

SEED WORKING PAPER

No. 13

Ethnic Minorities – Emerging Entrepreneurs in Rural Viet Nam



A Study on the Impact of Business Training on Ethnic Minorities

by

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FOREWORD

At a time when expectations about micro and small enterprises (MSEs) as job providers in developing economies are on the rise, this working paper provides noteworthy insight into how an MSE development programme can have a positive impact on a target group to which business development services is usually not provided.

This study is the outcome of a fruitful collaboration between two separate ILO technical cooperation projects in Viet Nam initiated by Mr. Jens Dyring Christensen, then associate expert on the INDISCO programme, which implements grass-roots development projects for Indigenous and Tribal Peoples through local organizations, and Mr. David Lamotte, then CTA on the Start and Improve Your Business (SIYB) programme, which provides business management training to owners of micro and small enterprises.

Trainers from the INDISCO project and trainers from the SIYB project joined forces in delivering business management training to ethnic minorities in the mountainous provinces of Northern Viet Nam. The training enabled entrepreneurs in these communities to start their own small businesses at a remarkable rate, and to increase community employment.

An essential objective of the work of the ILO's InFocus Programme on Boosting Employment through Small Enterprise Development (SEED) is to unlock the potential of small businesses to grow and create more and better jobs. Similarly, the objective of the INDISCO Programme is to assist indigenous and tribal peoples to create decent jobs through cooperatives and self-help approaches, while preserving their cultural values. It is encouraging when stories emerge from the field showing that activities at the community and grass-roots level have a significant impact.

The stories and faces in this paper remind us of the ultimate purpose of our efforts – to increase opportunities for decent work for women and men – and we would like to thank all persons from the ethnic minority communities who gave of their time to participate in this study.

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A C K N O W L E D G E M E N T S

The INDISCO and the SIYB Project wish to express their sincere appreciation to the Yen Bai Provincial Women's Union and the People's Committees of Nghia An, Son A, Luong Thinh and Y Can Communes for their support in the undertaking of this study. Special thanks are due to Ms. Thuy (for her valuable translation and interpreting) and to Ms. Tho (for organizing the interviews). In addition, sincere thanks go to those who gave of their time and shared information on their businesses. Without their cooperation, this study would not have been possible.

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A C R O N Y M S

CEMMA	Committee for Ethnic Minorities and Mountainous Areas
Danida	Danish International Development Agency
GSO	General Statistical Office
ILO	International Labour Organization
INDISCO	Programme to Support Self-reliance of Indigenous and Tribal Peoples through Co-operatives and Other Self-help Organizations
IYB	Improve Your Business
MSE.....	Micro and Small Enterprise
MOLISA.....	Ministry of Labour, Invalid and Social Affairs
RLF.....	Revolving Loan Fund
SED	Small Enterprise Development
Sida	Swedish International Development Agency
SIYB	Start and Improve Your Business
SME.....	Small and Medium-sized Enterprise
SOE.....	State Owned Enterprise
SYB	Start Your Business
VCCI	Vietnam Chamber of Commerce and Industry
VLSS.....	Viet Nam Living Standard Survey
WU	Women's Union

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EXECUTIVE SUMMARY

From August 1999 to January 2000, the ILO's INDISCO project and SIYB project in Viet Nam collaborated on delivering business development training to four ethnic minority communities in Yen Bai Province. The Start Your Business (SYB) programme was adapted to the specific conditions under which ethnic minorities live in rural areas, and four business awareness and four business-planning workshops were delivered to the ethnic minority communities. In April 2000, SIYB and INDISCO jointly carried out an impact study of this training.

The study illustrates that the business training has had a significant impact on the four communities, showing a very high business start-up rate. More than 60 per cent of trained entrepreneurs started a business, which is not only higher than normally expected for business training in rural areas, but also much higher than the norm for regular SYB target groups in urban areas.

The high business start-up rate is attributed to the combination of suitable training material and the access to credit for investment immediately after training. Over 80 per cent of trainees were granted a loan from the revolving loan fund established by the INDISCO project. Over 67 per cent invested their loan in a non-farm business, which is shown to have a faster return than investment in agricultural production.

The business training and access to credit proved to have an additional impact on other economic activities, as participants had more money per month after than before their training. This suggests that although participants do not start a full-time business, the management and financial skills they learn in a business-training workshop can be transferred to other economic and income-generating activities.

Close to one-fourth of businesses employ staff other than their immediate family. Although limited, this indicates that a labour market is slowly emerging in these communities and that rural non-farm businesses has the potential to create job opportunities for other rural residents.

Finally, the study demonstrates that ethnic minorities are not indifferent to business development. On the contrary, they are eager to learn how to set up and run a business and, when provided with the right opportunities, they are very capable entrepreneurs.

1. INTRODUCTION

BACKGROUND

This study is the result of collaboration between two highly different ILO projects in Viet Nam: the Programme to Support Self-reliance of Indigenous and Tribal Peoples through Co-operatives and Other Self-help Organizations (INDISCO) and the Start and Improve Your Business (SIYB) Project.

The INDISCO programme started in Viet Nam in April 1998. Donors are Danida and the Rabobank Foundation, and the project is introduced in close collaboration with Viet Nam Bank for the Poor (VBP) and Yen Bai Provincial Women's Union. In Viet Nam, the INDISCO project has established village action groups to manage the project, established a revolving loan fund, introduced new agricultural technologies and supported the development of co-operative and enterprise development as well as organizing local vocational training.

The SIYB project in Viet Nam started in November 1998 and is implemented in close collaboration with the Viet Nam Chamber of Commerce and Industry (VCCI). The Swedish International Development Cooperation Agency (Sida) finances the project. The project is adapting, translating and introducing the Start Your Business (SYB) and the Improve Your Business (IYB) programmes to Vietnamese organizations involved in micro and small enterprise development as a means to support the emerging private sector.

Despite the differences in their activities, target group, social sector and geographical areas, the two projects share a common focus on the ILO's overall mandate in contributing to the expansion of job opportunities and the creation of sustainable and decent jobs. A component of the INDISCO project in Viet Nam concentrated on job creation through micro and small enterprise development, so joining forces to implement this component with the experienced staff of the SIYB project was a logical step.

The two projects collaborated on developing SYB training material, and training trainers from the INDISCO local partner organization on how to deliver SYB workshops. Subsequently, eight workshops in business awareness and business planning were held in the four INDISCO pilot project communes in Yen Bai province.

PURPOSE OF THE STUDY

The purpose of this study is to assess the impact of business development training on ethnic minorities regarding business start-up, improvement in existing businesses and improved income. Secondly, it endeavours to identify the possibilities, barriers and constraints to be taken into account for a more extensive development of appropriate business-training material for the rural areas of Viet Nam. Finally, the study aims to contribute to the documentation of experiences and lessons learned in the development of Viet Nam's micro and small enterprise sector as well as sharing these experiences with the Vietnamese government, NGOs and national and international organizations.

SURVEY METHODOLOGY

The data on which this study is based were collected by surveying four communes in Yen Bai province from April 18-22, 2000. The survey method is anonymous individual questionnaires combined with focus group discussions. Survey respondents had participated in four SYB business-awareness workshops and four SYB business-planning workshops held in Yen Bai province from August 1999 to January 2000. It was attempted to survey the entire population of workshop participants (80), but only 61 entrepreneurs were available during the data collection period. The data were analysed and interpreted and the statistical analysis compared with issues raised and debated in the focus group discussions, resulting in the quantitative and qualitative nature of this survey.

