Local Entrepreneurship in Vietnam's Rural Transformation. A Case Study from the Mekong Delta

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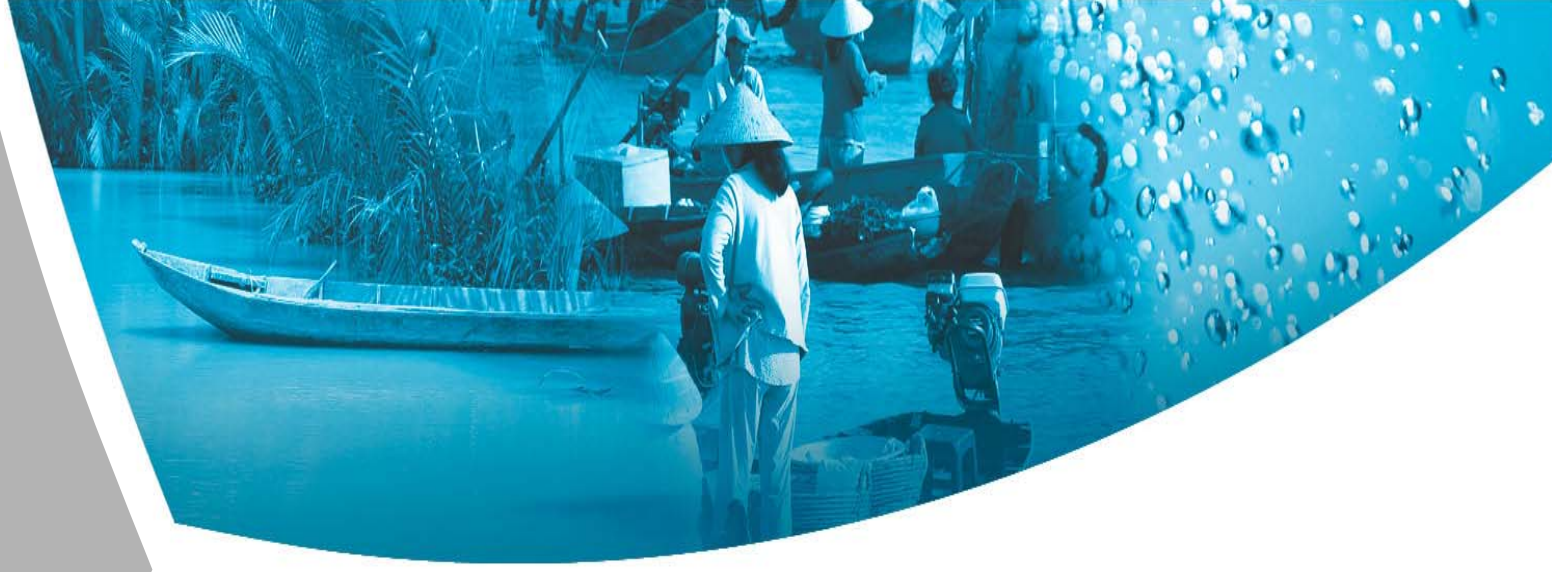

Local Entrepreneurship in Vietnam's Rural Transformation

A Case Study from the Mekong Delta

Simon Benedikter, Gabi Waibel, Serge Birtel, Bui The Cuong and Tran Thanh Be

WISDOM
A GERMAN - VIETNAMESE
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PREFACE AND ACKNOWLEDGEMENTS

This report provides an overview of the main results of a survey on small and medium-sized enterprises, implemented in Can Tho City, Mekong Delta in 2011 - 2012. The study was part of the WISDOM project, a joint German-Vietnamese research initiative on integrated water resources management in the Mekong Delta (www.wisdom.eoc.dlr.de). Previous research within the project revealed that the Delta is undergoing a wide scale transformation which includes not only socio-economic but also environmental change leading to increased pressure on natural resources. One of the emerging concerns is the degradation of water quality, to which industries were identified as one of the key polluters. Further investigation of industrial zones, local economic developments and urbanization, however, indicated that small and medium-sized enterprises are rapidly growing and that this was an important, but largely under-researched phenomenon. Consequently, the Small and Medium Enterprise (SME) sector emerged as a complementary but also explorative subject of study within the broader research.

The survey was a joint activity of the Center for Development Research (ZEF), the Institute for Socio-economic Development Studies of Can Tho City (CIDS) and the Southern Institute of Social Sciences (SISS) in Ho Chi Minh City.

The research team at CIDS was composed of the following staff members: Dr. Trần Thanh Bé, Trần Thế Như Hiệp, Trần Tố Loan, Bùi Thị Kim Trúc, Huỳnh Thị Thuỳ Dương, Nguyễn Thị Thảo Nguyên and Lê Thị Khánh Giang. The research team at SISS was composed of the following staff members: Prof. Bùi Thế Cường, Nguyễn Thị Minh Châu, Quách Thị Thu Cúc, Nguyễn Thị Bảo Hà, Trương Quang Đạt, Lê Thế Vững and Nguyễn Tấn Dân.

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ABSTRACT

Empirical evidence from developing countries has illuminated the vital role private business development plays in rural transformation and the creation of off-farm livelihoods. Since 'renovation' (*Đổi mới*) was promulgated by the Vietnamese Communist Party in 1986, Vietnam has experienced rapid growth and development through the transition from state to market. While de-collectivization and the return to household-based rural production reduced poverty and increased growth, entrepreneurship development in the form of Small and Medium Enterprises (SME) has emerged as a strong agent for socio-economic diversification. The Mekong Delta, located in the Southwest of Vietnam, is a rural setting traditionally reliant on agriculture but has been facing rapid rural transformation over the past three decades. Against a background of agrarian modernization, economic liberalization, international integration and environmental change, this report explores the diversity of entrepreneurial activities and SME development in typical peri-urban and rural settings of the region. Empirical findings on the trajectory of rural entrepreneurship development, enterprise characteristics, and the social profiles of business owners are presented. Beyond that, changes brought about by rural enterprises for livelihood diversification, social security and labor market dynamics are disaggregated and discussed by different business types and corresponding modus operandi (growth-oriented vs. livelihood-oriented enterprises). Finally, the results are contrasted with current government notions of promoting SMEs development as a driver of economic growth. Diverging from the government's vision for boosting SME development in the context of rural industrialization, the large majority of private business establishments in the Mekong Delta are micro-enterprises which operate at subsistence levels, while growth-oriented SMEs remain the exception. Consequently, there is a need to reconsider policy formulation for more sustainability in the rural SME sector.

Keywords: Entrepreneurship development, SME, rural transformation, Mekong Delta, Vietnam

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ABBREVIATIONS

ADB	Asian Development Bank
AED	Agency for Enterprise Development
ASMED	Agency of Small and Medium-sized Enterprises Development
BRC	Business Registration Certificate
CIDS	Can Tho City Institute for Socio-Economic Development Studies
CIEM	Central Institute for Economic Management
CLR	Certificate of Land use Rights
DOLISA	Department of Labor, Invalids and Social Affairs
FDI	Foreign Direct Investment
GADM	Global Administrative Areas
GDP	Gross Domestic Product
GSO	General Statistics Office
HCMC	Ho Chi Minh City
ILO	International Labour Organization
MPI	Ministry of Planning and Investment
NFHE	Non-farm household enterprises
SEDP	Socio-Economic Development Plan
SISS	Southern Institute of Social Sciences
SIWRP	Southern Institute of Water Resources Planning
SME	Small and Medium Enterprise
SMEDP	Small and Medium Enterprise Development Plan
SOE	State-owned enterprise
UNDP	United Nations Development Programme
VAT	Value-Added Tax
VCCI	Vietnam Chamber of Commerce and Industry
VCU	Vietnam Commercial University
VHLSS	Vietnam Household Living Standards Survey
VND	Vietnamese Dong (currency)
VUSTA	Vietnam Union of Science and Technology Associations

1 INTRODUCTION

Studies from many developing countries suggest that non-farm business development becomes particularly dynamic in areas that undergo rapid agrarian modernization and achieve concurrent growth. Due to the corresponding rise in living standards, the consumption and expenditure of rural households are expected to increase. Growth in agricultural is thus a prerequisite for the emergence of new rural service and commodity markets, which provide new off-farm business and income opportunities (Ellis, 1998). Moreover, in terms of demographic change and the restructuring of the workforce, off-farm income plays an increasingly important role for a younger generation who might be less willing to stay in agriculture or simply have no access to agricultural land, and are thus reliant on alternative livelihoods in the off-farm sector. Indeed, as in many developing countries, in Vietnam the rural labor force consists mainly of young people between 15 and 30 years (VUSTA, 2011).

Since the end of the Vietnam-American Wars in 1975, the Mekong Delta in Vietnam has experienced tremendous socio-economic changes due to rapid modernization. In the late 1960s, the Mekong Delta was estimated to be home to about 10 million people, of whom more than 80% were engaged in agriculture. The total land size under cultivation in those years was estimated at 2 million hectares (Sansom, 1971). Since then, and increasingly after Vietnam's unification (1976) and the subsequent shift towards a market economy in 1986, new agricultural land was continuously reclaimed and the land under cultivation expanded to 3.8 million by 2005 (Le Anh Tuan et al., 2007). Over this period, the population increased to more than 17 million inhabitants (according to the GSO Vietnam) and agricultural production modernized rapidly in the context of Vietnam's renovation (*Đổi mới*) policy and growing international integration. The agro-economic upswing over the past 20 years positively contributed to rapid poverty reduction rates and rising living standards, though these improvements were not evenly distributed among the population (UNDP and AusAid, 2004). Against the background of agrarian change, better-off farmers with significant landholdings and the financial capabilities to further accumulate land may evolve into large-scale agriculturalists. Others, however, may find it difficult to adapt to the increasingly commercialized and industrialized agriculture and shift to off-farm livelihoods (self-employed or as employees) or become agricultural wage-laborers. The rural transformations initiated push and pull factors that simultaneously fuel the growth in the off-farm sector and in private business development. Particularly since 'renovation' was promulgated by the Vietnamese Communist Party in 1986, Vietnam's economy has rapidly changed. With the transition from a state-led to a market economy, the private sector continued to rise, providing for new job and self-employment opportunities. The resulting trends of modernization are highly visible in the cities but private entrepreneurship also gained prominence in the country's rural transformation (Vijverberg and Haughton, 2004, Oostendorp et al., 2009). Detailed surveys from the 1990s, notably the 1993 and 1998 Vietnam Living Standard Survey, provided evidence of the vital role of the private business sector in the creation of

off-farm livelihoods[1] (Vijverberg and Haughton, 2004). This trend continued after 2000, when Vietnam further liberalized its corporate legislation and policy on private sector development. By 2002, for instance, nearly 28% of household incomes and 25% of employment opportunities were generated from non-farm household-based business activities (Oostendorp et al., 2009). Following this trend, non-farm wage employment increased from 15% in 2002 to 22% in 2008 (Brünjes and Revilla Diez, 2013).

Despite these positive trends found in these statistics, studies on Vietnam's rural transformation tend to focus more narrowly on agrarian change, poverty analysis and migration. This is also the case for the Mekong Delta, where farming systems and agriculture-based livelihoods have been subject to intensive research (e.g. Nguyen Duy Can et al., 2007, Kerkvliet and Porter, 1995). This is, on the one hand, not surprising as over 70% of the Delta's 17 million inhabitants are classified as rural with the majority engaged in agriculture either as their primary or secondary occupation (Garschagen et al., 2012). Furthermore, the agrarian production of the delta is of clear national interest because it produces about half of the national food volume (Käkönen, 2008), most notably export items such as rice, aquaculture products and fruits (Vormoor, 2010). Nevertheless, these studies neglect the economic dynamics of non-farm activities, thereby falling short of delivering a comprehensive view of contemporary rural transformation processes.

The recent agro-economic upswing represents one of the most dynamic stimulations of economic growth and socio-economic development for the Mekong Delta in its history. This development has, however, generated growing and observable inequality among the Delta's population. For instance, large-scale farms are claiming more land while the number of landless people is growing. At same time, agricultural wage labor markets have tightened due to advanced mechanization of rural production (Taylor, 2004, Akram-Lodhi, 2005, Fortier and Tran Thi Thu Trang, 2013). Nevertheless, poverty rates have decreased and higher living standards can readily be observed, which leading to demands for goods and services. One result is that rural markets and service provision in general are steadily developing. Most of these economic activities are categorized as 'small and medium-sized enterprises' (SMEs), which are governed by specific state policies. These SMEs range from self-employed household-based micro-businesses to smaller industries; as a whole, they contribute considerably to the creation of off-farm job and income opportunities (Ellis, 1998).

These changes in off-farm livelihood opportunities and the development of local entrepreneurship remain under-researched. Since Vietnam officially abandoned central

[1] By definition, off-farm denotes every economic activity other than agriculture, aquaculture, livestock, fishing and hunting. Off-farm livelihoods are diverse and encompass a wide spectrum of different economic activities at various scales. These range from micro-scale handicrafts (weaving or pottery), petty trade and street vending to wage labor, offered by larger companies. Such local industries have more than 50 employees, formal business registration, employ modern and complex technology, and they target the export market (Ellis 1998: 5, Mead and Liedholm 1998, Lanjouw and Lanjouw 2001: 61).

planning and liberalized the economy in 1986, the resulting boom in private sector development has become an increasingly popular topic for scientific research on the transitional economy and socio-economic development. This holds true in particular for the SME sector and corresponding growth-oriented businesses. The majority of these studies stem from the field of economics, conducting characteristics of SMEs with focuses on issues such as urban development patterns and constraints of SMEs in terms of growth and survival, government interventions and mechanisms of promoting SME development, and the issue of formality and informality (Hansen et al., 2009, Tenev et al., 2003, Tran Dinh Khoi Nguyen and Ramachandran, 2006). Given the fact that 97% of Vietnam's private sector enterprises are micro and small sized (Tran Tien Cuong et al., 2008), the majority of which are either self-employed, household-based or employ only a limited number of workers (Hansen et al., 2009), most studies emphasize the dominance of micro enterprises in Vietnam and the diversity of entrepreneurship. More often than not, however, social and environmental dimensions of SME development remain neglected.

This report aims at filling the above-mentioned gap by drawing on findings from fieldwork in peri-urban and rural areas of Can Tho City in 2012-13. The collected data include the results of a questionnaire-based survey, which targeted both entrepreneurs and laborers in the study area. The range of questions covered individual backgrounds and histories of entrepreneurship development, changes in livelihoods as well as living and working conditions of the laborers. In addition, environmental aspects of SME development have been investigated – a dimension that is generally overlooked in similar surveys.

The main purpose of the study is to analyse the role and potential of small and medium enterprise (SME) development in the current transformation and on the sustainability of local livelihoods. To this end, the following objectives guided the research process:

a) Capture and understand the development of SMEs as an important dimension of socio-economic transformation and off-farm livelihoods in the Mekong Delta
b) Identify the various profiles and examine the development of SMEs in the study area
c) Investigate the role of SMEs for the local labor market
d) Explore environmental and ecological aspects of SME development, considering that the Mekong Delta's natural resources constitute the backbone of the local economy.

Finally, contemporary state policies on private sector development and industrialization are reviewed and, drawing on the research findings, (policy) recommendations are presented.

2 METHODOLOGY

This section introduces the Vietnamese definition and classification of SMEs and outlines the research methodology. Further details about the Vietnamese institutional background of SME development are presented in annexes 9.2 - 9.3.

2.1 Defining Small and Medium-sized Enterprises

The legal framework for SME development in Vietnam (Decree 90/2001 ND-CP; later on amended by Decree 56/2009/ND-CP) defines SMEs as business establishments, which

- are registered under law,
- have less than 10 billion Vietnamese Dong (VND)[2] of capital, and
- comprise not more than 300 employees.

Within this category, the distinction between micro, small-sized and medium-sized enterprises is made. The number of laborers and the total capital are the key indicators for the classification. The table below illustrates the details:

Table 1: Classification of small and medium-sized enterprises in Vietnam

	micro enterprises	**Small-sized enterprises**		**Medium-sized enterprises**	
	Number of laborers	Total capital Billion VND	Number of laborers	Total capital Billion VND	Number of laborers
I. Agriculture, forestry and fishery	< 10 persons	< 20	> 10 < 200	> 20 < 100	> 200 < 300
II. Industry and construction	< 10 persons	< 20	> 10 < 200	> 20 < 100	> 200 < 300
III. Trade and service	< 10 persons	< 10	> 10 < 50	> 10 < 50	> 50 < 100

(Government of Vietnam, 2001, Government of Vietnam, 2009)

As the table shows, the term SME can denote a broad variety of businesses, ranging from self-employed petty traders to larger industries with several hundred laborers. The requirements and resources needed to establish, run and develop a business therefore naturally differ. Consequently, target-group specific policies and support programs depend on a sound understanding of the local realities and prevalence of the various types of SMEs.

The General Statistical Office (GSO) and its local branches keep records of all registered enterprises (GSO, 2008). These include state-owned enterprises[3], private businesses of Vietnamese citizens, as well as foreign-owned enterprises. Despite the fact that business

[2] 100.000 VND are equivalent to 4.70 USD (17 July 2013).

[3] 'State owned enterprise means an enterprise in which the State owns over fifty (50) per cent of the charter capital' (Law on Enterprises, (60-2005-QH11), Article 4.22).

registration is a legal requirement for all except micro enterprises (with less than 10 employees) (World Bank, 2005), a large share of private businesses operate informally and remain unregistered (Tenev et al., 2003).

Depending on the size and scope of the enterprise, registrations are filed at the district and/or provincial level. It is important to note here that a business registration certificate (BRC), which can be obtained from the business registration body, is distinct from registration with the tax office, which issues a tax code (TCS)[4]. Although the described legislation is, in principle, consistently applied to all business sectors (Nguyen Tri Thanh, 2007, Tran Tien Cuong et al., 2008), some of the registered SMEs might have the one or the other or both (Rand and Torm, 2012).

In addition to the above mentioned GSO records, a national, bi-annual Household Living Standards Survey (VHLSS) captures supplementary information on household-based enterprises (GSO, 2010b), which includes those not formally registered. Any analysis of secondary data as well as the comparison of various SME survey results[5] therefore requires a critical look at the respective classification and sampling strategies.

2.2 The research area

The research was conducted in Can Tho City, in the heart of the Mekong Delta. Can Tho City, which in administrative terms is equivalent to a province, is an economic and a - transportation hub in the Delta. It is divided into 9 districts, out of which two were selected for the study. These are Co Do, a rural district, which is classified as one of Can Tho City's poorest areas; and Thot Not, whose administrative status was changed from rural to urban in 2009. The latter hosts one of the five industrial parks of the city and some of its larger firms, all of which are in food processing. Of the local businesses, most notably those in the food industry, construction materials and agro-industries are considered to be prospering. Thot Not adjoins the Hau River and includes National Road 91, which links Can Tho City with Long Xuyen and Cambodia, and is correspondingly well-developed in terms of infrastructure. Co Do, in contrast, is still focusing largely on agricultural production, in particular rice. The district is predominantly rural and remote if one compares it to the modern, urban parts of the city.

[4] All enterprises registered under the Law on Enterprises are obliged to apply for a tax code and to declare and pay taxes (Law on Enterprises, (60-2005-QH11), Article 9.3).

[5] Other important Vietnamese sources of secondary data are: three large surveys on SMEs in 2005, 2007 and 2009, conducted by the Central Institute for Economic Management in Vietnam (CIEM 2010) and a major data collection on the non-state manufacturing sector in Vietnam, carried out in 1991 and 1996 (Ronnås 2001).

Figure 1: Waterfront along the Thot Not Canal

Figure 2: Road along the Thot Not Canal

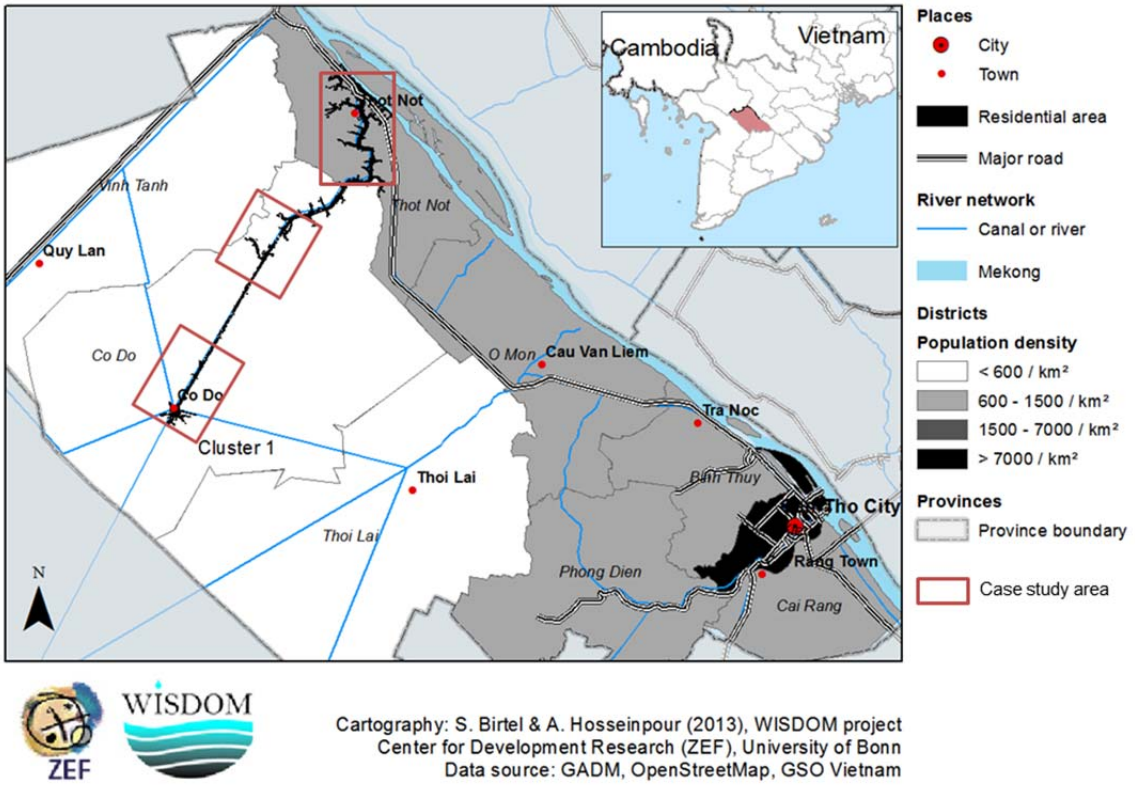
Photographs: Simon Benedikter[6]

The survey on SMEs was implemented in these two districts while the area along the Thot Not Canal in both districts has been identified as the most suitable case study area. This is because most of the SMEs are located along the waterfront of the canal, which was dug in the colonial era and since has developed into an important waterway transport axis. Because the canal represents a major transportation route between the districts, it was assumed that this would be a favorable factor for local business development. This follows the general trend in the Delta, whereby the transportation of goods and people on the many rivers and canals of the delta has always been a major asset for the development of local trade.

Along the Thot Not Canal, three sub-areas have been identified for the survey implementation. These include a) Thot Not town as a peri-urban area, b) Co Do town as a typical capital of a rural district, and c) a rural area in the middle of the canal. Each sub-area was approximately 3 kilometers long and includes both canal banks. The maximum width of a cluster was 130 meters, including the canal surface itself. The total survey area covered approximately 20 km of the canal. A more detailed description of the study sites can be found in annex 9.1.

