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The actual situation and solutions for small and medium enterprise development in Soc Trang Province, Viet Nam

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Executive summary

Soc Trang is among the poorest provinces in the Mekong Delta. The province's economy relies heavily on fisheries and agriculture. In the rural areas, women, ethnic minorities and poor households make up a high proportion of the population. Despite market difficulties, inflation and the impact of climate change, interestingly, the growth rate of provincial GDP was still high at 9.04% in 2011 (compared to a mere 5.89% for Vietnam as a whole). Small and Medium Enterprises (SMEs) make an important contribution to the province's GDP, state budget, exports and job creation. However, SMEs still face many challenges related to sustainable development in the near future, aiming to boost the value of production, exports, job creation, income improvement and community development.

Research methods included group interviews with leaders of provincial/district departments and commune representatives, expert interviews, workshops as well as group and individual interviews with SMEs (including cooperatives and business households) with a total sample of 349 observations. In particular, the method of quick value chain analysis was used to select the 6 potential value chains based on five criteria (i.e. using local resources better; creating more job opportunities; using more women, the poor and ethnic minority workers; higher market potential; and more environmentally friendly).

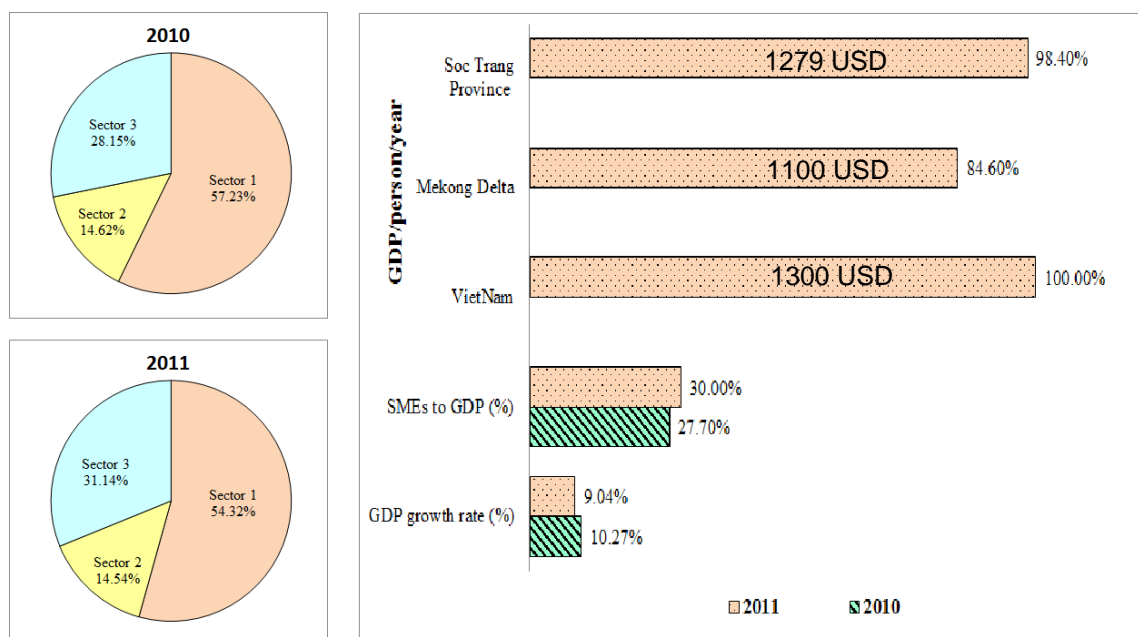
The findings of the SWOT analysis of SMEs were as follows: (1) The strengths consist of competitive and comparative advantages of products; (2) The weaknesses include weak market connection; lack of product brand name and trademark; low competitive capacity; limited management skills and capital; low bargaining powers; limited infrastructure for village transportation, 3-phase electricity, clean water in some districts; backward technology and a lack of market information and sources; limited investment and trade promotion as well as the inadequacy of horizontal and vertical linkages for the development of production and trade. (3) The opportunities include: support policies from the government and province related to loans, vocational training, administrative documents; festivals and fairs organized at the province, organization of "large field" model of rice safe production at industrial zones (4) The threats are the higher growth rate of input prices compared with output prices, competition from low priced, high quality import products, increase in diseases, and the impact of climate change.

Key words: Business, difficulties and challenges, SMEs, Soc Trang province

1. Introduction

Soc Trang (ST) is one of the poorest provinces in the Mekong Delta. The province's economy relies heavily on forestry, fisheries and agriculture (sector 1), accounting for 54.3% of the total GDP of the province in 2011, while the figure for industry and construction (sector 2) and services (sector 3) stand at 14.6% and 28.2%, respectively. Soc Trang's total area is 331.118 ha, in which agricultural area accounts for 83.6% (276.958 ha). The total Soc Trang population in 2010 was 1,300,826 (30.7% Khmer), of which the rural population made up 77.5% (1,008,678 people) (ST Year Book, 2010). Women, ethnic minorities and poor households make up a high proportion of the population in rural areas (more than 77%). In the context of market turbulence, inflation and the adverse impact of climate change, the growth rate of provincial GDP in 2011 reached 9.04% (relatively high compared to the overall figure of 5.89% for Vietnam), to which SMEs made an important contribution. Indeed, the total number of SMEs in the province in 2011 was 2,290 enterprises, contributing 30% to the province's GDP (up 2.1% compared with 2010), 39% to State budget (38% in 2010), 22.1% to exports (up 6.4% compared to 2010). SMEs employed 22,422 workers and 25,536 trained staff (30% of total workforce). In terms of poverty reduction, the period 2006-2010 witnessed a significant decrease of 49,205 poor households, reflecting a decrease in the poverty rate from 28.53% in 2005 to 9.21% in 2010 (by old 2005 criteria) or 22.31% in 2011 (by new criteria 2011). (ST Socio-Economic Report, 2011 and ST-SME Development plan 2011-2015).

Figure 1: Provincial GDP and SMEs' contribution



SMEs in Soc Trang play an important role in socio-economic development, accounting for more than 99% of total registered enterprises (in 2011 the number of SMEs was 2290, up 6.4 % over

2010) and about 47% of registered capital of the province. There are 98 cooperatives which contributed 6.95% to provincial GDP growth in 2011 and created jobs for more than 38 thousand social workers (DPI annual report, 2011 and CU report, 2011).

In 2011, GDP growth rate reached 9.04% (10.27% in 2010), with sector I decreasing by 2.5%, sector II increasing by 10.58%, and sector III rising by 26.29%. Sectors I, II and III respectively contributed 54.32%, 14.54% and 31.14% to GDP. Soc Trang is still one of the poorest provinces in the Mekong Delta (MD) although the average GDP per capita was 26.7 million VND/year in 2011 (≈ 1279 USD), higher than the average figure for the MD ($\#1100$ USD) and a little bit lower than the average for Vietnam ($\#1300$ USD) (ST Socio-Economic Report, 2011 and MOIT, 2011). Although the province's SMEs have achieved a great deal, they still face many difficulties and limitations that affect their competitiveness and development in the long term. These constraints include their small-scale, lack of land for production and office space, backward technology, low management levels, weak capacity in marketing and risk limitation and difficulty in accessing financial capital and credit (ST-SME Development plan 2011-2015 and survey results, 2012).

Moreover, with its low-lying coastal geography, Soc Trang will very likely be affected by climate change and a rise in seawater levels, leading to intrusion of seawater into coastal aquifers which will affect soil salinity and water quality and impact on agricultural production and practice. Diversification in the rural economy through the development of small and medium enterprises (SMEs) and other businesses is thought to produce alternative resources, ensure the generation of income and savings, and reduce vulnerability towards natural disasters (CIDA Project Documents).

To enhance the contribution of SMEs to the socio-economic growth of the province, Soc Trang province needs to build a five-year strategy for SME development with the help of CIDA. The development of this strategy is based on studies into the current SME situation and the potential for sustainable development in the near future, with the aim of boosting production, exports, job creation, income improvement and community development.

2. Methodology

2.1 Methodological approach

The approach to developing the five-year plan for SMEs involved five steps. The first step was to collect information related to: (i) the market and competitive situation of SMEs in Soc Trang, policies for SMEs development, the adverse effects of climate change on the operation of SMEs, (ii) the situation of SMEs' resources, including the SMEs' resources use and the ability to evaluate resources. The second step was , to evaluate: (i) how government policies impact the SMEs' resources (including the 5 types: natural, physical, financial, social and human resources), (ii) the current state of SMEs' resources and resource use, (iii) market trends in

products produced by SMEs and (iv) their comparative and competitive advantages. The third step was to determine the advantages and disadvantages of SMEs. Fourthly, the following three activities were carried out: (i) evaluation of the potential development of SMEs, (ii) solutions recommended for SME development; (iii) suggestions offered to implement these solutions. Finally, workshops were held in order to collect participants' comments and ideas for the five year development plan development for SMEs.

Information collection included secondary data from provincial Departments related to SME development and management in Soc Trang province, research studies, relevant websites, statistical yearbooks and other reference documents. In addition, primary data was collected through group and individual interview with experts in the field of SMEs, local authorities, department leaders and actors involved in the value chains relevant to SMEs located in the province.

Based on primary and secondary sources of information collected, qualitative analysis was used to determine the merits and defects of SMEs as well as to evaluate policies related to SME operations. Moreover, descriptive statistics were used to indicate (i) the current situation of resources and resource use by SMEs, (ii) market trends for the products produced by SMEs. Porter's analysis of "five competitive resources" is used to identify the comparative and competitive advantages of SMEs.