2. MICRO AND SMALL ENTERPRISE DEVELOPMENT IN VIET NAM

Economic reforms since 1986 have had a significant impact on Viet Nam's recovery and its entry as a player in the global economy. Political and economic reforms have eased the transition from a predominantly centrally planned economy towards a more liberalized market economy where State Owned Enterprises (SOEs) are being equitized (privatized) and it is being made increasingly easier for individuals and groups to start a private business.

Private sector enterprises have grown dramatically – from almost nil to over 2 million private enterprises, of which about 26,000 are registered companies. The private sector contribution to Viet Nam's economy is significant, at roughly 60 per cent of GDP and accounting for more than 90 per cent of total employment.

The legal framework for the establishment of the private sector in Viet Nam was first enacted with the Law of Private Enterprise (1990) and Article 57 of the 1992 Constitution, stating that “Vietnamese citizens have the freedom to do business in compliance with the law”. Despite this, the procedures and regulations for starting and registering a small business have been complicated and costly until recently. The new Enterprise Law came into effect on January 1, 2000 and is eliminating many of the existing regulations and practices. Provincial and district authorities are required to eradicate all rules and regulations that are contradictory to the new law. The Enterprise Law is commonly referred to as a “one stop” approach: now an entrepreneur needs only to file a single application for enterprise establishment and business registration with the Enterprise Unit of the provincial Department of Planning and Investment, who decide whether or not to issue a business licence.

The past reforms have contributed positively to a significant reduction in poverty, and improved social and health indicators. However, much more needs to be done. Over 37 per cent of the 76.3 million population still live below the poverty line and unemployment is increasing.¹ Most of these poor are farmers with irregular and seasonal incomes. Employment absorption in the agricultural sector is not a viable strategy as land is scarce. Land scarcity, combined with over 1.3 million people entering the job market each year – 60 per cent in the rural sector – calls for alternative employment strategies.

¹ “Profile of Human Development in Viet Nam”, UNDP, www.undp.vn/undp/fact/stat/eng3/hdinvn (visited 19.09.00).

Efforts to combat poverty, economic recession and growing unemployment must look at a much-needed transformation of the composition of the labour force. Traditional farming families must be encouraged to move from the agricultural sector into the manufacture, trade or services sectors as well as strive for non-farm self-employment. Development of the rural areas largely depends on the creation of off-farm employment, which must be supported by the Vietnamese government, and national and international organizations, whose responsibility it is to produce viable alternatives for the rural population.

THE HOUSEHOLD ENTERPRISE SECTOR

The household enterprise sector and its legal recognition in Viet Nam is a recent development in the wake of the liberalization of the economy and the newly sanctioned role that liberalization accorded to private enterprises.

The household enterprise sector includes both agriculture and non-agriculture activities (about 66 per cent in farming). Most of the household enterprises have low levels of capital. Three-quarters of them are estimated to have an amount less than VND 50,000,000 (US\$ 3,570). The non-farming household enterprises are in a diverse range of industries and there is a clear overlap between the smallest registered private companies and the larger household enterprises.

Employment in household enterprises

In terms of sheer numbers and employment contribution, the household enterprises dominate the private sector with 89 per cent of total employment, but with only a 33 per cent contribution to GDP. Household enterprises have generally been unable to achieve high productivity or expand their operations, as most are small in nature with low capital levels. In recent years, the newer established and private enterprises, household as well as registered enterprises, are larger in terms of capital and employment than the older ones (Hemlin, Ramamurthy et al., 1998).

Rural household enterprises

More than 80 per cent of the total population live in the rural areas of Viet Nam and about 90 per cent of families classified as living below the poverty line live in rural areas.² It appears virtually impossible for a farm family to find a sustainable way to escape poverty if relying solely on food crop production on

² "Expanding Choices for the Rural Poor", Human Development in Viet Nam, UNDP, Hanoi, 1998.

small plots. As Figure 1 shows, agricultural production still accounts for the overwhelming majority of livelihoods in the rural areas

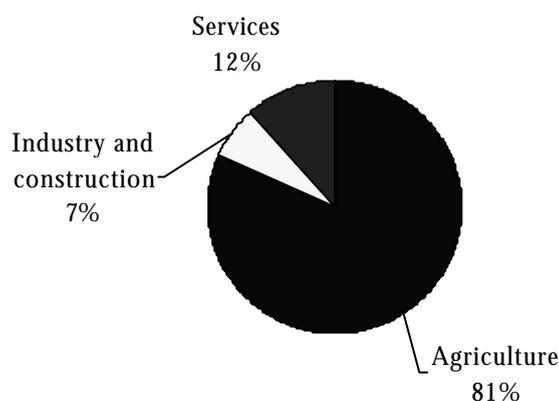


Figure 1. Occupations in rural areas
Source: Status of Labour – Employment in Viet Nam, MOLISA, 1997

Many rural households are constrained by various structural and economic factors (as shown later) to allow them to improve productivity and diversify sources of livelihood. Although rural poverty has been alleviated significantly over the past five years through agricultural diversification,³ rural poverty is still pronounced and rural residents must start looking for new ways to generate higher incomes and decent employment.

Despite the large population percentage living in rural areas and more than 80 per cent of livelihoods stemming from agricultural production the agricultural sector's contribution to national GDP has decreased significantly since the beginning of the 1990s. Accounting for more than 40 per cent in 1990, the agricultural sector's contribution to GDP shrunk to less than 22 per cent in 1998, while both the industry and the service sectors have increased their share of GDP in the same period.⁴

It is not surprising that the industry sector and, particularly, the service sector increased their contribution to the GDP in the new and more liberalized market economy. These figures, however, also show an increasing gap in productivity (and income) between people dwelling in urban areas employed in urban intensive occupations, and people living in rural areas employed in extensive agricultural production. The Government Statistical Office estimated that in

³ "Attacking Poverty"; Vietnam Development Report 2000, World Bank, Hanoi, 1999.

⁴ "Key Economic Facts in Viet Nam", UNDP, www.undp.vn/undp/fact/stat/eng1/economics (visited 19.09.00)

1998 the manufacturing output per employed person in the household sector was VND 330,000 and more than VND 11 million in the formal private sector.

Employment in the rural sector

At present almost 63 million people live in the rural areas and by 2001, this number will have increased by another 2 million. Half of the rural population will be adults and 60 per cent will be able to find employment in agricultural production. This leaves 13 million adults who will need to find alternative employment. Today only about 6 million have full-time employment in rural non-agricultural occupations and about 7 million people of working age have no permanent work. Of the 1.3 million workers entering the labour force each year it is estimated that the agricultural sector has to absorb 40 per cent.⁵ Combined with those already unemployed, more than 2 million new jobs in the rural areas alone would need to be created every year over the next few years, if rural unemployment is to be levelled out.

The rural labour market is poorly developed and it is difficult to find paid jobs in the construction or manufacturing industry, in the service sector or, for that matter, in the agricultural sector. This is particularly the case in the Northern Upland region where few households can afford to hire paid labourers for farm work and where few other employment opportunities exist. Increasingly people must turn to non-farm self-employment, which is easier said than done, since investment capital and access to credit is almost non-existent and knowledge on how to start a business is weak. Combined with limited markets and low purchasing power, potential rural entrepreneurs are constrained before they begin.

However, rural household non-farm enterprises are evolving into an important and growing contributor to family incomes. Along roads in districts and provinces, economic activities such as trade and services are taking place. While this is true for areas with a functioning infrastructure, it is not the case in the communes and mountainous areas where most ethnic minorities live. Rural income is still too low for any significant growth to stimulate demand, and there is risk of failing when starting a business. Increasingly, for many, this is tending to become their only option.

