MPI - GTZ SME Development Program
Local Coordination Board
Daklak COOPSME

START-UP
in Dak Lak Province

July 2007

Acknowledgement

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Section 1

Introduction

1. Background

Dak Lak is the largest province in the Central Highland region and regarded as one of the key economic driving forces for the whole region. The province's economy is highly based in agriculture and forestry with coffee cultivation the dominating industry. While Dak Lak economic growth rate is not far behind the average national rate [1], there remains a high need for the province to identify and adopt strategic steps to push up the economic growth toward diversifying economic bases, thereby decreasing the dependence on coffee growing/export and its uncertain price fluctuations.

A MPI-GTZ SME Development Program (SMEDP) has started in the province since October 2005. An economic development strategy has been jointly developed by the key public functioning departments and private sector, where Start-up Promotion is one of the core focusing areas.

As a follow-up step to the GTZ-CIEM study on "From Business Idea to Reality" that described and analyzed the procedures an investor has to undergo to realize his/her business idea(s) in seven provinces including Dak Lak, an in-depth start-up survey was conducted in Dak Lak in October 2006. The two-month long survey was requested for SMEDP's support by DakLak Cooperative Alliance and undertaken by Vietnamese consultants commissioned by GTZ

2. Study Goals and Objectives'

The study aims to collect data that form basis for the implementation of start-up strategy in DakLak. The overall study objective is to understand the start-up needs of selected target groups, which will serve as inputs for interventions and actions by business training/support organizations and State management bodies.

The specific objectives of the study are:

- To identify categories of target groups in the start-up phase (who are likely to start up businesses and who have set up business up to three years) and their characteristics.
- To identify the groups which have the most tendency to start-up (economic sectors, groups of people)

1 Average GDP growth rate of Vietnam is 8.4% while that of DakLak is 7.31% (2005)

- To identify specific interests as well as problems during the start-up phase
- To identify the essential needs of the target groups to seek for support and advice from the supporting organizations and the state bodies
- To pay attention to two sectors of tourism and food processing in recommendations of market opportunities.

3. Approach and Methodologies

3.1 Overall approach

As assigned by the Term of Reference (TOR), four target groups comprising (1) students, (2) private business households and small enterprises, (3) managers and executives of private-owned companies (limited liability and join-stock companies) and (4) farm-owners and cooperative managers were selected for study. The overall approach is to study opinions of these target groups and evaluate factors that may affect their business market entry possibility. The study also identifies needs for support in start-up phase. To that end, upon approval by GTZ, the consultant also interviewed owners of start-up enterprises (besides companies' employees - managers/executives) to get a sense of the business environment for start-up companies in DakLak. This experience will be very valuable for those from the four aforesaid groups who are going to/likely to set up businesses. Additionally, it will help business supporting organizations and State management authorities in their efforts to improve business environment.

An evaluation matrix was formulated that guided the consultants throughout the data collection and analysis.

Table 1: Evaluation matrix

Group	Identity of the surveyed	Key issues impacting the start-up phase (for operating businesses) or business participation (for potential business players)	Future expectation/plan
Students	Background (family, education)	Study environment Exposure to business Interest/motivation	Future career plan Expectations in business environment Business market entry possibility
Household business owners	Owner's background (education, experience, family) Business experience (establishment history, business lines, capital, revenue and staff size, etc)	Start-up process/procedures Operation-related factors (capital, market, technology, business support services, human sources, etc) Interest/motivation	Business Outlook/Expectations Business development orientation/plan
Managers and executives (of private-owned companies)	Backgrounds (family, education) Working experience (working history, position, business experience/ knowledge, relations)	Working conditions (incentives, training, employer's accreditation and support, etc) Satisfactions with current job Interest/motivation	Long term future career plan Expectations in business environment Own business creation possibility
Farm owners	Owner's background (experience, education, family) Production (main products, labor, land, machinery, incomes, additional businesses, etc)	Operation-related factors (capital, infrastructure, technology, market, agricultural promotion services, labor, etc) Interest/motivation	Business Outlook/Expectations Business development orientation/plan
Owners of private-owned enterprises	Backgrounds (family, education) Business experience (business establishment, business lines, capital, staff and production size)	Start-up process/procedures Operation-related factors (capital, market, technology, regulatory environment, business support services, human sources, etc) Interest/motivation	Business Outlook/Expectations Business development orientation/plan

3.2 Methodologies

3.2.1 Study methods

The study combined qualitative and quantitative data collection and analysis methods. Survey questionnaires were designed for each specific target group, however data collection methods varies among groups. Questionnaire survey was conducted only with students as the expected data from this group is relatively simple and mainly descriptive. For the remaining groups, face-to-face interviews, using the survey questionnaires as the guide were undertaken to obtain more in-depth information needed for analysis. A number of interesting and typical cases were selected for case studies to provide vivid real-life examples of needs, motivating/impeding factors and experience in business start-up and operation.

Apart from the questionnaires survey and interviews, the consultant also did a desk study to review legislation and studies related to business environment and operation, including those specific for SME. A review of reports, statistics and papers related to socio-economic situation of Dak Lak was also undertaken to have a general understanding of the province's economic development and orientations.