To assess their development potential and draft a strategy for the 5-year development plan for SMEs, qualitative SWOT analysis and quick value chain analysis were used. This strategy is based on a framework including (i) what activities need to be conducted, (ii) the reasons to carry out these activities, (iii) the location of these activities, (iv) participants, (v) timing, and (vi) activity budget. Specifically, six value chains were found to be related to SME development and were presented in the five-year SME development plan.

Finally a workshop was held for the relevant parties to comment on the results and give suggestions and recommendations for the development of the five-year SME plan.

2.2 Data collection

Methodological steps can be summarized as follows:

- (i) Group discussion with provincial department leaders on the current situation of SMEs and development solutions.
- (ii) Individual interviews with each provincial department in Soc Trang on the strengths, weaknesses, opportunities and threats, to SMEs as well as policy impact.
- (iii) Group discussion with/amongst district department leaders on the current situation of SMEs and development solutions.

- (iv) Group discussion with SMEs, cooperatives and household businesses using a structured questionnaire.
- (v) Expert interviews on products/services and SME operations.
- (vi) Completing the performance measurement framework: results and indicators.
- (vii) Workshop to present findings and collect feedback from participants.
- (viii) Use of many secondary data sources.

Table 1: Interviews according to classification of stakeholders

No	Interviewee	No. of samples
1	Provincial staff	23
2	District staff	125
3	Provincial group discussion	12
4	SMEs	128*
5	Experts	17
6	Workshop participants	44
Total		349

(*) Note: Agriculture 32; Agricultural services 11; Fisheries 3; Fishery services 7; Processing 16; Weaving 37; Construction 2; Transportation 3; Trade 17

3. The actual situation of SMSs in Soc Trang Province

3.1 The contribution of SMEs in social-economic development

Figure 2 shows the contribution of SMEs to provincial GDP, exports, imports and State budget, confirming their role and importance in ST's socio-economic development.

3.1.1 Contribution to GDP of the province

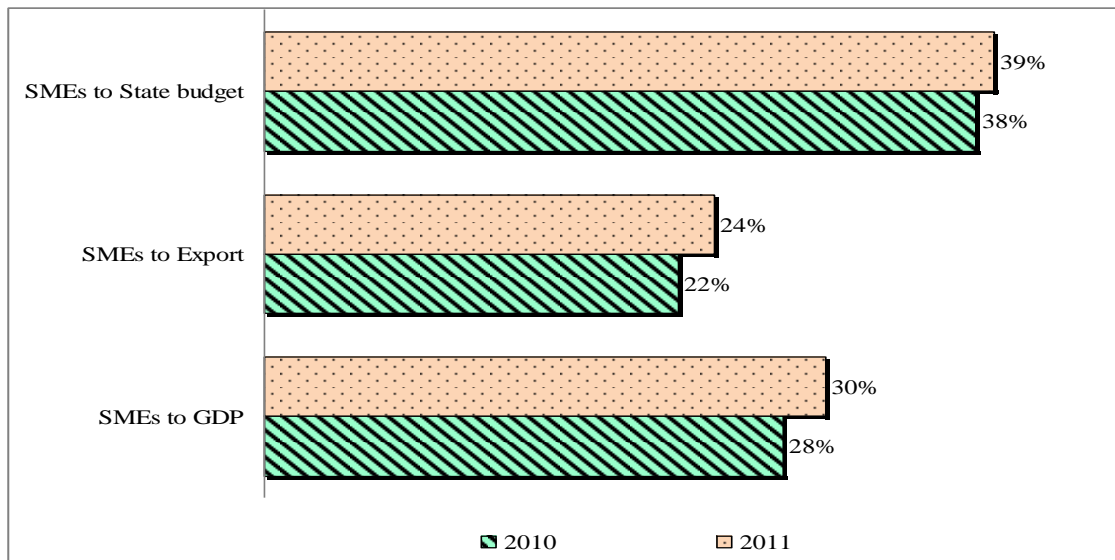
Although they face many limitations and difficulties, SMEs play a very important role in the socio-economic development of the province. Specifically, value added figures for the SME sector reached 2,350.6 billion VND in 2006, accounting for 25.27% of total provincial GDP. This indicator increased to 7,347.08 billion VND in 2010, equivalent to 27.73% of GDP and increased again to 7,502 billion VND in 2011, constituting 30% of total provincial GDP (ST Socio-Economic Report, 2010 and 2011).

3.1.2 Contribution to exports and imports

During the period 2006-2010, the proportion of SME contribution to total exports increased annually. Provincial exports totaled USD 333.08 million in 2006, of which, SMEs accounted for 2.63% (USD 8.77 million). This figure increased to 22.57% in 2010 (USD 95.74 million out of a

total export turnover of USD 432.37 million), and 24.02% in 2011 (USD 110.5 million out of a total of USD 460.2 million). Meanwhile, SMEs accounted for 22.57% of imports in 2006 (USD 5.62 million/USD 24.9 million). By 2010, this indicator had decreased to 8.01% (USD 0.41 million/USD 5.07 million), and 12.54% in 2011 (USD 5.64 million/USD 44.9 million). (ST Socio-Economic Report, 2010 and 2011).

Figure 2: Contribution of SMEs to provincial GDP, exports and State budget in 2010 and 2011



3.1.3 Contribution to the State budget

The development of SMEs in recent years has contributed positively to the economic and social development of the province. Along with providing jobs, SMEs have contributed significantly to the state budget with figures increasing annually. SMEs' contributed 29% of the total provincial state budget in 2006 (1,183 billion VND), 38% in 2010 (1,101 billion VND) and 39% in 2011 (1,215 billion VND) (ST Socio-Economic Report, 2010 and 2011).

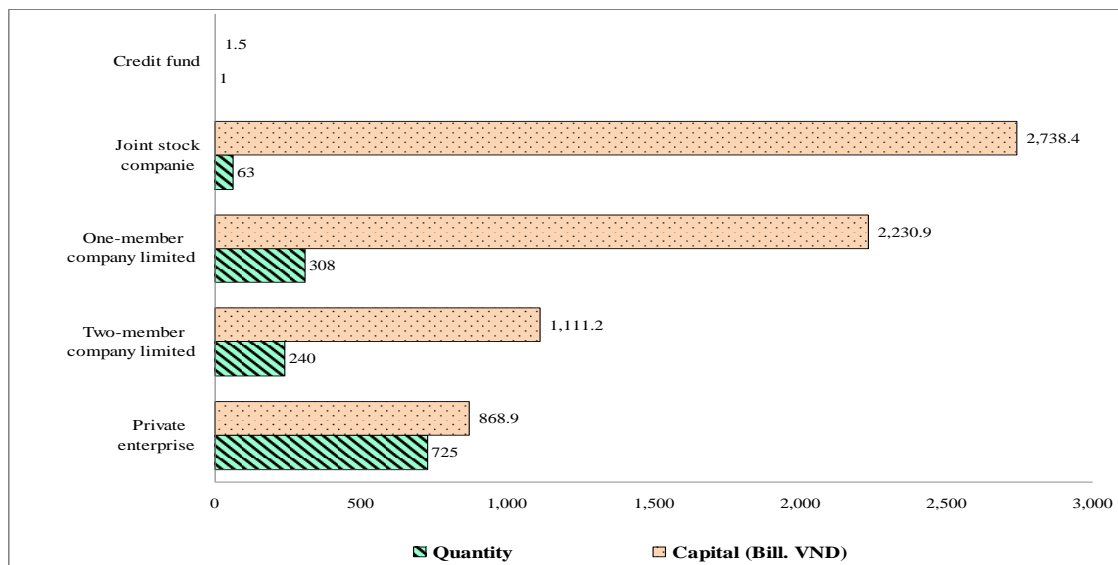
3.2 Classification of SMEs

3.2.1 Form and capital contribution

From 2006 to 2010 1,337 new companies were registered in the province with a total capital of 6,950.9 billion VND. These included: 725 private enterprises (registered capital of 868.93 billion VND); 240 two-member limited companies (1,111.2 billion VND), 308 one-member limited companies (2,230.9 billion VND), 63 joint stock companies (2,738.4 billion VND) and 1 credit fund (1.5 billion VND). In 2011, 161 new SMEs were registered with a total registered capital of 1199.5 billion VND, increasing the number of enterprises to 2,290 (SMEs accounted for 99.3%), while 90 companies shut down and discontinued their business tax code. Compared with 2001-2005, the 2006-2010 period witnessed an increase of 119% in the number of private companies and an increase of 207% in registered capital. Two-member limited companies and joint stock

companies followed the same pattern with increases of 169% and 320%, 203% and 1,201%, respectively (DPI List of registered enterprises 2011 and ST-SME Development plan 2011-2015).

Figure 3: Classification of SMEs by form



3.2.2 By sector

Companies

According to the DPI list of registered enterprises (2011), SMEs are clustered mainly in the commercial sector:

- Commercial sector: 1049 companies (47.7%)
- Industrial – construction sector: 855 companies (38.8%)
- Other services: 124 companies (5.6%)
- Agriculture, forestry and fisheries: 172 companies (7.9%)

Cooperatives

There are 98 cooperatives with 26,428 members. The total working capital is 516,884 million VND; of which the authorized capital is 51,330 million VND. Cooperatives have created 38,876 jobs, of which 26,428 are filled by cooperative members. The collective economy (cooperatives) contributed 6.95% to provincial GDP. In 2011, 40.82% of the cooperatives were working well (e.g. Evergrowth cooperative, Vinh Tien, Vinh Thanh, Artemia Vinh Chau, Ngoc Bich) and making profits (25.51% of the cooperatives), 21.43% were underperforming, especially 12 cooperatives which were dissolved (12.24 %). Cooperative activities in different sectors are as follows: (CU report, 2011)

- Agricultural sector: 63 cooperatives (64.3%) with 6,092 members, 29,745 million VND total capital and authorized capital of 12,731 million VND.
- Industrial - weaving sector: 8 cooperatives (8.2%), with 295 members, 6,402 million VND total capital and authorized capital of 2369 million VND.