The process of rural diversification is intensifying and the reforms can be credited for this. In a sample of Mekong Delta women, 40 per cent were engaged in non-farming activities such as baking, tailoring, coffee booths and

⁵ "Expanding Choices for the Rural Poor", Human Development in Viet Nam, United Nations, Hanoi, Viet Nam, 1998.

petty trading.⁶ The Viet Nam Living Standards Survey No. 2 showed that retail sales at more than 33 per cent were the most common non-farm enterprise, with food processing and aquaculture/livestock respectively accounting for 12 per cent each as the second most common enterprise activities.

A clear correlation also exists between diversification of sources of income and poverty rate. Households that do not rely solely on agricultural production are appreciably better off than households who do, while those who derive their main source of income from non-farming activities experience higher income, more full-time employment and higher standards of living. To further enhance this process, there is a strong need for extending business development training to the rural areas, in order to absorb surplus rural labour in off-farm economic activities and to create a viable micro and small enterprise sector as a potential source of productive and sustainable employment.

ETHNIC MINORITIES

Vietnam has 54 ethnic groups, of which the Kinh group is the majority accounting for almost 87 per cent of the country's population. The remaining 53 distinct ethnic groups with a population of around 10 million account for 13 per cent of the total population and close to 18 per cent of the rural population.

In the Northern Upland the largest ethnic minority groups are the Thai, Dao and Hmong, which have populations of more than one million each. Thirty-six of the groups have populations of less than 100,000, some even as small as a few hundred. In fact, the ten major groups account for 84 per cent of the total ethnic minority population. The majority is highland people living in the northern and western parts of Vietnam on the borders with Cambodia, Laos and the People's Republic of China. Approximately 75 per cent are concentrated in just eleven provinces in the Northern Upland region and in four provinces of the Central Highlands, while 22 per cent (Cham, Khmer and Hoa) live in the Mekong Delta.

Poverty among ethnic minorities

World Bank and UNDP publications since 1995 have extensively dealt with the poverty in Viet Nam, as has the General Statistical Office (GSO). While Viet

⁶ Vo Ha Thuy, (1996). Determinants of labour force participation in the Mekong Delta, Viet Nam. Development Economics, College of Economics. Ho Chi Minh City, National University.

Nam in general has experienced a remarkable poverty reduction since the early 1990s, most ethnic minority groups still live in poverty.⁷

According to the Wealth and Poverty Study done by the GSO in 1993, ethnic minorities were 50 to 250 per cent more likely to be poor than the Kinh.⁸ Whereas 39 per cent of the Kinh were poor by one measure, 50 per cent of the Thai, 89 per cent of the Dao, and 100 per cent of the Hmong were poor by the same measure. Average consumption in the households of ethnic minorities was 60 per cent compared to that of Kinh households. Data from the Committee for Ethnic Minorities and Mountainous Areas (CEMMA) own surveys confirm this general picture. According to CEMMA surveys, some ethnic groups have household incomes of less than US\$ 3 per month, five groups have between US\$ 3-4 per month and sixteen have incomes a little over US\$ 6 per month.⁹

The Vietnam Development Report 2000 confirms the high incidence of poverty among ethnic minorities (Figure 2). Although the poverty incidence from 1993 to 1998 has decreased from 86 to 75 per cent, it remains high compared to the Kinh majority poverty incidence, which has fallen from 54 to 31 per cent.

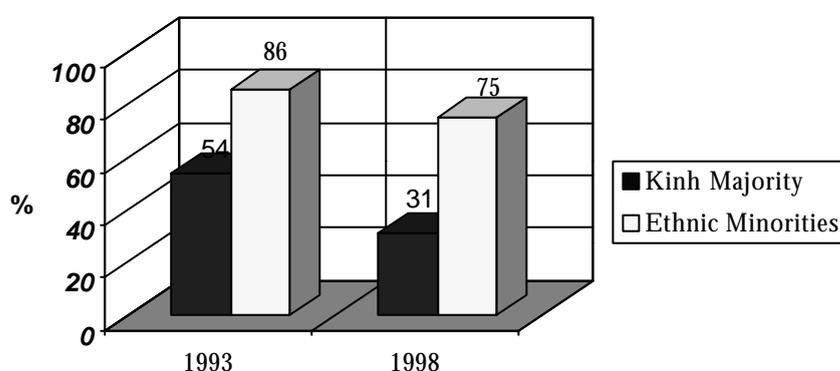


Figure 2. Poverty among Kinh Majority and Ethnic Minorities
Source: Viet Nam Development Report 2000, Hanoi, December 1999

⁷ "Expanding Choices for the Rural Poor", Human Development in Viet Nam, United Nations, Hanoi, Viet Nam 1998; and "Attacking Poverty"; Vietnam Development Report 2000, World Bank, Hanoi, 1999.

⁸ Discounting the Hoa ethnic group, which is a comparatively wealthy Chinese minority primarily living in urban centres in Southern Viet Nam.

⁹ INDISCO Viet Nam: Sustainable Development of Ethnic Minorities through Participatory Approaches under INDISCO, 1998.

Sources of income

In Yen Bai province, where the study was done, 29 ethnic minority groups comprise 47 per cent of the province's total population of almost 700,000. The largest groups are the Thai at 22 per cent, Dao at 9 per cent and the Hmong at 7.8 per cent. Agricultural production is the main source of income for most families. Groups living in the mountain valleys of Van Chan district, one of the INDISCO project sites, practise wet-rice farming to produce their staple food, whereas the ethnic groups in Tran Yen district, the second INDISCO project site, have sloping land (diversified cropping) as their main land resource base.

With the disbanding of co-operative farms in the wake of the economic reforms, farming land has been redistributed among member households (based on the number of persons in the household). Distribution was equitable inasmuch as every household received a portion of each different class of available land. The average household holding is quite small at 0.2 ha. of agricultural land and 0.5 ha. of forest land with an annual food crop yield of 0.8 ton/ha.

This has undoubtedly created the problem of fragmentation of individual land holdings, but it has made a plot of land (however small) available to each family in most villages, where it is possible to do wet-rice cultivation. Some of the more enterprising farmers have gone in for diversified high-value cropping on sloping lands. Major constraints in doing so on an extensive scale are lack of knowledge among most farmers of better land use alternatives or information on suitable production techniques, as well as lack of access to the investment capital necessary.

Raising small animals such as chicken and pigs, which is the practice among most ethnic households, serves as a supplementary production system partly to augment the household income (where markets are accessible) and partly for food. Forests also provide a source of food in times of food shortage, besides providing animal fodder and some income from the sale of herbs and medicinal plants.

SUMMARY

Due to an increasing population growth in rural areas and an increasing pressure on agricultural land, large numbers of the rural population are forced to look for alternative means of employment. While the poverty reduction in Viet Nam is largely attributed to agricultural diversification, this strategy is now reaching saturation point. Pressure on agricultural land remains high and access to more farming land is limited. This is particularly the case for ethnic minority groups, who find themselves compelled to diversify present income and labour

base. The rural labour market is poorly developed, however, and alternative employment in the rural non-agriculture sector will be of utmost importance. Most new jobs will have to be created as self-employment in the micro and small-scale sector.

Despite the reform process, which has given primacy to the principles of a market economy, the rural population and in particular the ethnic minorities, have been unable to benefit to the same extent as the urban population. The spread of benefits and the expansion and integration of markets have been inconsistent. The low income per capita, limited access to markets, and levels of unemployment and underemployment have prevailed in the rural areas, prioritizing the need for development of a rural household non-farm enterprises sector.