[6] All photographs in this report were taken by Simon Benedikter.

Figure 3: Map of Can Tho City and the study areas in Thot Not and Co Do districts



2.3 Summary of data collection methods and sampling

The study is based on both quantitative and qualitative research methods, although a questionnaire-based survey served as the main instrument. Several preliminary field visits to the study area involved interviews with local state agencies, the collection of official secondary data and reports, as well as visits and preliminary talks with local entrepreneurs. The second phase consisted of a pilot questionnaire and the identification of the research areas. Once these had been defined, all enterprises located within each of the sub-areas were identified, except those which had been established less than 12 months prior. This sampling procedure led to a result of 626 enterprises in total. Having decided on the number of laborers as the key parameter of the sampling frame, 35% of the identified enterprises were randomly selected for the survey implementation.

For the survey itself, two questionnaires were designed: one targeted enterprise owners, while the second focused on workers who have been employed for a minimum of 6 months in the same enterprise[7]. The objectives of the second questionnaire were (a) to gain additional information on working conditions and the socio-economic profiles of workers and (b) to validate some of the information provided by the enterprise owners.

[7] The selection of the respondents also included considerations about gender and age (three age groups: 18-30, 31-45, 46 and older).

The survey data were further complemented by focus group interviews with residents of the study area (conducted in May 2012). Ultimately, the preliminary results of the survey were presented and discussed in a stakeholder workshop, organized in Can Tho City in October 2012. The following table provides an overview on the data collection:

Table 2: Data collection at a glance

Data collection method	Sub-area			Total
	1	2	3	
Literature review and secondary data analysis				x
Preliminary field visits and identification of study area	x	x	x	x
Interviews with representatives of local agencies, collection of reports	x	x	x	x
Identification of SMEs (3 days)	x	x	x	x
Questionnaire for enterprise owners	60	75	62	197
Questionnaire for workers	61	14	20	95
Focus groups	4	4	4	12
8-10 participants each				
Female and male groups				
Age 25 – 65				
Live in the study area for at least 10 years				
Stakeholder workshop: Presentation and discussion of preliminary results	-	-	-	1

3 BACKGROUND: SME DEVELOPMENT IN VIETNAM

3.1 Brief history of private sector development in Vietnam

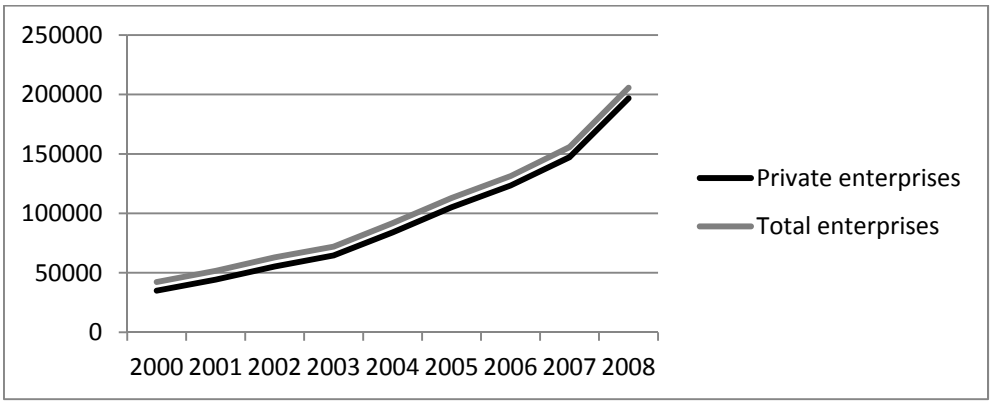
Private sector activities gradually emerged in Vietnam even before the market economy was officially adopted (Beresford, 2006: 213, Dang Phong, 2009). These, however had to remain informal. Thereafter, important shifts in the economic system occurred when the rural collectives were dissolved (Akram-Lodhi, 2001: 8, Vo Tong Xuan, 1995: 188-189) and state-owned enterprises (SOEs) were granted greater autonomy in the 1980s (Fforde, 2007: 135-136, Painter, 2003: 8, Vo Tri Thanh and Pham Hoang Ha, 2004). The abolition of the price control system and other subsequent reforms further enhanced the nascent transition. Through Doi moi, private sector development was introduced as a strategic response to the economic crisis caused by central planning and the subsidy economy. Non-state businesses were therefore expected to contribute to poverty alleviation and economic growth (Arkadie and Mallon, 2003: 72, 155). In 1987, foreigners were again allowed to establish businesses in Vietnam and the local conditions for entrepreneurship

were further specified when the 'Private Enterprises and Companies Law' was passed in 1990. The new Constitution (1992) finally enshrined the citizen's right to engage in private entrepreneurial activities (Article 57).

Nevertheless, private sector development was slow throughout the 1990s. Complicated and expensive administrative procedures discouraged private investors from registering their businesses under the new legal framework. Thus, a large share of private businesses continued to operate in the informal sector (Tenev et al., 2003). Moreover, SOEs were still privileged in respect to many regulations and, as a result, private entrepreneurs had more difficulties accessing credit, land and markets (Kokko, 2004: 86-87, Arkadie and Mallon, 2003: 160, Vo Tri Thanh and Pham Hoang Ha, 2004). By 1996, only 190 joint-stock companies, 8,900 limited liability companies and 21,000 private enterprises had registered under the new law. These private enterprises were mainly household-based micro-businesses with operating in agriculture, retail trade and services (Arkadie and Mallon, 2003: 159, Hung Le Ngoc and Rondinelli, 1993: 14).

Bottom-up pressure to reform and more generalized positive socio-economic trends encouraged the government to further improve the private investment climate by the end of the 1990s. With the promulgation of the new Enterprise Law in 2000, administrative formalities were simplified and new sectors were opened up to private business activity (World Bank, 2005, Vo Tri Thanh and Pham Hoang Ha, 2004). The procedure for business registration was shortened from 90 to 7 days, and registration fees were reduced from 10 million to 500,000 VND. Furthermore, the political leadership increasingly acknowledged the importance of the private sector and, during the Ninth Party Congress in 2001, decided to harmonize the conditions of entrepreneurship for all types of enterprises. During the first year after the enactment of the Enterprise Law, 2.5 times more enterprises registered than in the prior year and most of these were joint-stock companies (Arkadie and Mallon, 2003). Since then, private sector development has been continuously on the rise, as the following chart illustrates:

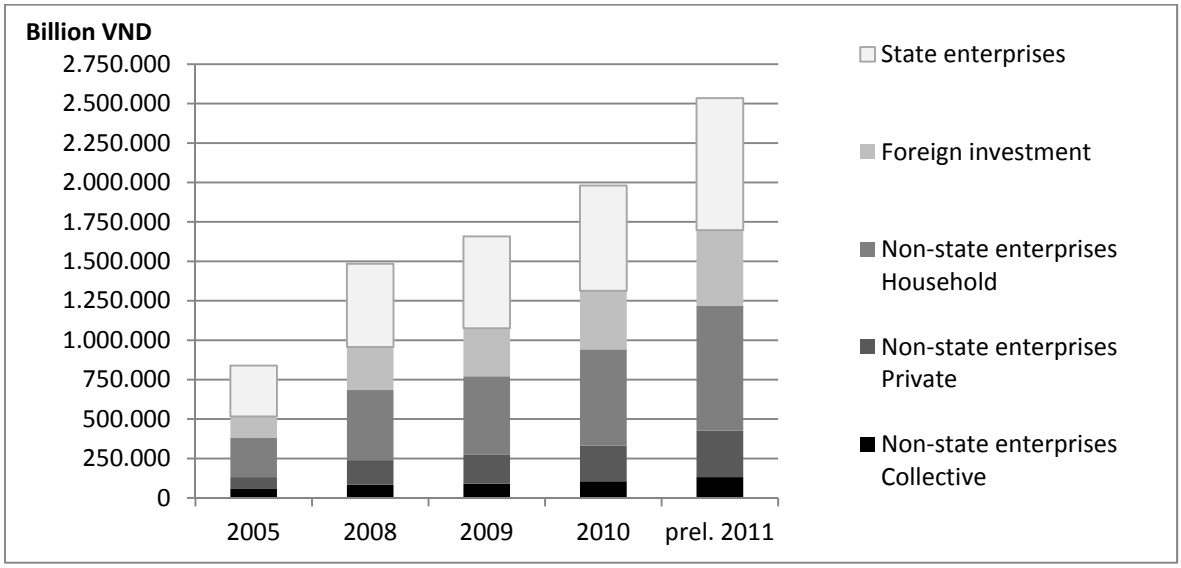
Figure 4: Total registered enterprises / private enterprises from 2000-2008



(Design by authors; data from GSO (2010a)).

The GSO enterprise census shows that by January 2009, the number of registered private enterprises already reached 196,779, accounting for 95.7% of all registered enterprises. This is 5.6 times more than in 2000 (GSO, 2010a). The Vietnam Household Living Standards Survey (VHLSS) (GSO, 2010b) further found that 34.4% of all households run at least one non-farm business. The majority of these do not figure in the above chart, as they are not registered under the enterprise law. According to the GSO, 9.3 million household enterprises were operational in 2004. Estimations by the World Bank, however, indicate a much smaller number of 6.1 million in the same year (World Bank, 2005). Independent of the accuracy of the data and different definitions in use, the various studies unanimously agree that SMEs are growing at a faster rate than all other types of enterprises. This is also reflected in the respective sectoral contributions to the national GDP, which more than tripled during the period of 2005 to 2011.

Figure 5: GDP at current prices by types of ownership in Vietnam, 2005-2011



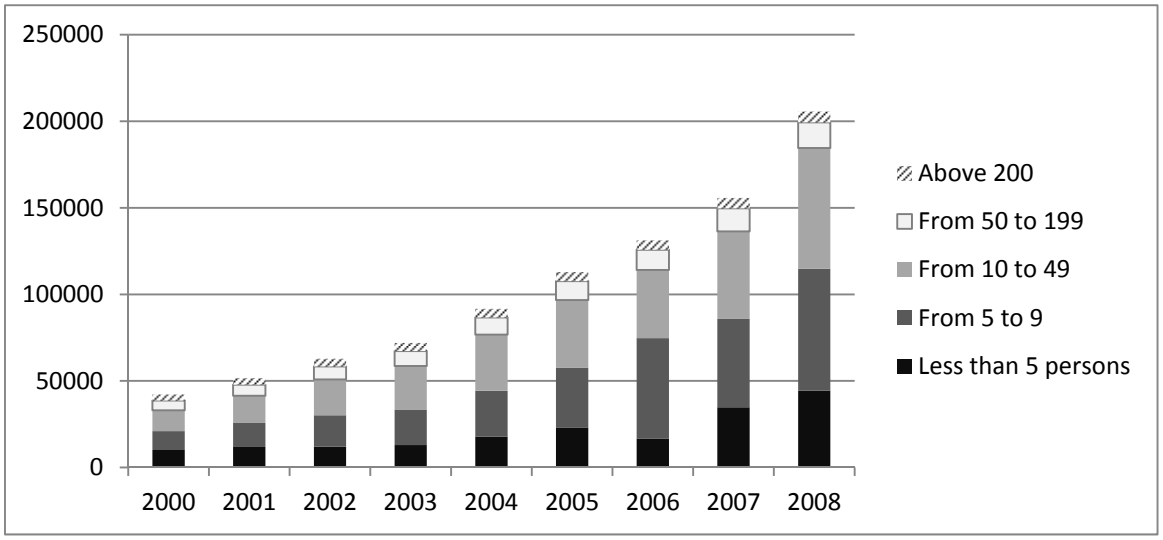
(Source: GSO, 2012).

3.2 SME characteristics

Most of the SMEs are micro and small-sized enterprises. Along this spectrum, the registered micro-sized enterprises account for about 52% while small-sized enterprises for around 35% of all enterprises (Tran Tien Cuong et al., 2008). When combining the VHLSS, which mostly captures informal household enterprises, with the GSO enterprise census of registered enterprises, it becomes obvious that, in terms of employment, mostly very small enterprises with up to five workers (accounting for half of the total number of registered enterprises in 2008) and large enterprises with more than 1,000 employees, are contributing to the development of the labor market (World Bank, 2005). Almost 87% of all enterprises in Vietnam had 49 or less employees in 2006 (MPI, 2008). The number of private enterprises with more than 50 employees and multi-ownership structure is comparatively low: companies with 200 up to 1000 workers accounted for

five percent of the total number of enterprises, only. The Vietnam Development Report 2006 (World Bank, 2005) therefore speaks of a "missing middle" in the economy.

Figure 6: Number of enterprises by number of employees in Vietnam, 2000-2008



(Source: GSO, 2010a).

Table 3 presents the number of enterprises by legal form and by number of employees in 2010. The data show that the private sector is dominated by SMEs (World Bank, 2005). Large enterprises are predominantly state-owned or equitized state-owned companies. Corroborating this, a study by UNDP showed that of Vietnam's 200 largest firms, only 22 were domestic private firms, 56 were foreign invested companies, and the remaining 122 enterprises were state-owned (Cheshier and Penrose, 2007: 6).

Table 3: Number of enterprises by legal form and by number of employees in 2010

Legal type of enterprise		Number of Employees				
	Total	<5	5-9	10-49	50-199	≥200
Total	**291,299**	**77,933**	**100,539**	**86,723**	**18,711**	**2,562**
State-owned enterprise	**3,283**	**21**	**70**	**613**	**1,183**	**380**
Central	1,777	8	35	239	606	206
Local	1,506	13	35	374	577	174
Non-state enterprise	**280,762**	**77,324**	**99,787**	**84,009**	**15,491**	**1,729**
Collective	11,924	1,009	4,149	6,093	569	51
Private	48,009	18,774	15,636	11,921	1,477	112
Collective name	79	26	22	29	2	0
Limited co.	163,980	46,665	59,684	47,604	8,253	789
Joint stock co. with capital of state	1,712	5	25	378	733	167
Joint stock co. without capital of state	55,058	10,845	20,271	17,984	4,457	610
Foreign investment enterprise	**7,254**	**588**	**682**	**2,101**	**2,037**	**453**
100% foreign capital	5,995	484	535	1,692	1,690	376
Joint venture	1,259	104	147	409	347	77

(Source: GSO, 2011)

With regard to the spatial distribution, 18% of all SMEs are located in the Mekong River delta, of which 98.5% are micro enterprises. The average amount of registered investment capital per enterprise increased from VND 0.57 billion (1999) to VND 1.8 billion in 2002. Average taxes and fees paid per person in small enterprises were about VND 10 million and about VND 42 million for medium-sized enterprises in 2002 (Nguyen Tri Thanh, 2007). These figures suggest an increasing importance of the sector for the (local) state's budget.

Considering the business sectors which SMEs currently engage in, the GSO data suggest the following: around 40% of SMEs focus on trading, 21% on manufacturing and 14% on construction (MPI, 2008). Most of the jobs, however, were created in manufacturing (42.6%), followed by wholesale and retail trade (23.5%), and hotels and restaurants (8.5%) (Nguyen Tri Thanh, 2007). In the trading sector, most SMEs are active in wholesale trade, followed by retail, repair of motor vehicles, and sale of household goods. Within the manufacturing sector, most SMEs are producing food and beverages (Tran Tien Cuong et al., 2008).

According to economic surveys, access to capital for future development is one of the main difficulties SMEs face in Vietnam. A study on factors influencing the capital structure of SMEs in Vietnam over the period of 1998-2001 found that SMEs predominantly take on short-term rather than long-term credit liabilities. SMEs have an average debt-ratio of 43.9%. Both the potential to grow and the risk of business failure, however, increase with the amount of capital invested (Tran Dinh Khoi Nguyen and Ramachandran, 2006).

3.3 Contemporary conditions for SME development

Vietnam's ten years *Socio-Economic Development Strategy* (SEDS) 2011 – 2020 emphasizes the importance of the private sector for achieving the country's overall vision, which is "to make our country a modern oriented industrial one by 2020". The strategy specifies the government's role in creating favorable conditions for the private sector, which is considered a driving force for economic growth. The strategy does not, however, specifically mention SMEs; rather, it states out that the development of joint stock enterprises should be encouraged and that further reforms should help to attract foreign direct investment.

The 5-year *Socio-Economic Development Plan* 2006–2010 (SEDP) highlights the importance of private investments for generating economic growth and employment (Nguyen Tri Thanh, 2007, Communist Party of Vietnam and Central Committee, 2001). The SEDP further recognizes the specific role of SMEs, which, according to other studies, effectively contribute to poverty reduction, job creation and the improvement of living standards (Tran Tien Cuong et al., 2008, ADB, 2009b, CIEM, 2010, Paswan and Tran, 2011). In 2004, 85% of the total non-agricultural labor force was employed in SMEs and SMEs mobilized 87% of the total registered capital (Tran Tien Cuong et al., 2008). Nevertheless, since economic reforms gained momentum in the early 1990s development strategies of the government have tended to neglect local SME development, while attention was given to attracting foreign direct investment (FDI), seen as one of the key elements in Vietnam's catch-up industrialization policy (Pham Hoang Mai, 2004). This aspect will be further discussed in section 7.

Subsequently, the government approved its first Five Year SME Development Plan 2006–2010 (SMEDP). The SMEDP aimed at boosting SME development in order to create an environment of healthy competition within the country and strengthen the nation's economic competitiveness. The plan and other complementary initiatives spell out the following objectives (The Prime Minister of Vietnam, 2006, ADB, 2009a, MPI, 2008):

- increase the number of SMEs, especially in the poorest provinces
- develop land for industrial and commercial purposes
- improve access to credit
- increase the export capacity of SMEs
- create more jobs in the sector

Important legislative and regulative steps for the achievement of these targets include Decree 90/2001/ND-CP supporting the development of SMEs; the establishment of the SME Promotion Council and of the Agency for SME Development (ASMED) in the Ministry of Planning and Investment (MPI); decision 143/2004/QD-TTg on Approving the Program on Human Resource Training Support for SMEs 2004-2008; and the above mentioned Five-Year Development Plan 2006-2010 (Tran Tien Cuong et al., 2008).

3.4 Development challenges and stability of SMEs

A World Bank survey (Tenev et al., 2003) of 746 private and state-owned enterprises from 11 cities and provinces identified several constraints and challenges in the development of SMEs: unfair competition (61%), weak demand (56%), high tax rates (55%), poor access to financing (48%), and inconsistency / uncertainty of policies and preferential treatment (42%).

In another survey (CIEM, 2010), the most serious constraints to growth perceived by enterprises were the lack of capital (mentioned by 30% of the respondents) and the limited demand in the market.[8] As a result, SMEs have faced challenges securing investment capital (Nguyen Tri Thanh, 2007). With regard to SME growth, the same survey (CIEM, 2010) found that 93% of the micro enterprises (those with 1 to 9 employees) remained small and that small enterprises tend to shrink rather than to grow. Moreover, 8.4% of SMEs close down every year (with higher rates in urban centers) although in 20% of the cases, the closure is only temporary. This interruption in business activity was explained by the lack of demand (43%), the normal seasonality of the business cycle (21%) and high competition (6%) (CIEM, 2010).

These and other difficulties can even intensify when macro-economic externalities take a turn for the worse. While private businesses development flourished subsequent to the enactment of the Enterprise Law in 2002, it plunged when the world financial crisis began to hit Vietnam in 2008. Since then, the economic growth rate dwindled from over 8% annually in 2002 to less than 5% in 2012. As a symptom of the crisis, according to data from the Vietnamese Chamber of Commerce and Industry (VCCI), in 2012 over 58,000 enterprises went bankrupt or temporarily halted business activity, which was a new all-time high (Tuoi Tre, 19/04/2013). In the Mekong Delta specifically, during one decade, the number of private businesses has dropped by over 50% (Saigon Times, 09/12/2012). Moreover it was observed that the average number of workers per enterprise dropped from 74 in 2002 to 34 in 2011. In line with this, a large number of small scale and medium-size enterprises shrank and fell back to the level of micro enterprises. At the same time enterprise expansion rates stagnated (Tuoi Tre, 18/04/2013).

According to ASMED, other conditions important for SME development are access to both land and human resources (MPI, 2008). Indeed, it has been recorded that Vietnamese enterprises, on average, need 230 days in order to complete the 7-step procedure for receiving a certificate of land use rights (CLR). Alternatively, and this is the case for most of the SMEs, businesses remain operating at household. Finally, underdeveloped infrastructure, the lack of supporting industries and non-functional dispute resolution mechanisms complete the list of constraining factors (Tran Tien Cuong et al., 2008).

[8] As a result of the global financial crisis, access to capital has even become more difficult since 2009, primarily due to high inflation and significant increases of interest rates for bank loans.

In addition, social factors can strongly shape business opportunities. A study from the VCCI and ILO, for instance, revealed that women generally face more constraints than men. The reasons given were time constraints, due to women's household responsibilities and caretaking, lack of education and struggles coping with prejudices (VCCI and ILO, 2007). To date, however, studies exploring such socio-economic dimensions are rare.

3.5 Diversity in rationale and scope of rural entrepreneurship

The spectrum of off-farm business development can vary widely in terms of size, market scope, capital investment and other indicators, and accordingly, it is essential to distinguish between different types of rural enterprises. Similarly, business start-ups can be based on different motivations and strategies. Generally, a distinction is made between two different motivations and strategies: (1) 'opportunity-driven' implies that the establishment of private businesses is primarily governed by the good business prospects entrepreneurs expect and thus are more growth-orientated; (2) 'necessity-driven', by contrast, implies that start-ups are motivated by insufficient or unstable household incomes and are, thereby, livelihood-oriented. By setting up a non-farm business, households might strategically be aiming for income diversification and risk reduction, sometimes to overcome seasonal difficulties (Brünjes and Revilla Diez, 2013). Indeed, the establishment of a business can be governed by very different rationales and underlying strategies.

In a similar vein, other studies (Mead and Liedholm, 1998, Berner et al., 2012) distinguish between characteristics such as 'survival-oriented' (or livelihood-oriented) and 'growth-oriented' entrepreneurs, which also have somewhat different rationales. The former type is characterized by low economic productivity, limited capital investment and low revenues. Most of these livelihood-oriented enterprises are necessity-driven micro-enterprises, often self-employed or household-based. Their purpose is subsistence or minimal livelihood security through household income diversification. Typically, expansion and growth is not the driving purpose, but rather security, which makes risk aversion their guiding principle. Their contribution to economic growth is low from a strictly economic perspective, but high in terms of income security and poverty reduction. Often such establishments operate in crowded markets with fierce competition. Informality, fragility and high churn, operational interruptions and low survival rates are pronounced features attributed to such livelihood-oriented enterprises. Growth-oriented enterprises, by contrast, tend to be more opportunity-driven and their owners are more willing or able to engage in risky investment with potentially higher returns. Although entry is much more difficult and costly for growth-oriented businesses, survival rates and prospects to expand are potentially higher. By nature, growth-oriented enterprises are thus larger on average and employ a higher number of workers in comparison to livelihood-oriented businesses.

A VCCI and ILO study in Vietnam, which uses this approach found that female headed enterprises tended to be livelihood-oriented while men tend to be growth-oriented entrepreneurs (VCCI and ILO, 2007).

This section summarized the key national SME-related policies and reforms and showed that the term SME stands for a wide range of businesses. Findings from two surveys, which will be presented in the following sections, provide more detailed and locally-specific information. The data also allow for a critical examination of the official classification of SMEs and suggest starting points for SME promotion.