- Construction sector: 3 cooperatives (3.1%) with 35 members, 7,613 million VND total capital and authorized capital of 4,210 million VND.
- Commercial - services sector: 4 cooperatives (4.1%) with 55 members, 11,459 million VND total capital and authorized capital of 1,814 million VND.
- Transport sector: 4 cooperatives (4.1%) with 192 members, 25,166 million VND total capital and authorized capital of 2,717 million VND.
- Credit sector: 12 credit funds (16.2%) with 19,813 members, 436,499 million VND total capital, and authorized capital of 27,489 million VND.

Household businesses

According to the DTI report (2010) on implementation of the resolutions of the XI Congress of the Party Committee of Soc Trang province and the proposed 5 years targets and commercial activities for the period of 2011-2015, there were 55,373 business households (BH) in Soc Trang province at the beginning of 2010. In 2011, business households in 7 districts totalled 11,573 (of which trade and services made up 94.8%, industry 4.9% and agriculture 0.3%). The number of workers per household business averaged two to three. Women made up approximately 41.5% of household business owners. In particular, Soc Trang craft villages are made up primarily of household businesses.

Soc Trang craft villages

Soc Trang craft villages are actually made up of family business households producing the same product at a local place. According to Kim Nguyet (CIDA project coordinator), the province has many villages, such as (1) Ba Leo village (My Xuyen), (2) Mat village (Tran De, Thanh Tri and Nga Nam), (3) Flour village (My Tu and Thanh Tri), (4) Leaf village (My Tu), (5) Broom village (Cu Lao Dung), (6) Tan Long net village (Nga Nam), (7) Dried Pork (Tran De). The scale of each village is from 10 households.

Soc Trang craft villages have contributed to job creation for rural workers, economic restructuring of agriculture and rural development, income improvement, poverty reduction and use of local materials. However, some villages show low efficiency and experience difficulties connecting with markets e.g., for mats and shrimp chips. Most of the villages are facing the following challenges:

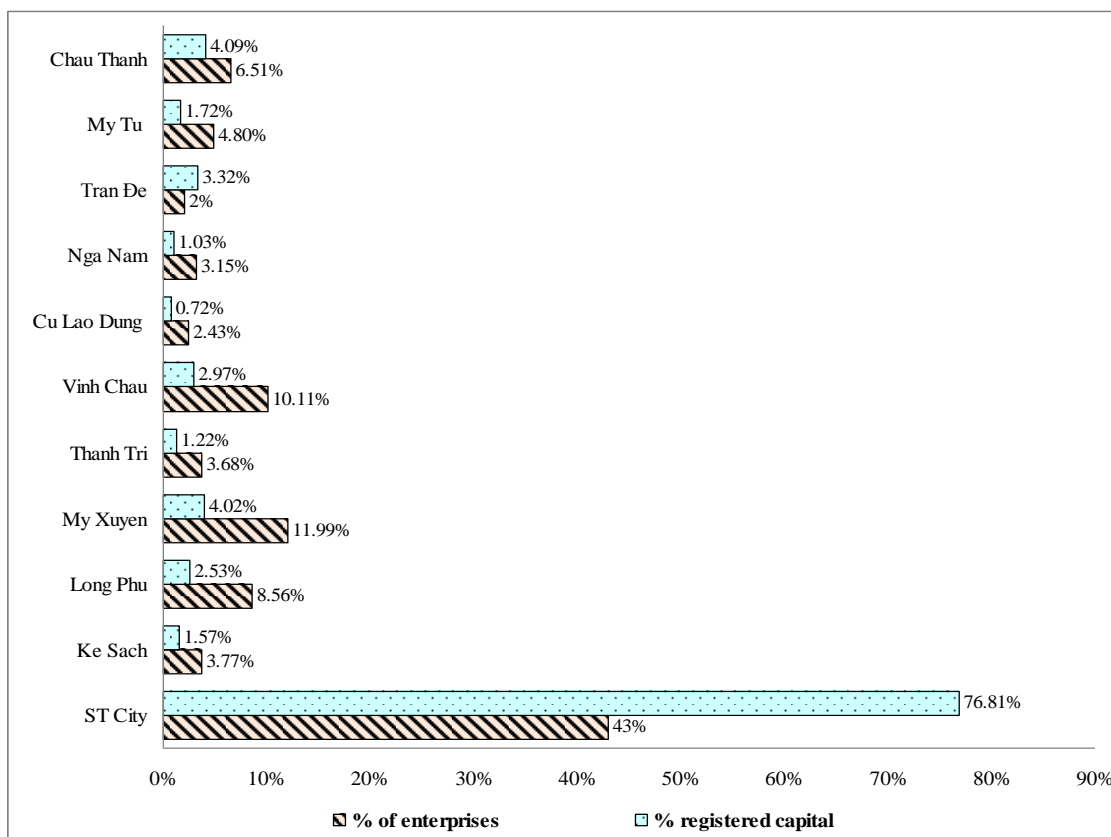
- Lack of production linkages that lead to unstable product quality, no brand name and weak competition.
- Low labour productivity.
- The market for village products within the province is limited, so it is difficult to maintain year round production. (Mat and shrimp chip villages operate only around the Lunar New Year).
- Weak management capacity and experience of business households; low knowledge and skills of the workers in the villages.

- Lack of capital for production or for technological innovation.
- Lack of market information, market access and weak trade promotion.
- Low hygiene and food safety of processing villages, as well as environmental pollution.

3.2.3 By district/city and registered capital

Figure 4 shows that the majority of the SMEs are located in Soc Trang City (43%) with 76.81% of total registered capital (over 12 billion VND), followed by the 3 districts of My Xuyen, Vinh Chau and Long Phu, with 11.99%, 10.11% and 8.56% of total registered capital respectively (DPI, list of registered enterprises 2011).

Figure 4: Classification of SMEs by district and registered capital

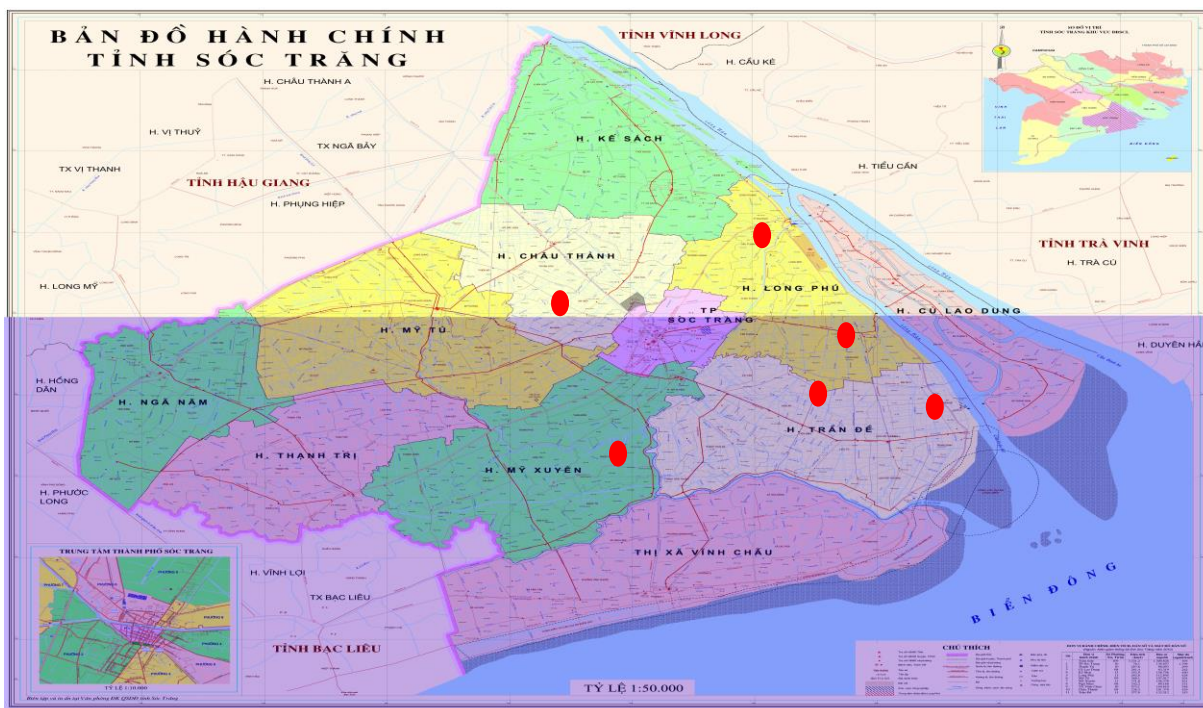


3.3 Industrial zones, industrial clusters and competitive capacity of the SMEs

3.3.1 Industrial Zone (IZ)

According to the approved Soc Trang provincial plan, there are 6 industrial zones in the province, namely An Nghiep, Dai Ngai, Tran De, My Thanh, Long Hung, and Vinh Chau with a total area of 1,115 ha (Figure 5). An Nghiep IZ (251.13 ha) now includes 25 companies with 30 projects approved to lease land with a total area of 111 ha, making up 63.66% of total area for lease (174.34 hectares) and registered investment capital of 3104.3 billion VND. Currently, there are 10 enterprises operational with a total area of 43.11 ha. Other industrial parks: Dai Ngai IZ is at the detailed planning stage. Tran De IZ is in the survey and planning stage.

