

Realities of both developed and developing countries show that small and medium businesses (SMB) in rural areas could not only last for a long time but also show tendency to develop fast. They represent an increasing percentage in the number of businesses and contribute considerably to the socio-economic development.

In Vietnam, the development of SMB in rural areas in the past stimulated only a little interest, but after the sixth and seventh conferences of the



other businesses. The annual turnover of a rural private business was equivalent to 57% of turnover of its counterpart in cities. This figure in case of a family business was around 30%. Around 40% of family businesses could create only one job or two, 25% could create more than 4 jobs. The labor efficiency was low. In 1990, nearly 50% of family businesses could generate a per capital income of less

TO DEVELOP SMALL AND MEDIUM BUSINESSES IN RURAL AREAS

by NGUYỄN XUÂN KHOÁT

VCP, these businesses have actually come into being and developed. Therefore, in a short period, in spite of disorder in the socio-economic situation, SMB in rural areas kept on developing. According to a survey conducted by the Institute of Labor and Social Problems under the Ministry of Labor, War Invalids and Social Affairs in 1990, 58.6% of these SMB were established during 1988-1990 period; 65.8% operated at a healthy profit and a lot of jobs were created.

This situation originated from the fact that these SMB required small investment and could create new jobs in rural areas where seasonal unemployment was common. According to the said survey, in 1990, in rural areas, investment per laborer was US\$538 in a family business and US\$709 in a private one, whereas these figures in cities were US\$1,501 and US\$2,188 respectively. More-

over, these SMB have supplied a lot of goods and services to both domestic and foreign markets. In 1990, a private business created an added value of US\$6,300 in its turnover, of US\$27,693, and a family business created US\$1,200 in the turnover of US\$ 4,127. These SMB have helped with reducing the gap between the rich and the poor, keeping rural areas from falling farther behind cities and exploiting potentials in rural areas.

However, these SMB are too small, badly equipped and badly in need of markets for their products. At present, only one-third of these SMB have the ability to buy electricity and there is a shortage of capital in most SMB. The average capital of rural SMB is equivalent to one-fifth of capital of their counterparts in cities. Of these SMB, 63.9% were small manufacturing concerns, 10.8% supplied repair service, 8.3% were trading shops or cafeterias and 17% were

than US\$200 and 24% could generate less than US\$122. Working conditions in rural SMB was poor, 9.2% of SMB had got water supply, 2.6% had telephone; nearly 50% used only hand-held tools, 15.5% used manually-operated apparatus, and 39.4% used power tools. Around 30% of rural SMB had to stop working for two months every year, 50% for 3 or 4 months, and most of the remainder for 5 months or more. Most rural SMB have no order to fill. Only 5.8% of them have subcontract work. Most of SMB products were sold to local market (60% were consumed in the same district, 21% in the same village and 12% in the same hamlet), only 1% were exported.

In rural areas, the competition wasn't keen, so SMB lacked a stimulus to make technical innovation and apply new technique. Around 15.3% of rural SMB established before 1988 have introduced new products or serv-

ices in the past two years, and 21.4% have made important technical innovations. The education of laborers working in rural SMB is lower than their counterparts in cities. Only 26.5% of laborers in family businesses and 21% in private businesses had sixth form education; 16.6% in family businesses and 39.6% in private businesses had the tenth form education. So their income is low.

In such a situation, the following problems should be solved in the coming years in order to develop rural SMB:

1. The Government had better encourage the development of rural SMB with a view to creating more jobs and helping all localities keep pace with one another. In order to do so, all policies should be clear and consistent from studying, promulgating and implementing them. All economic sectors, without discrimination, should be treated equally. This must be considered as a way of making businesspersons become more active and confident of their jobs. The Government should pay full attention to this problem, because 9.5% of rural SMB thought that ambiguous policies had become main obstacles to the development of SMB. So putting confidence in the future of non-state sectors is the precondition for investment in, and development of, SMB.

2. The Government should take measures to give financial support to rural SMB because the shortage of capital is the major obstacle to these SMB. In fact, most SMB can't secure loans from banks and other financial institutions so many opportunities for developing business were missed. In the coming years, the Government should make plans to attract dead money from the people and foreign aid, and at the same time, improve

the banking activity in order to put soft loans within reach of SMB.

3. Public utility services (electricity, gas, water, telephone, transport means, etc) should be supplied to rural SMB.

Realities show that the poor infrastructure in rural areas is a great obstacle to the formation of new SMB and the development of existing ones. Poor infrastructure makes production cost higher, competitiveness declined and restricts the ability of SMB to market or buy new technology.

In present period, the Government should make master plans for rural development, connect agriculture with manufacturing industry and production with distribution. The way of giving financial support should be reformed with a view to making all government's investment produce good effects on the people's quality of life.

4. The Government should help rural SMB find out markets for their products and suppliers of inputs. At present, the distribution system and information service in rural areas are very poor. The Government can take many measures to improve this situation: opening commercial chambers, and information service centers, in every province, acting as middleperson between rural SMB and companies in cities... Provincial state enterprises had better establish relation with rural SMB (by giving subcontracts for example) in order to encourage the development of commodity, inputs, capital and labor markets in rural areas.

5. The Government had better help rural SMB give training courses in technical skill, managerial skill to laborers, because the percentage of skilled workers in rural SMB is very low in comparison with SMB in cities.

Only 6.2% of rural labor force are skilled workers. This situation makes formation of SMB, their selecting technology, improving labor efficiency, finding out market, making new designs... more difficult and thus, makes rural SMB less competitive.

In future, if there is no remarkable investment put in developing rural SMB, the gap between rural areas and cities will become larger. Therefore the Government should improve the supply of general and vocational education service with a view to meeting requirements of rural SMB. Besides general education, pupils and students in rural areas should be supplied with knowledge about technical skills, accounting and business, so they can find or create jobs after leaving school. There must be plans to give vocational education to female laborers in rural areas because they are of majority there, are treated unfavorably and earn lower income in comparison with their male counterparts. Training courses in law, marketing, managerial skill... could be offered to businesspersons with a view to helping them improve their business performance.

In short, developing rural SMB in Vietnam today has become a matter of great urgency which requires the Government and the Party to study and find out effective measures to solve in order to exploit great potentials in rural areas and develop rural economy■

Reference materials:

- *Phát triển doanh nghiệp vừa và nhỏ* (To Develop Small and Medium Businesses), Ministry of Science, Technology and Environment, 1994.

- *Doanh nghiệp nhỏ ở Việt Nam* (Small Businesses in Vietnam), Khoa học và kỹ thuật publisher, 1993.