3. FINDINGS FROM THE STUDY

A total of eight workshops were carried out in Yen Bai province: four on business awareness and four on business planning. Of the 80 participants in the first four business awareness workshops, 76 successfully generated their own business ideas and went on to participate in the business-planning workshop in their respective communities. Sixty-one were available to participate in this study. The following data are based on information collected from study participants by individual questionnaires and focus group discussions.¹⁰

SEX, AGE AND EDUCATION

More women (57.1 %) than men (42.9 %) participated in the business-training workshops. The age range for all participants was from 21-55 years, with the average age at 37 years. Most participants had some formal education as is typical for Viet Nam, where the general education level is higher than comparable countries.¹¹

Almost 60 per cent of the entrepreneurs had attended secondary school (the mode for educational attainment), and more women (34.5%) had secondary school as their highest education level (18.2%). Both sexes accounted for more or less the same ratio of educational level in primary and secondary school at either end of the scale. None had gone to university and only one had received no formal education (Figure 3).

¹⁰ In order to assess the direct impact of business training, the study analyses only those who participated in the business-training workshops. The businesses described in this study are those that the participants chose to start. Therefore, the INDISCO project's efforts to support co-operative development for the self-managing groups in Yen Bai province, which has resulted in eight self-managing groups starting their own co-operatives and two community rice-milling co-operatives are not included in this study.

¹¹ The Adult Literacy Level in Viet Nam is 91.9 per cent, and according to the Human Development Index computed by UNDP yearly, higher than most countries in the medium human development range. *Human Development Report*, 1999.

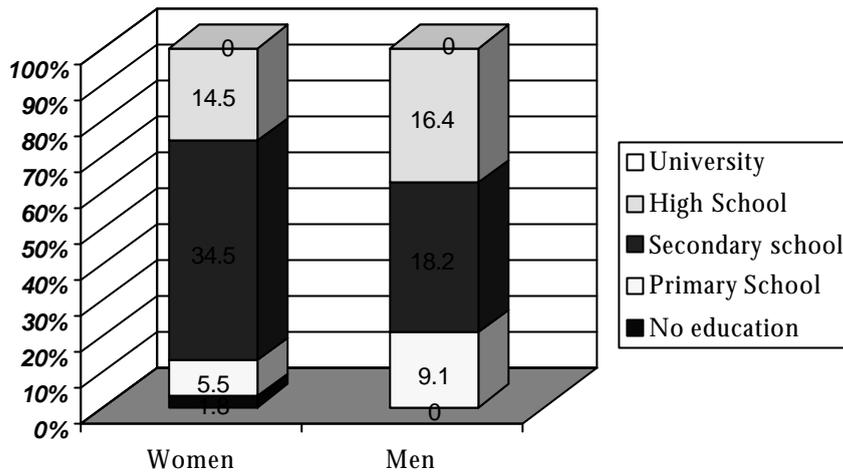


Figure 3. Educational level of SYB workshop participants

REASONS TO PARTICIPATE IN SYB TRAINING

Participants were asked to state their main reason to participate in the SYB workshops. As Figure 3 shows, more than 50 per cent of participants wanted either to find a business idea or learn how to set up and run a business. Close to 20 per cent wanted to improve their existing business and close to 15 per cent stated that there was no longer enough work on their family's land as their main reason to participate.

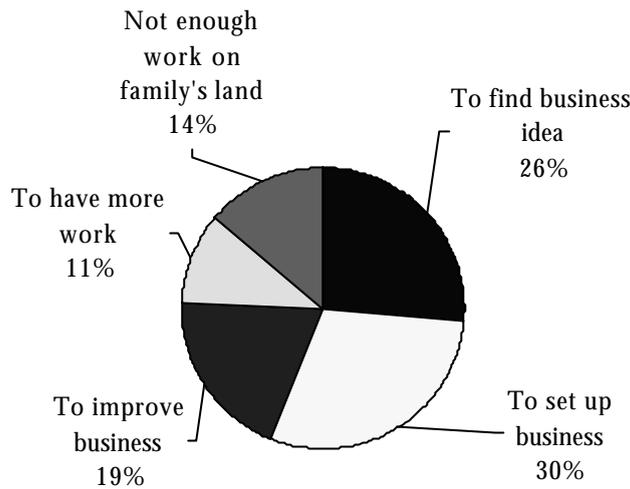


Figure 4. Reasons to participate in SYB training

The focus group discussion revealed that nearly all trainees participated because they wanted to turn additional income-generating activities into actual businesses. Of the ten per cent who already had a business, all wanted to learn how to improve it by acquiring new knowledge, building on actual experiences. Most respondents had not considered moving away from farming as their main economic activity, although some expressed the wish to start a completely different non-farm business, leaving this activity to other members of the family. Few expressed the wish to have the family move away from farming entirely.

EXISTING BUSINESSES

Contrary to common assumptions about the business experience of rural residents, a relatively high 53.3 per cent of respondents said that they had had previous business experience ranging from one to ten years, with most reporting between one and five years prior experience. Forty-one per cent reported they already had a non-farming business, on average between one and five years old. Of those businesses, 92 per cent were traditional household enterprises located in the owner's home, employing (other than the owner) between zero and two persons, of whom 82.4 per cent were family members.

Although 41 per cent claimed to have a business and 53 per cent asserted their previous business experience, Figure 5. tells a different story. When asked their main source of income close to 80 per cent of respondents stated that it derived

from farming, whereas only 10 per cent had a main income from business as a regular activity.

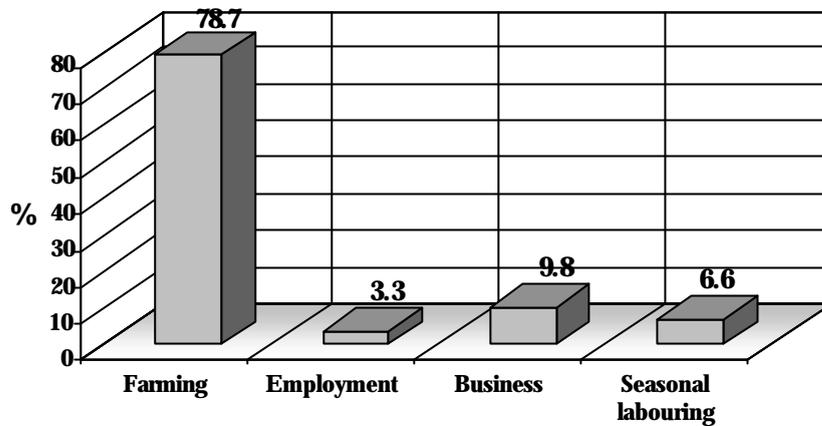


Figure 5. Main source of income

This suggests first, that very few people in the ethnic communities have business experience in the traditional meaning of the word and, second, that of the 41 per cent claiming to have a business, only 10 per cent have it as a regular economic activity from which they derive their main source of income.

The focus group discussions also revealed that “*business experience*” and “*having a business*” are indistinct notions referring to economic transactions in general. The common perception of business transactions evolves around farm-related additional income-generating activities such as selling surplus production, animal husbandry, and petty trading at the local market, all of which are complementary activities to agricultural production, which remains the main economic activity.

These findings indicate that the majority of survey participants have some experience in a market economy whether in farm or non-farm related economic activities. The approximately 10 per cent who made a living through regular business activities provided only a small percentage of business transactions in the four communities covered by this study. This suggests that many service and trading transactions are made through non-regular and informal business activities and that the potential exists for setting up many new businesses in these four communities.

INCOME IMPROVEMENT IN EXISTING BUSINESSES

It is significant that all respondents improved their incomes after the workshops. Despite the fact that many are not regular types of business, but rather income-generating activities, all respondents (100%) claimed to identify an improvement in their economic activities. All (100%) asserted they had more money for their family each month, on average between VND 100,000 and VND 300,000¹² the lowest being VND 20,000. This strongly indicates that business development training can also have an impact on general income-generating activities and part-time business activities.