4 MAIN CHARACTERISTICS OF SMES IN THE STUDY AREA

This chapter presents findings from our enterprise survey, which includes, among others, data on enterprise types and profiles, business sectors, the social background of entrepreneurship, trajectories of business development, as well as challenges and constraints faced by rural entrepreneurs in the Mekong Delta. Drawing on empirical data and employing cluster analysis as a methodological tool, this chapter critically analyses the composition and dynamics of the rural off-farm economy in the Mekong Delta, and how it contributes to livelihood diversification.

4.1 Micro, small or medium? Frequency of enterprise types

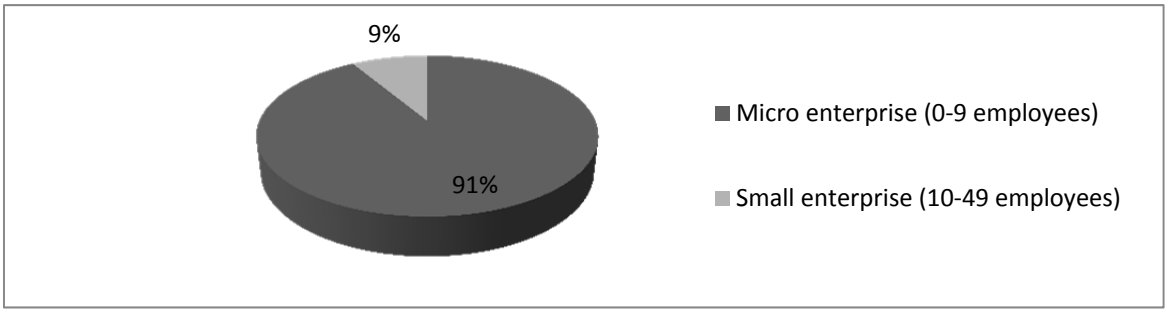
All of the surveyed 197 SMEs are considered small or micro in size. Among the micro enterprises, 30% are run without any employees while 32% have one employee, who is, more often than not, a family member. Small enterprises of 10 to 49 workers account for only 9% of the sample. No medium-sized or large enterprises were found in the study area. Table 4 illustrates the details:

Table 4: Enterprises in the survey by number of employees

Enterprise type	Employees	Total	Per cent
Micro enterprise	0	60	30%
	1	63	32%
	2-3	37	19%
	4-9	20	10%
Small enterprise	10-49	17	9%
Medium enterprise	50-299	0	0%
Total		**197**	**100%**

The average number of employees per business is 3.5, which is extremely low compared to the Mekong Delta's average of 28 workers per SME and the national average of 40 workers per SME. [9]

Figure 7: Share of micro, small and medium sized enterprises in the survey



165 (or 84%) of the surveyed enterprises are sole proprietorship or household enterprises. The legal status of household-based enterprises is not regulated by the Enterprise Law of 2000, but by Circular No. 01/2013/TT-BHKDT on the guidance of enterprise registration procedures, which was recently amended by the Ministry of Planning and Investment (MPI) in 2013. Some of these household-based enterprises might be formally registered, while others are not.

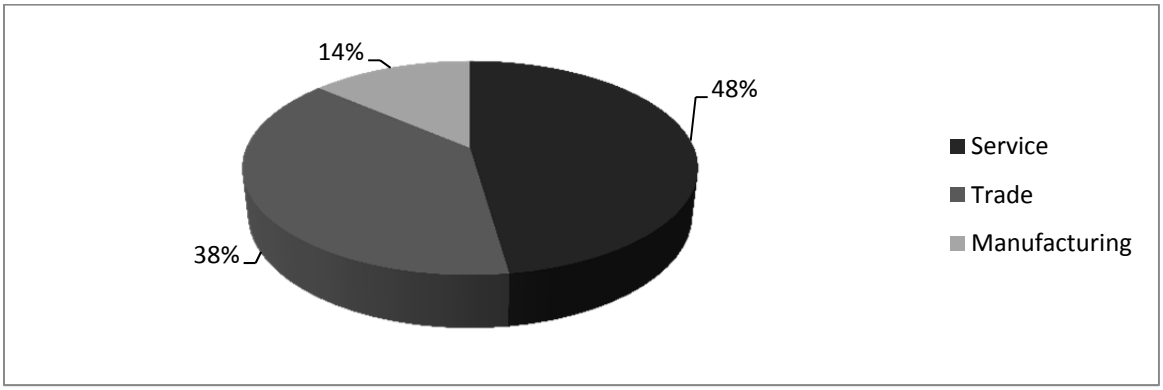
Of the other enterprise types, legal status is more common. For example, the sole joint-stock company and limited liability company that were found were both registered at district level. Private enterprises are also routinely registered at the district level. The remaining category, private businesses, might not be registered and also can have more than one owner. In contrast, private enterprises are defined more narrowly as an "enterprise owned by one individual who shall be liable for all activities of the enterprise to the extent of all his or her assets" (Article 141 Nr. 1, Enterprise Law). Private enterprises and private businesses are therefore not interchangeable. These findings confirm those from similar studies in Vietnam (Hansen et al. 2009, GSO 2010a) which suggest that Vietnamese enterprises are predominantly household-based small and micro enterprises that are not formally registered. Moreover, the data indicate that the Vietnamese landscape for formal sector jobs, at least in rural areas, has not significantly changed since the 1990s.

[9] Data provided by VCCI at a stakeholder workshop in Can Tho City (15 October 2012), where preliminary findings of this study were presented and discussed. It is however not clear whether the indicated 'average number of workers' of the VCCI report includes micro-businesses in its sampling frame.

4.2 Business sectors

In many developing countries micro and small enterprises primarily operate in services and trade (Mead and Liedholm, 1998). This matches our findings from the Mekong Delta, where 86% of all enterprises operate in these two sectors. More precisely, 48% of the enterprises are in the service sector, 38% in the trading sector, and 14% in manufacturing (see figure 8).

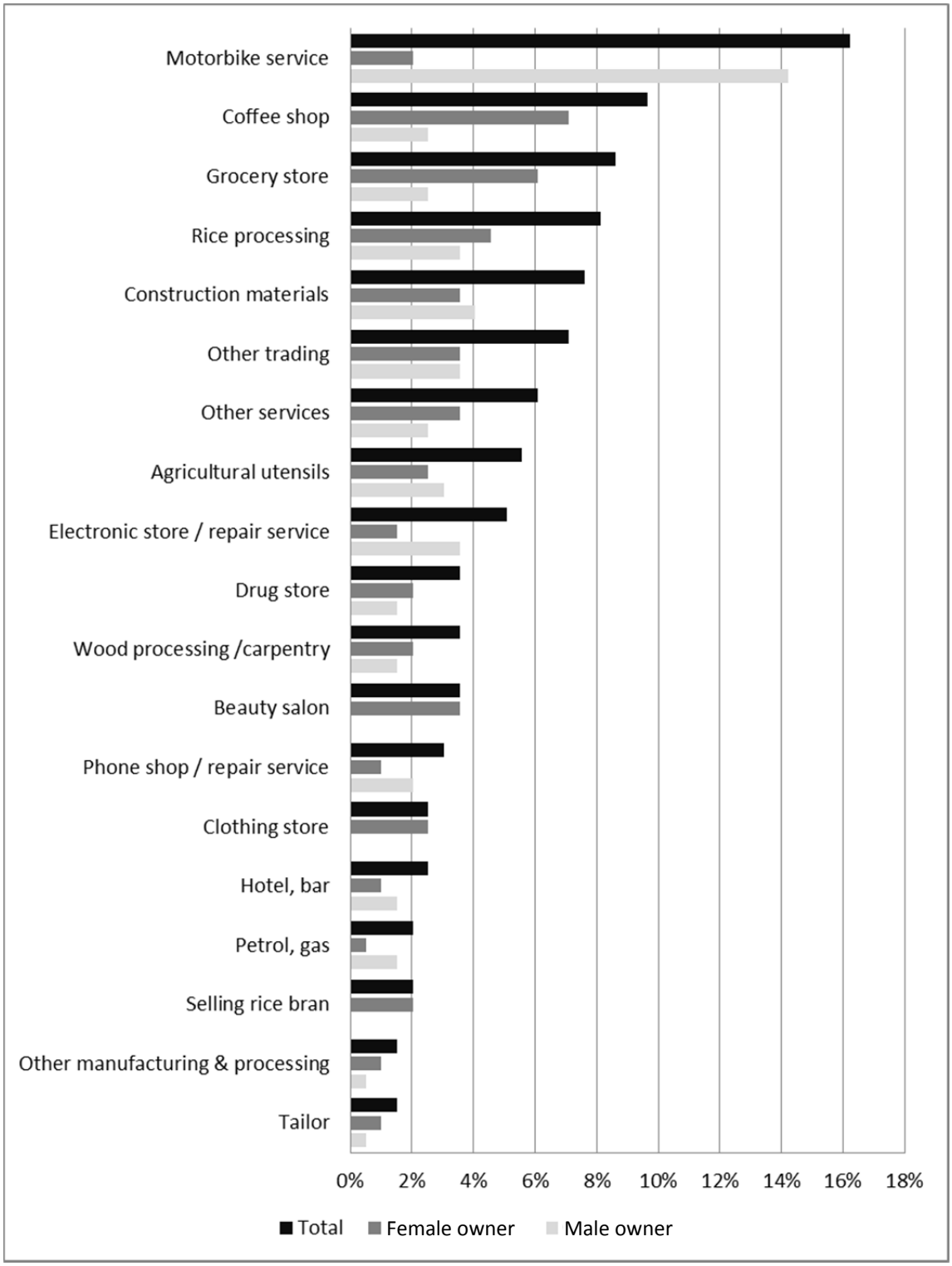
Figure 8: Main business sector of the enterprises in the survey



In addition, an overlapping total of 13% of entrepreneurs operate in more than one sector. Characteristically, enterprises in services and trade tend to be smaller with an average number of employees of 1.35 and 2.55, respectively. The average number of employees in manufacturing is considerably higher with an average of 12.59 employees per enterprise. The manufacturing sector therefore plays a more vital role in the local labor market. This is in particular true for food processing companies, which constitute a large segment of the manufacturing sector. Indeed, 10 out of the 20 largest enterprises in the survey are rice processors with a workforce ranging from 15 to 40 workers. Other important local businesses can be found in wood processing, such as furniture and boat production. Manufacturers also tend to be me more growth-orientated.

Within the Mekong Delta's service sector, the following services are predominant: repair and washing services for motorbikes, repair services for mobile phones and other electronic devices, coffee shops, beauty salons and barbers. While motorbike washing stations and repair services are a primarily male domain, coffee shops and beauty salons are mostly run by women. A similar gender division can be found in trading businesses: groceries and clothing stores are generally owned by women, whereas larger trade and retail stores (construction material, agricultural implements, etc.) are mostly operated by men. Overall, the service sector is dominated by men (63%) and the trade sector by women (64%). Additionally, 63% of the manufacturing enterprises are owned and managed by women. An overview of the businesses and their ownership by sex is portrayed in the following chart:

Figure 9: Ownership of product/service enterprise by sex



As mentioned earlier, rural entrepreneurship in the Mekong Delta is not independent from agriculture production. For instance, rice processors stated that their productivity is highest right after the harvest. Furthermore, cropping cycles and thus seasonal income disparities of the population have an impact on demand in local markets. When the spending capacity of the population is low, entrepreneurs have to adapt; indeed, about half of the entrepreneurs interviewed acknowledged that they seasonally vary their

business activities, with this strategy being equally prevalent in service, trade and manufacturing. After harvests, for instance, the demand for motorbike repair services, construction material and agricultural implements generally increases. According to some traders and service providers, festivals and holidays are also associated with fluctuations in business activity. A very high level of consumption, for example, corresponds with the preparation for *Tet* (Vietnamese New Year). Similarly, a few traders and retailers located close to schools mentioned that they sell less during school vacations. Otherwise, price fluctuations and shortages of certain products also occur regularly; rice vendors, in particular, mentioned that their business is most profitable just before the rice harvest. All these factors shape the dynamic of local entrepreneurship and illustrate the importance of the agriculture sector and social calendar for the whole rural economy.

4.3 Enterprise profiles and clustering

In order to develop a typology of SMEs of the rural Mekong Delta, we employed a cluster analysis using the following indictors: enterprise size, business sector, gender, (in)formality[10], charter capital, turnover and main services provided. The results suggested a classification of enterprises into the following three representative clusters:

(1) informal, household-based enterprises in the service sector

(2) formal micro enterprises in the trade sector

(3) formal small enterprises in the manufacturing sector

Table 5 illustrates the main characteristics of these three clusters and suggests that, despite some similarities, important differences exist. These differences are most apparent with regard to the characteristics of size, (in)formality, business sector and the types of products and services offered.

[10] Defined as being officially registered as an SME.

Table 5: Profiles of enterprise clusters in the survey

Indicator	Cluster 1 Informal, household-based enterprises in the service sector	Cluster 2 Formal micro enterprises in the trade sector	Cluster 3 Formal small enterprises in the manufacturing sector
Share in survey[11]	47.4% (81)	45.6% (78)	7.0% (12)
Legal status	100% sole proprietorship/ household	87.2% sole proprietorship/ household	75% private enterprise
Informality	91%	20%	0%
Business sector	Service (& trade)	Trade	Manufacturing
Employees on average	0.78	2.74	17.83
Composition of workforce	53.1% enterprise owner only	69.2% with family members and regular employees	50% with regular employees without family members
Dominant activities	Motorbike service	Sale of construction materials, agricultural implements	Rice processing, wood processing
Mean registered capital	5.5 million VND	110 million VND	1.8 billion VND
Mean turnover per year	46 million VND	460 million VND	16.8 billion VND
Sex of owner	58% male	60.3% female	83.3% male
Self-employment rate	53% (43)	10% (8)	8% (1)

In the following sub-sections, each of these clusters is portrayed in more detail.

4.3.1 Cluster 1: Informal, household-based enterprises in the service sector

The first cluster represents 47% of all enterprises in our sample. These enterprises operate in the service or combined service and trade sectors, are household-based and non-registered. More than half of these enterprises are sole proprietorships, while one-third rely on the unpaid help of family members; hired wage labor is rather the exception

[11] The cluster analysis assigned 171 businesses to one of the three groups. 26 businesses did not match the categorization of any of these groups and thus were dropped from this section.

and a maximum of 5 employees per enterprise was found. The majority of these businesses operate without any formal business license and, by consequence, has no registered capital. According to the entrepreneurs, their investment capital is typically very low; and while this facilitates the formation of a business, it also leads to low turnover, defined by low margins and low productivity. Typically, these micro businesses provide services for motorbikes, including repair and cleaning (31%), sell coffee, beer and other drinks, operate beauty salons and grocery stores and repair electronic devices. Both women and men engage in these businesses in equal measure, although involvement in certain branches is often gender specific (see Figures 10 and 11 below).

Figure 10: Repairing and washing motorbikes

Figure 11: Coffee shops are typically set up and run by women

4.3.2 Cluster 2: Formal micro enterprises in the trade sector

The second cluster encompasses 45% of the enterprises, of which 70% engage in trade. While the vast majority of this cluster hold the legal status of sole proprietorship or household-based proprietorship (indicating registration at the commune/ward level), others re registered as private enterprises or private businesses at the district level.[12] Few of these micro enterprises operate informally. Compared to cluster 1, the average number of employees (2.7) in cluster 2 is slightly higher. In terms of employment, 69% are regular employees and only 10% rely on self-employment. The spectrum of activity is wide, spanning from sale of construction materials like iron, aluminum, bricks and water pipes, to agricultural utensils like seeds and fertilizer as well as food, coffee and groceries, clothes, phones and other electronic devices. In essence, this cluster is dominated by petty traders, grocers and more specialized retailers.

The investment capital is much higher than in cluster 1; likewise, the average turnover exceeds cluster 1 by a factor of 10. Since the trading sector is highly diverse, start-up costs

[12] The Vietnamese local government structure includes the province, the district and the ward (urban) or commune (rural) levels. The respective mandates and responsibilities are clearly defined and the relationship between these levels is clearly hierarchical. Sector-specific policies and legal documents further specify the respective room for local decision-making and budget responsibilities.

depend on the business size and the trade sector. Women play a dominant role in this cluster, owning 60% of the businesses.

Figure 12: A rural drug store, run by a women

Figure 13: Typical grocery on a main road

4.3.3 Cluster 3: Formal small enterprises in the manufacturing sector

This cluster, which accounts for 7% of the enterprises, was the smallest, but in many ways stands in sharp contrasts to the former two. Apart from some exceptions, cluster 3 primarily represents the rural manufacturing sector. More precisely, 41% are engaged solely in manufacturing, whereas all the enterprises combine manufacturing with service and trade activities. The number of employees per enterprise ranges from 3 to 40, with an average of 18. Typical small enterprises in the study area are rice processers (e.g. rice mills), wood processors (e.g. dockyards) and petrol stations. Most of them hold a business registration certificate and 75% have the legal status of a private enterprise. Their indicated annual turnover significantly exceeds the one generated by smaller enterprises. Finally, 83% of these enterprises are owned by men, which suggests that women are still restricted to less lucrative businesses.

Figure 14: Rice mill located along the Thot Not Canal

Figure 15: Dockyard, building traditional wooden barks

4.4 Informality

The question of informality in the Vietnamese private business sector has been addressed by a number of studies. It is estimated that 30 - 50% of the national GDP is generated in the informal sector (Tenev et al., 2003). Informality, however, can be to different degrees, as it concerns transparency through an assortment of practices such as business registration, tax codes, land use rights certificates, as well as other administrative and financial requirements.

Findings from three surveys after Tenev et al. (2003) indicate that entrepreneurs try to avoid time consuming bureaucratic activities and, in any case, they often lack information about the formal procedures. These are the two main reasons explaining why many enterprises choose not to register. Notwithstanding these reasons, registration also generates benefits for the entrepreneurs, such as an improved access to credit schemes and other public facilities (e.g. electricity). In general, registered enterprises also have higher rates of investment and are more profitable. Workers also seem to gain from the formalization, as the proportion of workers with secure contracts is higher and their registration with the Social Insurance Fund is anyway an official requirement (Rand and Torm, 2012).

How many households operate formally and informally? Which business sector tends to be more formal rather than informal? And, is there a correlation between enterprise size and formality?

Slightly more than half of the enterprises in the survey were operating informally, or without a BRC. When asked for the reasons for not holding a certificate, most of the enterprises stated that their business was so small, so that no registration is necessary, or that they do not know how to register. Unsurprisingly, the proportion of unregistered enterprises is the highest among cluster 1. The portion of unregistered establishments is much lower in cluster 2, while in cluster 3 all businesses are registered.

Table 6: Share of enterprises in the survey with a BRC by enterprise cluster

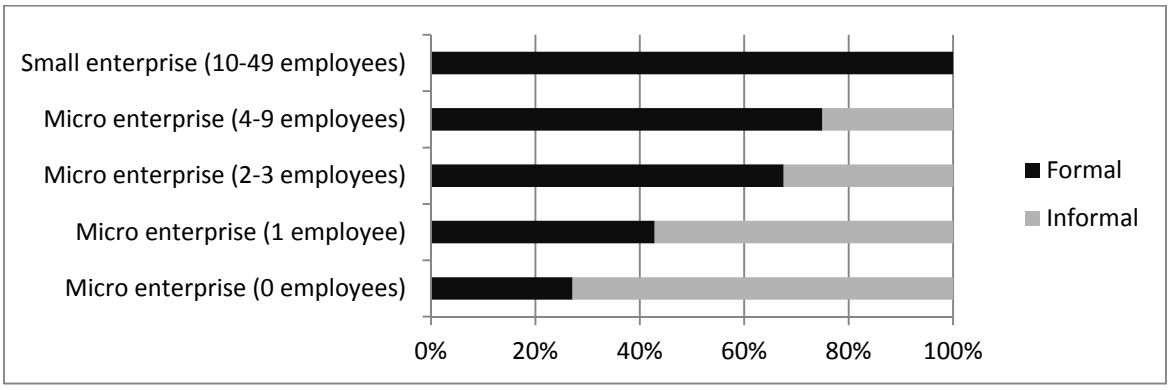
BRC	Cluster 1		Cluster 2		Cluster 3	
Yes	7	9%	62	79%	12	100%
No	74	91%	16	21%	0	0%
Total	**81**	**100%**	**78**	**100%**	**12**	**100%**

Likewise, a strong correlation exists between different business sectors and informality: 80% of the manufacturing and 67% of the trading enterprises are registered, whereas in the service sector merely 30% operate with BRC. In the service sector, business such as coffee shops, motorbike services, and grocery stores tend to operate informally, while most of the rice processing enterprises and large stores / trading outlets are registered.

All joint stock and limited liability companies as well as private enterprises and businesses have a BRC, while among the household-based enterprises only 42% hold a BRC. The household-based enterprises which are registered generally belong to the trade sector.

More than business sector, however, informality is mainly associated with the enterprise size. According to the Enterprise Law (2002), enterprises with 10 or more employees must obtain a BRC. Figure 16 shows formal and informal enterprises by the number of regular employees of the enterprise. In line with the regulatory framework on business registration, none of the enterprises in our survey with 10 or more employees was operating without a business registration certificate. Most of the enterprises without a BRC have either no employees or just one (82%). In general, this suggests that the more (regular) laborers a business employs, the higher is the probability that this business is formally registered and holds a business license.

Figure 16: Formality by size of the enterprise



Not surprisingly, registered enterprises have more contact with local state agencies. This contact includes, among other things, inspections for various purposes, with the bigger enterprises receiving the most inspections, as Table 7 shows:

Table 7: State agency inspections by enterprise cluster

	Cluster 1	Cluster 2	Cluster 3
Tax agency	17%	46%	58%
Non-tax related state agency	22%	46%	75%

Interviews with local state agents also revealed that at the district and commune level, they know all the formally registered small enterprises, as they keep the records and have sometimes personally met the owners. However, micro enterprises in services and trade were far less visible; indeed, it seems that a substantial number of self-employed businesses emerge and disappear without having any official contact with local authorities.

Entrepreneurs were also asked to state at which administrative level they must refer to for administrative procedures. As table 8 shows, for cluster 3, the relevant agencies are to be found at the district and city-level; the majority of cluster 2 enterprises turn to the district authorities. The micro-enterprises of cluster 1, in comparison, refer to the ward/commune level. However, 16% of respondents do not consider any of the agencies responsible for their affairs and an additional 19% were not able to indicate which of the offices was in charge. These responses suggest a low awareness and/or lack of interest in regulations as well as a low level of interaction at the micro-enterprise scale between rural entrepreneurs and local state agents. Considering the omnipresence of the Vietnamese state in most cases, this result may also indicate a lack of interest for whatever reason from the side of the agencies. Furthermore, entrepreneurs running micro-businesses might not see any benefit in intensifying the cooperation with local agencies as this may lead to additional bureaucratic duties and reduce their flexibility in changing the business portfolio.