Figure 5: Map of industrial zones in Soc Trang



3.3.2 Industrial clusters

According to the Soc Trang IZ and industrial cluster development plan to 2020 and vision to 2025 (plan in process), the province has 12 industrial clusters with a total area of 541 ha. The Cai Con industrial cluster is now leasing premises and investing in infrastructure. The Phu Loc industrial cluster is revising documents to submit its plan to the Provincial People's Committee for approval, and currently there is a seafood processing plant under construction. The Tan Phu industrial cluster is currently building infrastructure. In addition, the province approved detailed planning permission for 3 industrial clusters: Vinh Chau (50 ha), Long Tan (50 ha) and An Thanh (40ha).

3.3.3 Competitiveness capacity

The Provincial Competitiveness Index (PCI) is calculated using a 10 point scale for each of nine indicators (Table 2). Compared to other provinces in the MD, the 2010 PCI of Soc Trang is low (7/13) but its rank compares better nationally. In 2011, Soc Trang enterprises scored high marks for low market entry costs, time costs for regulatory compliance and informal charges, along with good access to land resources, improving its position to 3/13 in the MD (Figure 6).

As for the PCI ranking results in 2006, Soc Trang ranked 19th out of 64 provinces and cities in Vietnam. In 2007, Soc Trang rose to 11th position out of 63, thanks to a considerable effort in improving the business environment, namely introduction of "one door" process for issue of business registration certificates. However, since 2008, Soc Trang has shown a significant PCI decline compared to other provinces with a gradually falling rank (29th in 2008 and 41st among 63 provinces in 2009). However, in 2010 Soc Trang stood 17th out of 63 due to the fact that the

province approved the implementation of 16 investment projects with a total committed capital of 73,392 billion VND.

The Competitive Capacity Index in 2011 continued to be regarded as a measure of the quality of economic operations to promote the private sector, using the key indicators of market entry cost, access and stability in business land use, transparency, labor training, the completion time for administrative procedures; performance of provincial leaders in terms of solving problems for businesses. In 2011, the CPI of Soc Trang ranked 15th out of 63 provinces and cities, reflecting its efforts to improve the environment for investment in the province. The province has held many meetings to provide timely business support for enterprises to overcome difficulties during the global economic downturn and as a result of rising domestic inflation.

Table 2: PCI of Soc Trang in the period 2006-2011

No.	PCI indicators	2006	2007	2008	2009	2010	2011
1	Entry costs	7.82	9.10	8.51	9.31	6.07	8,70
2	Access to land	7.98	6.78	8.01	7.94	6.91	7,95
3	Transparency and access to information	5.78	5.82	3.65	4.17	5.66	5,31
4	Time costs of regulatory compliance	4.00	7.35	5.60	6.23	8.38	8,26
5	Informal charges	6.30	5.96	6.77	7.40	7.02	8,40
6	Proactivity of provincial leadership	7.31	7.11	6.45	6.24	6.91	5,48
7	Labour training	4.16	5.91	4.94	3.61	4.41	4,33
8	Business support services	4.50	5.92	3.68	4.06	4.54	2,25
9	Legal institutions	4.06	5.73	5.23	5.58	6.12	6,48
	Total marks	54.34	64.68	54.24	56.63	61.49	62.68
	PCI rank	19/64	11/64	29/64	41/63	17/63	15/63

Source: Soc Trang PCI report, 2012

3.4 Use of resources by SMEs

3.4.1 Human resources

Human resources include skills, knowledge, and working capacity of people. The factors of quantity and quality of human resources are vital to business activities. In fact, from 2006 to 2010, SMEs contributed to creating 13,360 new jobs to local people: an average of 10 employees per company. The number of employees depends on the type and scale of the business. From group discussions, it was found that there were typically 1-2 employees working in a business household, mostly family members, and 4-8 employees working in a production company, including family members. Companies that make industrial products, such as garments and sandpaper, typically employ over 20 workers per company.

Local business needs more workers in the high season than in the low season. In general, most workers are untrained. Trained workers of the Soc Trang province in 2010 provided only 30% of the total workforce. SMEs are mostly small companies that are operating on a limited scale, and they are forced to draw from a largely unskilled labor pool which is unsuitable for their needs.

The results of the group discussions show that most managers in the SMEs lack effective management skills. Business owners are largely untrained in management, so they run their businesses from personal experience rather than formal education.

Companies are forced to reduce their production costs, improve product quality, and increase product variety due to strong competition. Increasing the skills of their workers is one way they can increase productivity. This will help them to reduce the unit costs of production and meet demand through improved product quality and variety.

In addition, production at IZ will also force SMEs to develop new strategies for marketing, effective product manufacturing practices, and the use of qualified workers. Currently, there is a large vocational training program (decision 1956 issued by the Government) that generates job opportunities, especially for women and the ethnic Khmer. This is also a great opportunity for SMEs to bring in more skilled workers to their workforce in the future.

3.4.2 Social Resources: entrepreneurs' networking

This indicator illustrates the participation of Enterprises in business organizations, social organizations and other associations. SME owners have been participating in various organizations such as the Young Entrepreneur's Association (YEA), Fishery Association (FA), Agricultural and Aquacultural clubs (AgC and AqC), and Cooperatives Alliance (CA). For example, YEA creates activities such as holding conferences related to the investment environment, talks between provincial authorities and enterprises, etc. Participating in YEA, enterprises have opportunities to exchange and seek further information related to investment promotion, investment environment, and business cooperation among enterprises in and outside of the province.

FA coordinates closely with the aquacultural extension centre to hold technological training courses, specific workshops and conferences that aim to transfer and to exchange new technology among fishermen as well as applying new technologies to production in order to increase efficiency. FA also encourages input suppliers to invest in good seedlings, clean fish and shrimp with the objective of attaining a high yield in an environmental friendly way. AgC and AqC are established to help farmers cooperate with each other in production and information exchange in technology, marketing, and application of new technologies.

In addition, members in these organizations also support one another with problems in living and in raising capital for production. CA is established to help cooperatives, especially

agricultural and aquacultural ones. In addition, CA also supports SMEs in raising capital for production through the Cooperative Development Fund. CA also helps cooperatives to build and to develop, organize, and manage, and supports cooperatives' leaders in management skills by holding training courses.

Furthermore, CA supplies cooperatives with information about procedures and policies such as procedures to establish a company, to invest in an opportunity, to support the poor, ethnic minorities, and women. In summary, by participating in these organizations, businesses receive much useful information for production and business operation such as market information, legal information, management skills, and production techniques. Moreover, the employees and owners can both participate in social organizations, job training, and other skill development.

From the surveys, most SMEs believe that problems are avoided because they communicate effectively with the people who are employed by the organizations. They said that they also effectively communicate with officials of the relevant governmental and nongovernmental organizations through direct and/or telephonic contact.

In the future, SMEs, business households, cooperatives, and interest groups will continue to participate in business associations, social organizations, clubs, YEA because: 1) they have to face more severe competitions from imports; 2) plant and animal diseases grow in severity; and 3) technology continuously changes. These reasons force them to integrate more closely to manage threats that threaten to reduce profits. In addition, there are many projects that support the poor, women workers, and Khmer ethnic minority groups. So, many groups/associations will be established in the future. Furthermore, the activities of these associations will also be more diversified and effective. SMEs will coordinate together more widely and more closely.

3.4.3 Natural Resources

Natural Resources include land and other resources relevant to enterprise development and other business activities. At present, businesses, including household and construction businesses, have sufficient land to operate; if needed they can also extend the land available to their business by joining an IZ/IC. On the other hand, companies and agricultural cooperatives that produce rice and artemia products already maximize available land use for production purposes and find it difficult to allocate land for the building of offices.

When investing in IZs, investors both in the country and abroad are advised to complete procedures for business registration, tax code registration, investment licenses, and certificates of land-use and rights of ownership for land improvements. Such procedures are simple. Furthermore, there are numerous incentives for investment: either full exemption or reduction for land rent, enterprise income tax, import tax on equipment, training assistance, and investment and trade promotion. Soc Trang will continue calling for investment to boost IZ/IC

development, especially An Nghiep IZ and other industrial zones such as Cai Con IZ, Tran De (120 ha), My Thanh (305 ha), Vinh Chau (158 ha), Long Hung (200 ha), and Dai Ngai (80 ha).

From 2010, An Nghiep IZ has operated a system of collection and wastewater treatment to meet the demand for wastewater treatment at the IZ. There are 22 projects at the IZ and each of these projects has had its impact upon the environment and its commitment to protect the environment assessed and approved. Most projects are connected to the IZ's system of collection and wastewater treatment.

Although the province has many incentives to encourage the SMEs to move their operations into the IZ, some, especially local SMEs, are not yet convinced because: 1) costs related to environmental treatment systems are high; 2) their production scale is still small; and 3) recent increase in the cost of borrowing from the banks, IZ management costs, and higher taxes.

In the future, when the IZ/IC's are further developed with additional investment and incentives more SMEs will likely decide to relocate there to take advantage of a more efficient use of land, a higher skilled labor force, and an optimal utilization of raw and natural materials, subject to prevailing market conditions, business growth, and increased profitability.