NEW BUSINESS START-UPS

Of those who did not already have a business activity before participating in the workshops, more than 63.2 per cent started a business. More than 90 per cent started a family business, and one business was a partnership. In addition, two rice-milling co-operatives were started (however, the machinery for these mills was subsidized by the INDISCO project). The managers of the co-operatives participated in the business training to learn how to run the co-operatives like a business. Caution is needed in categorizing all businesses as full-time businesses – as the focus group discussions with the trained entrepreneurs again revealed. Type of business start-up is shown in Figure 6.

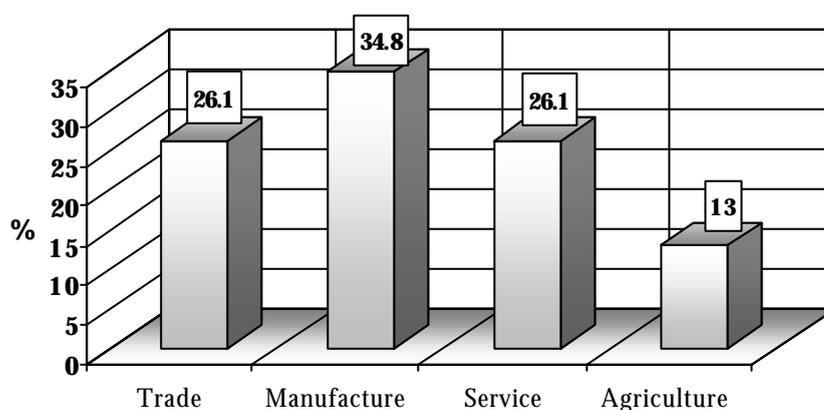


Figure 6. Types of business started

It is interesting to note that the businesses started are spread over the four types and, furthermore, that the fewest start-ups are in agriculture. This indicates the potential for creating a diverse business market in these communities. It also implies that the adapted training material, which promoted non-farm businesses rather than agricultural production, has had an impact on the types of business

¹² US\$ 1 = VND 14,000.

started. Throughout the workshops, the trainers stressed that the purpose of training was to create non-farm businesses, as a means to strengthen the local economy and to extend a wider range of business services to these communities.

The new businesses are usually household enterprises. More than 81.3 per cent of these start-ups operate from the owner's home and employ between one and three persons other than the owner. More than twenty per cent (22.2%) are employed from outside the owner's family.

The respondents self-assessed the performance of their new business and results are shown in Figure 7.

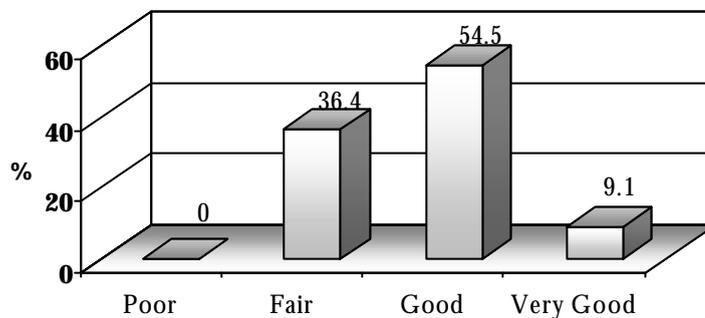


Figure 7. Performance of new businesses

All the new business owners reported more income per month for their families, ranging between VND 50,000 and VND 500,000, with an average of between VND 150,000 and VND 200,000. The new businesses, typically took three months before they started generating a profit. This reported increase shows the almost immediate impact of business training on family incomes in these four communities.

This profit/income generation, however, is not solely the impact of business training alone and should be attributed equally to the access to credit for all entrepreneurs who participated in the training, as the next section shows.

BUSINESS LOANS

On completion of training, 82.8 per cent of all workshop participants used their business plan to apply for a loan from the INDISCO loan fund. The size of the loans approved is shown in Figure 8.

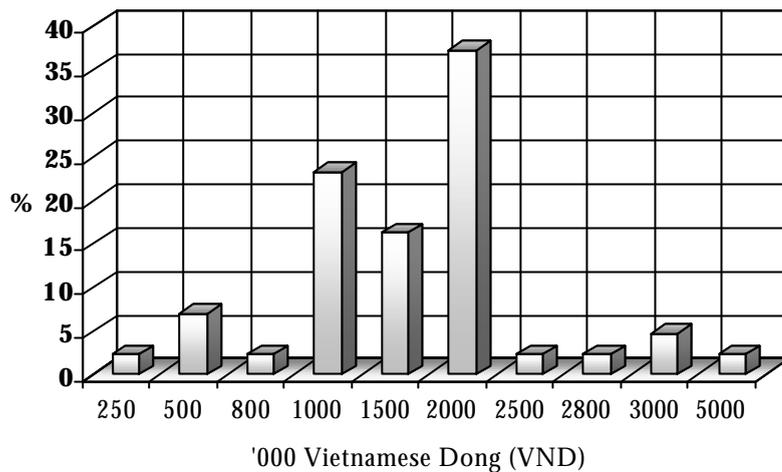


Figure 8. Business loans approved

An inherent component of all INDISCO projects is the INDISCO Revolving Loan Fund (RLF). The strategy in establishing local RLFs is to provide indigenous peoples and ethnic minority communities easy access to credit, as a means of strengthening local economies through agricultural and non-agricultural investments.

In Viet Nam, the RLF is established through technical and financial support from Vietnam Bank for the Poor (VBP) and The Rabobank Foundation (RF). The RLF was established in October 1999 with an amount of US\$ 100,000 and this initial funding will be available to the four communities for five years.

VBP is providing training and backstopping of the local RLF committees. The RLF committees consist of representatives from VBP and the local ethnic minority self-managing groups, who manage the appraisal of loan applications and loan disbursement. By April 30, 2000 1,077 households had received a loan from the RLF and a total amount of US\$ 92,114 had been disbursed.

A total of 68.9 per cent of loan recipients invested in their business, but some chose to invest in agricultural production instead. Disregarding their chosen form of investment, 67.2 per cent were now making more money for the family. The remainder stated that it was too early to say.

Comparing those entrepreneurs who invested in a non-farm business with those who invested in agricultural production, there was a clear correlation between improved income and non-farm investment as Figure 9 shows.

Have you been able to make more money?

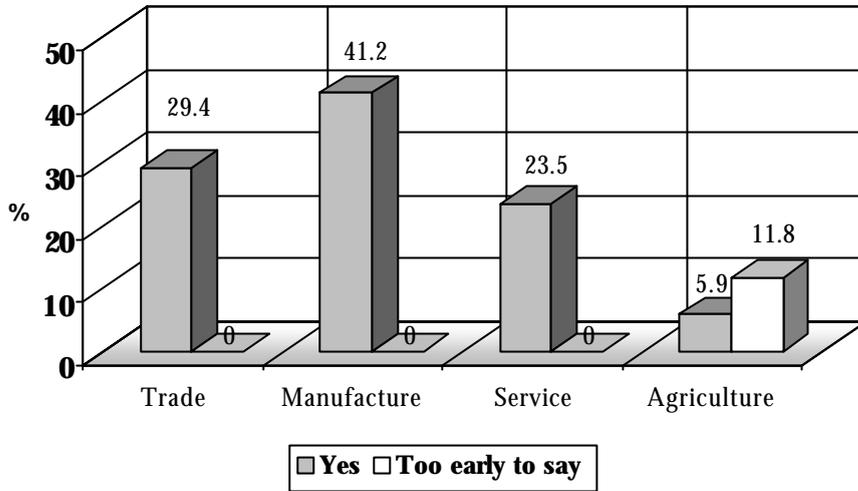


Figure 9. Have you been able to make more money?

