

On June 20, 1998, the PM issued Official Letter 681/CP-KTN classifying small and medium businesses as concerns with registered capital of under VND5 billion and a workforce of under 200. Although this classification is only considered as a norm for administrative purposes and useful for the State to carry out supportive measures, it also asserts the role played by small and medium businesses (SMBs).

According to this classification, SMBs, at present, represent 88% of companies in all sectors, employ

government. There must be specialized bodies authorized to coordinate supportive programs relating to different governmental bodies. For example, most SMBs can't afford R&D program of their own and a publicly-financed research center will be of great benefit to them. At present, there have been many organizations supplying supportive services (such as technological information or financial advisory services) to meet demands of SMBs, therefore, it's necessary to form a public body to coordinate operations of these organizations.

### 3. Financial leasing as necessary support for SMBs

Most SMBs are badly in need of capital, or more exactly, medium- and long-term capital, to modernize their production or replace old assets while most commercial banks can only supply short-term loans. Moreover, banking regulations force SMBs to go through all kinds of complicated procedures before securing some loans.

A stock exchange is to be formed in Vietnam in an effort to accumulate and supply capital to compa-

# FOR A STRATEGY TO DEVELOP SMALL AND MEDIUM BUSINESSES

by TRẦN TÔ TÙ

25% of the working population and account for some 24% of GDP.

In Vietnam, SMBs are first mentioned probably in 1990. Since then there have been a lot of workshops on these businesses and the MPI has recently proposed the SMBs Development Bill.

In fact, most companies in Vietnam are SMBs and they will keep on playing an important role at least for the period in which the industrialization and modernization program is carried out. This is why a strategy to develop SMBs has become a matter of great urgency. This strategy should help SMBs improve their performance instead of increasing the number of them.

The following are our opinions about this strategy.

## 1. Help to SMBs from a professional machinery

The economic development shouldn't depend on big companies and moreover, these companies couldn't supply everything to everybody. That is why SMBs exist and grow to fill market fragments left by big companies.

Supporting SMBs, however, couldn't be limited to certain measures and policies adopted by the

## 2. Cooperation between SMBs and big companies

This cooperation must be considered as important part of the strategy and necessary policies to realize it are desirable, because SMBs in any countries are vulnerable to changes in the market and close cooperation can save them from being harmed. In Vietnam where such cooperation isn't common practice, this problem seems even more important, therefore, cooperation ways and patterns must be diversified enough for SMBs to choose.

For example, there can be cooperation between SMBs within the same industry or in different industries, between SMBs and a big company, between SMBs performing different processes in the production or distribution of the same article, between many SMBs in a joint venture with foreign parties, etc.

Many policies can be adopted to encourage SMBs to cooperate with one another, such as giving exemption from VAT to SMBs in the vertical cooperation because the product of one SMB becomes a raw material of another and it can be seen as a product running through different shops of one factory.

nies, but realities show that SMBs' demand for capital isn't big enough to think of this source, moreover, most SMBs can hardly meet listing requirements.

For these reasons, the financial leasing becomes the most suitable way to finance SMBs. In Vietnam today, there are some leasing companies but their performance is poor and they failed to market their services. So the Government had better encourage the development of these leasing companies because this is a measure to support SMBs indirectly.

## 4. Market for SMB produce

All above-mentioned measures will produce no results if there is no market for SMBs' produce. At present, SMBs in Vietnam are witnessing sharp falls in their sales because of the flood of contraband and imported goods. This danger will be more serious when Vietnam finishes its track for AFTA.

The Government, as a big patron to the economy, can take strong actions to force all governmental offices to consume as much local produce as possible. Without this action, all other measures will be useless.