Table 8: Administrative jurisdiction of enterprises

	Cluster 1	Cluster 2	Cluster 3
Municipal level (city-level)	0%	0%	25%
District authorities	11%	53%	75%
Ward/commune authorities	54%	36%	0%
State is not responsible	16%	8%	0%
Do not know	19%	3%	0%
Total	**100%**	**100%**	**100%**

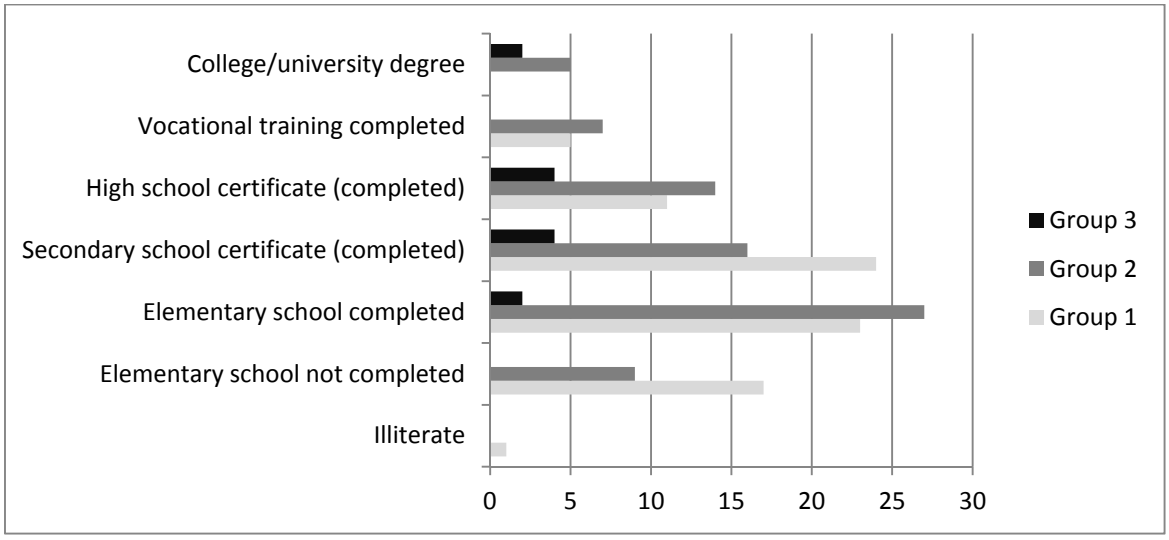
4.5 Who are the entrepreneurs?[13]

Rural entrepreneurs in the study area were mostly autochthones: 80% were born in Can Tho City and another 14% originate from other provinces of the Mekong Delta. Except one, all respondents were ethnic Vietnamese (*Kinh*).

Characterizing their age: 13% of the entrepreneurs were younger than 30, 63% were 30 to 50 years old and 24% were older than 50. The average educational level of the enterprise owners is relatively low, although the majority completed at least elementary school. There are significant differences between the 3 clusters of enterprise owners and, as Figure 17 shows, a certain degree of correlation between the size of enterprise and the owner's level of education.

[13] Most of the respondents were the enterprise owners themselves but in 14 cases (4 male and 12 female) someone else answered the questionnaire on the owner's behalf. These 14 respondents were also involved in the management of the enterprise and all of them were in the owner's family (mostly spouses).

Figure 17: Educational level of enterprise owners by enterprise cluster



Apart from formal schooling, half of the entrepreneurs had pursued vocational training, engaged in farming or fishing, or had gained some working experience in a family business before they started their own enterprise. Another third of the respondents said that they were previously housewives, employed as casual laborers or had run another business before. Interestingly, only 16% of the rural entrepreneurs had moved from agricultural to off-farm activities.

Table 9: Occupation of enterprise owner before business establishment

	Total	
Worked with parents in their business	21	11%
Worked for a private company	12	7%
Worked for a SOE	4	2%
Worked for a state agency	8	4%
Joined the army	3	2%
Farmer/Fishermen	30	16%
Laborer	5	3%
School / studying/ vocational training	33	18%
Other	68	37%
Total	184	100%

* multiple choice question

However, there seems to be a tendency for a generational occupational shift from farming to off-farm livelihoods, as 49% of the rural entrepreneurs grew up in peasant households. Roughly two-thirds of the entrepreneurs in cluster 3 reported that also their fathers were businessmen, while their mothers were housewives. Some of them even

took over the parental business. The shift towards entrepreneurship-based livelihoods, however, was prominent within clusters 1 and 2, in which half of the business owners originate from peasant and fishermen households.

Relevant for these figures is the fact that only 24% of the respondents mentioned possessing agriculture land. Some continue farming after starting their business, while others elect to rent out their plots. Given the trend toward large-scale production and agrarian modernization, this might be even more lucrative than cultivating the land by oneself. In addition, 19% own real estate other than agricultural land and 5% run a second business. The majority, however, do not have any other assets, as Table10 illustrates.

Table 10: Assets of entrepreneurs by enterprise cluster

	Cluster 1	Cluster 2	Cluster 3
Agricultural land	28%	17%	33%
Real estate	10%	26%	67%
Other business	0%	5%	42%
No assets	67%	55%	8%

Among the entrepreneurs of the three different clusters, assets are unequally distributed. Those in cluster 1 have the fewest types of assets (and if any at all, usually agricultural land) while those in cluster 3 can draw on other resources, both from their business and landholdings.

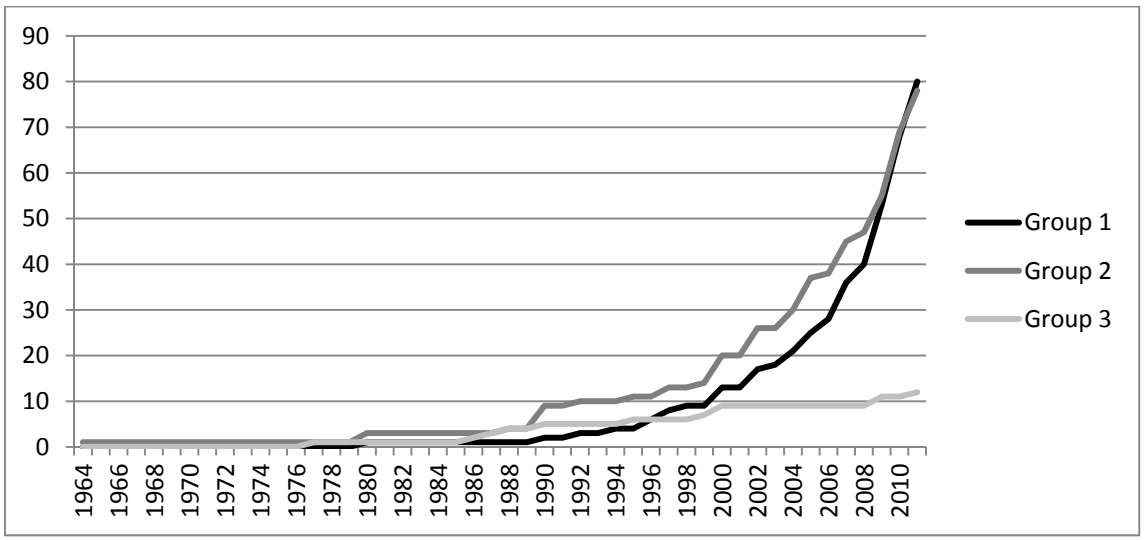
Moreover, owners of small and micro enterprises diversify their income to a lesser degree. One indicator for this is that about half of the entrepreneurs stated that their spouse contributed with his / her own income generating activities. This additional income generated by the spouse was particularly common within clusters 1 and 2, but less common within cluster 3.

4.6 Conducive factors for start-ups, business survival and growth

Figure 18 indicates that almost 80% of the surveyed enterprises were established during the past 13 years and that this process further gained momentum after 2009. The dynamics of the local business sector are, however, sector specific: the service and the trade sectors experienced the strongest growth since 2000, while 46% of the manufacturing enterprises already existed prior to 2000.

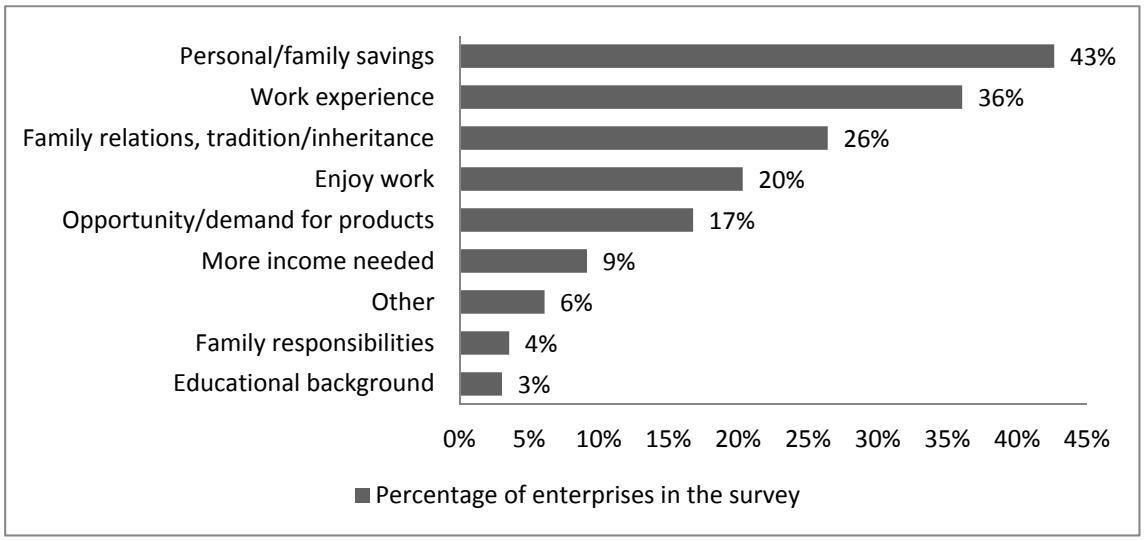
Referring back to the cluster analysis, new business establishments over the past 5 years were primarily in clusters 1 and 2. This means that the number of micro-scale and self-employed service and trade enterprises is increasing, while the number of small enterprises is falling behind.

Figure 18: Growth in enterprises establishment in the survey



As mentioned earlier, changes in the legal framework definitely facilitated the process of private business development in Vietnam, especially from the year 2000 as a result of the Enterprise Law. However, state support – e.g. in terms of access to credit or favorable relationships with state officials – were only mentioned by two of the respondents and therefore seems to be insignificant for business creation in the rural districts of Can Tho City. Instead, entrepreneurs cited other, more conducive, factors which are tabulated in Figure 19:

Figure 19: Driving factors for business establishment by the enterprise



* multiple choice question

According to the respondents, the most important factors in spurring business establishment were savings, the entrepreneur's work experience as well as family relations/tradition/inheritance. A significant number of respondents also stated that they

like the work. Economic motives, which were either necessity-driven (e.g. unemployment and underemployment) or opportunity-driven (better income opportunities) were apparently of minor importance.

Any examination of trends in setting up businesses should also include considerations about the sustainability of the surveyed SMEs. For instance, only 13 of our respondents (11%) indicated that their business was older than 20 years. A number of enterprises had also closed down. One suggestive indicator for this is that some enterprises listed by local state agencies could not be found by the time we surveyed the area. In addition, a considerable number of the micro-scale service providers and traders were (temporarily) closed when the survey team arrived. According to our findings, micro-enterprises in trade and service, in particular, are characterized by low-survival rates. For each of the clusters, the average business survival in years was calculated as follows: Cluster 1: 6 years, cluster 2: 8 years, and cluster 3: 16 years.

From various studies it is apparent that off-farm sector development, which is driven by self-employed and household-based micro businesses, and is typical of clusters 1 and 2, saw strong growth already in the 1990s (Vijeverberg and Haughton 2004, Oostendorp et al. 2009). Moreover, empirical evidence from off-farm sector development studies strongly suggests that micro and small enterprises find themselves in a constant state of flux. As new firms are being set up, a significant number of establishments are being dissolved or temporarily stop operating (Mead and Liedholm 1998). Dramatic fluctuations in the SME sector are typical in Vietnam, as many micro-enterprises are based on trial and error strategies, which yield a low survival rate. A rule of thumb is that, for each new micro enterprise started, another one fails. It is also therefore assumed that the smaller the enterprise the lower the survival rate. Indeed, older and larger firms are more than twice as likely to survive (Vijeverberg and Haughton 2004). Figure 18 needs to be understood against this background, which indicates that, although new establishments are rarer in cluster 3, there is a higher sustainability in terms of survival expectancy.

Another observation made in the study area is that the availability of various products/services from low-investment micro-enterprises fluctuates widely. To give an example: one entrepreneur who had set up a mobile phone shop, in which he sold second-hand mobiles and offered repair services, had to close his business. Later on, his wife opened a beauty salon on the same premises and subsequently changed it into a coffee shop before she also abandoned her business altogether. This 'trial and error' approach seems to be a common feature of micro-enterprises, which, as mentioned above, can also be viewed as an adaptation strategy for managing seasonal fluctuations and changing demand for products and services. That being said, enterprise growth and expansion can basically only be found among the small entrepreneurs (cluster 3).

One indicator for business change is the number of employees. As the following table illustrates, the number hardly varies in cluster 1, while there is an upward tendency in the two other clusters.

Table 11: Number and change of employees by enterprise cluster

	Cluster 1	Cluster 2	Cluster 3	Total
Number of employees at date of establishment	1	2	30	60
Current number of employees (2012)	1	3	35	70
Mean change in employees	-0.74	+0.64	+2.17	

The relevance of the SME sector for the local job market is further explored in chapter 5, while the dimension of finance and turnover are discussed in chapter 4.7. Before turning to that, another important aspect of rural entrepreneurship, namely the availability and relevance of infrastructure, will be explored.

4.7 Infrastructure and transportation

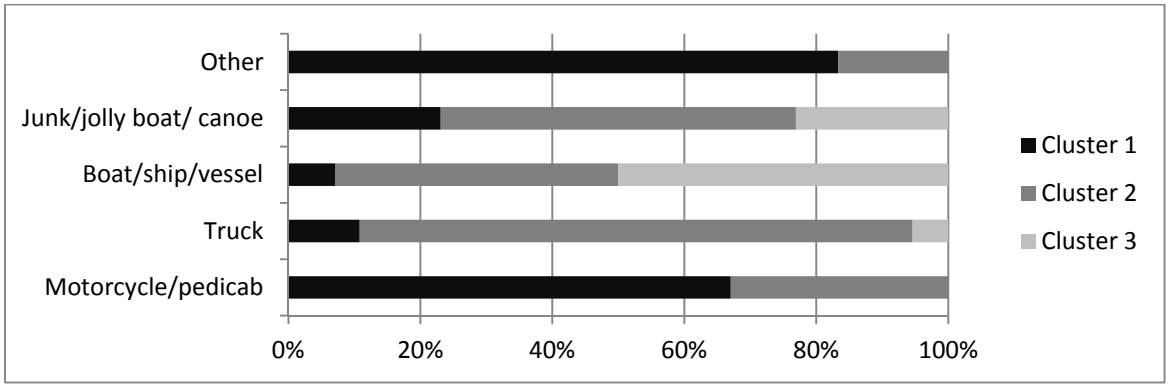
It is well recognized in the literature that quality and access to infrastructure are determining factors in SME development. Infrastructure has implications for both production techniques and transportation costs (Rand and Torm, 2012).

In the study area, some enterprises need raw material, notably timber, metal, rice, and food, but they also trade commodities which may need to be obtained from wholesalers in a larger city nearby or provincial market. Enterprises generally receive their raw material not from far places, relying rather on local products and suppliers. The importance of the district market (which was ranked first by 116 of the respondents) is linked to the interdependence between local entrepreneurship and the agriculture sector highlighted above; this is apparent in the food processing businesses but also seems to hold for other branches. 61% of enterprises that require raw material in the case study area are supplied from within the district while 42% source from another district of Can Tho City. An additional 38% of the enterprises purchase raw material from other provinces. Occasionally this is for practical reasons as, for instance, Long Xuyen (City), the provincial capital of An Giang, is geographically much closer to the study area than the urban centers of Can Tho City.[14] Accessing the neighboring provincial markets is therefore likely to be more cost and time effective. Furthermore, many enterprises have more than one geographical source of raw material. Nevertheless, raw material is still mainly gathered from within the Mekong Delta region; only a few entrepreneurs get their raw material from other parts of Vietnam. Only six enterprises import the needed material from other countries. These are a hairdresser, three rice-polishing enterprises, one enterprise selling rice-polishing machines, and one enterprise trading pesticides and plant-protection chemicals.

[14] From Thot Not to Long Xuyen it is only 15km, whereas the city center of Can Tho City is more than 50km away.

For delivery of raw material, 66% of the enterprises rely on motorcycles and pedicabs. This is followed by trucks (33%) and waterway transportation (25%). Distinguishing between the three clusters, motorbikes and pedicabs are the most common means of raw material transportation for cluster 1. In cluster 2 half of the businesses rely on motorbikes but, different from cluster 1, trucks play a more critical role, particularly for larger trading establishments such as those selling construction materials and agricultural utensils. For small enterprises (cluster 3), by contrast, the motorbike is of minor relevance; instead, trucks and boats are the most important means of transportation. Traditionally, rice and other agricultural products are directly collected from farmers by boat and then shipped to processing companies. Other means of transport, especially for cluster 1 businesses, include the delivery of products by foot, bicycle or coach (compiled in the category 'other' in figure 20). Figure 20 illustrates the significance of various means of transportation for each of the clusters.

Figure 20: Most important means for transporting raw materials



When considering the importance of transportation for each sector, as illustrated in Table 12, only 38% of the surveyed enterprises (75 businesses) stated the need of transporting their goods. Out of these, the majority comes from cluster 3 (77%) followed by cluster 2 (38%), whereas only 15 enterprises of the informal service sector distribute goods/services at all.

Of the enterprises that distribute goods/services, 58 access the roadway by motorcycle, pedicabs or trucks, while 38 enterprises use waterways.

Table 12: Most significant means for transportation of goods by enterprise cluster

	Cluster 1		Cluster 2		Cluster 3		Total
Motorcycle/pedicab	59	73%	29	37%	0	0%	88
Truck	4	5%	31	40%	2	17%	37
Boat/ship/vessel	1	1%	6	8%	7	58%	14
Junk/jolly boat/canoe	3	4%	7	9%	3	25%	13
Other	10	12%	2	3%	0	0%	12
Do not know	1	1%	0	0%	0	0%	1
Total	**81**	**100%**	**78**	**100%**	**12**	**100%**	**171**

Although 62 respondents use boats, ships, jolly boats or canoes, waterways are the predominant mode of transport for only 46 of them. Despite the crucial role waterway transportation has traditionally played for the Mekong Delta region, as table 13 indicates, road transportation has clearly gained in importance and even outstripped waterway transportation in the context of massive investment in road and bridge infrastructure. This is particularly the case for micro enterprise typically represented by clusters 2 and 3, whereas for larger manufacturers and processers, waterway transportation still is of strategic importance. This is even truer when it comes to export: all 4 enterprises of the sample which sell their products abroad use water transportation. In sum, these findings reflect contrasting infrastructure needs within the different clusters of SMEs.

Table 13: Predominant mode of transport for business

	Road	Water	Road and water equally
Within the district	132	21	26
Within Can Tho City	18	12	7
Outside Can Tho City	12	9	6
Export		4	

Concerning the utility of proximity to the riverbank, only 67 entrepreneurs confirmed that this is of importance for the business. However, particularly for rice and wood processing enterprises, as well as some other enterprises selling construction materials and agricultural utensils, proximity to the riverbank is of strategic importance. For the other 129 enterprises, their location along the waterways is not a strategic necessity. It might be assumed that people set up their business where they own or have access to land, which is traditionally along the waterways. Moreover, the developing road system is linked to the canals as roads are often constructed in parallel to main waterways. Figure 21 provides a good example: the storage facility of the trader is located on the canal side, but road access is also available to the front of the building.

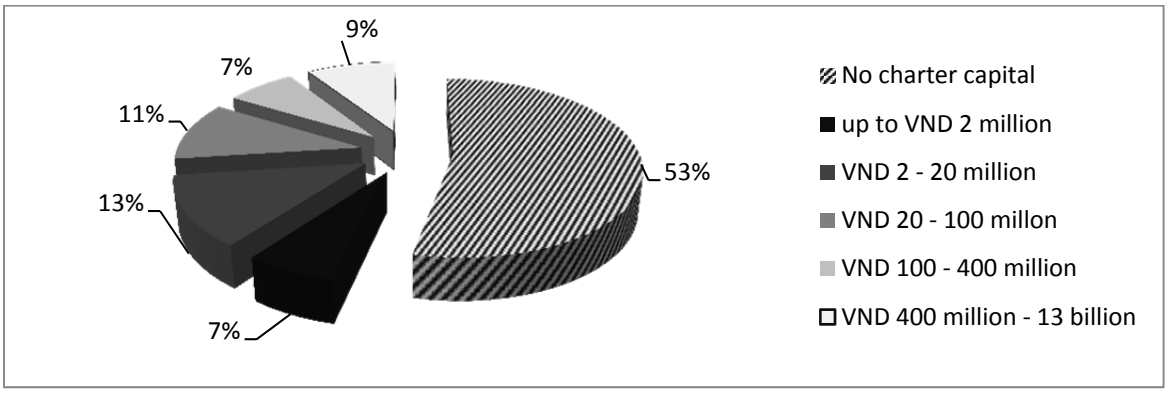
Figure 21: Livestock feed trader having both waterway and road access

Figure 22: Waterway transportation

4.8 Capital, turnover and financial sources

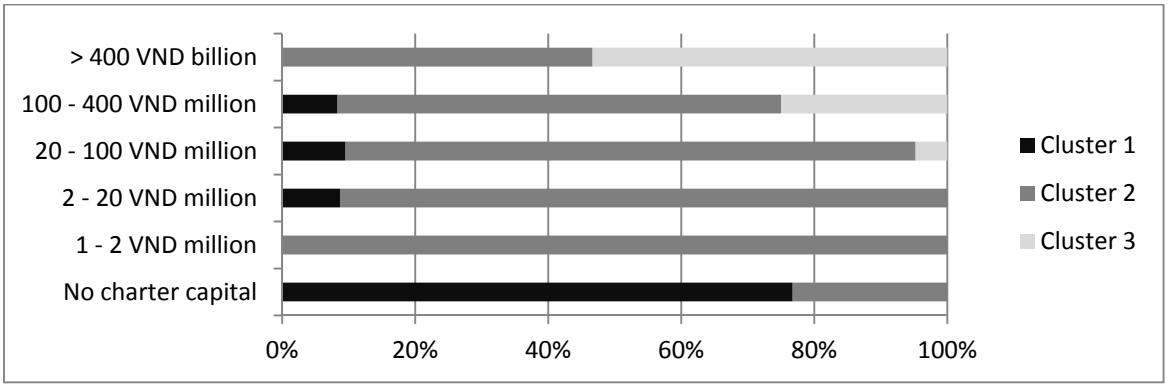
Charter capital (or equity) is the capital contributed by the owner or joint owners in a certain period and is stated in the charter of the enterprise. The figures provided by the respondents paint the following financial picture. The majority of the enterprises in the survey (53%) did not have any registered capital. The average amount of charter capital of those enterprises which had registered was 250 million VND. This is more or less in line with other surveys showing that rural enterprises have very small capital and turnover rates (Ronnås, 2001).