Of those who started a business, the majority affirmed that their quality of life had improved (Figure 10). This is not to say that increased income can be translated directly into increased quality of life, but as an indicator that rural poor identify a quality change with higher income, since low income is most often the main constraint to leading a decent life. Asked whether life was better, close to 90 per cent said yes. No one found that life had become worse.

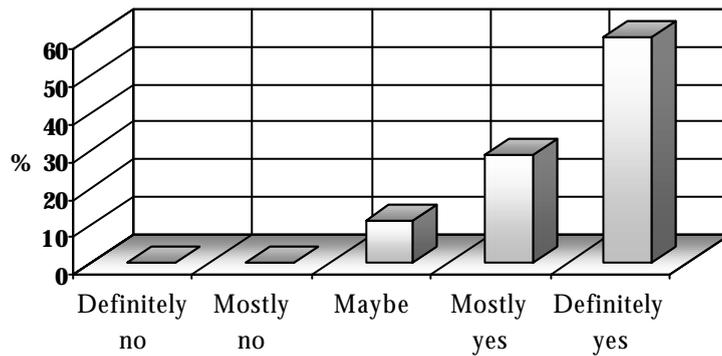


Figure 10. Has your quality of life improved?

CONSTRAINTS TO RURAL ENTERPRISE DEVELOPMENT

In an attempt to identify the main problems experienced by the ethnic minorities (which is likely to be the case for rural residents in general) when trying to start up a business, respondents were asked to identify one major constraint to MSE development in their area. Most defined weak knowledge on how to run a private business as the biggest barrier, followed by the lack of access to credit (Figure 11).

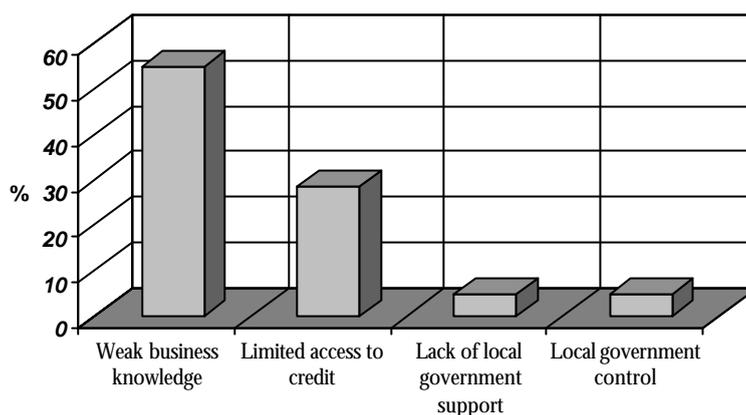


Figure 11. Barriers and constraints to MSE development

These findings are in agreement with the common assumptions about SME development in Viet Nam. As Chapter 2 suggests, in the rural areas of Viet Nam there is a general lack of understanding of the market economy and knowledge on how to start and run a micro or small enterprise is limited.

4. SELECTED CASE STUDIES

DUONG AND TAM'S CARPENTRY

Duong and Tam live in Son A commune in Van Chan district more than 90 kilometres from Yen Bai provincial town. Both are 30 years old, they have two children in primary school, and apart from supporting their own family Duong and Tam also support Duong's unmarried sister who lives with them.

Duong and Tam have been farmers all their adult life. The region is mountainous, most people are farmers and of the few businesses found in the area most are small groceries selling basic products. They have no business experience personally, but have both completed secondary school. Since there is insufficient work on their land to support the family, they have for more than two years considered starting a small business. They already had an idea: to start up a small carpentry business making furniture, doors, tables etc., to sell in the commune. Tam was practical and already had some technical skills in woodworking.

When they heard about the SYB workshop on business awareness from the INDISCO project they approached the village project committee and asked to participate. There was space for 20 trainees, but since many ethnic families wanted to attend, the committee replied that only one of the couple could attend. Since Duong was slightly better with numbers and calculations than Tam, they agreed that Duong would participate in the actual training.

Duong participated in the first workshop in business awareness in August 1999. They both later discussed its contents and repeated the exercises together. They assessed their entrepreneurial skills, estimated how much money they had, and would need, to start their business, assessed business opportunities in their community and made a SWOT analysis of their business idea. They found that a small carpentry business had good potential, and they completed their business plan and even decided to start their business before participating in the next workshop in business planning scheduled for January 2000.

In November 1999 they used their business plan to apply for a VND 2,800,000 loan at the local RLF. They invested VND 1,700,000 in a saw machine, VND 300,000 in a saw blade sharpener and VND 250,000 in a manual drilling machine. This left them with VND 550,000 to buy materials like wood and nails to which they also contributed more than 500,000 of their own savings.



Photograph 1. Duong and Tam getting ready to make a door for a customer

In the first month of operation they had only a few customers but, as the business became more known, more customers emerged. After participating in the January business-planning workshop Duong, who does the record keeping, finds it easier to calculate the cost of materials, so that she can set prices for their products that will ensure a profit. Today, five months after start-up, the business has approximately 20 customers a month. Profit for the last three months has on average been VND 300,000/month, which is added income to the money the family makes from rice farming.

Since starting the business, Tam is mainly doing carpentry and Duong and her sister do the work in the field. When Tam is asked to do a job he transports the saw and work tools to the customer's house and manufactures furniture on location. Orders are mostly beds, cabinets and other furniture, but when Photograph 1 was taken Tam was making a door for a small community milling station four kilometres from their house.



Photograph 2. Tam and his new saw machine

They have not been able to repay the loan yet, but consider they will be able to meet the repayment deadline, which is seven months away. Both are confident that the business will continue to be successful, as demand seems to be growing. Asked had their quality of life improved, they replied “Yes” in chorus. They had worried in the beginning, but had been forced to take the risk of trying to make more money for the family, despite the uncertainty of success.

They consider the main problem faced by people in their area who want to start a business is weak knowledge on how to do so. This is certainly a barrier this couple seem to have overcome through a combination of appropriate training, personal initiative and commitment.

MOC’S MILLING STATION

Moc has another story to tell. Descending from generations of rice farmers, he lives in Nghia An commune with his wife and their five children, and runs a small rice milling station. His family is from the Thai ethnic group in Van Chan district. They have a small piece of land, but it is too small for the family to make a decent living if solely depending on rice farming.

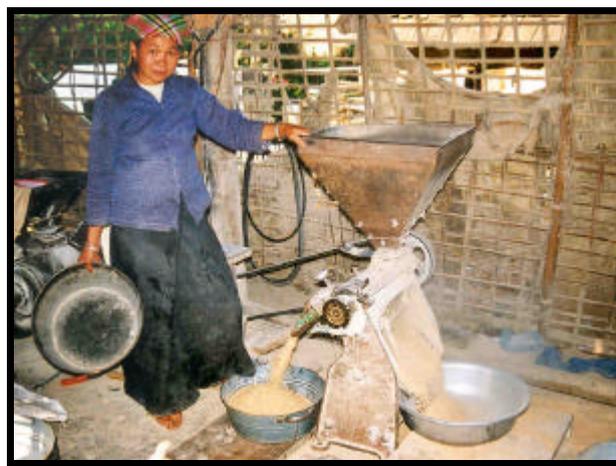
Moc has business experience as a service operator. Ten years ago he initially invested VND 2,700,000 in a rice grinder and generator. There was no electricity at the time and a generator powered the grinder. His investment was a one-time investment: He never calculated his running costs, since the business seemed to be going well and was one of

the only ones in the area. Many people came to his station even from far-flung villages and paid VND 800 per 10 kilos of ground rice. This seemed like a good price as he was making money, although not aware of his costs. With the money he made he was able to send his children to school, buy a motorbike and, when electricity came to the village, also electrical appliances. One year ago he invested in a milling machine and in addition he started to mill the rice shells into powder and use it as fodder for raising pigs.



