

Supports to Small and Medium Enterprises in the Mekong Delta

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The Mekong Delta includes 12 provinces and one city, accounting for 12% of the national area. Its population totals some 17 million, or 21% of the Vietnamese people. This is the largest and most fertile delta in the South-eastern Asia and the world.

In addition to rice, the delta is also the country's large basket of fruits with diverse category and great output. It has long coastline of over 700 km and two large rivers of Tiền and Hậu, thus its fisheries develop so strongly.

The Mekong Delta lies nearby HCMC – a member of the Southern Key Economic Zone, which have favorable conditions in waterway and international airway in Southeastern Asia. These advantages have made significant contributions to local small and medium enterprises' development over the past years. Their roles are therefore highlighted in

terms of economic growth, employment and export.

At present, the Mekong Delta is home to some 8,002 SMEs. They do business in industries indicated in the following table:

The delta SMEs are those meeting two requirements: equity below VND5 billion and workers below 200.

The above table reveals the high percentage industries include: trading, repairing vehicles and home appliances, followed by processing and construction.

It is noted that the Mekong Delta SMEs have exploited available material sources, which are also the delta's advantages, for their production and business. This not only saves costs in transport and utilization of materials but also makes the best use of cheap labor and therefore reduces the unemployment rate in rural areas.

As a matter of facts, SMEs pour their money mainly in industries requiring less capital but having high profitability ratios, at the same time they begin investments in the processing industry where the Mekong Delta has abundant and cheap sources of materials such as rice husking and polishing for export, etc. Moreover, they also become interested in trading and services due to high profits. Especially SMEs have actively helped revitalize traditional craft villages including caning and bamboo weaving, woodworking, building materials, processing and new careers satisfying customers' taste.

Some typical villages are the mat village in Long Định commune, Cần Đức, Long An province, Lai Vung nem (a kind of sour pork hash) in Đồng Tháp province, the powder village in Tân Quy Đông, Sa Đéc, Đồng Tháp province... These villages can be found in long-lasting traditional localities.

At present, due to various reasons, the delta SMEs are facing a lot of difficulties including capital shortage, obsolete technologies, high costs, limited outlets, harsh competition... As a result, the Government is required to give supports to SMEs to help them overcome these troubles as follows:

1. Capital support

The Government should carry out the following tasks:

- Perfecting its financial and monetary policies to mobilize the people's idle money.

- Allowing the establishment and promotion of credit institutions, especially those serving the delta SMEs.

- Improving its financing policies for SMEs.

- Creating favorable conditions for enhancing return on capital and promoting financial lease for SMEs.

2. Tax policies

Tax policies should be reformed as follows:

- Simplifying the value-added tax.
- Applying progressive taxation on corporate income.

- Building anti-dumping duty law to protect local enterprises.

Table 1: The Mekong Delta SMEs' industries

Industry	Number of SMEs	%
Farming and forestry	19	0.23
Fisheries	1	0.01
Mining	19	0.23
Processing	2,576	32.19
Supply of electricity, gas, and water	41	0.51
Construction	530	6.62
Hotel and restaurant	165	2.06
Transport, warehousing and communications	222	2.77
Finance, credit	179	2.23
Consultancy	58	0.72
Education and training	1	0.01
Health care and social relief	5	0.05
Culture and sports	7	0.08
Personal and community services	68	0.84
Trading, repairing vehicles and home appliances	4,111	51.37
Total	8,002	100

Source: The author's survey in 2004.

- Improving tax collection practice, limiting illegal business and fining tax invader.

3. Import-export policy

At present in the delta provinces, some products like rice, frozen agro products, shrimp chips, pharmaceutical...are exported by the two main methods:

First, they are shipped by large corporations on consignment, this method avoids the buyer's price lowering and tough conditions for delivery and helps SMEs export their products.

Nevertheless, this method remains a lot of shortcomings as follows:

- Manufacturers cannot determine prices for their own products, so they are blocked by exporters and have to pay commission of consignment.

- The enterprise cannot establish direct relations with customers, so they are not able to get access to market information. On the other hand, SMEs' products exported on consignment must go through many intermediaries.

- In this method, SMEs' foreign currency revenues may be misused and they still encounter other obstacles.

Second, they directly export their items. Recently, the Ministry of Trade has removed limitations and given green light to SMEs' and individuals' direct export. Nevertheless, this practice is not prevalent in the Mekong Delta provinces because of their low capability.

Given the above situation, we have some proposals to the delta provinces on export-import policies for SMEs as follows:

- Establishing an organization to help SMEs meet legal requirements for direct export and grant export quotas to them, especially private companies.

- Giving tax relief to boost SMEs' development as well as to attract investment flows from other provinces.

- Encouraging enterprises to invest intensively in exports production with incentives of tax, capital and site.

4. Encouragement of private investment

In the Mekong Delta, most of private enterprises are of small and medium size. Therefore, regarding SMEs, it is inevitable to mention policies to encourage private investment. Recently, privatization is considered as one of measures to reduce

the number of state businesses, overcome budget deficit and help the Government concentrate its funds on the expansion of state-owned leading corporations. Furthermore, the evolution of private economy also spur the partnership process in the form of capital contribution between units, industries, provinces as well as foreign investors.

To stimulate private investment for SMEs' development, the Government should give incentives to investors such as long-term land lease, tax reduction, procedure simplification...In addition to financial supports as mentioned above, the Government should offer supports in infrastructure such as building site, roads, communications system.

5. Consulting services

One of fundamental programs to assist SMEs is the program providing industrial consulting services with a view to transferring knowledge and skill to SMEs' managers. This assistance is essential because their capability remains modest. In our opinion, it should be undertaken in four major areas: economic consulting, technical assistance, management and quality improvement.

6. Career orientations for SMEs

In the Mekong Delta, SMEs should focus their efforts on the following trends:

- The first trend is handicraft production. This career is highly appropriate to SMEs because:

+ it requires no huge capital;
+ it may produce high quality items on small sites;

+ the Mekong Delta has a lot of high skilled craft persons, they can create famous items for sale on the local and foreign markets;

+ traditional handicraft items face less competition with goods made by large corporations.

+ the working force is abundant in the Mekong Delta, they are hard-working, thus suitable to craft occupation.

- The second trend is services and manual businesses.

In the modern production, some manual careers still survive and develop such as shoemaking, tailoring, woodworking, forging which require elaborate working.

These are essential services in life, not only for developing countries but also for developed ones.

- The third trend is to manufacture consumer goods and exports in order to exploit the general capacity of all economic sectors to satisfy customers' needs for common goods like garments, medicine, metal goods.

SME expansion in export, in our opinion, should be concentrated on industries processing farm, forestry and fishery products and manufacturing consumer goods. Especially, the export of raw materials should be minimized.

The fourth trend is industries requiring high technology to manufacture new products but having not large size.

In short, the above measures are suggested to create favorable socioeconomic environment for the Mekong Delta SMEs' development. These policies have close relations, they are prerequisites and conditions for their sustainable growth in the future. ■