3.2.2 Sampling

230 people were selected to participate in the study, however, data analysis was done with 200 valid responses. As assigned in the TOR, the surveyed were selected from Buon Ma Thuot City; Krong Pak district; Krong Buk district; and EaKar district.

The persons selected to participate in the survey are those who have started up businesses, are likely to start up business and who have tendency to start up business. Five groups were assumed to meet this requirement and thereby selected for the study, consisting of (1) students, (2) private household businesses and small enterprises, (3) managers and executives of private-owned enterprises (limited liability and join-stock companies), (4) farm-owners and cooperative managers and (5) owners of private-owned companies.

The split of respondents from private-owned enterprises into two groups (managers/executives and owners) is deliberate. Managers/executives of private-owned companies are expected to be potential business owners in the future. Meanwhile, companies' owners (besides private household business owners) were interviewed to obtain their valuable start-up experience. Selection criteria for companies participating in the survey is those in business for three years for less so that there is still good recall of their start-up.

The sampling process also placed strong emphasis on businesses in food processing and tourism industries that are two potential sectors for enterprise development in DakLak.

Interviewees were distributed fairly equal among the five target groups. The following table summarizes the specific number of interviewees and selecting criteria/sampling methods.

Table 2: Number of interviewees and sampling criteria

Group	# Interviewees	# Valid cases	Selecting criteria/ sampling methods
Students	60	40	
Household business owners	50	50	
Managers and executives (of private-owned companies)	40	40	
Farm owners	60	40	
Owners of private-owned enterprises	30	30	

3.2.3 Data processing

All the returned questionnaires were "sight-edited" before data entry. Thanks to detailed instructions and close supervision by COOPSME Daklak, 200 out of 230 returned questionnaires were completed and valid for data entry. Data were entered and processed in specialized statistical software SPSS 11.00.

Section 2

Findings

1. Overview of DakLak and its non-state sector

Dak Lak is the largest province in the Central Highland of Vietnam with an area of 13,125.37 km2. Despite the massive migration to the region over the last 20 years, the province is still sparsely populated with the total population of 1.714 million and average population density of 130 people/km2.

Dak Lak has a favorable climate with moderate temperature and high rainfall and sun shining hours per year. Along with the endowed rich soil and large unexploited land, these made up Dak Lak's comparative advantages in agriculture, particularly the cultivation of industrial crops such as coffee, pepper and cashew, etc.

The province's economy is highly based on agriculture and forestry. Although there has been a slight decrease in its contribution to the provincial GDP for the past few years, agriculture, forestry and aquaculture still make up the largest proportion in GDP (51.07% vs. 25.37% by industry and 21.56% by service sector in 2005). This is much higher than the national average, which is 20.89% in 2005. The agriculture sector also plays a dominating role in employment provision, which employ more than 80% of the province's workforce.

The perfect climate, soil and topography conditions for coffee growing and the good returns on coffee production in the 1990's have made coffee one of the leading GDP providers for the province. However, due to the unfavorable fluctuation of coffee price and the droughts that have happened in the region for the past few years, the province starts moving toward diversifying its agricultural produces with a cut- down in coffee growing and switch to livestock breeding and higher-value plants such as cashew and peppers.

The past few years has seen an increase in the proportion of industry and construction in GDP (from 13.90% in 2001 to 25.37% in 2005 for industry). Service sector has a slight decrease (from 26.47% in 2001 to 21.56% in 2005). These two sectors, however, still keep a limited role in the economy's structure. Industrial production in Dak Lak has much involved with raw material, agriculture and forestry processing. Footwear and clothing production has started contributing to the GDP. There is only one industrial park in operation in Buon Me Thuot (Tam Thang industrial park), several others are still in planning and have difficulties in attracting investment.

There have been only three foreign direct investment (FDI) projects in the province between 1988 and 2005 with the total registered capital of 25.571 USD[1]. Out of these three projects, two are in light industries and one in construction area. This number falls far behind that of the neighboring province, Lam Dong, which has attracted 80 FDI projects. FDI sector only contributes 1% to Dak Lak's GDP compared with 3.3% in Lam Dong.

Despite the current setbacks in economy structure and development, Dak Lak is still the largest economy in the region and regarded as the "growth engine" for the Central Highland Region. This doubles impacts of any development support program to Dak Lak in the way that it leverages growth for the whole region. Apart from the not fully tapped natural and human resources that promise greater economic growth, Dak Lak has the advantage of being the traffic hub of the Central Highland region. Although out of the national railroad network and Vietnam's backbone Highway 1, the province serves as the gateway to the region, which is much attributed to its airport. The "second" national backbone, Ho Chi Minh Highway, is also making the province easier accessible from outside. Being home to the Central Highlands University, Dak Lak is an important human resources development center for the whole region.

Non-state sector

The non-state sector has played a dominating role in Dak Lak's economy, which is substantially different from the general ownership structure of Vietnam. The non-state sector has contributed 70.5% of GDP as compared with 28.3% by the State sector (national averages are 45.68% and 38.42% respectively). The non-state sector has a growth rate of 8.6% in 2005 while that of the State sector is 3.7%. In spite of Dak Lak's efforts in foreign investment attraction, this sector has still accounted for a very small portion in the economy with only three operating foreign-invested projects between 1988 and 2005.