Figure 23: Charter capital of all the enterprises surveyed



Enterprises in cluster 3 tend to have the highest amount of charter capital, whereas charter capital is hardly found in cluster 1. The breakdown in Figure 24 illustrates the disparities:

Figure 24: Charter capital by enterprise cluster



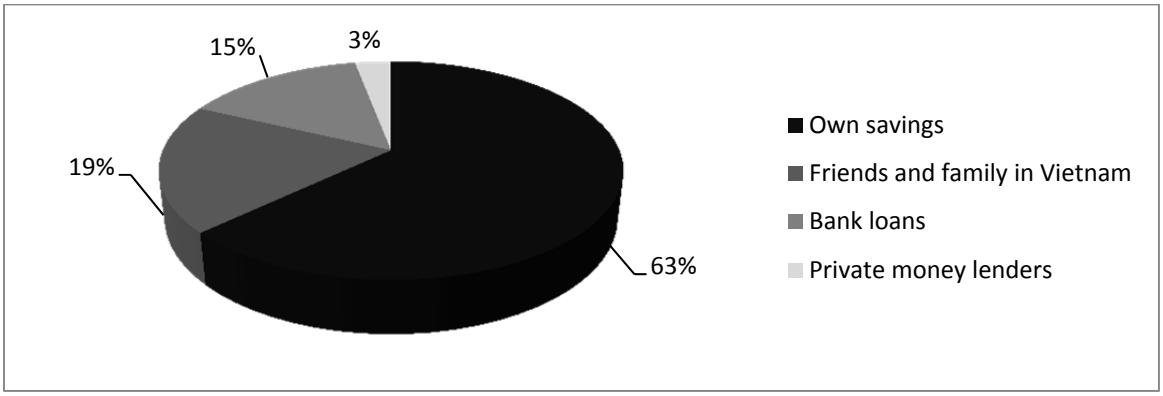
According to the survey, in 2011, the average turnover was 1.4 billion VND per enterprise and 169 million VND per employee. This figure is lower than the average turnover per employee in registered SMEs according to the Ministry of Planning and Investment which puts the figure at 339 million VND in 2006 (MPI, 2008). Differences in turnovers are dramatic between the 3 clusters, as Table 14 illustrates. Likewise, the economic productivity per capita is by far the highest in cluster three 3, followed by clusters 2 and 1.

Table 14: Mean turnover and turnover per employee by enterprise cluster

	Cluster 1	Cluster 2	Cluster 3
Mean turnover in 2011	46.57 million VND	460.41 million VND	16.80 billion VND
Turnover/employee	31.75 million VND	181.74 million VND	1.1 billion VND

It has often been acknowledged that, in Vietnam, private enterprises experience serious constraints in accessing bank loans (Arkadie and Mallon, 2003, Tran Dinh Khoi Nguyen and Ramachandran, 2006). Our results confirm this picture: the majority of enterprises have been set up on the basis of savings (63%) and financial support from friends and relatives (19%). In all likelihood, entrepreneurs running micro businesses prefer private loans: borrowing from friends and family members seems to be a more flexible way to access smaller funds when the need arises.

Figure 25: Most important financial sources for business establishment



When a distinction is made between the 3 clusters (Table 15), it becomes evident that the smaller the enterprise, the more important are private friends. Hence, enterprises in cluster 1 made the least use of bank loans, while cluster 3 had the highest rate, though even this rate is still low.

Table 15: Most important financial sources for business establishment by cluster

	Cluster 1		Cluster 2		Cluster 3	
Bank loans	10	12%	14	18%	3	25%
Self-accumulated savings	57	70%	41	53%	7	58%
Contributions from friends and family in Vietnam	12	15%	17	22%	2	17%
Contributions from friends and family abroad	0	0%	0	0%	0	0%
Borrowing from private money lender	1	1%	4	5%	0	0%
Debt purchasing from material suppliers	0	0%	2	3%	0	0%
Government support or grant schemes	0	0%	0	0%	0	0%
Other	1	1%	0	0%	0	0%
Total	**81**	**100%**	**78**	**100%**	**12**	**100%**

4.9 Taxation

Four different types of taxes have been identified as relevant for the SME sector in Vietnam: the license tax, lump-sum tax, value-added tax, and the enterprise income tax. In brief, these four different tax regimes are defined as follows:

According to Vietnamese tax legislation the business license tax (*thuế môn bài*) is a levy or fee rather than a tax in a strict sense. Irrespective of the sector and activity, all enterprises that are formally registered under law (the Enterprise Law, Law of Cooperatives or any other corporate legislation) are obligated to pay the business license tax. The tax is collected on an annual basis and calculated on the basis of an enterprise's registered capital.[15] Household-based establishments are exempted from this business license tax.

The lump-sum tax (*thuế khoán*) is applied to businesses (households and individuals) that fail to implement or adequately conduct accounting and invoice regulations; more often than not these operate without business licenses and tax registration. The lump-sum tax is collected by respective tax agencies at the commune/ward level and, to a certain extent, at the district level.

[15] The following tax grades exist: VND 3 million is imposed on enterprises with registered capital over VND 10 billion, VND 2 million is imposed on enterprises with a registered capital between VND 5-10 billion, VND 1.5 million is imposed on enterprises with registered capital between 2-5 billion, VND 1 million is imposed on enterprise with a registered capital of less than VND 2 billion.

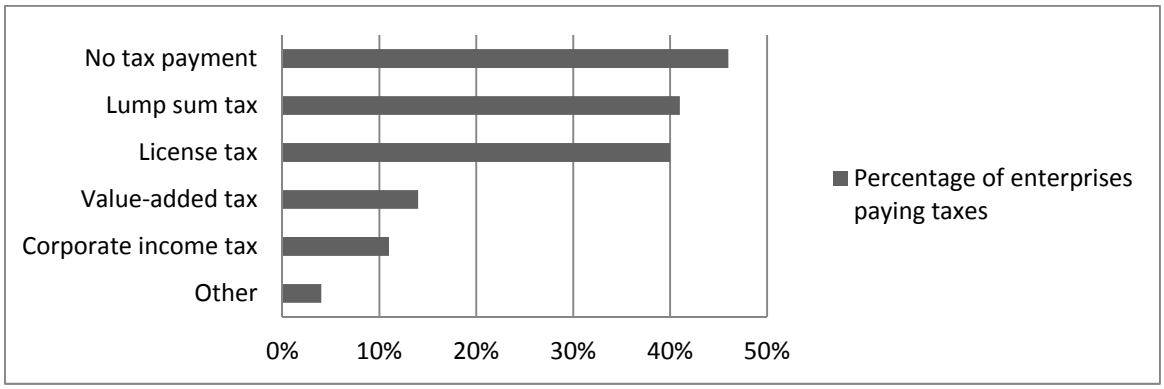
The enterprise income tax (*thuế thu nhập doanh nghiệp*) is applied to enterprises operating, producing and trading products and services with taxable income. This includes enterprises established and operating under the Enterprise Law, Investment Law, Law on Credit Institutions, Insurance Business Law and others. Enterprises paying this tax are requested to perform proper accounting and can be subject to frequent auditing by tax authorities.

Value-Added Tax - VAT (*thuế giá trị gia tăng*) refers to a tax imposed on the added value of goods or services arising in the process of production, circulation and consumption. Those subject to paying VAT include business establishments producing or trading in goods or services, and importers of goods.

Based on their precise legal status, businesses that are formally registered are legally obligated to pay either the enterprise income tax or lump-sum-tax. Based on the current legislation, joint-stock companies (*công ty cổ phần*), limited liability companies (*Công ty TNHH*), and private enterprises (*doanh nghiệp tư nhân*) are subject to the business - license tax, enterprise income tax, and/or value-added tax.[16] Cooperatives (*hợp tác xã*) are subject to the enterprise income tax and business license tax. In comparison, household businesses (*hộ kinh doanh cá thể*) are, more often than not, subject to the lump-sum-tax and business license tax. The latter tax is mandatory for all household businesses that have been formally registered.

Private establishments (*cơ sở tư nhân*) - being branches, shops or trading stores (affiliated to companies or branches) with independent accounting or book-reporting, which have been granted BRCs, registered for tax payment and been granted tax codes - are subject to the enterprise income tax and business license tax.

Figure 26: Share of enterprises in the survey paying different sort of taxes



* multiple choice question

[16] VAT only applies if business operations of enterprises involve producing, trading and importing goods or services as specified in the Law on Value-Added Tax.

As Figure 26 shows, 45% of the enterprises surveyed did not pay any tax at all. Moreover, the survey brought to light that the lump sum tax is the most common tax paid by rural enterprises (74 in total), followed by the business license tax (paid by 72 enterprises). The VAT and enterprise income tax, in contrast, are paid by only one-third of the enterprises. 73% of enterprises with a BRC pay at least the business license tax, 69% pay lump-sum tax, 27% VAT and 21% income tax.

In compliance with the legislation, the applied tax regime also depends on whether enterprises conduct regular accounting. Table 16 indicates that enterprises with a BRC tend to carry out detailed recordkeeping of their expenditure and income, apparently because the tax legislation requires them to do so. Unregistered businesses, by contrast, perform regular accounting less often. Enterprises that are formally registered under the Enterprise Law are legally required to conduct accounting, whereas household-based and self-employed enterprises are not.

Table 16: Accounting by legal form and business registration status

		Bookkeeping	
		Yes	No
Business registration	Yes	41	59
	No	4	92
Legal status of enterprise	Joint stock company	1	0
	Limited liability company	1	0
	Private enterprise	13	2
	Private business	7	7
	Individual household establishment	23	142

Reviewing the differences between the three clusters, the following table shows that the tax regime can be quite complex. The most important distinction, however, is that small enterprises have to pay at least some of the taxes while 76% of the micro enterprise in cluster 1 are able to escape taxes altogether. In addition, more than a third of all entrepreneurs in cluster 2 pay at least the business license and/or the lump-sum tax. As shown in Table 17, tax inspections are also most frequent among enterprise in cluster 3.

Table 17: Tax payment by enterprise cluster

Tax payment	Cluster 1		Cluster 2		Cluster 3		Total	
Business license tax	7	8%	52	37%	10	32%	69	27%
Enterprise income tax	0	0%	7	5%	8	26%	15	6%
Value-added tax	0	0%	9	7%	8	26%	17	7%
Lump sum tax	12	14%	52	37%	4	13%	68	26%
Other	2	2%	1	1%	1	3%	4	2%
No tax payment	66	76%	18	13%	0	0%	84	33%
Total	**87**	**100%**	**139**	**100%**	**31**	**100%**	**257**	**100%**

* multiple choice question

Few of the enterprises surveyed were granted tax deductions or exemptions as shown in Figure 18. One-third of the enterprises in cluster 3 indicated to profit from tax deduction, whereas only very few of the enterprises in clusters 1 and 2 did. Interestingly, tax exemption was never granted to cluster 3 enterprises, and only in rare cases to clusters 1 and 2.

Table 18: Tax deduction and tax exemption by enterprise cluster

		Cluster 1	Cluster 2	Cluster 3
Tax deduction	Yes	1,2%	2,6%	33,3%
	No	98,8%	97,4%	66,7%
Tax exemption	Yes	3,7%	3,9%	0,0%
	No	93,8%	96,1%	100,0%

4.10 Sustainability and growth: SME development constraints

Enterprise development also depends on networking and management practices including constant investments to maintain or improve the business. Moreover, the ability of the enterprise owner to cope with challenges and difficulties plays a role in the performance of, and opportunities for, growth.

The available literature suggests that innovative enterprises can adapt more easily to changing policies and market conditions and, on average, are more likely to survive (Hansen et al., 2009, CIEM, 2010). The majority of entrepreneurs (58%), however, reported that they did not undertake any further investments, with the remainder citing one or more strategies undertaken to enhance their business. However, these figures do not provide information about whether these strategies yielded success. Literature suggests that as a result of the comparatively low willingness to expand or adapt, rural

enterprises grow less dynamically than urban ones. Yet, the probability of survival of rural enterprises is much higher (Malesky, 2004, Hansen et al., 2009).

Overall, it is not surprising that individual household establishments and very small enterprises seem to lack the means to improve and, in some cases, even to sustain their business. The data suggest that the size of the enterprise tends to correlate with the level of investment; nevertheless, about half of the enterprises with more than 20 workers have not invested in the development of their enterprises either.

Instead, in order to improve their business, entrepreneurs tend to change products and services and/or endeavor to improve upon their quality. Only 20 entrepreneurships invested in new technology, of which most are in manufacturing (8) and service (6), or both (2). In two cases, the respondents reported investments in professional training. One of them is a trader in oil and gas (for boats) and the other one is a wood processer.

The reported business turnover was used as an indicator for local enterprise development over the previous 5 years. As shown in Table 19, only 31% of the establishments indicated an increase in turnover, while 25% observed a decrease and 44% remained stable. The cluster analysis revealed that enterprises in cluster 3 had the most positive development, while those of clusters 1 and 2 are more stable. Losses were observed in all three clusters at a pretty similar rate, but the micro-enterprises of cluster 1 appear to have the lowest chance for growth.

Table 19: Change in turnover over the previous 5 years

	Cluster 1	Cluster 2	Cluster 3	Total
Increased	24%	36%	50%	31%
Decreased	27%	22%	25%	25%
Remained stable/as before	49%	42%	25%	44%

As mentioned earlier, diversification of income sources through non-agricultural business activities can provide income security for poor households and increase living standards for both growth-oriented and livelihood-oriented entrepreneurs. The results of this study correspond with empirical observations made in developing countries in other parts of the world. Only a minority of the enterprise owners surveyed indicated an overall negative trend in their livelihood development (7%) and another 26% reported experiencing income fluctuations, or cycles of 'ups and downs'; 30% reported living standard improvement; a significant number (37%) felt that their living standards had remained stable. The result becomes even more suggestive when the cluster analysis is applied (see Table 20).

Table 20: Change in livelihood over the previous 5 years

	Cluster 1		Cluster 2		Cluster 3		Total	
Improved	18	22%	26	33%	8	67%	52	30%
Up and down	22	27%	21	27%	3	25%	46	26%
Unchanged	35	43%	26	33%	1	8%	62	37%
Worsened	6	7%	5	6%	0	0%	11	7%
Total	**81**	**100%**	**78**	**100%**	**12**	**100%**	**171**	**100%**

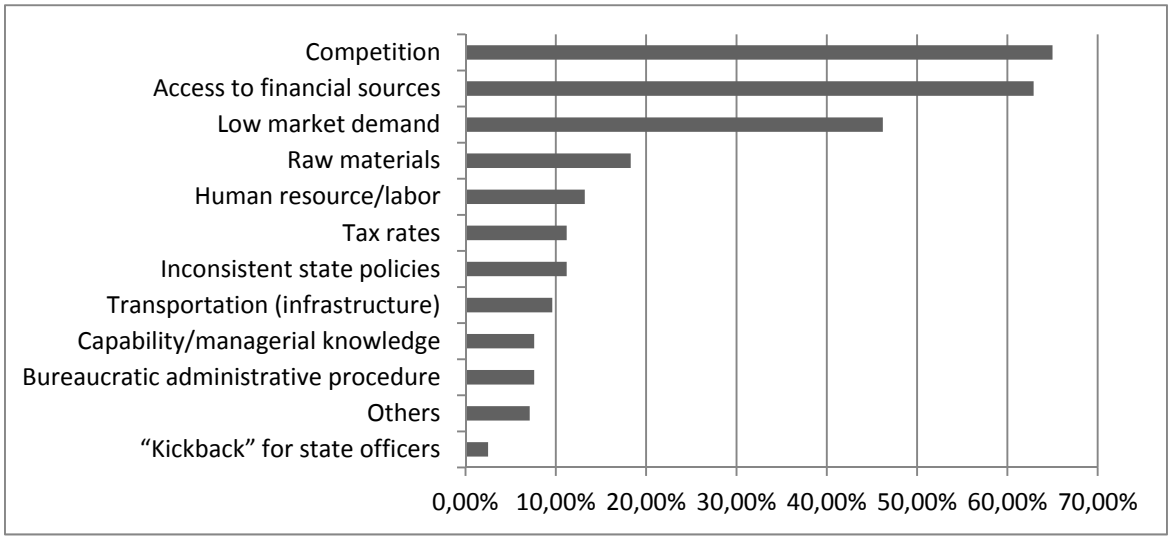
Small enterprise owners (cluster 3) benefited most, while micro enterprise owners struggle to improve their livelihoods. In each of the clusters, a similar percentage (25-27%) of entrepreneurs experience unstable conditions, while a few entrepreneurs in clusters 1 and 2 stated that their livelihoods worsened. In cluster 1, the highest percentage reported unchanged livelihoods (43%) over the previous 5 years were predominantly static, which also held for entrepreneurs in cluster 2 (33%). In general, however, rural entrepreneurship seems to have made a positive impact on local livelihoods; nevertheless, 36% of all the respondents were of the opinion that they do not generate 'enough' income from their current business. The overall tone is optimistic, with 62% foreseeing improvements in the future.

With regard to constraints and challenges to sustaining and developing their businesses, the lack of financial resources and a low level of demand are the major difficulties rural entrepreneurs face in the case study area. This result largely coincides with other studies of Vietnam's SME sector.[17] Related to the problem of low market demand enumerated in Figure 27, almost two-thirds of the respondents believe that competition is a severe issue for their enterprise. The market for many enterprises in the study area is extremely limited and confined mainly to the local area. In these local markets, a large number of identical businesses exist and offer similar products or services of the same quality. This is particular the case for micro-enterprises that operate in an overcrowded market environment (Berner et al., 2012). In other words, business prospects are being narrowed by the combination of stagnating market demand and high, continuously growing competition. When moving across the Mekong Delta, one has little difficulty recognizing that micro-enterprises of cluster 1 are omnipresent along rural roads and often exist in close proximity to each other. This observation equally holds true for a certain range of establishments within cluster 2, most notably paddy traders, groceries and small retailers (e.g. drug stores). It is, however, important to note that this geographically dense network of services and trading businesses corresponds with the local residents' consumption preferences. Small amounts of sundries, food and drinks, as well as basic

[17] For details see Benzing et al., 2005, Steer and Taussig, 2002, Taussig, 2005, MPI, 2008, World Bank, 2008, Hansen et al., 2009, CIEM, 2010.

services, are easily available for day-to-day access. From this point of view, micro-enterprise development also contributes to improving the population's living standards.

Figure 27: Reported constraints faced by the surveyed enterprises



* multiple choice question

Entrepreneurs face a series of challenges in keeping their business going and/or expanding it. As Figure 27 shows, more than 60% of the respondents complained about high competition and low market demand, whereas financial issues ranked second. Other reported challenges relate to the means of production, legislation and transport. A deficit in terms of skills and knowledge was only named by a few (8%).

Based on cluster analysis, entrepreneurs of the three different clusters do not necessarily experience the same challenges. The greatest difficulty for cluster 1 is access to financial sources followed by competition and low market demand. The situation is similar for cluster 2, where most concerns were raised about constrained access to capital, followed by competition and low market demand. Different from clusters 1 and 2, enterprises in cluster 3 explicitly mentioned limited access to financial sources as the most serious problem for them, whereas the combination of high competition and low market demand was considered somewhat irrelevant by the vast majority of enterprises. Most plausibly, as suggested earlier, the explanation for this lies in the fact that a large number of enterprises in cluster 3 do not operate in local markets, but instead take an export orientation (e.g. rice processors). Another explanation is that the number of small enterprises is rather low and, accordingly, competition is also lower.

Based on a ranking the most severe difficulties enterprises face, however, the combination of low market demand and high competition ranked only second (39%), while limited access to financial sources was assessed by nearly half of the enterprises as the most urgent problem (47%). Financial sources here include difficulties in accessing financial capital through a bank loan and corresponding high interest rates. This result

coincides with findings from other studies on economic and SME development in Vietnam, including the first surveys from 1991. This indicates that poor access to working capital has been a constant problem for SMEs throughout the whole period of the state to market transition (see e.g., Benzing et al., 2005, Steer and Taussig, 2002, Taussig, 2005, MPI, 2008, World Bank, 2008, Hansen et al., 2009, CIEM, 2010, Ronnås, 2001).

Table 21: Most important constraint reported by enterprise owners

	Cluster 1		Cluster 2		Cluster 3		Total	
Access to financial sources	33	41%	38	49%	7	58%	78	46%
Low market demand	13	16%	6	8%	1	8%	20	12%
Competition	22	27%	22	28%	0	0%	44	26%
Inconsistent state policies	2	2%	2	3%	0	0%	4	2%
Bureaucratic administrative procedure	0	0%	1	1%	1	8%	2	1%
Human resource/labor	1	1%	1	1%	0	0%	2	1%
Raw materials	1	1%	1	1%	1	8%	3	2%
Other	9	12%	7	9%	2	17%	18	10%
Total	**81**	**100%**	**78**	**100%**	**12**	**100%**	**171**	**100%**

In order to find out more about challenges and difficulties that enterprises have to face in the study area, enterprise owners were asked to describe policies that had an effect on their business over the previous three years. 39% did not know or gave no response. Another 38% said that there are no such policies. The other 23% feel affected by various policies. They mentioned that the tax policy, especially high taxes, and increasing energy prices (gas, petrol, and electricity) negatively impact on their business. Bureaucracy, including the business registration procedure and changing, unclear decrees and decisions, were also listed as unfavorable factors. This applies, for example, to one respondent who said that with the new regulations on water transportation, he cannot ship all of his goods at once. Instead, he has to make multiple trips to the harbor in Saigon, which has sharply increased transportation costs. However, as the results in table 21 indicate, only the top 3 factors are of a more general significance (i.e. affecting 10% or more of the enterprises).

4.11 Beyond the micro scale: Small manufacturing enterprises in the study site

This chapter takes a closer look at small manufacturing enterprises. Although such enterprises are relatively uncommon in the study area, they are reasonably sustainable and provide for a significant number of jobs, so it is worthwhile to study their business portfolios in more detail. Table 22 lists a number of typical small enterprises in the study area:

Table 22: Profiles of enterprises in cluster 3

	Products/ services	Year of establ.	Size	Employee devel'nt since establ.	Capital in VND	Market scope	Source of financing	Important mode of transport
1	Rice processing	2011	21	0	1 billion	Export	Contributions from friends and families	Water
2	Wood cutting	1986	8	-2	2 billion	Within & Outside Can Tho City	Saving	Water
3	Boats, dockyard	1988	33	+30	80 million	Within & Outside Can Tho City	Savings	Water
4	Aluminum and metal processing	1999	15	-5	750 million	Within Can Tho City	Savings	Water
5	Petrol trading, service station	2000	3	+2	400 million	Within district	Contributions from friends and families	Water
6	Rice polishing	2009	30	0	3 billion	Within & outside Can Tho City	Bank loans	Water
7	Grocery shop	1977	17	-28	10 billion	Outside Can Tho City	Bank loans	Water
8	Producing wine	2009	3	0	400 million	Within district	Savings	Water / road
9	Construction materials	1987	8	+4	1.5 billion	Within & Outside Can Tho City	Savings	Road
10	Petrol station	2000	6	0	2 billion	Within & Outside Can Tho City	Bank loans	Water / road
11	Rice milling	1990	40	+10	477 million		Savings	Water
12	Rice milling and polishing	1995	30	+15	350 million	Export	Savings	Water

The average age of these enterprises is significantly higher than those of clusters 1 and 2. The number of new start-ups is much lower, but compared to livelihood-oriented businesses, cluster 3 enterprises are more sustainable in the sense they exist for longer after being established. In contrast to livelihood-oriented businesses, growth-oriented

entrepreneurs normally originate from non-farming households, which often have a classical entrepreneurial background. For the majority, they come from entrepreneur families and, in many cases, they took over the business from their parents. Also different from clusters 1 and 2, these enterprises are primarily owned and headed by males. Nearly all of the growth-oriented entrepreneurs own additional assets such as agricultural land or real estate, which might provide for additional income and privileged access to capital. However, according to the survey, access to capital also turned out as a major constraint even for cluster 3 enterprises. As a consequence, and this holds for livelihood-oriented enterprises as well, private savings and contributions from family members were the most critical financial source used for the establishments of growth-oriented enterprises. Many of the companies complained about the loan conditions with high interest rates and about tax rates they are subject to.