There are few problems in using the land for SMEs operating in the commercial and construction sectors because their businesses do not require much acreage. SMEs operating in the agriculture and fisheries, however, lack space to build warehouses and offices. In addition, household businesses do not use their land efficiently due to their lack of capital and technical and market knowledge. In other situations, unclear ownership of land rights also creates problems. For instance, land used by three salt-artemia cooperatives, named Vinh Phuoc, Vinh Tan, and Lai Hoa in Vinh Chau, are under public ownership. Although the cooperatives members have used those areas for salt and artemia production for over twenty years, they cannot use them as collateral for loans from banks because the cooperatives are not the legal owner of the land. Hence, ambiguous land rights and ownership lead to inefficient use of land. Such difficulties will eventually be solved in the future. For example, rice production has now started in the so-called 'large scale field' model. This will help households achieve greater efficiency in land usage because farmers, largely, produce the same variety of crops on a larger scale with the same techniques and under the same contractual obligations. The larger crop, produced to the same standard of quality, would command a higher price and provide more supply to satisfy prevailing market demand. As a result, land use became more efficient due to the policy change.

4. Analysis of potential and recommendations for SME development

4.1 Assessing, analyzing and forecasting market trends affecting SMEs development

The Global Economy directly impacts enterprises in many countries including Vietnam. Specifically, SMEs in Vietnam will face various difficulties in the future in both the export and local markets. According to Chamber of Commerce and Industry of Vietnam (VCCI), there had been 79,014 companies dissolved up to the end of 2011, of which approximately 8,000 were in 2011 alone. Through their own efforts and together with State support, SMEs need to be sufficiently flexible to adapt to the ever-changing global economic conditions. In addition to its own internal problems, Vietnam's economy is heavily dependent upon a world economy that is more often than not unpredictable. Therefore, economic forecasting is more complex. The first quarter of 2012 witnessed a slow growth in the world economy with most countries experiencing inflation—e.g., prices of food, crude oil, and raw materials were increasing in international markets, a decline in the value of market securities, and debt crises in many countries, etc. All of these exerted a negative impact on the Vietnamese economy. Vietnam continues to face increased inflation and higher interest rates; a large trade deficit, and a falling foreign exchange reserve. Therefore, production falls and it becomes a major challenge for both businesses and the Government to maintain macroeconomic stability.

According to the forecast for the period of 2012-2015, (Vietnamese) economic growth is estimated to range from 6% to 6.5% a year, inflation may be below 10% in 2012 with a gradual reduction to about 7% by 2015, total export turnover is expected to increase by 12-13% when compared to 2011, a trade deficit of 11.5 - 12%, and total capital investment in the development of social infrastructure of about 33.5% to 34% of GDP. By the end of 2012, it is expected that public debt will be 58.4% of GDP, about 1.6 million workers will be employed, urban unemployment will be about 4%, and the poverty rate will fall by 2%. To achieve these expectations, MPI (2011) recommends eight strategies for SME development:

- Improving the legal framework of accession, operation, and withdrawal of the enterprises.
- Supporting financial and credit access for SMEs.
- Aiding technological innovation and application of new technologies in SMEs.
- Developing human resources for SMEs, focusing on management expertise for SMEs.
- Promoting and establishing integrated clusters and industrial clusters for the SMEs.
- Providing information and trade promoting to expand markets for SMEs.
- Establishing organizational systems to support SME development.
- Managing the implementation of SME development plan.

4.2 Situation of Vietnam and the Mekong area affecting SMEs in Soc Trang province

SMEs play an important role in the reform and economic development of Vietnam. Although they are small-scale businesses, SMEs have proven their roles in maintaining the speed of

economic growth, creating jobs, improving people's living standards, and contributing greatly to the reduction of poverty. According to VCCI, by 31-12-2011, Vietnam had 543,963 businesses, with a capital of approximately 513,000 billion VND. SMEs, mostly private enterprises, contributed nearly 97%. SMEs accounted for about 51% of employed workers and contributed over 40% of GDP. Together with 133,000 cooperatives, farms, and about 3 million individual household businesses, they collectively contributed 60% of the GDP. Similarly, in Soc Trang, more than 2,000 SMEs, together with 98 cooperatives, and thousands of household businesses contributed nearly 30% of provincial GDP.

In recent years, Vietnam's economy in general and that of Soc Trang province in particular have been severely affected by the global economic crisis. The downturn led to a slack in the domestic economy that in turn profoundly impacted the operation of both businesses and workers. Inflation and other economic influences pushed interest rates to a high level of 17% - 18% per year, whilst that of other countries was between 2%-4% per year; input prices rose by an average of 16%-30%. The overall result of these influences is an increase in production costs and adverse effects on Vietnam's products, especially SME products. Because the principal markets of the USA and the EU will only accept an increase of about 5% in the sale price annually, rises in input costs of more than 5% cannot be passed on without losing market share and will eventually result in being priced out of the market altogether. Market share in these circumstances cannot be maintained without loss of profitability.

Recently, the Government has concentrated its financial support upon enterprises to develop production, businesses, and commercial transportation. However, the proportion of SMEs assisted by the Government programs, such as the national trade promotion program and the provision of funds for Science and Technology, are limited to less than 10% of the total State budget. In particular, Soc Trang province has implemented many programs from central and local funds to support SMEs but only a few businesses receive support from these policies.

In Soc Trang, the industrial zones and the economic clusters have several additional proposals to increase its operations between 2011 and 2015. This is important because it will increase the value of industrial production, boost the flow of commodities, as well as contribute to export growth. Between 2011 and 2015, Soc Trang province was successful in maintaining the same level of aquaculture farming areas, in stabilizing its grain collection, and in focusing on in-depth investment strategies for engineering, breeding, researching and applying new models to farms, cooperatives, and aquaculture companies. The purpose is to maintain productivity and growth of the fisheries and to improve the quality of fishery products for export. Regarding the processing, trading, and exporting of rice for period of 2011-2015, Soc Trang maintains a stable rice production of over 1.7 million tons per year and focuses on improving the quality of rice as well as further strengthening the capacity of its businesses to export rice.

In addition, there has been more interest and more projects to build and/or further develop Soc Trang's local commercial infrastructure, such as roads, ports, mass media, electric power, etc., as convenient bases to promote economic development. (*Provincial Party Committee Report, 2011*).

Despite the above challenges, Soc Trang province has set out its objectives of a 5-year social and economic development strategy for the period 2011-2015 as follows:

- Achieving an average annual economic growth of between 12-13% in the five-year period from 2011 to 2015.
- GDP per capita reaches USD 1,800 (at current prices).
- Annual poverty rate decreases to 2-3% (according to new criteria).

In summary, as the world falls into financial crisis, the number of countries importing from Vietnam declines. Purchasing powers in these countries weaken. Weak overseas demand also directly impacts exporters in Soc Trang province. Short-term export orders, price reductions, and limited output cause declines in production and business opportunities. This means that plans for further investments and business expansions would have to wait for a recovery of the world economy. Soc Trang enterprises also face many other difficulties and challenges. Some major client countries that import from Vietnam have begun to take notice of the presence of products made in Vietnam, including seafood. Recently, there were consecutive anti-dumping cases aimed at several major export items from Vietnam.

4.3 Analysis of competitive and comparative advantages of SMEs in Soc Trang province

The SME products of Soc Trang, such as Pia cake, Red Onions, Rice, and Artemia, have comparative advantages over similar products produced in other provinces and/or other countries in terms of their high quality. This is especially true with the smaller size and higher nitrogen content of its artemia product. The artemia of Soc Trang commands a price 2 to 2.5 times more than that produced in the USA, the largest supplier of artemia in the world. In the USA, the price usually fluctuates with demand and there has been supply surplus for many years. The annual demand of dried artemia in Vietnam is around 200 tons, and 3,000 tons for the world market.

Soc Trang is a province of the Mekong Delta with a large minority population and a high poverty rate. Therefore, there are many programs and projects funded from sources in and outside of the country to relieve poverty in the province. Some SMEs in Soc Trang has also been benefited from those programs. However, SMEs have strengthened their ability to respond to competing forces within their markets as follows:

- **Threat of new entrants**³

Most of the SME products have a very low entry barrier⁴ and therefore the entry of potential competitors is unavoidable. A low entry barrier consists of several factors: little investment capital is required, an imperfect distribution system exists, and there are no trademarks and no brand names. The ease with which these entry barriers can be overcome may open the way for competitors from outside of Soc Trang to potentially compete with the SMEs for control of the province's markets. For example, there could be some large enterprises such as the Phuong Trang Company (transportation) and companies that supply pesticides such as An Giang Plant Protection Joint-Stock Company (AGPPS) and Gentraco Company that might enter the paddy-rice sector in the long-term. This will harm small milling enterprises in Soc Trang because these large enterprises are capable of assuming complete control of paddy-rice production.

To increase their competitiveness, SMEs must either enhance or utilize newer technologies for the production, marketing, distributing, and servicing of their products. They must strengthen their existing competitive advantage with large-scale production of products such as artemia and they must establish trademarks and brand names for all of their products. In addition, it is crucial to build a distribution system that strengthens the comparative and competitive advantage of their products by offering existing buyers easy access to supply and by making the products available to new markets. It is also very important for SMEs to improve their product quality and to reduce the costs of production.

