023	15.08%	11.334	16,50%	14.548	16,49%
Hai Phong	1.458	2.44%	1.755	2,56%	2.474	2,80%
Ha Tay	849	1.42%	969	1,41%	1.206	1,37%
Phu Tho	525	0.88%	589	0,86%	944	1,07%
Nghe An	930	1.55%	1.139	1,66%	1.376	1,56%
Quang Nam	498	0.83%	529	0,77%	607	0,69%
Khanh Hoa	1.018	1.70%	1.156	1,68%	1.441	1,63%
Lam Dong	1.493	2.50%	758	1,10%	940	1,07%
HCM city	13.062	21.83%	16.644	24,23%	22.908	25,97%
Long An	870	1.45%	904	1,32%	1,092	1,24%

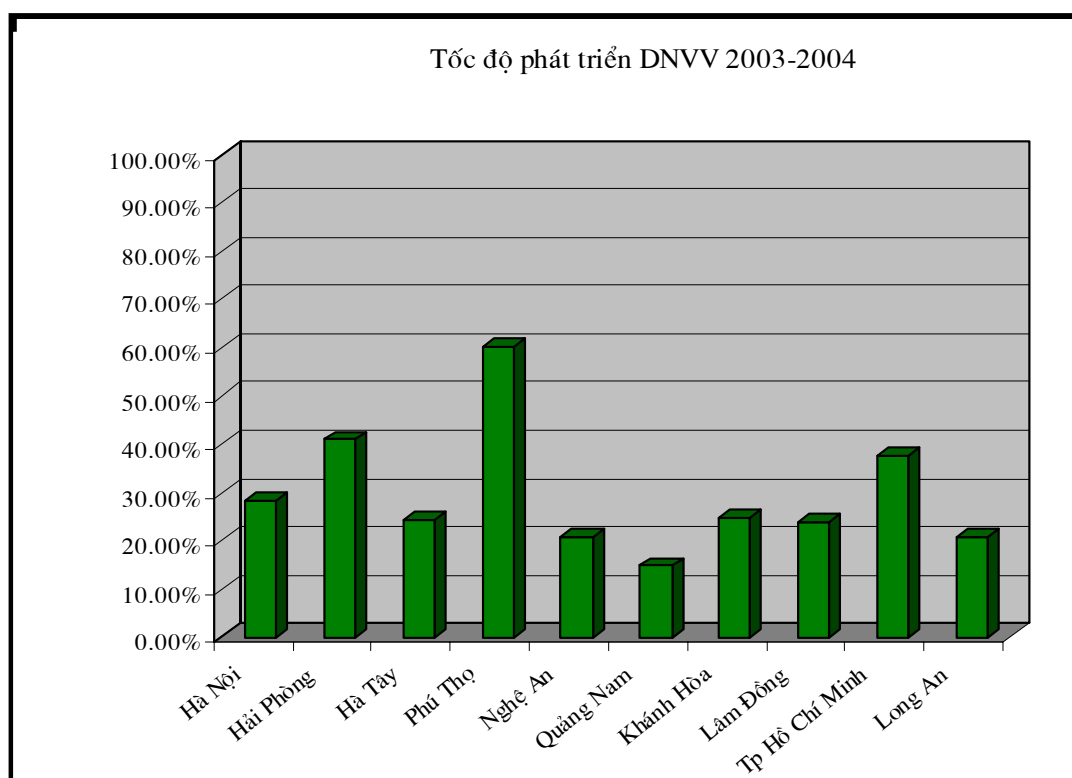
Source: GSO, 2006

❖ The number of firms, in general, and that of SMEs, in particular, are mainly based in big cities, towns and economic centers. Those that are located in tow largest cities, Hanoi and HCMC, account for 42.46% of the total number of SMEs in the country. The rest in other cities and towns makes insignificant ratio, especially those provinces/cities that have difficult circumstance like Quang Nam, Lam Dong or Phu Tho. Cities and provinces having comfortable conditions such as they are the center of the country, areas, regions that are located close to Hanoi, HCMC, the rates of SMEs may be a bit higher than difficult ones.

❖ The development of SME sector varied from locality to locality. Some localities see higher growth rates than the nationally average one. In 2004, the growth rate of SMEs in Phu Tho was 60.27%; that of Hai Phong: 40.97%; HCMC: 37.64%, higher than the average rate of the nation, 28.44%. However, in other localities, SMEs grew at lower rates, like those

in Hanoi: 28.36%; Ha Tay: 24.46%; and in some other localities like Quang Nam, it was really low, 14.74%.

