

FACILITATING ENVIRONMENT FOR DEVELOPING MICRO-FINANCE SCHEMES AND SMALL BUSINESS

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Hue, World Cultural Heritage, is the capital of Thua Thien Hue province, situated in Central Vietnam, Indochina peninsula, South East Asia. Its population is 300,000 inhabitants in a land area of 70,000 km². Economically, the main activities are tourism, services and traditional handicrafts. Its urban poverty rate is 7.4% (the poverty line: 10 USD per month). The problem is attributed to lack of indecent knowledge and skills, inexperience in business amongst local people. It represents throughout the country for high unemployment rate and low-income.

To this end, Hue Municipality has so far made great efforts to income generation, improved living conditions, especially in favour of the urban poor. This aims at awareness-raising on mutual assistance amongst members and self-management in the urban poor community and sustainable development through environmental betterment and implementation of practical projects. The essential is job creation and production development.

Since the "reform" policy in 1986 and "door-opening out to the world", the number of private small and medium-sized enterprises (SMEs) has risen remarkably up to over 2 million household enterprises (24,000 licensed into business). The private sector plays an important role and makes a considerable contribution to the Vietnamese economy, representing about 60% of GDP and 91% of total employment but . However, the public sector accounts for only 40% of GDP and 9% of employment and the climate for the private sector has so far been grudging rather than supportive.

The private sector comprises licensed private companies and household enterprises. In terms of GDP and job creation capacities, household enterprises create 89% of the employment (2/3 from agricultural activities) and 33% of GDP. Non-agricultural household enterprises covers a wide range of activities. Also, there exists an overlap and confusion between licensed private companies and large-scale household enterprises. The former make up 1% of total employment and 7% of GDP. Most companies of this kind have less than 100 employees and specialize in certain light industries.

In spite of rapid development of private business, Vietnam can not provide enough employment for the young. The workforce increases per year 3.3% and 1.2 million in need of jobs. As estimated, the agricultural sector has to create jobs for 2/5 total of employment and non-agricultural rural sector plays an important role in this issue. In the urban sector, most new employment is created in small business. The indicators are that the climate for private business is improving. Domestic firms, however, stay today under 30,000 and account for under 10% of GDP.

The Law on Enterprise helps significantly streamline business start-up and increase licenses of over 10,000 additional private firms. To equality and fair competition of the private sector, it requires a shift in the social and administrative culture from one of reluctance and control towards one of active support and

encouragement. The private sector will also benefit a transparent regulatory framework to minimize the discretionary actions on the part of officials who make use of the governmental prudence. It is marked that business administrative formalities are really time-consuming and complicated as verification of their mortgage, business licenses from the local authorities. From other part, the Vietnamese banking systems – high levels of non-performing loans and inadequate management – hinder better mobilization of savings and its allocation for efficient investment opportunities.

The de-collectivization of agriculture, in parallel with the Domestic and Foreign Investment Laws and the Commercial Law in early 1990s, was successful in promoting development of the private sector. It was such a new inspiration to millions of Vietnamese individuals who diversified and expanded their agricultural production rapidly, and set up micro-household-enterprises as well as domestic private licensed small and medium-sized enterprises.

Aside from family farms, the private sector has a strong tendency to the industrial sector (industrial output: growth rate of 10% in the 1990s). The private sector characterized by household enterprises, domestic private SMEs and foreign-invested enterprises increased its total share of industrial output from 37% in 1990 to 58% in 2000. The number of household enterprises has seen a slowdown the late 1999s as the climate for domestic private SMEs was not enough favorable and clear to give an impetus to their rapid growth.

The local government has facilitated such training courses intended to young entrepreneurs as “Start Your Business” (SYB), “Start and Improve Your Business” (SIYB), “Total Quality Management” (TQM), “Sales Skills”, etc. The aim is to provide skills and knowledge for young entrepreneurs. The problem is that the entrepreneurs have successfully acquired knowledge but failed to apply it into their own business. Even in an appropriate environment, it is simple that they have no motivation and enough confidence to start up or expand their business. This lack of confidence is often found at low-income groups as they have difficulties in dealing with business administrative formalities, for example application for bank loans or business licenses. In this regard, Hue City Club of Young Entrepreneurs (CEFE), founded in June 1998, is a good address where its members as young entrepreneurs have mutual assistance and encouragement to start up or improve their business in terms of information-sharing, exchange of experience and resources related business and production amongst enterprises in order to strengthen business capacities and success. Their cooperation with the members with other clubs in the country covers transactions of soft drinks, embroidery, fish sauce, etc.

In regards of foreign investments, the Municipality has set up strong relations with embassies in Hanoi, international NGOs and associations to benefit financial and technical support. Hue, in partnership with Schmitz-Stiftung (Republic of Germany), founded in late 1999 the W.P.S - Revolving Credit Fund to provide small credit loans at micro-household level for small business. Its main beneficiaries are the marginalized groups who need small credit loans (140 to 600 USD) to start up their household business at home. Principally, they open in the front of the house

small retail shops of miscellaneous home food or raise livestock, mainly pigs, ducks and chickens. Additionally, training courses and technical consultancies for small and medium-sized entrepreneurs have been under way in collaboration with German Development Service (DED) and Business Promotion and Service Center (BPSC) in Hanoi. DED also helps research and develop domestic and international markets in response to request of technical support and information delivery, exportation, market research. This action aims at providing entrepreneurs with managerial models of high efficiency and production principles towards job creation and income generation for working people.

How is the gender issue being addressed?

Vietnam Central Women's Union, at national level, is a governmental body which directs all activities in favour of Vietnamese women. Locally, provincial/district/quarter and commune Women's Unions play an important and constructive role in poverty alleviation. Women's sub-groups in mutual support, encouragement of household economic development amongst local poor women are set up in each quarter/commune. The general tendency is that women are materially and spiritually often subject to more poverty and inferiority than men. Once in economic difficulties, the role of women is limited and less dynamic in social activities and that leads to inequality. They are an indispensable factor to participate actively into poverty campaigns and movements driven by the central government and Women's Union. In each quarter/commune, classification of the poorest women in local community is made to grant them priorities of credit loans with low interest rates and preferential conditions. Technical consultancies are also provided for them how to use successfully capital loans and avoid risks. Experience can be locally shared amongst them. In reality, this action is considerably facilitated by the State Bank for the Poor and Bank for Agriculture and Rural Development at local level.

What are the lessons learnt?

Success in promoting development of private business is attributed to the facilitation and excellent openings of the local authorities. The key is that all stakeholders are wholeheartedly involved in poverty campaigns. The local authorities as decision-makers should bring into play their role in protecting rights and benefits of the private business sector other than the totally subsidized public business. In one word, the most important factor is the participation of local community, themselves as direct beneficiaries who are eager to better living conditions. In other words, international support and investment is really indispensable in our situation to promote socio-economic development. Mobilized "internal" resources should go hand in hand with "external" investment to gather common forces. The former indicates credit investment by the central/local government and savings mobilization amongst local community and the latter through foreign-invested projects.

In spite of great efforts in poverty alleviation, Hue City stays in difficulties in dealing with social living. Investment and development of small business are just part of the City's socio-economic development strategies. Special attention and more priorities have been paid mainly to the marginalized groups in order first to improve their basic living conditions and then to help them do small business.