- **Competitors within the sector**

Similar to SMEs in other provinces, the SMEs of Soc Trang operate independently, which means that there are many competing enterprises but no one enterprise controls the others. Thus, each enterprise asserts an equal competitive pressure on the others. However, this pressure is not too severe. For instance, farm households in Ben Tre and Tra Vinh provinces have enlarged their lands for growing onions. This creates price-competition for onion farm households in Vinh Chau. Another example, artemia businesses in Bac Lieu province joined together to form an artemia cooperative. This new cooperative did and will compete with Vinh Chau artemia cooperative for the purchase of materials and it will be a big challenge to Vinh Chau artemia cooperative's operation. To increase their competitiveness, household businesses need to apply new technology in order to increase their output. These businesses also need to reduce their production costs in order to compete with similar businesses in other provinces. Furthermore, household businesses should cooperate with one another in production and sales to limit losses that can be caused by price competition. With regard to artemia production, the Vinh Chau cooperative needs to build links with other artemia household

³ New entrances are SMEs that are now outside the industry but could affect the industry in the future.

⁴ Entry barrier means that factors make more difficult and costly for an enterprise to enter a sector

businesses that typically lack capital for production. Economies of scale can be achieved through joint acquisitions of necessary input materials such as chicken manure and variety. This will help the cooperative to generate a sustainable source of fresh artemia. From a survey, it is noted that government funds worth approximately 1 billion VND, from the ethnic minority and mountain project, were granted to this cooperative for investment in equipment and machines for processing. However, it still needs additional working capital for the purchase of fresh artemia. Thus, it shows that additional financial credit is very important to further develop this market's potential in the future.

- **Bargaining power of buyers**

SMEs in the province typically produce their goods in small quantities at low quality. As a result, the majority of those goods are sold at a low price. In addition, the SME products are without trademarks and brand names. Currently, supermarkets, locally and outside of Soc Trang province, carry very little of Soc Trang SME products. SMEs lack market information about what consumers in those supermarkets need, along with the fact that there is no or little trade promotion or advertising done. They are just price-takers. An example is the Evergrowth Cooperative in the Tran De district. It has been producing cow milk for many years, but the price of milk is controlled by the processing factory. The sugarcane sector is in the same situation. Another example is that of the woven products sector: export companies decide the price. SMEs typically have no bargaining power resulting in low revenue for the producers. To improve bargaining, SMEs should increase the scale of their production as well as improve the quality of their products. What's more, SMEs need to create trademarks and build brand names for their products. The SMEs can then develop activities to promote their trademarks and their brand names directly to the supermarkets where greater revenue is to be earned. For products with existing trademarks and brand names such as aromatic rice, Pia cake, red onions, artemia, and cow milk, SMEs need to quickly develop the activities that promote their trade and thereby increase their profits. In addition, more help from local authorities and functional departments such as DTI and DARD is needed to generate opportunities for SMEs to introduce and sell their products directly to consumers. This will help SMEs to determine buyers' needs in terms of quantity, type, and quality, especially for woven products and sugarcane. To be successful, SMEs also need to maintain and to develop management capacity. To this end, an on-going training program in management and marketing skills is necessary.

- **Bargaining power of suppliers**

One aspect that makes the SMEs of Soc Trang similar to other SMEs around the country is that most raw materials needed for production are widely available locally. In this sense, the SMEs do not suffer from a lack of supply. However, some SMEs depend heavily upon suppliers for specific raw materials used in production. For example, water

hyacinths, and rattan are used to make handicrafts. Shrimp farms depend on suppliers of shrimp post larvae. But because shrimp farmers are unable to control the quality of post larvae themselves, the survival rate of shrimp larvae is only 50% and this lack of stability in quality supply negatively impacts their production. To ensure a stable supply of raw materials, SMEs need to establish a collective bargaining system to increase their purchasing power and to negotiate costs of the raw materials. So far, it is believed that SMEs do not have enough purchasing power to force a reduction in price. Furthermore, SMEs usually lack the knowledge to verify the quality of their purchased raw materials. The case of the shrimp farmers and the quality of the post larvae is a good example.

- **Threat of substitutes**

Goods produced by the SMEs of Soc Trang are mostly traditional, widely supplied by SMEs of other provinces and commonly found in every market place. Therefore, it is easy to substitute the produce of Soc Trang's SMEs with the products produced by SMEs of other provinces. For example, if the Soc Trang price of aromatic rice is too high, then consumers can easily change to a less expensive substitute. Plastic goods are also an acceptable substitute for woven products produced by the SMEs of Soc Trang. Other examples include consumers who substitute other kinds of cake for Pia cake, shrimp hatcheries willing to use artemia from America and Thailand instead of Vinh Chau artemia, milk processing factories substituting milk powder for fresh cow milk, and red onion being easily substituted by other ingredients such as yellow onion, green onion, and garlic, etc. To compete with market substitutes, it is very important for SMEs to generate unique products through trademarks and product branding. In addition, SMEs need to continuously review their use of technology and apply appropriate new technologies with the aim of reducing production costs and improving product quality. In order to retain existing market shares, it is also most important for SMEs to rapidly expand their use of trade promotion activities.

4.4 SWOT analysis of SMEs

Strengths

- Product quality: Soc Trang has some high quality products that are sold on the domestic and foreign markets, such as artemia and red onion from Vinh Chau district, cow milk and aromatic rice from Tran De and Nga Nam districts, and Pia cake from Chau Thanh district.
- Soc Trang's SMEs employ local workers specializing in making handicrafts in My Xuyen and in raising cows in Tran De and My Xuyen. This contributes to job creation and increased income for local residents.
- SMEs that produce agricultural materials (fertilizer and pesticides) and construction materials have an important role to play in consulting buyers and understanding how their products may be better suited to buyers' needs.

- SMEs are willing to apply new technologies to increase production efficiency, such as application of technology to increase output of artemia per hectare in Vinh Chau district as well as to produce paddy with safe criteria in Tran De and Nga Nam districts.
- SMEs are experienced in producing traditional products.

Weaknesses

- SME market research is still weak. It is believed that there are few SMEs that are actively researching their markets, such as the SMEs of the Tran De, My Xuyen, and Nga Nam districts that are researching the paddy-rice sector; Chau Thanh district that is researching Pia cake; and My Xuyen district that is researching weaving. Only a few products are being supplied to supermarkets. The reasons for these weaknesses are that most products are of low quality: they lack trademarks and brand names; they are produced in small quantities; and they have neither effective trade promotions nor tight market requirements. SMEs are also losing buyers through weak competitive capacity.
- Almost all of the goods produced by SMEs do not yet have either a trademark or a brand name because the fees for the certification and re-certification are quite expensive. A trademark or a brand name would help to establish a reputation for a product in the market. The price differential between 'safety' and 'non-safety' product is insufficient to encourage the improvement of their product quality.
- SME management capacity is limited. For example, SMEs have not paid attention to their accounting and bookkeeping. They lack analyses of market information and trade promotion activities. Additionally, their management skill is still weak in that they were unable to successfully create a business plan. Most sales by SMEs are based on taking orders from buyers rather than from selling activities to introduce the products to buyers or to design new products. SME awareness of business management is very limited. They have not considered the importance of developing management expertise partly because in the past, training courses focused on technology rather than marketing and economics.
- SMEs lack capital and their access to banks and government funding is limited because they lack collateral and the business expertise to create a business plan. Even when the SMEs do succeed in obtaining loans, the loans are always lower than the needs of the SMEs because banks offer loans based on the value of collaterals instead of on the value of estimated earnings from a business plan. Consequently, SMEs are often obliged to borrow from unofficial sources with an average interest rate of 2.5% per month.
- With regard to infrastructure, some of the greatest difficulties that SMEs face are the lack of low-voltage 3-phase electrical power supply, and the unreasonable increase in the cost of electricity between the hours of 9 am to 1 pm. This increase raises the cost of production for those SMEs that are milling enterprises. For those SMEs that process rice, insufficient investment capital to build enough storage facilities and buy equipment to process the rice is a serious impediment to profitability.

- Prices are always determined by buyers because buyers are in a stronger bargaining position than the SMEs. The reasons for this are insufficient market information, small volume and low product quality, and the inaccurate calculation of production costs.
- SMEs usually experience difficulties in hiring workers at high crop because of a shift in the migration of workers from the rural areas to the cities. This not only causes a decrease in product quality but also an increase in production cost. The SME workforce suffers from low levels of skill.
- Almost all of SMEs of Soc Trang do not cooperate amongst themselves in regards to production and distribution due to their limited awareness of the importance of production-distribution linkage with large economies of scale and high product quality.
- The SMEs do not have a professional organization to co-ordinate and manage their efforts. This makes it difficult for the People's Provincial Committee to design suitable support policies for the development of SMEs. It also makes it difficult to access local support services and market information. Survey results recognized that SMEs receive vast market information from many various sources, such as television, available documents issued by functional departments, and actors along the marketing channels. However, this information is often obsolete. It is also reckoned that there are a few enterprises likely to get market information from accessing the internet.
- The proportion of female managers in SMEs is not high. Thus, there is still little attention and effort devoted to improving their professional level.

Opportunities

- Investment capital is available to SMEs through various sources. For example, the Bank for the Poor offers loans up to 30 million VND at an interest rate of between 0.65% and 0.9% per month; the Bank for Agriculture and Rural Development offers loans at an interest rate of between 17% and 18% per year; the Provincial Cooperative Alliance offers loans via the Cooperative Development Fund at an interest rate of between 0.4% and 0.65% per month; and from the Central Farmer Support Fund at 0.8% per month. Other support programs include 'Tam Nong' (programs for Agriculture-Farmer-Rural Development in Vietnam), the Food Security program that offers financial help to reduce losses at harvest time and construct storage facilities, and programs for new village development.
- At the moment, there are buyers, both domestic and foreign, who are in Soc Trang to sign contracts for the supply of products that are produced by SMEs.
- Many domestic and foreign programs support the poor, ethnic minorities, and women. These also provide a highly skilled labour force for SMEs in the future.
- If SMEs take the challenge to produce farm byproducts such as wine, rice husk, firewood, bran oil, biomass, and artemia, then they can significantly contribute additional revenues and jobs to the province.