Figure 1: The growth rates of SMEs, 2003-2004



❖ During the last years, mobilized capital that is seen through registration of SMEs increased continuously as significant resources to promote economic development in those provinces/cities.

Table 2: Total newly registered capital and changes of SMEs, 2001-2004

Provinces/cities	Newly registered capital		Additional registered	
	Number	Capital(million dong)	Number	Capital (million dong)
Hanoi	19.281	38.590.756	4.701	12.834.465
Hai Phong	3,03	9.446.478	329	881.881
Ha Tay	1.358	3.145.793	233	662.779
Phu Tho	712	1.566.934	188	395.635
Nghe An	1.676	2.355.621	259	276.544
Quang Nam	465 ³	1.703.670	120 ⁴	366.248
Khanh Hoa	1.465	2.282.517	403	779.953
Lam Dong	30.021	1.376.657	398	305.643
HCM city	731	50.905.417	14.868 ⁵	21.645.311
Long An	937	1.575.495	250	585.777

Source: Computed by the data of business registration from MPI

³ Data of 2003-2004

⁴ Data of 2003-2004

⁵ Data of 2003-2004

❖ A comparison of the density of firm among the visited provinces/cities shows that HCMC represents the first one with a firm per 250 people and the last one is Quang Nam with one firm per 2,393 people. As compared to the average ration one firm per 930 people) of the nation, big provinces/cities like Hanoi (267), HCMC (250), Hai Phong (916), Khanh Hoa (771) have higher densities. The rest of provinces/cities have lower densities than the average rate of the nation. This fits to the low level of economic development of these provinces/cities.

Table 3: Comparison of the densities of firms and average capital of SMEs, 2001-2004

	People/firm	Ranking	Average capital ⁶ (million dong)	Ranking
National	930		2080	
Hanoi	267	2	2002	5
Hai Phong	716	3	3044	2
Ha Tay	2.073	8	2316	3
Phu Tho	1.392	7	2201	4
Nghe An	2.183	9	1406	10
Quang Nam	2.393	10	3661	1
Khanh Hoa	771	4	1558	9
Lam Dong	1.211	5	1696	7
HCM city	250	1	1884	6
Long An	1.283	6	1682	9

Source: MPI and GSO, 2006

SMEs are located mainly in cities and towns, are developed areas in the localities; in poor , economically under-developed areas, poor prepared infrastructure districts there are insufficient conditions for business development, SMEs are small in the number and capital.

On the other hand, uneven development of districts within city or province is caused by the provincial development direction, focusing on potential areas as pioneers for local socio-economic development.

❖ Firm classification by form of business (by the data on business registration, most of them are SMEs) is for 2001-2004.

⁶ Computed by study team by using the data of business registration provided by MPI

Table 4: Firm classification, 2001-2004

	Private firms	Ltd. companies	Stock companies	Joint tittle firms	Ltd. Com. one member	Total
Hanoi	4,76%	65,78%	28,93%	0,01%	0,52%	100,00 %
Hai Phong	14,43%	59,40%	25,81%	0,00%	0,36%	100,00 %
Ha Tay	18,89%	64,48%	16,04%	0,00%	0,60%	100,00 %
Phu Tho	15,78%	52,29%	31,93%	0,00%	0,00%	100,00 %
Nghe An	35,93%	42,70%	21,32%	0,00%	0,05%	100,00 %
Quang Nam	35,55%	50,20%	13,67%	0,00%	0,59%	100,00 %
Khanh Hoa	49,57%	42,87%	7,37%	0,00%	0,18%	100,00 %
Lam Dong	57,81%	38,37%	3,82%	0,00%	0,00%	100,00 %
HCM city	21,44%	70,28%	8,11%	0,01%	0,16%	100,00 %
Long An	67,24%	27,57%	5,19%	0,00%	0,00%	100,00 %

Source: Department of SMEs, MPI

During 2001-2004, newly created firms were mainly of three forms: private, Ltd. companies and stock companies. But, they vary from area to area, region to region: in the Northern provinces, they are mainly Ltd. and stock companies, but in the Southern provinces most of them were private firms and Ltd. companies. Actually, private firms are stronger in the South than those in the North.

2.2. Contribution made by SMEs

❖ Though they have made different steps in the development, SMEs every where made significant contribution to local socio-economic development. Their contribution rates to GDP is always from 20% (in Long An) to 70% (in Lam Dong), to local budgets: 13.2% (in hanoi) and 10% (in Hai Phong).