Small manufacturing enterprises seem to be more integrated in the supra-regional or national economy. The market scope of this group of enterprises includes not only the district/local market, as is the case for most of the other enterprises, but also within and outside Can Tho City. Some even export their products. This tendency is also reflected by the supply and delivery channels. Unlike livelihood-oriented enterprises (clusters 1 and 2), small enterprises rely heavily on waterway transportation, which points to the importance of the river and canal network as infrastructure.

4.12 Conclusion

This chapter explored characteristics of SMEs in a typically rural and peri-urban setting of the Mekong Delta. Irrespective of the type of enterprise, SME development in Can Tho City contributes to the creation of new off-farm livelihood opportunities for women and men in the context of economic transition, agro-economic modernization and rural transformation.

Rural SMEs in the Mekong Delta, on average, tend to be rather small in size, even smaller than the country average. In line with other studies on Vietnam's SME sector, 91% of the SMEs surveyed in this study fell within the sub-category of what is termed a micro-enterprise. As a main feature, these businesses are either self-employed or rely on family members for labor. Typically, they operate in trade and services. Only 9% of the enterprises surveyed are, according to the Vietnamese definition of SMEs, termed small enterprises. Small enterprises are typically characterized by a larger number of laborers and higher capital investment. Reflecting on these enterprise types, the empirical data suggest that SMEs in the Mekong Delta do not only differ in size and business scope but are, more importantly, based on different rationalities, business strategies and start-up motivations.

5 THE LABORERS: SIGNIFICANCE AND PRACTICES OF AN EMERGING JOB MARKET

5.1 Profiles of off-farm laborers

Underemployment is a current concern in Vietnam, particularly in rural areas (VUSTA 2011: 9). Rapid agrarian modernization and mechanization has resulted in a growing number of landless and underemployed agricultural wage laborers. In this context, off-farm enterprises play an important role because they contribute to employment creation in two ways: through self-employment and by providing job opportunities (Mead and Liedholm, 1998).

Figure 28: Male laborers in a rice mill

Figure 29: Interview with a female worker in a recycling business

While livelihood-oriented entrepreneurs in household-based enterprises (cluster 1) are characterized by self-employment and rely on family members for labor, micro-enterprises and small manufacturing enterprises (clusters 2 and 3) often provide job opportunities in the local labor market through either seasonal/temporary or permanent employment. This section explores the role of micro and small manufacturing enterprises (clusters 2 and 3) for the local labor market and the livelihoods of their workers. Often, rice mills and other small enterprises that rely on hired labor appear concentrated in small clusters along the canal, which can provide a kind of spill-over effect, improving opportunities in their surrounding neighborhoods. Around these areas petty traders, coffee shops and eateries run by women have emerged, serving laborers and workers as their main customers. This indicates that growth-oriented small enterprises have positive direct and indirect influence on off-farm livelihood opportunities, including for women.

The findings presented here are derived from a questionnaire which was completed by 95 workers and 36 enterprises (1-7 workers per enterprise). Table 23 summarizes the sectors and branches that the workers are employed in:

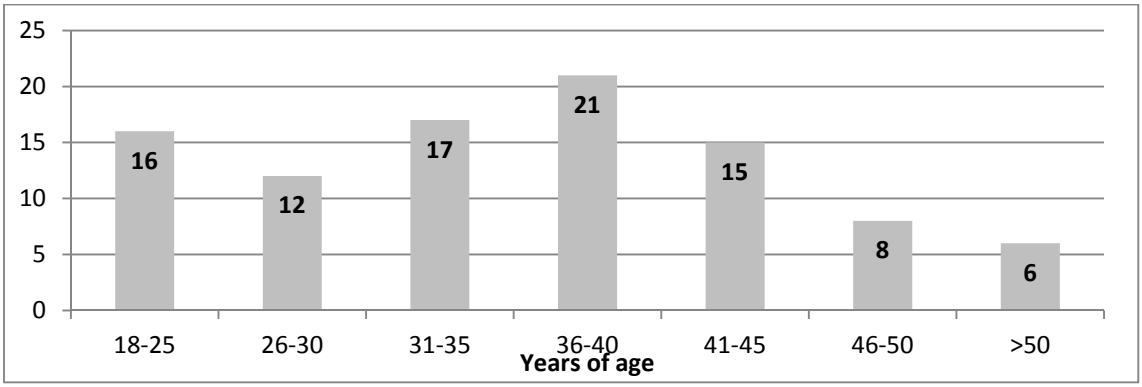
Table 23: Respondents of the workers' questionnaire

		Frequency	Percent
Enterprise Group	Cluster 1	1	1.7%
	Cluster 2	25	43.1%
	Cluster 3	32	55.2%
Business sector	Manufacturing	56	61.5%
	Service	7	7.7%
	Trade	28	30.8%
Enterprise type	Rice processing	46	48%
	Motorbike service	1	1%
	Grocery store	1	1%
	Hotel, bar	2	2%
	Wood processing / carpentry	10	11%
	Selling rice bran	13	14%
	Petrol, gas	3	3%
	Drug store	1	1%
	Construction materials	7	7%
	Agricultural utensils	2	2%
	Other services	1	1%
	Other trading	4	1%

Other surveys of Vietnam found that the share of female workers is generally increasing, although less in smaller enterprises and rural areas (CIEM, 2010). In this survey, 68 male workers and 27 female workers were interviewed. The data show that men have far better job opportunities in the SME sector than women (72% of all the employees are men). This generally holds true for both regular and the seasonal places of employment. The majority of the respondents (78%) are married with children and therefore have to assume family responsibilities. About 64% of the respondents have 1 to 2 children, 16% have more than three children and 19 are single.

Vietnam's population is very young and consequently, the majority of the rural labor force consist of people between 15 and 29 years of age (VUSTA, 2011). In line with this, almost one third (31.5%) of the workers surveyed in the study area were below 30 years of age. In sum, the vast majority of the laborers were below 40 years.

Figure 30: Number of workers by age group



The educational level of rural workers in the Mekong Delta is generally low, even in comparison to other regions of Vietnam (VUSTA, 2011). Unsurprisingly, the educational attainment of the surveyed workers is lower than that of the enterprise owners. Table 24 shows that 85 respondents (89%) attended some formal schooling, while 8 are illiterate. The findings do not suggest substantial differences in the educational attainment of male and female workers, although men seem to have better opportunities to obtain secondary and high school certificates.

Table 24: Formal education of workers by sex

Educational level	Sex		Total
	Male	Female	
Illiterate	4	4	8
No schooling, but know reading and writing	0	2	2
Elementary school not completed	16	11	27
Elementary school completed	30	6	36
Secondary school certificate	13	3	16
High school certificate	3	1	4
Intermediate graduated	2	0	2
College/university degree	0	0	0
Total			**95**

When it comes to technical and vocational qualification, wage laborers in the Mekong Delta have the lowest professional qualifications of all regions in Vietnam. Only 27% attended vocational or other forms of training, whereas in the Red River Delta, over 50% have done so (VUSTA, 2011). As shown in Table 25, the majority of the workers interviewed have no vocational education. Only 4 interviewees have attended a formal professional training. Another 17 workers, comprising 3 women and 14 men, reported receiving informal vocational training.

Table 25: Workers' participation in vocational training by sex

Vocational training	Sex		Total
	Male	Female	
No	50	24	74
Yes, but informal (no certificate)	14	3	17
Vocational school	4	0	4
			95

On-the-job training opportunities also seem to be rather an exception than the rule. Among the 87 workers interviewed, only 7 participated in capacity building activities, either organized by the employer (3 cases) or government agencies (4 cases). Furthermore, participation in capacity building activities is mainly limited to those who work in rice mills. Most of the district agencies' programs seem to strengthen self-employment and rural entrepreneurship rather than workers' skills.[18]

5.2 Working conditions

Despite of their contribution to overall economic growth, small and medium-sized enterprises have been perceived as exacerbating the job insecurity of laborers and even overall in Vietnam (Nguyen et al., 2008). That being said it is assumed that working conditions and livelihoods of employees will improve with increasing formalization of enterprises (Larsen et al., 2011, Rand and Torm, 2012). This includes, for example, a growing number of workers with a health insurance, regular working hours and higher salaries. This section sheds light on determinants for recruitment and the employment status of the workers in the study area. Additionally, working conditions are investigated by looking at salary and payment conditions, working hours, and employer support in the form of insurance and accommodation, and solutions health-related issues.

5.2.1 Local labor markets and framework conditions

According to the Department of Labor, Invalids and Social Affairs (DOLISA)[19] of Can Tho City, local businesses do not provide sufficient employment opportunities. There are three state employment service centers and private centers for labor recruitment in Can Tho City but enterprises and workers rarely ask these centers for support. For recruitment, it is more common that workers and employers rely on their social networks.

[18] Recently, opportunities for vocational training in Co Do district are starting to emerge, with some provision of training for a number of activities such as farming, hairdressing, traditional knitting, manicure, bricklaying, motorbike repair, computer applications, and bead making. Priority for training opportunities is given to applicants from poor households and those near the poverty line.

[19] Interview conducted by CIDS on November 23 in 2011 in Can Tho city.

In large companies, employers have to consider legal regulations for salary, insurance and safety. According to local authorities,[20] however, compliance with these regulations is limited in practice. Small companies and business establishments pay almost no attention to these issues. They often hire employees with salary accounted for in days, especially in construction, food processing, and the fishery sector.

In the same vein, local officials of Co Do district[21] acknowledged that most enterprises in Co Do district do not register their laborers. Most labor is employed seasonally, which means that employees are not entitled to receive full benefits. As a consequence, employees have to develop coping mechanisms for potential problems and sometimes they make special agreements with the enterprise owner. Currently, the district has no effective solution for protecting the rights and benefits of employees. This is because the management capacity of local officials is limited. Compounding this, the awareness of workers is still low. They are uninformed about their position in the economy and, consequently, claims by workers to the local state administration agencies are rare.

In interview, local officials of Thot Not[22] district explained that small-scale enterprises and the craft industry sector along the Thot Not canal employ mainly local labor. These enterprises provide mainly jobs for unskilled workers. Recruitment is rather simple and anyway these seasonal jobs usually do not require skilled labor. One exception is the furniture industry. For regulating this, the local administration of Thot Not district has organized an interdisciplinary inspection team. The team regularly visits and reminds the establishments about compliance with the regulations on labor rights and the implementation of various social schemes.

5.2.2 Recruitment and employment status

Personal networks and relationships play an important role in the Vietnamese society and daily life, often ruling supreme over formal institutions (Pike, 2000, Beresford, 2008). Hence, it is not much of a surprise that the most important source for learning about vacant positions is through personal contacts, namely family, friends, and/or neighbors. This is especially the case for women. More than 70% of the female and around 50% of the male respondents said they found their job through their personal network. The importance of family and friends in regards to employment is also highlighted by Larsen et al. (2011), Nguyen and Bryant (2004) and CIEM (2010). Other sources of information for job vacancies, such as public media, seem to have no relevance in the study area.

[20] Interviews with local officials of Co Do and Thot Not districts (October 2011).
[21] Interviews with relevant local district agencies conducted on November 24, 2011.
[22] Interviews with relevant local district agencies conducted on November 25, 2011.

Table 26: Source of information about job vacancy

	Gender		Total
	Male	Female	
Own initiative/application	15	6	21
Personally know owner of enterprise	19	4	23
Recommendation by staff	13	2	15
Recruited by team leader	11	4	15
Through family, friends or neighbors	36	19	55
Other	1	0	1

Despite the fact that most of the people work for registered enterprises, the majority are not formally employed. Only four male interviewees had a written labor contract. According to CIEM (2010), written labor contracts are far more in use in urban enterprises (twice as much). More than two thirds of the interviewees are employed full-time and on a regular basis. Part-time positions, in contrast, are less common, as Table 27 illustrates:

Table 27: Current employment status by gender

	Male		Female		Total
	Total	%	Total	%	
Full-time (8h, permanent)	49	72%	14	52%	63
Part-time, permanent	11	16%	2	7%	13
(Irregular) Job on demand	3	4%	3	11%	6
Other	5	7%	8	30%	13

The prevalence of irregular positions in this table does not, however, reflect the realities of labor market, as only respondents who had stayed for a minimum of 6 months in their jobs were selected for the sample.

5.2.3 Salary and payments

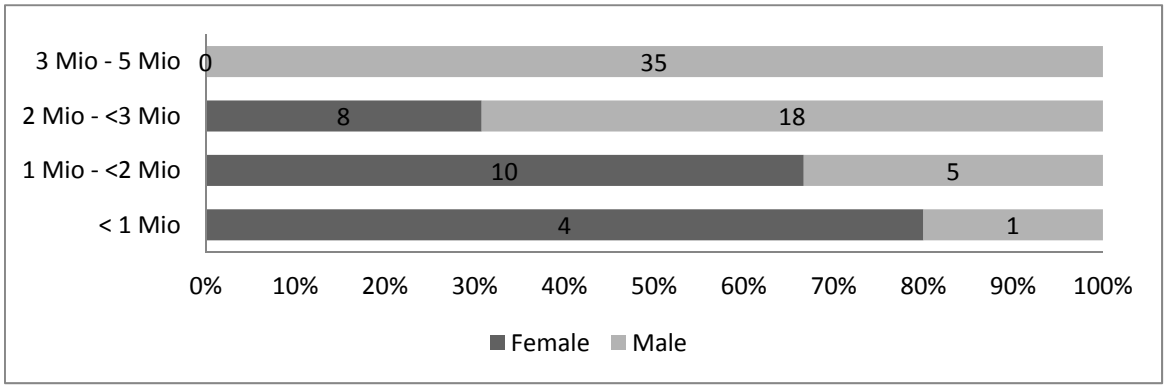
A study on rural labor markets by VUSTA (2011) calculated a national average salary of VND 2 or 1.5 million for rural wage as the most frequently cited monthly salary (VUSTA, 2011).[23] On average, workers in the sample earn a salary of VND 2.5 million per month, which is higher than the national average (and may also have increased since).

There exist, however, significant divergences from this average. As Figure 31 shows, higher salaries of VND 3-5 million per month are only paid to men, while women are more present in the lower salary segments. Such gender inequalities in the SME sector have also been identified in a study by CIEM (2010). Nevertheless, while the gender of the

[23] Vietnam's minimum wage ranges between VND 1.05 and 2.35 million per month (Thanh Nien Online, 22/04/2013).

respondent correlates with salary, the level of education or amount of vocational training does not.

Figure 31: Average monthly salary (in VND) by sex



Salaries are disbursed in cash. There are two options, namely daily or monthly payments, with the latter considered more lucrative for the workers. Furthermore, salaries are based on either working time or on performance.

As Table 28 illustrates, performance-based salaries are somewhat more common, especially for female workers. Moreover, performance-based salaries are mostly paid to employees with a low level of formal education, while higher qualified staff tends to receive fixed salaries.

Table 28: Payment modality by gender

	Male		Female		Total	
	Total	**%**	**Total**	**%**	**Total**	**%**
Based on performance	38	56%	17	63%	55	58%
Based on working time	30	44%	10	37%	40	42%

According to the respondents, salaries are usually paid on time. Advance payments seem to be possible in many of the enterprises, yet only 3 female and 9 male respondents reported having received an advanced payment.

With regard to the level of income, around two-thirds of the workers stated that the salary is enough and one-third said it was insufficient. In fact, 22% of the workers have a second job.

Overall, one-third of the respondents rated their standard of living as poor and 8% only as well of (see table 29). The vast majority, however, found their living standard to be 'average' for the contemporary rural / peri-urban environment of Can Tho City. This estimation indicates that, on the one hand, rural enterprises play a relevant role in the

local economy but, on the other hand, fall short in providing job opportunities with decent salaries, particularly for those who have poor qualifications.

Table 29: Satisfaction with income for living

	Total	Percent
Yes, I get more than I need	8	8%
Just enough	57	60%
Insufficient/need extra income source	30	32%
Total	**95**	**100%**

5.2.4 Working time

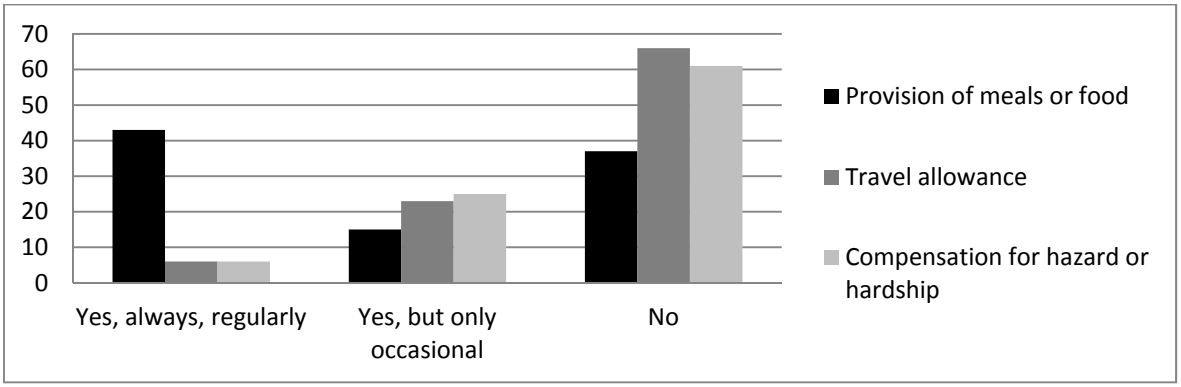
Overall, 53% of the workers have 8-hours shifts but longer working days are common as well. Women work comparably longer than men. For instance, 15% of the male and 37% of the female workers have a 12-hour working day, which is the longest reported working day in the study area. Most of the respondents work 7 days per week (79%) and extra shifts were reported by 26% of the workers.

5.2.5 Support and fringe benefits

Workers depend not only on their salaries but also on allowances and fringe benefits offered by the enterprise to support themselves.[24] In the study area, these benefits include the provision of meals, travel allowances and extra payments for working, hazards or hardship. As Figure 32 illustrates, the most important is the provision of meals, which was mentioned as a permanent benefit received by 45% of the respondents. The other benefits are less common but roughly ¼ of the workers were receiving allowances other than food.

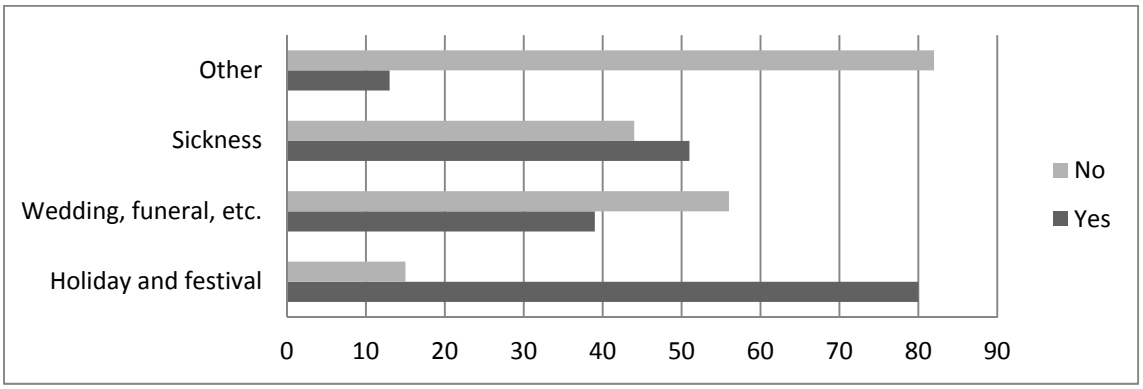
[24] For a more detailed investigation of the issue, see Rand et al. (2008).

Figure 32: Fringe benefits



Even less commonly, employers offer accommodation (20%). Otherwise, there is also a prevailing custom among employers to provide extra payments (*khoản phúc lợi*) for special events. These include annual public holidays, such as the new year, as well as weddings and funerals, or in case of sickness. The vast majority of respondents also mentioned 'other' kinds of additional benefits but did not provide further details. Anecdotally, however, various donations in cash or kind seem to be a common practice. Whether these are rather symbolic or significant in relation to the worker's income is not clear. Figure 33 enumerates these various benefits.

Figure 33: Provision of welfare benefits by the enterprise



* multiple choice question

This system of allowances and extra benefits appears to be quite complex; at a minimum, it demonstrates that salary alone is not a sufficient indicator for assessing the role and opportunities of the rural enterprise job market for workers' livelihoods. The provision of accommodation, frequent meals and other payments certainly contribute to a better living standard although they often remain undocumented.

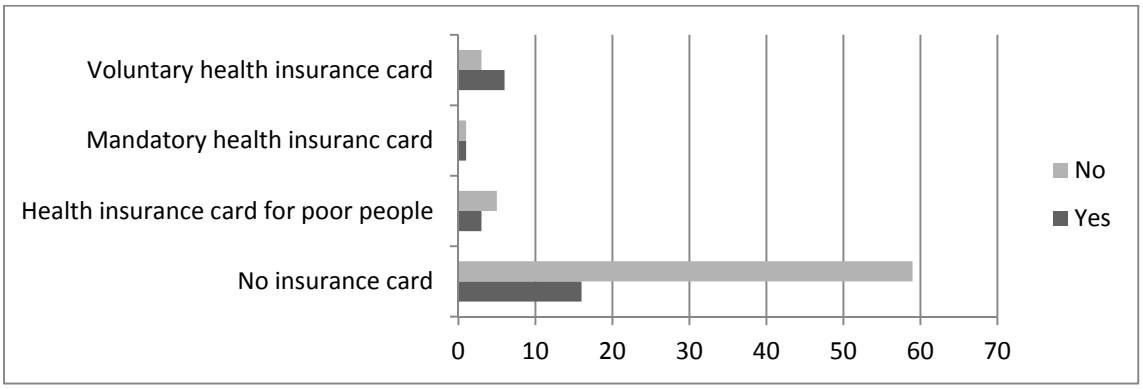
Similarly, financial support in case of sickness or personal events becomes even more important as very few (only six) respondents are signed up for insurance that is paid by

their employer. These six workers are mostly employed in rice mills, with one at a petrol station. They receive health and accident insurances.[25].

5.2.6 Health insurance and health-related issues

As mentioned above, health insurance provided by the employer is still rather an exceptional case as most employees have no work contract. Furthermore, according to the Labor Code, only private enterprises with more than 10 employees are legally obliged to offer healthcare (Rand et al., 2008). People have other ways of getting a health insurance card but, in total, only 19 workers (20%) hold such a card. Whether workers have a health insurance card does not seem to have an impact on the frequency of medical check-ups, as only 19 male and 8 female workers reported to have been to such examinations.

Figure 34: Prevalence of health insurance for workers



On the related subject of work-related health issues and labor protection, interviewees were asked about special risks for women at their workplace. Only four respondents, three female and one male, said that there were such risks. The risks mentioned are related to injuries during rice processing – which cannot generally be classified as gender-specific.

5.3 Conclusion

The majority of workers that were considered in this section fall into the category of small enterprises (cluster 3), which was followed by larger enterprises of cluster 2. More precisely, the manufacturing sector is a primary contributor to off-farm employment opportunities in rural labor markets. This result is in line with other studies (mentioned above), which generally conclude that growth-oriented enterprises, such as rice mills or, to a certain extent, wood-processing enterprises, help to improve the rural labor market.