- Soc Trang province has a policy to encourage and support the creation and development of brand names and trademarks. This policy offers opportunities for SMEs to sell their products more easily in the future.
- Government authorities have launched many programs to support SMEs in their efforts to improve the quality of their products according to existing health and safety standards. This helps SMEs to manage and adapt to the future requirements of buyers.
- Demand for products that use natural materials, such as bamboo and lat, is increasing. This is a good opportunity for SMEs to enter the handicrafts market where they could employ many more workers from poor households or ethnic minorities or women.

Threats

- SMEs face two serious threats. First, the cost of raw materials increases at a higher rate than the increase in sale price of the products. Second, tougher competition is expected from less expensive imports in the future.
- The trend is that consumers will buy only products that meet health and safety standards. SMEs will be out of business if they do not adapt to this trend.
- With rising input prices and fluctuating, unstable output prices, SME profitability is unstable and far from certain. This threat to profitability exists because SMEs lack information about their markets and because of increased competition in both the global and domestic markets.
- The spread of disease over the last few years, especially in shrimp farming, has had a detrimental effect upon SME efficiency.
- SME production does not compete well in the markets. In fact,
 - For artemia: there is price competition from America and Thailand. Artemia produced in America and Thailand is half the price of artemia produced in Vinh Chau. This price differential is the reason why Vinh Chau producers of artemia are losing market share.
 - For red onion: this product is competing with onions that are produced in Indonesia, Thailand, the Philippines, and India (170 to 180 USD per ton which is the equivalent of 3.4 to 3.6 million VND per ton). Onion production in Tra Vinh and Ben Tre has increased in recent years because of a rise in prices. This raises the quantity of onions that are available to supply the domestic market and then the market price drops because of oversupply.
 - For rice: high quality rice (5% broken rice) produced in Vietnam in general and in Soc Trang in particular still has a lower price than that of Thailand, while low quality rice (25% broken rice) produced in Vietnam is in strong competition with the low quality type that is produced by Pakistan, Myanmar, and India.
 - For sugar: Sugar production in Vietnam in general and in Soc Trang in particular suffers from a production cost that is higher than that of its competitors such as Thailand, India and China. The reasons are that most sugar processing factories are operating on a small scale, lack an economically

viable source of raw sugarcane, and need to update their methods of production. This forces Vietnam to import sugar at the cheaper price of 14,500 VND per kg compared to 18,000 VND per kg.

5. Solutions for SME development

After analyzing the results of the research, the following solutions are recommended.

5.1 “Offensive” solutions

- **Solution 1: Support use and application of new technology**

This recommendation is based on SMEs’ strengths and the opportunities that are available to them. They include: (1) a genuine willingness by SMEs to apply new technology; and (2) the extensive business experience that allows SMEs to recognize and pursue opportunities such as capital support programs from central and local governments and domestic and foreign programs for developing management capacity and supporting the poor, ethnic minorities, and women. If this recommended solution is implemented, Soc Trang’s SMEs are likely to access capital funding to improve both production capacity and job creation for the poor, ethnic minorities, and women. This will increase the competitive advantage of SMEs.

- **Solution 2: Increasing scale of production in line with comparative advantage and supporting SMEs in the production of by-products and value-added goods**

This recommendation is based on SMEs’ strengths of being able to supply some existing high quality products to domestic and foreign markets, provide employment to many workers from the local workforce, especially the poor, women, and ethnic minorities, and have considerable experience in production. These strengths should be used to pursue opportunities, such as obtaining capital support programs from central and local government, enhancing application of technology to generate by- and value-added products from agricultural waste and sub-products, and exploiting the consumers’ demand for goods made from natural materials. Should this solution be implemented, there will be an increase in the comparative and competitive advantages of products such as rice, artemia, red onion, cow milk, weaves, and Pia cake. Furthermore, this solution helps SMEs to diversify and increase value to their business by using waste and sub-products.

5.2 “Adaptive” solutions

- **Solution 3: Rapidly increasing SME trade promotion activity**

Facing an increasing trend in input material costs accompanied with an unstable trend of output sale prices and many inabilities in competing against both export and import products, SMEs need to rapidly increase their trade promotion activities based on the strengths they have (as mentioned in “Solution 2”) in an attempt to maintain their existing market share. SMEs should create a barrier to prevent imports from entering their markets.

- **Solution 4: Improving product quality and reducing production cost through consultation**

To compete successfully against foreign exporters in global markets and against domestic and foreign trade in Soc Trang, SMEs need to simultaneously improve their product quality and lower their production costs. This can be achieved by receiving consultation from the government. Successful consultation would be again based on the two strengths of Soc Trang SMEs: their willingness to apply new technology and their experiences to create business profitability. Implementation of this solution would help SMEs to overcome the difficulties of unstable markets and improve their products' competitive advantages in the long run.

5.3 “Adjustment” solutions

- **Solution 5: Helping SMEs to access sources of financial support**

To overcome the two weaknesses of insufficient investment capital and inadequate infrastructure, SMEs need to take advantage of any opportunity to obtain additional capital and gain expertise from all available programs, projects, and local policies. There are, indeed, many readily available financial support programs. However, SMEs are unable to access these funds because either they do not have the requisite expertise to create a convincing business plan or they do not have sufficient collateral to secure a loan. In some cases, both reasons apply. Thus, it is necessary to help SMEs articulate their business plans and improve their understanding of the structure of business loans and how to successfully obtain them.

- **Solution 6: Developing human resources by building SME's management expertise**

This recommendation comes from an analysis of the SME weaknesses and how they relate to human resources. To operate more efficiently, the SMEs need more efficient management. This means a level of management expertise that enhances the competitiveness of the SME. It is essential for SMEs to take advantage of any opportunity to train their employees via vocational training programs and thereby increase the contribution of their employees to their competitive advantage. Vocational training for stakeholders of the product chain is particularly important.

- **Solution 7: Enhancing linkages between SMEs and buyers (vertical linkage), as well as among SMEs (horizontal linkage)**

This recommendation of linkages is one of the most important solutions because this solution can potentially overcome many SME weaknesses. Such linkages with central and local government support programs, for example, can enhance production capacity and management expertise. Linkages with foreign aid projects should have the same result. Central and local governments can also help with hygiene standards in the production process. It is also important for SMEs to meet the needs of buyers who come to Soc Trang with the aim of establishing linkages and to take advantage of an increase in demand for goods made from natural materials. Furthermore, SMEs should also enhance the currently limited horizontal linkages among themselves. This solution will help Soc Trang's SMEs create stable employment and increase their profitability.

5.4 “Defensive” solution

- **Solution 8: Developing a support system for SME development**

This solution comes from an analysis of SME weaknesses and threats such as weak SME capacity, no trademark and brand-name of the products, limited management expertise of owners, rising cost of input materials, unstable sales, low product quality, plant and animal diseases, and competition with imports. This solution helps SMEs to limit those risks that affect SMEs' operating efficiency.

6. Conclusions and recommendations

6.1 Conclusions

Soc Trang is strong in agriculture and fisheries. They accounted for 54.32% of the provincial GDP in 2011. Agriculture employs more than 77% of the local workforce, 30% of which is comprised of women and ethnic minorities. The growth rate of provincial GDP in 2011 was 9.04%. SMEs contributed 30% and cooperatives contributed 6.95% to that growth. SMEs also contributed 24.2% of the province's exports and 39% of State's budget. SMEs have created more than ten thousand new jobs annually; more specifically, cooperatives have employed more than forty thousand rural workers.

In 2011, Soc Trang had 2290 SMEs (including 90 dissolved SMEs), 98 cooperatives, and 55,373 business households. The proportion of commercial and industrial enterprises was sizeable: 47.7% and 38.8%, respectively. Those located in Soc Trang city (43% in number) amounted to 76.81% of total registered capital, while this indicator for Vinh Chau, My Xuyen, and Long Phu was 11.99%, 10.11%, and 8.6%, respectively. In contrast, cooperatives in the agricultural sector accounted for 64.3% of total cooperative capital. Their contribution represents 5.75% of the available investment capital and 6.2% of available loan capital. Together, this accounts for 82.7% of working capital.

Soc Trang has six industrial zones (IZ) and 12 industrial clusters (IC). However, only An Nghiep IZ is active, with the participation of 25 companies and 30 projects currently operating in a total area of 251.13 ha. The other IZs and ICs are still in planning stages. They are being constructed over a total area of 1,405 ha.

The competitive capacity of Soc Trang's SMEs has developed rapidly over the last two years. The PCI ranked Soc Trang at 17th place out of 63 provinces and cities in 2010 and at 15th place in 2011. Within the Mekong Delta itself, Soc Trang ranked 7th out of 13 provinces/cities in 2010 and 3rd in 2011. A healthier investment climate, seen by a noticeable decrease in market entry costs and various informal charges, was the main reason for improvement of the PCI. Easier access to land and the stability in land use also helped. However, to increase provincial PCI, it is necessary to improve the transparency and access to information, the quality of vocational

training, and the ability of provincial leadership to react proactively to change. Specifically, the index of 'Business Support Services' is critically low, down from 4.54 points in 2010 to 2.25 points in 2011.