Photograph 3. Moc and family in front of their small milling station

After participating in the business-training workshop, he claims to have a much clearer idea of his costs and he has started to keep a cash and record book. He has an average of 100 customers a month, of which some are repeat customers. On average ten tons of rice are grinded each month, and now customers pay VND 1,000/10 kilos, since otherwise he would make only a small profit. On the rice grinder and milling machine the gross income is on average around VND 2,000,000/month.



Photograph 4. Moc's wife with the previous grinder

From the gross income, he subtracts VND 500,000/month for electricity and VND 30-40,000 for maintenance of the equipment. This leaves him with a profit of around VND 1,460,000/month. He is aware that the machinery depreciates and that within one or two years he will need to invest in a new grinder. He is now planning for this by putting aside VND 100,000/month for future investments in machinery. Moc's only concern is that his business could be located closer to the centre of the commune, to give him access to more customers. Now, more people are investing in milling stations in the community, and a new milling co-operative supported by the INDISCO project has been started not far from his house. He may lose some customers to this new milling co-operative although its prices are the same as his. He accepts this, seeing it as good for the community to have competition. All the milling stations will still be able to make a profit, he argues, since there are many farmers in the area.



Photograph 5. A customer in Moc's business

DUONG'S TAILOR SHOP

Duong took a vocational training course four years ago to become a tailor. Since then she has made clothes for her family and friends, but not on a commercial scale. The main income of her family (herself, her husband and their six-year-old son) is derived equally from farming and a small grocery business they run on the side. Duong participated in the business training because she wanted to learn how to improve her existing businesses rather than how to set up a new business.



Photograph 6. Duong making a shirt, with her son in the foreground

She makes between 10-15 items of clothing every month, but each February, around Vietnamese New Year, she makes as many as 40-50 items. Customers buy both traditional and modern clothes. After her workshop training, Duong says that her ability to estimate costs and set prices has greatly improved. Her tailoring business is slowly increasing its number of customers and, since it is located in her house combined with her grocery business, she is able to attend to both businesses together. Duong would not reveal the profit her tailoring business made although she admitted she was able to save VND 300,000/month.

HOAN'S GROCERY

Hoan is weak and can no longer do strenuous field labour. Her husband still works the few rice paddies belonging to the family. For some years, Ms. Hoan's weakness has posed a problem for the family's income and for several months of each year her family has suffered from food shortage. Hearing about the business training, she saw this as a good opportunity to start a small business, which would give the family additional income and allow her not to do field work. After business training, she submitted her business plan to the RLF and applied for a VND 2000,000 loan. She had the loan approved and invested in some basic products to start up a small grocery business.



Photograph 7. Hoan and her small grocery

Hoan started her business in her house. She bicycles to the nearby communal town of Nghia Lo to buy products for reselling. Although she primarily sells basic items (soap, detergent, toothpaste, dry fish, instant noodles, peanuts, rice wine, sugar cane and occasionally some meat and vegetables) she is doing quite well, as her small grocery is the only one in the village. On average the small shop has 30 customers a day. Many people come in after a hard day's work in the field, to sit in her small shop, talk and drink rice wine.

The turnover for the last three months has been VND 5,000,000/month on average, and the revenue VND 600,000/month. Hoan explains this steady income as very significant for the family economy. After only three months of operation, the business revenue is already the main income source. Hoan is putting savings aside each month, partly to invest in husbandry production that will provide the family additional income and enable them to invest in a motorbike in the future. This would allow her to go to the market more frequently and bring more products to her shop.

TOAN'S RETAIL BUSINESS

Toan started a small retail fertilizer business in November 1999. At that time, some farmers started using fertilizer in their community and she saw a business opportunity to trade in this product. For the past year, her business revenue has been VND 350,000/month on average. After participating in the training workshop on business awareness, she started seeking other market opportunities in the area. She assessed the possibility of a market for trading in small consumer goods. After completion of the SYB workshop on business planning, she applied for a VND 2,500,000 loan from the INDISCO RLF and invested in a range of other petty trading products.



Photographs 8 and 9. Business transaction with farmer

After her new investment, the average business revenue has increased to VND 450,000/month. She asserts that the SYB workshops has been useful in learning how to estimate the money she needed to invest in new goods, in knowing how to keep her record books and in thinking about the problems people in her area have in obtaining products. Maintaining a correct sales and cost plan is still the most difficult for her, and she is still learning to buy stock in the right quantities. She is confident, however, that in time she will overcome these problems.

QUANG'S PLANT NURSERY

Quang is from a large family and has many brothers and sisters. When his parents died and the land was divided among them, his portion was too small to grow rice and he had to look for other options. Quang embarked on plant production and established a small nursery selling seedlings and small fruit trees. His nursery is unique in the province, so people come from many places to buy his products. His sales are very seasonal however and, in some months of the year, very low. Quang participated in the business-training workshop because he wanted to learn how to run his nursery as a business with a steady profit as well as learn how to plan for those months with low sales.

Quang's problem as he perceives it is that he does not have enough money to invest to make the business grow and expand into a full-time, year-round business. Mr. Quang applied for a VND 10,000,000 loan at the local RLF committee submitting a thoroughly prepared business plan, but he was granted only a small loan from the RLF of VND 1,500,000, which is too small to make the necessary investments to expand and improve his business.



Photograph 10. Quang in his nursery

Quang has also looked for alternative funding and submitted his business plan to the provincial bank, but was told that he did not have sufficient collateral in the business and, besides, that it was difficult for the bank to lend large sums to private persons. His hope now is that at the next round of RLF loan disbursements, after he has repaid the loan on time, he may be granted a bigger loan, to enable him to make a substantial investment in his business.

In his area, Quang finds the lack of access to credit is a major constraint for individuals who want to start up a business. He acknowledges that the Vietnamese banking system is as yet unable to lend to individual businesses, a hard fact for him to accept. However, he is very committed to turning his nursery into a business, a commitment enhanced by his participation in the training workshops that have provided him with the knowledge and skills to improve his enterprise.

5. CONCLUSIONS

SUMMARY OF FINDINGS

Business training has had a significant impact in the four communities of Yen Bai province. The business start-up rate is higher than typically expected for business training in rural communities. The combination of training and the access to credit through the INDISCO RLF immediately after training is undoubtedly the main reason for a business start-up rate of more than 60 per cent.

The training has had an impact not only in terms of business start-ups, but equally on existing businesses and income-generating activities. All participants claim to have more money for their family per month, on average between VND 100,000 and 300,000. This suggests that although participants do not start a full-time business, the management and financial skills they learn in a business-training workshop can be transferred to other economic activities. To what extent this improvement derives from the training or the access to credit is uncertain, though a combination of the two is the most likely.

Findings also show that the type of businesses started are spread over the four business types (trade, manufacture, services, agriculture) and, significantly, that most business of the start-ups are unrelated to agricultural products. This suggests the potential for creating a diverse business market in these communities and the suitability of training material stressing the importance of non-farm business start-up. These new businesses are all household enterprises. More than 80 per cent operate from the owner's home and employ between one and three persons other than the owner. It is interesting to note that more than 22 per cent of these enterprises employ people from outside the family. Although limited, this indicates that a labour market is slowly emerging in the communities and that rural non-farm enterprises have the potential to expand job opportunities for other rural residents.

More than 80 per cent of workshop participants took out a loan with the INDISCO Revolving Loan Fund and more than 67 per cent invested this in a non-farming business immediately after their training. All loans were small, ranging from VND 250,000 to 5,000,000. More than 67 per cent of investors were now making more money for the family, due to their investment, and the remaining 35 per cent of respondents stated that it was too early to say. It is significant, however, that of those entrepreneurs who invested in a non-farm business a higher percentage made more money than those who invested in agricultural production, thus showing a strong correlation between improved income and non-farm investment, and also that non-farm investment gives a faster return on investment.