❖ In addition, annually, SME sector creates hundreds jobs for workers: 240,000 in Hanoi, 100,000 in the case of Hai Phong, 100,000 in Ha Tay: 177,000 in HCMC.

II. MECHANISMS TO PROVIDE SUPPORT TO SME DEVELOPMENT OF LOCALITIES

1- The Overview

Operations of firms, in general, and SMEs in particular, are regulated by existing legislation, comprising of legal documents like Enterprise Law (EL), Law on SOEs (they are merged in 2005), Law on Foreign investment

and Law on domestic investments (they merged in 2005), and other related legislation that regulate firms' relations in the areas of land, labor, finance, credit, trade, consulting services, etc. For SME sector, the Government enforces Decree 90/2001/NĐ-CP dated 23-11-2001, of the Government on the assistance to SME development. The decree specifies support framework in the fields of finance, credit, business space, trade promotion, export, training, market information. The decree clearly indicates specific measures like the creation of credit guaranteeing funds for SMEs, identifying support agencies for SMEs from the central down to local levels, encouraging the participation of mass and social organizations.

2. The situation of implementation of support measures to local SMEs

Most of localities visited have to extent started the implementation of policies on the development of firms, generally and SMEs specifically.

2.1. Administrative reforms

Undertaking administrative reforms agenda of 2001-2005, localities have fostered the reform of administrative formalities through the following measures:

- Introducing “one-stop-shop”, one-stamp system, simplifying and shortening the time of completing administrative formalities. Many localities have reduced time for awarding business registration certificates: Khanh Hoa: 5 days, HCMC: 5-7 days... in some cases it takes only a day to complete all formalities.

- Public disclosure of formalities needed for establishing of a business and related procedures of investment, investment preferential policies for investors and enterprises.

- Building up a system of information net of the locality on internet, providing general information to local and foreign investors.

- Local governments periodically hold meetings with businessmen to listen to and address their problems they face in operations, it may be once a year or twice a year, or once a month, depending on the work situation.

2.2. Developing plans for the development of the locality

Localities have developed and publicly accounted the plan to the people and firms to know about and choose. These plans include master plan of socio-economic development, land use plan, plans of the development of agriculture, fishery and forestry, industry, trade, etc. They

have also publicized lists of priority projects for investment attraction. These plans have been oriented to the development of firms, including SME sector. On the other hand, firms feel securer about putting their money in businesses.

Localities have started building industrial zones, clusters, development support funds and providing technical assistance, man power training foe SMEs.

3. Some specific policies of localities

➤ Credit guaranteeing funds (CGFs)

Ho Chi Minh City is only one (of ten visited provinces and cities) decided the creation of a CGF for SMEs (Decision 36/2006/QĐ-UB dated March 8 2006) with initially estimated regulation capital of VND 50 billion. But, this CGF has not started its operation as it has not mobilized sufficient funds it needs. In the rest of provinces/cities visited, some have proceeded the establishing and others are not very interested in this kind of CGFs. On the other hand, is also due to the resistance in the direction of the Ministry of Finance for this. The decree became valid in 2001 but the MOF issued its circular numbered 93/2004/TT-BTC in 2004. MOF has just issued a circular guiding the implementation of several provisions of the Regulation on the establishing, operations, organization of CGFs.

➤ Some specific action agenda:

Some of provinces/cities have developed practically specific action programs.

– Hai phong has worked out its action program for the implementation of resolution of the municipal Party on the development of private economy, taking 2002 as the year of busness, 2003 as the year of businesses' integration and 2004 as the year of rules and effectiveness.

– HCMC has developed and launched the following programs: Program of 100 leading goods items; Program of 1000 directord, Program of design and manufactiring low-cost, import-substitute equipment of advanced technologies, Program of increased competitiveness and export fostering. These programs have more or less contributed to the development of local firms.

– Hanoi has worked out and started the implementation of project of "business incubation" aiming at providing business spaces to rent out at lower rates, high quality show rooms and building business management

training centers for business owners. The city has also developed regulations on post-registration management and control.

– Khanh Hoa has also developed regulations on post-registration management and control in order to ensure local government's effective assistance to businesses.

4- The roles of association-natured organizations in the development of SMEs

All localities have been encouraging activities of association-natured organizations for the development of SMEs. In all provinces/cities there are the following types of organizations: Directors' club, Club of young businessmen, club of businesswomen, Trade associations in the areas of industry, handicrafts, commerce, transportation, agriculture, The Youth, Federations of women, war veteran association, extension center, center of consultancy for the development of industries, etc. Initially, these associations have started their important roles in the information sharing, technical assistance, experience learning, protecting interests of firms. Besides, they provide the bridge connecting firms with provincial people committees, sectors, departments, levels in the provision of information of policies and, at the same time, grasping opinions, views and listening difficulties firms face in their operations and feed them back to the PPCs for timely directions to sectors, levels to address them.