Reviews of local resources used by SMEs (natural, social, human, physical, and financial resources) are generally optimistic. These represent (1) a better use of natural resources. SMEs are reasonably efficient in using local materials and land. This is reflected by the PCI index of "Land Access and Stability in Land Use" which reached a high score of 7.95 out of 10. (2) SMEs use a large number of workers, but their workforce is not highly skilled. The PCI index on this is below average according to the 2012 survey results. Most SMEs have fewer than 10 employees except for the processing and weaving sectors that employ a larger workforce. About 30% of workers in Soc Trang have been generally trained but not extensively towards any specialized trade. (3) SMEs in Soc Trang also participate in and are members of various associations of producers, provincial business clubs, and cooperative unions. These organizations' activities, however, are not yet focused on forming linkages to solve input-output process and market issues—SMEs join social organizations to share experiences, information, and to improve business skills. (4) Infrastructure such as transportation, electricity, water, manufacturing equipment, and information systems are available and beneficial to many SMEs, especially for those located in Soc Trang city. Most districts however do not have convenient transport routes for large trucks to get to their villages. Some districts such as Vinh Chau and My Tu have difficulties in providing clean water and electricity for production. Most of SMEs located in districts get their information primarily from television channels, relatives, and business customers rather than from the Internet. (5) Although there are many policies on capital funding for SMEs in general and for cooperatives in particular, most SMEs are still struggling for not having sufficient capital for production. Shortage of information on loans, loan procedures, and many other barriers prevent them access to preferential loans.

Females and ethnic minorities make up a high proportion of SME employees. The sectors that employ 30-50% of women and 70-80% of ethnic minorities include rice production, weave, dairy, red onion, and shrimp. The participation of poor households in the SME businesses has not been adequately monitored by current statistics. Provincial leaders are concerned about the inadequacy of vocational training in Soc Trang. Skilled employees account for only 30% of the workforce and many employees must be trained for basic skills or further specialized.

SMEs are aware of the urgent environmental issues and are strongly committed to protecting the environment. They have a clear perception of the environmental contamination that will pose a serious risk of disastrous diseases for crops, livestock, and even the public. Unfortunately, there is a lack of strict assessing, management, monitoring, and control of environmental regulations. There are no appropriate punishments imposed on those who break the environmental laws or incentives rewarded for those who follow and invest in resolving environmental treatment issues. To implement environmental policies for SMEs, it is necessary

to enhance the environmental treatment systems. It is expected that this will happen when the province's industrial zones and clusters are further developed.

Currently, environmental pollution in Soc Trang is generally within accepted limits. However, water, air, and soil pollution is increasing. In particular, the SO₂ and CO₂ levels in water are above permitted safety levels. Land resources are degrading through overuse of agricultural chemicals. Furthermore, intensive farming has caused a gradual degeneration in the quality of soil. Higher salinity is a consequence of climate change. In terms of rectifying environmental pollution occurrences caused by SMEs' industrial waste, most SMEs either do not yet have wastewater treatment systems or, if they do, their treatment systems are either ineffective or nonoperational.

There are many different programs to assist SMEs. There are programs to help with access to investment capitals, innovative technologies, hygiene in production, vocational trainings, promotional activities, and acquisitions of equipment; programs to help with legal issues of land ownership and use, and infrastructure; programs to help with administrative documents and procedures, and paying for the consulting costs of investment and trade promotion; programs on vocational training for the rural workforce; and programs to help with the development of infrastructure. The above-mentioned programs have partially lifted some burden of capital expenditures required from SMEs. But funds granted are of small amounts and do not fully satisfy many investments still needed in vocational training as well as in promotional activities and trade development.

In regards to current trends in the world economy and markets, Vietnam is negatively affected by the recession. Consequential falling consumption and rising inflation generate a shortfall in SMEs' output. Moreover, consumers nowadays desire to know the origins of products and prefer brand names in the market place. Stricter demands from consumers make it more difficult to sell products. In addition, the fact that, in recent years, acquisition costs of raw materials have been rising at a faster pace than product sales revenue has significantly reduced the profitability of SMEs, even forcing some to bankruptcy. In 2011, 90 SMEs and 12 cooperatives shut down. Market conditions remain extremely competitive because consumers demand higher quality products at lower prices.

Soc Trang has competitive and comparative advantages in the development of production and consumption of certain products due to its favorable natural resources and traditional local production. Soc Trang's shrimp, artemia, rice, bon bon, red onion, shrimp chips, and PIA cake have competitive advantages. Although SMEs are able to get support from various projects both nationwide and worldwide, they still face threats from potential competitors who are ready to take advantage of the low market barriers to enter into the SMEs' traditional markets. Potential competitors could easily emerge anytime from existing businesses, suppliers, and/or consumers within the industry as well as from those involved in producing substitute products.

Through analysis and evaluation of those provincial products that have development potential, the six products recommended for value chain analysis are ST rice, Pia cake, dairy, red onion, artemia, and weaving. This recommendation is based on five criteria: (1) better use of local resources; (2) more opportunities for job creation, especially amongst women, the poor, and ethnic minorities; (3) development potential within domestic and foreign markets; (4) development potential of by- and value-added products; and (5) environmental friendliness.

The aforementioned issues have all been thoroughly analyzed and evaluated by the researchers and are summarized in a set of solutions. They are: (1) Support for SME innovation and application of new technology; (2) Expanding the production of products with high comparative advantage and support for the development of by-products and value-added products; (3) Support for trade promotion activities; (4) Providing consultations to SMEs for improvement of product quality and reduction of production costs; (5) Support for better access for SMEs to available financial and credit; (6) Human resource development for SMEs with the aim of improving management expertise; (7) Establishing horizontal and vertical linkages; and (8) Developing a support system for SMEs.

6.2 Recommendations

There are many recommendations from local government at all levels, from SMEs, and from consultants for the sustainable development of SMEs in Soc Trang over the next five years. Sustainability would come from developing the economy, social security, and protecting the environment at the same time.

6.2.1 Recommendations from local government at all levels

- The establishment of a centre to support SMEs with a focus on identifying potential markets and creating distribution channels for their products.
- Developing policies for preferential loans to businesses for the construction of infrastructure such as 3-phase power, freight cars, wastewater treatment system, and for resolving issues related to environmental protection.
- Establishing an organization devoted to lending to SMEs.
- Focus on providing support to business households with issues related to investment capital, market knowledge, and product quality.
- Developing and implementing a government fund to provide long-term loans to finance environmental protection projects that need significant technological development to fight effectively against environmental contamination.
- Handing out specific stipulations and serious punishments to companies failing to ensure “clean” environment and ignoring environmental protection commitments for safe production, as well as maintaining fairness among SMEs. It is also necessary to develop some typical models of SMEs in environmental protection.

- Establishing horizontal and vertical linkages for production and trade, including links in the Mekong Delta to develop products sustainably.
- Reducing the SME production costs by becoming more energy efficient.
- Improving product quality by launching good production programs.

6.2.2 Recommendations from the SMEs

- Facilitating access to loans with low interest rate for SMEs.
- Increasing Loan to Asset ratio and match term of loan(short, medium or long term) appropriately to the characteristics of the investment. For example, to build a warehouse, SMEs would need a long-term loan (e.g. 10 years). When financing a project, lenders should also consider the market value of asset or land used as collateral. SMEs claim that the terms and conditions of available loans are inappropriate at the moment and therefore they are unable to finance the construction of needed warehouses to run or expand their businesses. For instance:
 - Loan to asset values for construction materials are only 40-50% of asset values.
 - Low valuation of land in aquaculture (only VND 35 million per ha compared to its current market value of VND 350 million per ha).
- Bank processing fees, charges, and penalties must be reduced for renewing or modifying existing loans.
- Facilitating the construction of infrastructure for 3-phase power.

6.2.3 Recommendations from the consultants

To establish a single point of reference for all sources of information that is relevant for the development of SMEs. The principal recommendations of the consultant group are:

- To establish a board to coordinate support for SME development (CBS): the role of the CBS is to build short- and medium-term plans for SME development; it is also to coordinate and to monitor activities to support SME development directly. The creation of a framework to monitor and to evaluate the performance of SMEs every year is crucial. The integration of programs and projects that are related to SME development is also important. In addition to being an integrated unit, the coordinating board must also be the focal point to disseminate information about provincial policies, programs, and projects to SMEs. The CBS would also seek investments and supports for SMEs from organizations and donors within the country and abroad. CBS members are recruited from all levels of local government. At present, Project Management Unit (PMU) of the CIDA project is defining, organizing, and executing most of the principal CBS tasks, and projects have an average length of five years. For CBS, five years is a short time.
- To establish a centre to support SMEs (SSC): A support centre would be a managerial unit under the Department of Planning and Investment to assist the CBS with the support of SME development; to assist SMEs with business registration procedures,

investment registrations, access to land, legal advice, consultancy and organizing links to distribution channels, consultations in research and development of human resources, advice and support on how to access sources of finance, and trade promotion activities. At present, there is an investment promotion centre at the DPI. The SSC is to take over all of the roles currently performed by the DPI.

- Beside CBS and SSC's rules, the provincial People's Committee will continue to consider and establish policies to support SME development, especially preferential policies to encourage investment and to create a favorable business environment.
- Responsibility at the provincial level (Departments, Cooperative Union and the Women Union) as well as the People's Committees at district and commune level (People's Committees) belongs to the management units that support SME activities locally. They are also the members of the CBS who assign rights and responsibilities to implement the planned activities in local areas.
- The formulation and implementation of the SME development plan will be monitored by the Coordinating Committee for SME development. The monitoring and evaluation system will be based on criteria and will be done by members of CBS, PMU and provincial units.

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