More than 60 per cent of business owners rate the performance of their business as either “good” or “very good” and all contend that they have more income per month for the family, ranging on average between VND 150,000 and 200,000. Although this increase in income may seem small to outsiders it is an important increment for a rural family with low annual income.

However, the limits of micro credit are also evident from the study. While credit (in this case, a revolving loan fund) allows rural entrepreneurs to make limited investments to start up a small business, any access to larger amounts of capital are still limited. As presented in the final case study, committed and dedicated persons have difficulties in obtaining formal access to credit, due to lack of acceptable collateral and credibility with banking institutions (who still favour SOEs).

Despite continuous limited access to credit for investment, business development training for the ethnic minority groups of the four communities in Yen Bai province has had a noteworthy impact on the participating entrepreneurs and their families. The business start-up rate, which must be attributed to the combination of training and access to credit, is significant and bodes for more development of this kind.

LESSONS LEARNED

The findings can be summarized into a number of lessons learned:

- **Business experience** - Ethnic minorities do have some experience in doing informal business transactions in the emerging market economy, and they are not indifferent to business development. On the contrary, they are eager to learn how to set up and run a business and are capable entrepreneurs.
- **High business start-up rate** - Business development training combined with access to credit seems to ensure a higher business start-up rate than is normally the case in rural areas.
- **Training has impact on other economic activities** - Business development training has an impact on income-generating and non-regular business activities. Workshop trainees who do not start a full-time business are still able to use their new skills for income-generating activities.
- **Faster return on non-farm investments** - A clear correlation exists between improved income and non-farm investment. The return on investment is higher for entrepreneurs who invest in a non-farm business than in agricultural production
- **Businesses create jobs** - Close to 25 per cent of new businesses employed non-family staff, indicating that non-farm enterprises have the potential for expanding job opportunities and creating non-farm jobs.

- ***Weak knowledge and limited access to credit are major constraints*** - Weak knowledge on how to start and manage a business and limited access to credit are identified as the major constraints for start-up entrepreneurs.

PROJECT IMPLICATIONS

In light of the need for further development of the rural enterprise sector, the SIYB project will proceed with an adaptation of the SYB programme for rural communities. Supporting the expansion of off-farm choices, the rural SYB programme will serve the purpose of increasing business awareness and the knowledge of business planning, to enable rural residents to start their own non-farm micro and small-scale enterprises.

Particularities of the imperfect and unstable market in rural communities – poor infrastructure, limited access to markets and suppliers, low savings capacity, seasonal income and limited access to credit and technology – will be taken into account. The rural SYB programme for Viet Nam will be field-tested and assessed and the findings will be disseminated to interested organizations.

6. FUTURE DIRECTIONS

CONSTRAINTS TO DEVELOPMENT OF THE RURAL MSE SECTOR

These findings highlight the constraints to the development of the micro and small enterprise sector in rural areas. Although this study deals with ethnic minorities in one area, it is more than likely that investors in the same sector suffer from the same constraints. Most rural dwellers, ethnic minorities and Kinh majority alike, have little capital. They can rarely borrow capital to invest in business development and, in particular, they rarely have access to bank financing.

At present, only one-third of existing small enterprises are able to access credit. Of this third, only about 20 per cent have access to bank credit while approximately 80 per cent mobilize capital from families, relatives, friends and business suppliers.

Conventional collateral requirements significantly reduce the access of rural residents to formal credit. Despite considerable progress in land use certification, few rural residents can offer land as collateral, given the uncertainty of the renewal of allocations, and the fact that land value is based on rent already paid rather than on its actual market value (World Bank, 1998). Many rural residents are simply afraid to risk using their land as collateral, it being their only means of subsistence (UNDP, 1998).

Most entrepreneurs, as this study confirms, use part of their houses for their business location. Spaces are of necessity small and fail to meet standards of technical requirements or appropriate working conditions.

IMPLICATIONS FOR THE DEVELOPMENT OF THE RURAL MSE SECTOR

In the near future, the household enterprises in rural areas (farming and non-farming and ethnic/Kinh) need to absorb the vast majority of the new entrants into the labour force in rural areas. Consequently, the growth of this sector is crucial for social and economic development in rural Viet Nam.

To date, the enterprise sector in general has shown a great degree of dynamism, absorbing a large proportion of new entrants to the labour force and a bulk of retrenched from the public sector. This has primarily been in the urban areas. Underemployment and unemployment remain high in rural areas. In the absence of an enabling rural environment, household enterprises, in urban and rural areas alike, have generally been unable to achieve high productivity or expand their operations. Attempts to increase rural off-farm employment have faced a number of barriers including lack of capital and credit, poor market access and infrastructure, and inadequate equipment. Institutional support has been limited; excessive regulations and procedures are reducing

the ability of farmers, processors, entrepreneurs and industrialists to maximize their returns in a market economy.

POLICY AND PROGRAMMING IMPLICATIONS

Proactive and transparent policies and programmes in favour of the household enterprise sector are called for. The new Enterprise Law is one step in this direction. The success of the law is still subject to implementation by provincial authorities and the abolishment of earlier regulations. Important areas that need to be addressed include:

- Access to financial services (saving and credit) needs to be improved and expanded. Access is the problem – and not the cost of credit. The development of rural financial intermediary institutions must be a priority, and the extension of loans to ethnic minorities is a priority in rural areas.
- Access to business development training and material that is appropriate for rural areas should be developed. This material should consider the barriers and constraints in rural areas and promote non-farm enterprise as a development strategy for ethnic minorities and other rural dwellers.
- This study demonstrates that it is possible to achieve small private-sector development within some of the rural areas' most marginalized communities, and to create income and jobs. Therefore, CEMMA, within its functional areas, should consider supporting business development training and job creation as a strategy supporting the initiatives already taken on poverty alleviation for ethnic minorities.
- Infrastructure development for rural areas. Access to market and business inputs is a continuing barrier for rural household enterprises. Similarly, lack of electrification in rural communities is a limiting factor for the emergence of start-up enterprises.
- Improved attitude towards self-employment. Evidence (MPDF, 1999) suggests working in the private sector is generally not considered to be a “good” occupation. Since the majority of the population will have to find employment in this sector, the attitude both of government officials and the public needs to change, through promotion of private-sector opportunities in rural as well as urban areas.
- Vocational training schools and institutions involved in training and skills upgrading require improvement and expansion. More emphasis has to be given to training in basic entrepreneurial skills and skills in the area of new technology. Emphasis should be on the longer-term flexibility and adaptability of the work force.

- Simplified, fair and transparent tax system. The cost of tax and its compliance along with other charges is a real cost to household enterprises. The application of these charges needs to be simple, fair and transparent.
- Promotion of work standards within the household enterprise sector. The scale and diversity of the household enterprise sector makes it impractical to rely on a regulatory approach to ensure fair and safe working conditions in these enterprises. What is required is the development of an attitude and practices that promote fair and safe working conditions as being good for workers as well as for their businesses.
- Improved technical and managerial training, support and information for household enterprises. There are very few organizations providing these types of services. One of the reasons for the upsurge in demand for the Start and Improve Your Business (SIYB) Project is the large number of requests from organizations wanting to work in this area.
- Increased advocacy for the sector. In the household enterprise sector, the majority of businesses are small and diffused. They are not likely to be members of employers' organizations or business associations. Nor are they likely to be represented or to receive direct services from these organizations. Membership of employers' organizations and business associations usually tend to be medium-sized and larger enterprises. Consequently, the advocacy and direct services provided by these organizations tend to serve the larger-scale enterprises rather than the household enterprise sector.

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