[25] Only employees with a working contract with a duration of at least three months are entitled to health insurance (Rand et al., 2008).

Nevertheless, due to the limited number of growth-oriented enterprises, labor markets for off-farm employment grow very slowly in rural areas, and often stagnate. Moreover, the demand for labor by rural enterprises is mainly confined to unskilled workers. The rice processing industry exemplifies this well. Consequently, the average level of education level remains low.

Personal networks are not only an important source of information about job vacancies, but also shape the relationship between employer and employee. Although the majority of workers are employed in registered enterprises, formal labor contracts remain the exception. Partially offsetting this, additional welfare benefits are provided by a large number of enterprises.

On average, workers in the sample earn a salary of about VND 2.5 million per month, which is relatively high compared to other studies and above minimum wage. Gender-specific inequalities were found in the area of compensation, such that women tend to earn less and have longer working days.

Education had no influence on the level of the salary. Nonetheless, 2/3 of the workers reported that their salary is enough for making a reasonable living, with the rest acknowledging a need for additional income.

6 ENVIRONMENTAL ISSUES IN THE CONTEXT OF SME DEVELOPMENT

With the rapid development of the industrial and service sector over the past two decades, environmental studies on the impacts of industrialization and private business development have gained more attention and relevance in Vietnam. The bulk of these studies, however, focus on either larger companies, many of which are located in industrial parks of urban areas, or craft villages, of which the majority are concentrated in the northern part of Vietnam, specifically the Red River Delta (ICEM, 2007). Environmental problems connected to SME development outside industrial parks and craft villages have received little attention and are completely missing for the Mekong Delta. A study carried out by Le Van Khoa in Ho Chi Minh City revealed that uncontrolled growth of SMEs in urban areas accompanied serious environmental and health impacts that affecting local communities. In particular, this concerns single enterprises and business clusters that emerged within residential clusters. Establishments operating in manufacturing and processing, which potentially cause toxic contamination of air, water and soil, create local environmental health hazards (Le Van Khoa, 2006).

This chapter explores a number of environmental issues related to SME development and rural entrepreneurship in the study area. First, this includes the dimension of water resource management, notably water consumption, waste water generation and water pollution. Second, the issue of environmental awareness among rural entrepreneurs and related perceptions of local laborers and other dwellers are explored. Third, this chapter

examines how environmental problems typical to the Mekong Delta affect different kinds of SMEs.

6.1 Water use for entrepreneurial activities

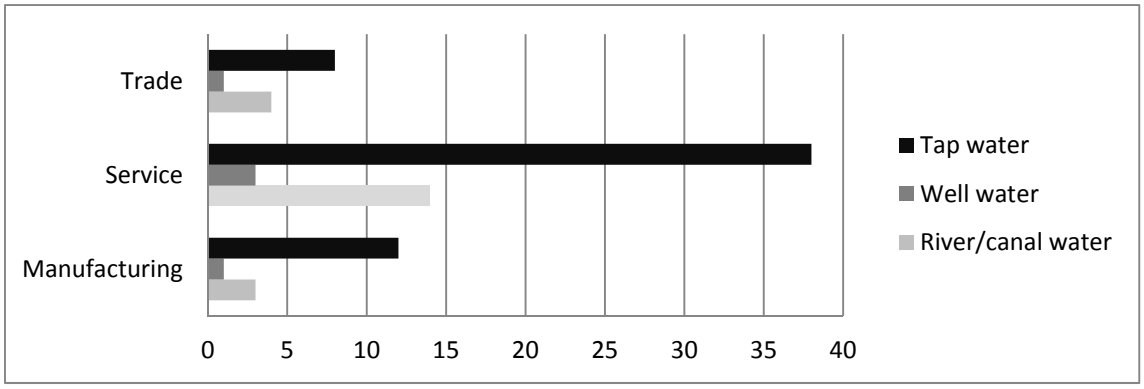
Access to water and water use is a prerequisite for many business activities, particularly in manufacturing and processing industries. By nature, the Mekong Delta possesses abundant water resources. In rural areas, various water sources are available and are being utilized for a range of domestic and productive activities. These sources include river water, rain water and ground water. Ground water is available either through extraction from private wells, most of which are drilled to a depth of 60 to 100 meters, or through a state-run water supply station. The state-run supply stations in the study area have a pumping capacity of 4/m³ per hour and extract ground water from a depth of 40 to 130 meters. From the supply stations, water is then distributed through a simple pipe scheme (Herbst et al., 2009, Reis, 2012).

For this study, enterprises were questioned about their personal water consumption as well as the most common water sources they use for business activities. The results are as follows:

Regardless of the sector, 43% of the enterprises surveyed indicated that water was important input factor for their activities. Of these, manufacturing and services displayed the highest rate with 60%, whereas, unsurprisingly, water use in trade was less frequent, only accounting for 18% of all trade establishments.

Among the different water sources available in the study area, piped water is the most prevalent water source, and is used by 74% of all establishments that reported consuming water. This was followed by river water (33%) and well water (9%). The use of river water was the highest in the service sector. In total, motorbike washing stations alone accounted for 50% of all establishments in the survey using river water. Many of these establishments are located on the river side and directly pump the river water.

Figure 35: Water source used by rural enterprises, by sector (n=85)



Specifically in regard to manufacturing, rice processors turned out to be the most common water consumers, comprising 63% of all manufacturing establishments that reported consuming water. The main water source used by rice mills was piped water. Water consumption of rice mills was the highest among all establishments surveyed. Half of the rice mills that use tap water indicated an average monthly consumption ranging between 40m³ and 300m³.

Besides manufacturing, consumption of tap water for business activities was also high in the service sector. Consumption differs, however, in that the average consumption per establishment is significantly lower. With one exception (a hotel), the consumption of tap water in the service sector did not exceed the threshold of 40m³. More specifically, coffee shops, motorbike service shops (including cleaning services), and beauty salons/barbers made up the most frequent consumers of tap water in the service sector. 75% of the coffee shops and 90% of the motorbike service shops reported a monthly tap water consumption ranging from 1 to 10m³, which is equal to the average water consumption of a household in Can Tho City.[26]

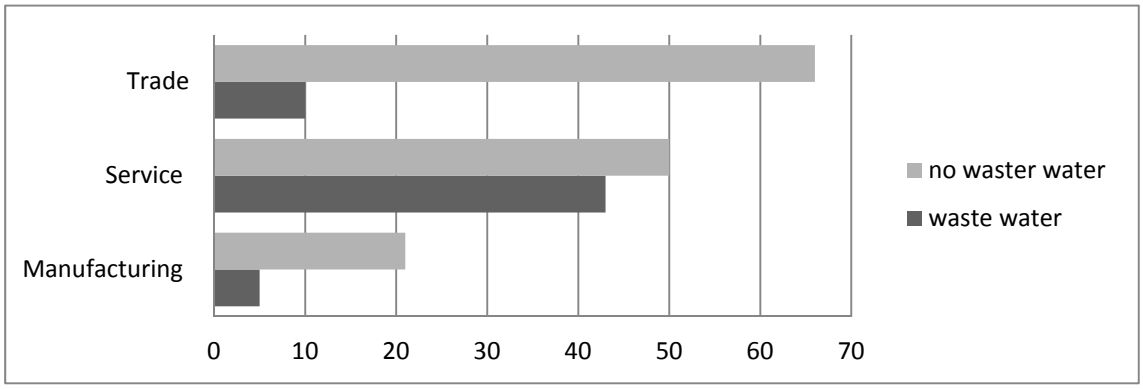
With regard to the accessibility of water, 25% of the water-using enterprises complained about frequent interruptions in water availability. The majority of these establishments are in manufacturing and the service sector. To be more precise, rice processors, coffee shops, beauty salons and motorbike service shops explicitly cited constraints accessing water in a timely manner.

6.2 Waste water treatment and solid waste disposal

Waste water generated by SMEs can bring about detrimental effects in terms of environmental health; in this regard, manufacturing establishments located in the proximity of residential areas, and which do not use decentralized treatment systems, can constitute a real danger. Of the surveyed establishments, 30% stated that their business generates waste water as by-product of their entrepreneurial activities. If one makes a distinction between the three different sectors, it becomes evident that the highest number of enterprises that generate waste water is found in the service sector, followed by manufacturing and trade.

[26] The average household consumption of piped water in rural and peri-urban parts of Can Tho City was estimated at 8.6 m³ per month. Households were charged 2,500 VND per m³, which is equivalent US$ 0.12 (SPENCER, J. H. 2008. Household Strategies for Securing Clean Water. The Demand for Piped Water in Vietnam´s Peri-Urban Settlements. *Journal of Planning Education and Research (JPE),* 28**,** 213-224.

Figure 36: Waster water generation by sectors



Indeed, of the enterprises that generate waste water, 74% were in the service sector. This, in particular, refers to informal micro enterprises such motorbike service shops, small eateries and coffee shops or beauty salons. This suggests that basically all establishments identified as users of tap water for business activities invariably generate waste water.

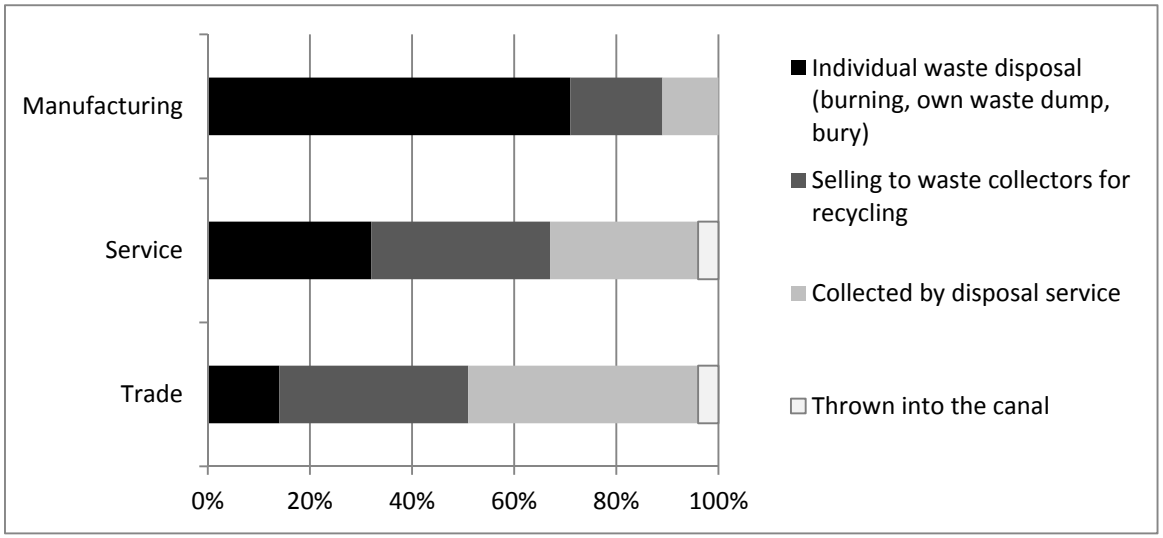
That being said, since laboratory analysis of water quality was outside of the scope of this study, the degree of water pollution caused by SMEs and the related environmental impacts are difficult to assess. Anecdotally, however, it can be assumed that the extensive use of cleansers, soap and shampoo by, for instance, motorbike washing stations, beauty salons, coffee shops and eateries, would contribute to chemical water contamination to canals and smaller rivers. Their close proximity to the Thot Not Canal and its tributary canals make waterways an easy and convenient way of waste water disposal for local SMEs. In most cases, discharge into open waterways takes place without pre-treatment. Only 13% of the establishments with waste water production reported the use of individual decentralized treatment efforts, most of which are technologically obsolete. These practices include storing waste water in self-dug and open ponds or sinks in proximity to the establishment and in residential areas.

Another issue addressed was solid waste, which is generated by 90% of all surveyed enterprises. Selling recyclable solid waste to informal waste collectors was the most common way of disposal (45%). This was followed by disposing of waste through the local state-run service (43%). 15% of the enterprises mentioned that they burn their waste, and another 7% have their own waste dump or bury their waste somewhere on their own grounds. Disposal of solid waste into the canal system was very rare. It was only mentioned by 2 establishments. Some enterprises also dispose of their waste using a combination of various practices (using multiple choice questions).

When distinguishing between the three different sectors, it is notable that establishments in manufacturing use the public waste disposal service less frequently than establishments in trade and services. As illustrated in Figure 37, the majority of establishments in manufacturing tend to dispose of waste individually, especially through

their own waste dumps. In contrast, the waste of half of the trading enterprises and one third of the service enterprises is collected by a disposal service.

Figure 37: Solid waste disposal by sector



6.3 Environmental problems and awareness

To shed light on SME-induced environmental problems in the study area, a range of questions addressed the issue. To begin with, the vast majority of enterprises were convinced that their entrepreneurial activities would not have any negative impact on the environment (93%). The rest (7%) acknowledged possible impacts, but appraised them as negligible.

In sum, 15% of the entrepreneurs stated that their enterprises might contribute to air and water contamination. In this context, also noise pollution resulting from certain kinds of business activities was mentioned. With 45%, the highest portion of these enterprises was found in manufacturing. Rice processors made particularly critical self-assessments of their business activities in terms of environmental pollution. One rice mill also rejected the interview request. The local cadres who accompanied the survey team mentioned an ongoing dispute between the company owner and local dwellers over noise and dust pollution as the reason for the company rejecting the interview.

In line with the overall self-perception that their establishments would have no serious impact to the environment, 91% of the entrepreneurs negated any kind of environmental protection measures. Only in 6 cases, special technical improvements and other environmental protection activities were undertaken to avoid or reduce pollution. Of these, 4 were rice mills, 1 was a petrol station and 1 was a grocery store. Despite the lack of active environmental intervention, 96% of the respondents agreed to the statement that entrepreneurs have to assume responsibility for environmental protection.

52% of the local entrepreneurs explained that they are frequently and sufficiently informed by local authorities about environmental issues such as new policies, regulations and programs of the government. The way in which information is passed can vary, including company visits by the relevant authorities, the distribution of printed information material, public awareness raising campaigns and by posting of billboards. These billboards contain pictures and slogans appealing for people's contribution to environmental protection. They exist in large numbers in along the major road of the study site, and some were even sponsored by local SMEs (see Figure 39).

From a workers perspective, 28% of the surveyed laborers stated that their employers contribute to local environmental problems. Air pollution (such as smoke, see Figure 38) and noise were the most frequently mentioned (55% and 30%, respectively). The severity and magnitude of these problems, however, was viewed as rather marginal. Even in rice processing establishments, where environmental problems were mentioned most frequently, the majority of workers (63%) denied such problems.[27]

Figure 38: Smoke caused by a rice dryer in a residential area along the Thot Not Canal

Figure 39: Awareness-raising billboard

"Environmental protection is in the interest and the duty of everyone" – sponsored by Thanh Loi Company (rice processing & exporting)

The assessment by the workers coincides with results from focus group discussions. Based on local dwellers' perceptions, the most urgent environmental problems are not associated with SME development, but with the agriculture sector. Here, local residents referred to the extensive use of agro-chemicals that has been spurred by agrarian modernization and intensification. In addition, the growing amounts of domestic waste and waste water due to the growing number of households were mentioned as another source of water pollution. Local residents specifically referred to sky and fish pond toilets. Principally, local dwellers highlighted water pollution as the most urgent and severe problem.

[27] In rice mills, where almost half of total numbers of workers surveyed were employed, 34% of the workers mentioned air and noise pollution. Water pollution was not mentioned at all.

In general, there is a widespread perception that ongoing problems generated by petty traders and local service providers hardly impact on the environment. However, there were a few exceptions. Some of the residents expressed concern about the negative environment impact of brickworks, rice mills and ice producers. The associated risks and damages were specified as follows:

Table 30: SMEs and environmental impacts along the Thot Not Canal

Business establishment	Environmental impacts
Rice mills and dryers	• Water pollution through rice husk disposal in the canal • Dust and smoke (affecting human health) • Noise
Brickworks	• Smoke and dust (kills trees and plants and affects human health) • Hot air
Ice producers	• Waste water discharge into the canal (endangers aquatic life, particularly wild fish)

According to the local residents' assessment, the socio-economic benefits outweigh the (possible) negative environmental impacts caused by these enterprises. Job creation through SMEs (e.g. rice mills) and indirect livelihood opportunities generated through spill-over effects in the local neighborhood (e.g. opportunities in petty trade, coffee shops or eateries around manufacturing or processing clusters) have been perceived as much more important.

As rice processing for export is a major industry in the Mekong Delta, rice mills are omnipresent along the major waterways, such as the Thot Not canal. Rice mills were mentioned in five of six communities as largest enterprises and were associated with specific environmental problems. Beyond noise and air pollution (dust and smoke), environmental pollution caused by rice milling mainly stems from the rice husk disposal. Rice husk leftovers from milling are traditionally used for cooking and fueling the ovens of food processing businesses. According to estimates, 4 million tons of rice husk are generated annually through rice milling in the Mekong Delta, of which only 50% is eventually used for the purposes mentioned above. Leftover rice husk that cannot be sold by rice mills is often illegally disposed of into rivers and canals because rice mills lack storage capacity. Moreover, rice mill owners are reluctant to properly dispose of their leftovers due to high transportation costs. Along some of the main canals this has contributed to water pollution and aggravated the existing problem of canal silting. In affected localities, local residents complained about foul-smelling and dirty water that no longer can be used for bathing and other daily activities (Viet Bao, 06/04/2006, Saigon Giai Phong, 22/11/2009).

The illegal and environmentally damaging disposal of rice husks into the canal was also frequently mentioned in focus group discussions in the three study sites along the Thot Not canal. Largely, it was viewed as a problem of the past that was solved recently by the opening of a nearby briquette producer in 2010. Through their purchase of large amounts of rice husks to kiln briquettes, the situation has substantially improved. However, the problem of air pollution from the rice mills and dryers that are located directly in residential areas remains unsolved. Otherwise, local dwellers complained about noise, but assessed it as rather minimally disruptive.

6.4 Environmental change

Environmental change along the Thot Tot Canal has been observed by all respondents: local dwellers, workers and entrepreneurs. With 83%, the vast majority of the entrepreneurs and slightly more than half of the workers (57%) had mentioned some of these changes. For instance, the uncontrolled waste disposal into the landscape and the canal was listed as the most pressing problem. Although public waste disposal services exist in all three study areas, depending on the peculiar settlement structure, they may only serve 50% to 80% of the households. Households located far from the main road or on narrow tributary roads lack access to the public waste collection service and therefore have to dispose of their waste differently, which leaves burning, burying or disposal into the river. Micro-enterprises in remote areas face the same difficulties. In focus group discussions, dwellers reported that, in particular, the amount of nylon bags disposed into the river and canal system has increased to the extent that it even accelerates canal siltation and hampers boat traffic when the nylon bags get tangled in boat propellers. The specifics of environmental change are enumerated as follows in Table 31.

Table 31: Environmental changes along the Thot Not Canal

Environmental changes	Entrepreneurs	Workers
More garbage/landscape littering	71%	58%
Change in water color	54%	35%
Decrease in water level	46%	35%
Increased canal silting/sedimentation	43%	32%
Canal bank erosion	39%	35%
Seasonal flooding	32%	30%
Decreased flow velocity	30%	32%
Water has bad smell	28%	22%

Despite the noticeable changes, 88% of the entrepreneurs stated that they do not feel affected by environmental and ecological issues. Among those who considered themselves as being affected, canal bank erosion (14%) was mentioned most frequently. Regardless of the size and sector, canal bank erosion is apparently only a problem for the

establishments directly located along the canal bank or those built up on a boat landing or in the canal itself. In Can Tho City, over 11 km of the 31 km-long canal crossing Can Tho City, which encompasses large parts of the study area, are affected by bank erosion (SIWRP, 2007). Canal silting ranked as the second most pressing problem (13%), and was explicitly cited by rice mills, wood processors and traders of construction material, all of which are reliant on waterway transportation for receiving raw materials and distributing their products. In other words, small enterprises are the most seriously affected by canal silting because of their dependence on waterway transportation.

6.5 Conclusion

Pollution and environmental problems of SME development, more often than not, are associated with the manufacturing sector. However, as the rural SME sector in the Mekong Delta is primarily comprised of micro-enterprises, of which a significant portion are traders and retailers, with only a few larger enterprises in manufacturing, environmental problems caused by rural entrepreneurship development tend to be marginal. The same can be said about water consumption, or more precisely ground water resources. Apart from a few large establishments such as rice mills, most enterprises do not rely on massive ground water exploitation, or contribute significantly more to environmental pollution than the average household does. This is particularly the case with regard to micro-enterprises, perhaps with the exception of motorbike washing stations and beauty salons. However, since laboratory examinations of water samples are beyond the scope of this study, the magnitude and severity of pollution caused by these enterprises remains unknown. More in-depth research would be needed to gain a better understanding about the specific environmental (health) consequences.

The problem of rise husk disposal from rice processing industries, which had plagued the study area, was partly solved when recycling companies emerged that buy rice husks as raw material for the commercial production of cooking briquettes. In this case, the SME sector itself offered a solution to the problem.

In general, water pollution in rural areas is mainly brought about by agricultural chemicals being released in the context of agrarian modernization and commercialization. More precisely, this refers to the extensive use of pesticides in rice production and the waste water from rapidly expanding aquaculture industries. This was the overall perspective of local dwellers in the study area, who appraised SME development as a primarily positive trend in terms of income diversification and new employment opportunities, and viewed environmental impacts as a less critical problem.

7 Overall conclusion: Studying and developing local entrepreneurship in the Mekong Delta

SME development in the context of rural transformation

This study aimed at exploring the contemporary pace and role of SME development in rural and peri-urban areas of Can Tho City in the Mekong Delta. For more than two decades, the region has been under the continuous pressure of agrarian modernization, urbanization and demographic changes, with local livelihoods gradually changing alongside. To date, agriculture production remains the predominant economic activity and while poverty rates significantly declined, the process of rural transformation has affected the local population in different ways. Policy reforms opened up new opportunities for private business development and a range of state interventions aimed at stimulating economic growth, local industrialization and rural production. In this context, SMEs officially emerged as an alternative economic activity as early as the 1980s.

The investigation of the prevalence, profiles and socio-economic importance of SMEs in the study area was based on a representative survey of locally-established enterprises as well as interviews with state agencies and other residents in the targeted communities. The results of the survey of 197 enterprises revealed that 91% can be classified as micro enterprises, of which many are household-based. Most of these businesses provide locally-demanded services, such as electronic repair, motorbike washing, dressmaking or hairdressing; furthermore, coffee shops and small eateries exist in large numbers, while the amount of hotels is relatively limited. A range of small shops offer pharmaceutical products, foodstuff, clothes, agricultural utensils, petrol and gas as well as construction material. In the manufacturing sector, rice mills and wood processing are predominant. The landscape of SMEs is significantly agrarian-oriented but is also, to a large extent, shaped by the very local supply and demand chains. This also helps to explain the seasonal variation and continuous adaptation of goods and service provisions. Finally, SMEs in general are characterized by a lack of sustainability, low levels of investment and innovation and a comprehensive set of challenges, of which competition and the limited access to finance were ranked highest.