III- DIFFICULTIES FACING SMES

In general, SMEs in visited provinces/cities face some difficulties as follows:

First, The legislation system is still under the development and improvement, some policies and mechanisms are not stable at both national and provincial levels, causing difficulties for firms in realizing them in the practice. The course of administrative reforms has made a number of changes but it seems to be slow, inconsistent that cause difficulties for the start of and operations of business of firms.

Second, the system of business registration is not consistent at all levels, from the center to local: there are offices of business registration at provincial level, under DPAs, at district level, it is attached to division of finance and planning that lack both staff and funds for undertaking assigned tasks. Therefore, there is limitation in supervision over the details declared in the business registration certificates and over the operations of firms, delay in discovering and addressing problems of firms in their operations and in cases of law breaking.

Third, most of SMEs are of small scale in terms of capital, backward technologies, lack of conditions for expanding their businesses, hiring qualified experts. Though there have been made efforts by local governments, there are still discriminations against firms of different economic forms (SOEs, non-SOEs and FDI ones) in relation to land, business space, credits, that lead to small scale and lack of investments for expanding production and renovating technologies.

Fourth, lacking the linkage and cooperation between large-scale firms and SMEs results in low quality, effectiveness and competitiveness of firms.

Fifth, most of business managers have not gone through formal training but basing on their experience, as a result, there is limitation in their managerial work and this affects their effective implementation of laws, policies in doing their business.

Sixth, lacking adequate attention and concern about skill training of workers in SMEs. Most of workers in SMEs learn from their family members or technicians they work together in the firms. Therefore, their innovation, enthusiastic and creativeness for improvements of sample, design of products are not high.

IV. SOME REMARKS, PRIMARY FINDINGS AND RECOMMENDATIONS ON ISSUES NEEDING FURTHER STUDIES

1. Business sector has been developing in all studied provinces/cities. Business sector has seen more development in provinces/cities that have better natural and social circumstances, more historically comfortable conditions and more developed market like Hanoi, HCMC and some other nature regions like Khanh Hoa and Nghe An. Some other provinces/cities like Long An and Ha Tay that have witnessed more development of firms, in general and SMEs, in particular because they enjoy pervasive effect. But, this effect might be different.

2. SMEs in those localities find more difficulties in accessing to resources for development as compared to large-scale ones and even to the larger one among SMEs and to SMEs of different forms and sectors (state-owned and non-state-owned ones). The majority of SMEs face difficulties in terms of capital, land, man power, managerial cadres and ability of accessing to markets.

3. Though almost all provinces/cities have made great efforts in the implementation of policies on the development of firms generally and development and support to SMEs particularly and see this as critical factor

socio-economic growth and increase of local budget revenues, the achievements are still limited. And, it is difficult to assess levels of impact exerted by those policies on the development of SMEs.

4. Services that cater for business development have been established and developed at different extents in provinces/cities visited. However, in general, this market is still at primary stage of its development, lacking sufficient legal framework and professional features. Firms that are based in big venters have not used up their potentials and pioneer roles in the sought for export markets, pervasive effects are low among different regions.

5. In the coming time, the focus should be made on the following issues:

a. Increasing the ability of coordinating among ministries, sectors, localities in the implementation of the contents of Program on the development of SMEs in the whole country by 2010 in the direction of linking to the targets of HEPR and narrowing down development gaps among localitie and regions.

b. Increasing the institutional capacities of local levels in the organization of the implementation of legal and policy frameworks and pespecially focusing on the issue of decentralization of policy making to lower levels mainuing at providing busines transparent and comfortable environment to firms, in general and SMEs in particular.

c. Gradually cleaning up the environment for firms and providing fair game ground not only for SOEs, non-SOEs, FDI firms but it needs to pay more attention to this issue of SMEs as most of them are in non-state forms. Recognizing the reform of SOEs, increase of the effectiveness of public spending and minimizing management at will style in the administration as fundamental conditions for the development of firms and especially SMEs.

d. Studying necessary contents to develop business services markets in a professional maner. Issuing mechanisms for put into practice the roles of associations, professional organizations in the creation, realization of policies and representation of firms.

Hanoi, July 2006