Despite these hurdles, it is interesting to note that 31% of the surveyed enterprises were indeed able to increase their turnover over the past five years, with only 25% experiencing a decrease. Coinciding with this, however, employment rates have not improved. Due to the vagaries of household and micro enterprises, it is difficult to measure employment, but there are often dramatic fluctuations in establishment and shut down of businesses. This aspect of SME development warrants further investigation, which would help illuminate the respective push and pull factors that could lead to better design of policies and support strategies.

Notwithstanding the contemporary challenges, SMEs play a significant role in the region's rural transformation. First of all, they offer additional income generation opportunities in the form of self-employment and income diversification for poorer households; second, they provide for off-farm job opportunities for unskilled and, to a limited extent, for skilled labor; and third, a few small, productive and even export-oriented businesses are being established in the countryside.

The following assessment, generated in a focus group discussion in Thang Hung Commune, is illustrative of the general situation:

Livelihood diversification in Thanh Hung Commune

Local dwellers who participated in the focus group discussion spoke positively about income diversification over the past 10 years and enterprise development was explicitly mentioned in this context. However, with over 60% of the households involved in agriculture, on-farm activities remain the dominant source of income. Furthermore, it was estimated that 30% of the households were engaged in wage labor – both on-farm and off-farm -, and 10% are self-employed in the trading and service sector, which refers to typically livelihood-oriented businesses. According to the participants, households which have a high income from rice farming are better off than those who are engaged in the trade and service sector. Households with members who work as wage laborers, or are self-employed, are usually poorer households. If a distinction were made between better-off and poorer households, the participants assessed that, among the better-off households, they would really on agriculture for 100% of their income, whereas among the poorest households, they would be more reliant on wage labor (80%), followed by animal breeding and self-employment (in, for example, petty trade and service provision).

The picture evoked in the information box reveals that SME development is of particular importance for poorer households' livelihoods. Especially those who are, or have become, landless depend on means of survival other than farming. Indeed, only 24% of the interviewed entrepreneurs still own agricultural land, although 49% grew up in peasant households. Moreover, the mobility of rural entrepreneurs seems to be limited as 80% were born in Can Tho City and only 6% came from outside of the Mekong Delta.

SMEs also contribute to local livelihoods by generating new employment opportunities, particularly for unskilled workers. As the survey on laborers revealed, 77% of the workers employed in local enterprises did not pursue their education after completing elementary school. Among those who went through vocational training (22.1%), only 4% obtained a certificate in a formal institution. These mostly unskilled laborers found jobs in manufacturing, micro and small enterprises, as well as in trading businesses. The service sector, however, does not offer jobs to any significant degree. It can, however, be said that the SME sector as a whole offers a range of new employment opportunities and

therefore discourages out-migration to a certain degree. The high level of self-employment (one-third of the enterprises do not have any employees) is another crucial aspect in this regard.

In addition to a salary, local enterprises often contribute to livelihoods by providing a set of allowances and (irregular) benefits. A small minority is inscribed into a health insurance scheme and some benefit from special state programs for helping the poor. Despite this, 32% of the workers stated that they do not earn enough to make a living. Performance-based compensation, which is mode of payment in 58% of our sample, seems to be another determining factor. Another issue is that some (13.7%) only have part-time jobs. In addition to this, job opportunities often vary seasonally and most workers do not have the security of a written contract. The instability of the job market aggravates the vulnerability of those workers who already lack alternative income opportunities. Finding jobs is also not guaranteed as access often depends on personal relationships.

The potential for making a decent living among the entrepreneurs is most visible among the few smaller enterprises. Nevertheless, in total, 36% of the entrepreneurs interviewed stated that they were also not able to generate enough income from their entrepreneurial activities. This and many other dimensions of the highly segmented SME sector can be much better analyzed and understood if one disaggregates the surveyed enterprises to some degree, which was undertaken in this survey.

Adopting a cluster analysis for the SME sector: An innovative analytical approach

Drawing on the formal definition of SMES in Vietnam as well as on other analytical frameworks, which distinguish between growth-oriented and survival-oriented enterprises, a typology of SMEs was been developed for the study area. This approach refines the official classification of SMEs and improves our understanding of the diversity, while providing a more accurate picture of the sector. Based on an analysis of 7 indicators, three different clusters of enterprises have been identified. These are:

Cluster 1: informal, household-based enterprises in the service and partly trade sector

Cluster 2: formal micro enterprises in the trade sector

Cluster 3: formal small enterprises in the manufacturing sector

All of the micro businesses of cluster 1 and 2 can best be understood as subsistence-based and survival-oriented. They are characterized by low capital investments, low profit margins and a lack of formal business registration.[28] They tend to be restricted to the local markets and often rely on personalized supplier and customer networks that originate from within their social environment. In these two clusters, the purpose of

[28] Business registration also depends on the kind of business activity. Shops and traders, more often than not, are formally registered. However, this does not imply that all of them are registered. The place and scope of registration can also differ from business to business.

starting a business is not revenue maximization, but household income stability and risk reduction through income diversification. By tendency, they are not growth-oriented and exhibit little motivation to invest in new technologies or business expansion. Low profit margins are preferred over risk-taking. The household's income is usually generated by both spouses in a form of patchwork economy.

Start-ups are easy and quick due to the low initial capital required; however, once a livelihood-oriented business is set up, the entrepreneur has to operate in an already saturated local market, where competition is fierce because of the high density of similar enterprises. The lack of financial resources is a major limitation, but even more challenging is the competition and/or lack of reliably increasing demand. Indeed, while the number of new start-ups is high, survival rates are low. As in other parts of the world, the whole sector is in a constant flux.

However, such livelihood-oriented enterprises play an important role in the local economy, as they contribute to impoverished households' welfare and income security. In the context of rural transformation, the emergence of micro-enterprises has allowed for a shift between on-farm to off-farm activities, and a concomitant diversification of income generation activities. This has increasingly become necessary as many poor farmers have not been able to participate in the modernization of the agricultural sector and sustain their farms. In addition to this shift, which is also embedded in a longer-term process of generational change, micro enterprises have shown themselves to provide a certain potential to survive during external shocks (such as the international financial crises) and therefore constitute a form of economic stabilization.

Only a few enterprises in the study area matched the official definition of small enterprises. These enterprises make up what, according to the cluster analysis, has been identified as cluster 3, namely formal small enterprises in the manufacturing sector. They sharply differ from the livelihood-oriented businesses described above, primarily because their capital, turnover and the number of workers, on average, were much higher. Moreover, enterprises in cluster 3 are formally registered and pay the enterprise income tax. Their economic productivity is higher and, consequently, their revenues are above the subsistence level. In other words, these enterprises fall within the category of growth-oriented enterprises. Most of them are in manufacturing, usually agro-businesses and, in particular, rice processing (milling and polishing).

The (lack of) promotion of SMEs and development constraints

Even in the post-renovation era, intensive bottom-up reporting and top-down mechanisms of policy implementation prevail in Vietnam. In other words, SME development programs and related state interventions are embedded in rationalities that adhere to the concept of central planning. The 5-year SME Development Plan for 2006-2010, for instance, states that the principal objective of SME development is to push forward the growth rate of the SME sector so that SMEs increasingly contribute to the

growth of the national economy and create jobs at a large scale. To achieve this, the goals of SME development in Vietnam are, inter alia, to increase the number of newly established SMEs by 320,000, create 2.7 million new jobs and achieve a ratio of 3-6% of SMEs that achieve direct export. As a consequence, policies formulated from the SME development strategy clearly target growth-oriented enterprises.

In contrast, livelihood-oriented enterprises and their specific needs remain inadequately supported despite their dominant role in Vietnam's private sector landscape and the vital role they play in poverty reduction and the welfare of poorer households. This arises because, more often than not, official statistics on SMEs exclude micro businesses, which means that the database used for planning and policy making tends to be skewed toward more visible and larger businesses.

The current trend of developing craft villages in order to engage in large-scale production for the global market is one example of the growth logic of state interventions for micro-enterprises. It is expected that numerous households would engage in the same businesses and produce the same products – thereby becoming dependent on international market mechanisms and intermediary business agencies and traders. Such a strategy implies a range of risks.

The neglect of livelihood-oriented businesses is also manifest in recent policy debates on how to support and guide the Vietnamese enterprise community through the economic slow-down the country has been facing since 2008. Since 2011, a massive wave of enterprise closures has hit the SME sector hard and slowed down private sector development in Vietnam. Enterprises falling within the official category of SMEs are making up a great deal of these shutdowns. National experts and policy makers recommended reducing the enterprise income tax as an appropriate policy to counteract this negative trend and to provide other supports to SMEs in times of crisis (Tuoi Tre, 20/06/2013). However, referring to the rural study area, this measure would only benefit a fraction of the SMEs, more specifically growth-oriented enterprises that are registered under the Enterprise Law. Livelihood-oriented enterprises, which are the majority of businesses in this study, would not benefit at all, as they are usually unregistered and would anyway not pay enterprise income taxes.

In fact, an additional result of this study is that registration impacts on the tax system applied. The tax system itself is quite complex and there is definitely a need for further research on the local practices of its implementation and how it affects local entrepreneurship development. Another aspect which deserves further attention is the importance of the tax regime for the local state's budget. The latter issue may be a critical factor in designing the respective policies.

In addition to that, a number of studies on SME support systems argue that the government has failed to meet the demands for technical advice; they further conclude that the capacity of agencies supporting business remains weak (see for instance, Hansen et al., 2009, Nguyen et al., 2009a, Nguyen et al., 2009b, Nguyen Thanh Hai et al., 2008). In

Can Tho City, local agencies have adopted a variety of strategies and programs which were basically derived from central-state SME policies and legal frameworks. These include special programs to foster the formation of craft villages, to promote new rural industries or to boost competitiveness of private enterprises. The agencies also try to encourage entrepreneurs to get connected and collaborate with each other in associations and networks. They also provide assistance in legal affairs and give advice with regard to Vietnam's advanced international integration (e.g. WTO accession).[29]

Due to financial and human resources constraints, concrete actions, however, do not go beyond the scope of trainings and information dissemination campaigns. These activities predominantly target larger enterprises, mostly in agro-processing industries and, more often than not, companies that are situated in industrial zones and clusters. Businesses located in rural areas generally receive little attention. District agencies have even less means and capacity to support SME development in their jurisdictions. Moreover, there seems to be no program which aims at generating ideas for new products and services in rural markets and/or increasing the creativity and technical skills of micro entrepreneurs. The oft-cited saturation of the local market is, to a certain extent, the result of a lack of diversity of entrepreneurial activities.

The fact that many of the micro enterprises operate informally might also contribute to their neglect by state agencies. However, whether informality as such is a disadvantage for the entrepreneurs is a question that deserves further research. Given the condition that many of the micro enterprises are unstable (e.g. with seasonal variations in products and services, as well as demand), that they lack proper accounting and entrepreneurial skills, and typically open or shut according to ever-changing constraints and challenges, every additional administrative duty could be perceived as an unnecessary burden (in terms of time, fees, reporting duties and control). The potential benefits of formalizing businesses, in contrast, are not that obvious. The question and relevance of informality, therefore, is another area where the difference between survival-oriented entrepreneurs and small enterprises is evident.

Environmental dimensions of SME development

One of the unique contributions of this study was identifying potential and current environmental concerns evolving from the rapid growth of SMEs in the study area. Point-source pollution from large industries and installations tends to draw more interest and activism than that of smaller, decentralized establishments such as SMEs. While scientific evaluation of pollution levels was beyond the scope of this study, the perceptions and reactions gathered from local businesses, laborers and residents illustrates the strong social dynamic of SME-derived environmental impacts. The survey and various focus

[29] Information provided by the Can Tho City Department of Trade and Industry (22.11.2011) and by VCCI Can Tho City in a stakeholder workshop (15/10/2012).

groups meeting found that, while up to 83% of entrepreneurs experience and notice environmental changes in their area, 88% state that they are not negatively affected by ecological problems. This suggests that local people internalize and accept a certain threshold of pollution by various parties as an inevitable part of development. Indeed, 93% of entrepreneurs do not believe their individual activities impact the environment despite the fact that most (and especially the service sector) release untreated chemical and biological waste into the canals. Focus group studies indicate that, in any case, the socio-economic benefits of small entrepreneurial activities more than compensates for pollution.

Nevertheless, not all environmental impacts go under the radar. Although tap water is the dominant source of water supply (74%), rivers and canals play an important role in regard to wastewater discharge as wastewater treatment remains the exception. A past incident, in which large amounts of rice husks (a milling byproduct) discharged into the canal caused silting and petrification, demonstrated that canal residents do have their limits. The local outcry became loud enough that newspapers covered the incident. This case, however, is also demonstrative of the positive characteristic of SMEs and local management: they can respond if the environmental threshold is reached. In this case, a charcoal briquette factory opened that used the rice husks for fuel, eliminating the canal waste. Furthermore, the vast majority of the solid waste in the surveyed area is collected by public services or recycled commercially.

Although water quality was not independently verified, residents have their own tolerance levels for pollution, as well as ways for adapting (e.g. within the SME domain) and drawing attention to problems. As a result, even the most glaring environmental issues reported, such as the noise and air pollution created by some of the small enterprises, is not considered a major problem. However, if, in tandem with demographic changes, the number of SMEs continues to grow, the environmental pressure will also increase, perhaps beyond people's thresholds. In looking at the Mekong Delta in general, it should be noted, however, that the surveyed enterprises were all located along the main canal and district roads; enterprises in more remote places might face different challenges or have different impacts on their immediate surroundings.

Indeed, canal-side locations face unique environmental concerns not only because of wastewater and solid waste. As a mode of transportation, waterways are among the most important, especially for export and the delivery of goods. Diesel and sewage discharges from boat traffic can become a environmental or safety hazard. Furthermore, the increasing amount of litter, especially nylon bags, can become tangled in propellers. Nevertheless, as long as waterway transportation and trade continue to benefit local people, their tolerance for environmental nuisance is, as discussed above, likely to remain relatively high.

Policy implications of the research findings

This survey emphasized the discrepancy between growth-oriented small enterprises and livelihood-oriented micro businesses, which differ significantly from one another. The study shows that the official definition of SMEs does not fit the heterogeneity of the Delta's rural SME sector. Policies and promotional activities for the SME sector, which are based on this definition, therefore tend to ignore the different rationalities, strategies and constraints of the different types of enterprises. State interventions and support schemes therefore need to be designed in a more target-group specific way. In close connection to this, current policies do not acknowledge that livelihood-oriented and growth-oriented enterprises have different potentials and roles to play in rural development, poverty reduction, labor market stimulation and economic growth.

In many developing countries, SME support schemes have been solely derived from the needs of larger growth-oriented enterprises, regardless of the reality on the ground. Mechanisms to support livelihood-oriented enterprises are less common. In this respect, Mead and Liedholm (1998), as well as Berner et al. (2012), suggest that it is critical to consider the specific support needs of livelihood-oriented and growth-oriented enterprises separately when designing policies and enterprise support schemes. Despite many controversies, micro credit schemes that consider the specific needs of livelihood-oriented might be a potential option (Mead and Liedholm 1998: 70).

Instead of imposing policies that seek to transform livelihood-oriented businesses into growth-oriented enterprises, it may be rather appropriate to respond to their needs in an innovative way. To provide an example: for policy makers concerned with poverty alleviation, the support of livelihood-oriented business may be instrumental. Policy tools, correspondingly, should target the low survival rates and fierce competition in local markets. For policy makers concerned about stimulating wage labor markets and growth, it may be more appropriate to support growth-oriented SMEs through mechanism such as the provision of loans or tax reductions for respective types of enterprises (Mead and Liedholm 1998).

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9 ANNEX

9.1 Description of the research areas

Sub-area I starts in Thot Not town where the Thot Not Canal intersects with Thot Not Bridge. From there, the area selected runs downstream for 3 kilometers cutting through parts of Thot Not town and then continues its way into more rural terrain. Of the three sub-areas, this one shows the highest quantity of productive businesses in craft and food processing.

Sub-area II starts in the middle of the canal and covers the area located right in the middle between Thot Not town and Co Do town. The local market in Trung An commune and the bridge over the Thot Not Canal (opposite the market) were chosen as a starting point. From there, the sub-area runs for 1.5 kilometers in both directions along the canal. While the number of businesses in Trung An commune is relatively high, the density of establishments continuously declines after 500 meters in each direction on both canal sides.The number of establishments identified in sub-area 2 was the highest of all three sub-areas. This is because the survey area included the market and surrounding commercial area of Trung An commune.

Sub-area III starts at the star-like canal intersection in Co Do town and stretches upstream for 3 kilometers into the rural part of the district. The density of businesses is fairly high in the first 500 meters of this sub-area. This is particularly the case on the left-hand canal bank (in the direction of Co Do Bridge), where many shops and other services are clustered around Co Do market. After 500 meters, the landscape becomes more rural, particular on the left side, where the street is very narrow.

9.2 Selected GSO terminology for the Vietnamese business sector

Enterprises are economic units that independently keep business accounts and acquire their own legal status. They may be set under the State Enterprise Law, Cooperative Law, Enterprise Law, Foreign Investment Law or by Agreement between the government of Viet Nam and governments of foreign countries. There exist the following types of enterprise:

(1) *State-owned enterprises*, both centrally and locally established (including also enterprises which are under control of the Party and their affiliates or which have received their capital from the government)

(2) *Collective enterprises* set up under the Cooperative Law

(3) *Private enterprises*

(4) *Collective name companies*

(5) *Limited companies*

(6) *Joint-stock companies* (including also state-owned enterprises that were privatized and companies, in which the government had a capital share.)

(7) *Enterprises with 100% foreign capital, foreign joint venture enterprises* set up under the Foreign Investment Law

State-owned enterprises include following types:

(1) Enterprises with 100% of state capital share, operating according to Enterprise Law and under the control of central or local governmental agencies

(2) Limited liability companies under the management of the central or local government

(3) Joint stock companies with domestic capital, of which the government shares comprises more than 50%

Non-state enterprises are set with domestic capital. The capital may derive from a cooperative, private individuals or a group thereof, or the government as long as the share is below 50% of registered capital. There are following types of non-state enterprises:

(1) Cooperatives

(2) Private enterprises

(3) Cooperative name companies

(4) Private limited liability companies

(5) Joint stock companies without capital of state

(6) Joint stock companies with charter capital from the government comprising less than 50%.

Foreign direct invested enterprises are those with capital directly invested by foreigners. There are following types of foreign direct invested enterprises:

(1) Enterprises with 100% of capital invested by foreigners

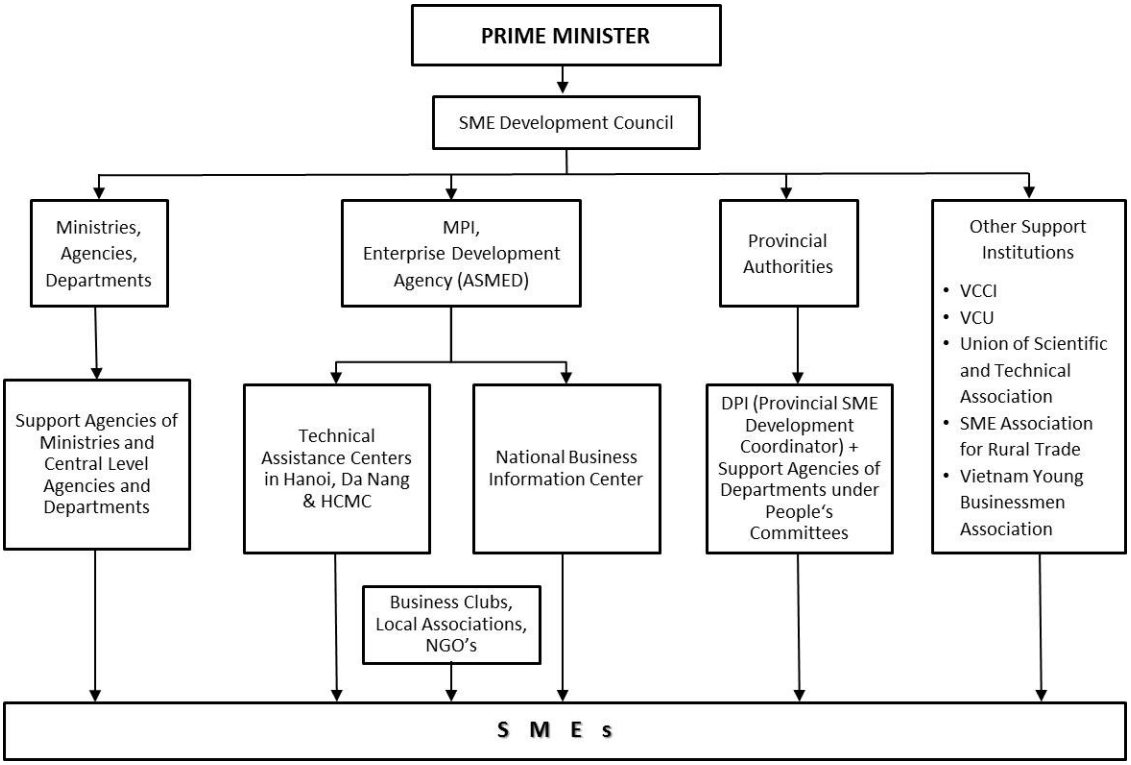
(2) Joint venture enterprise between domestic investor and foreigners

(Source: GSO, 2012)

9.3 State agencies in the field of SME development

The first legal framework for SME development in Vietnam was enshrined in Decree 90/2001 ND-CP. The decree sets out definitions for terms, and outlines support programs, as well as corresponding agencies and policies. The decree has further laid out the SME support system under the leadership of the prime minister from the central to the local level, as portrayed in the following figure:

Figure 40: SME supporting agencies in Vietnam



(Source: www.business.gov.vn)

The outlining of various measures and the implementation of Decree 56/2009/ND-CP is addressed in Resolution 22/NQ-CP. According to the resolution, the Ministry of Planning and Investment (MPI) has to guide the implementation of the Decree, review the five-year plan for SME development (2006-2010), and prepare a new five-year plan for SME development. Other ministries and provinces are assigned to set up their own support plans for SMEs, and to integrate these plans into their socio-economic development plans (Resolution 22/NQ-CP).

The MPI chairs the SME Development Council that advises the Prime Minister on SME development. The main task of the Council is to advise the Prime Minister on a strategic plan for SME development in accordance with the national socio-economic development strategy. Further, the council recommends measures, solutions and programs to assist SMEs in strengthening their capacity and increasing their competitiveness (Decision No. 12/2003/QD-TTg, Nguyen Tri Thanh, 2007).

The Agency for Enterprise Development (AED) [30], as a central government agency, is responsible for the coordination of policy formulation and policy implementation of SMEs in Vietnam. Among the tasks of the Enterprise Development Agency are the promotion of SME development, business registration, SOE reform and international cooperation (www.business.gov.vn).

The AED, as specified in Decree 56/2009/ND-CP, has the mandate to support SMEs as follows: facilitate access to credit from commercial banks, provide capacity building in technical skills and management, help to maximize the effectiveness of investment, establish a fund for SMEs to develop highly competitive products, and provide capital for projects in priority fields. Priority is given to SMEs owned by women and SMEs employing a large number of female laborers.

The SME support system also consists of state management agencies and socio-economic organizations at the provincial and the local level. SMEs are supported by three Technical Assistance Centers in the three largest cities: Hanoi, HCMC and Danang. Further, there are more than 200 business associations that assist SMEs (Nguyen Dinh Chuc, 2011).

[30] Until 2008, the institution's name was Agency for SME Development (ASMED).

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