From 2000 to 2005, businesses registration in Dak Lak province has more than doubled (from 530 to 1210) [3]. The increase in the number of registered businesses of the province, however, is still far too small as compared with the total number of 160,000 businesses incorporated across Vietnam in the same period since the introduction of the new Enterprise Law in 1999. This may be explained by the province's strong reliance on agriculture and forestry production and a large percentage of the population living in the rural area, who has not seen the urgency of formalizing their business' status.

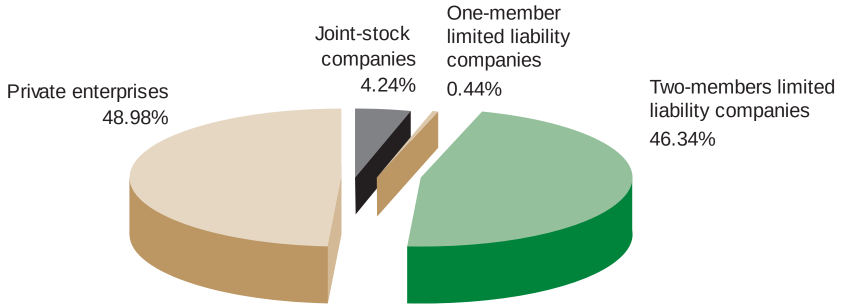

Chart 1: Distribution of DakLak's registered enterprises (by Sept 2006)

As reported by the Dak Lak Department of Investment and Planning, of 2039 business registered so far, nearly half are private enterprises, which is followed by two-member limited liability companies (46.34%). Joint-stock companies and one-member limited liability companies account for only 5% in the total.

According to the criteria of Decree 90 [4] on Small and Medium-size Enterprises Development, the majority of Dak Lak's registered enterprises are SME. 82% have registered capital under VND10 billion and 94% employ less than 300 people [5].

An important and note-worthy non-state player in Dak Lak is farms, though the majority of them are unregistered. The number of farms in Dak Lak was 1,364 in 2005 and on average, increases by 10% each year. Apart from their significant contribution to the province's economy in term of income and job generation, farms play a key role in modernizing the agricultural sector toward a large-scale, commodity and market-oriented agricultural production. A setback, however, is that a large number of farms in Dak Lak has been spontaneously established, as a way for the farm owners to make full use of family seasonal labor force and the existing natural advantages. Consequently, many of them have not operated to its full potential due to small-scale and poorly planned production, limited managerial capacity and technological application.

2. Surveyed population

2.1. Students

Our of 40 students participating in the survey, 72.5% are undergraduate, 25% are attending technical or vocational training schools and only 2.5% are pursuing graduate courses (master). As focus was placed on students of economic and business administration faculty in sampling, a large number of respondents have business administration/economic as their majors (37.5%). An equal number are studying agriculture. The remainder pursues training of high applicability such as Information Technology/Electronics or Mechanics.

The majority of respondents (77.5%) are from farmers' family. Only 17.5% have parents who work for Government agencies and 5% have parents running business. Understandably, among those asked, the main income for the family is from Agriculture and Forestry (70%) and more than two thirds of the students' families do not have any additional income source. This may explain the fact that the majority of respondents and their families (70%) are living at subsistence level ("just enough") while the remainder are living in difficulties. Only a very small number of students are living in "wealthy" families.

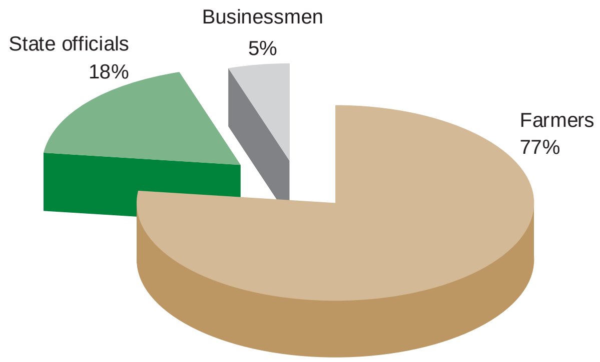

Chart 2: Distribution of students' parents' jobs

2 Dak Lak Statistical Yearbook 2005.
3 DakLak Department of Planning and Investment, 2006

4 Decree 90/2001/ND-CP dated 23 November 2001 on SME Development
5 Dak Lak province Report, Richard Jones, 2005

More than half of those asked (55%) chose the current study discipline because of their personal interests. Only 27.5% have clear purpose of relating their study to supporting their family's business later on.

2.2 Private household business owners

Although already in business, private household businesses were approached in the survey with the assumption that they will take further development steps to become "full-fledged" registered companies. This "upgrade" is expected to bring about larger production/trading scale and as the result, higher turn-over and larger staff, etc, which is also seen as a contribution to business promotion efforts in the province.

Of 50 surveyed household businesses, about 60% have run business for more than 5 years, 25.5% for 3-5 years and 11.8% for less than 3 years. Most of them (88%) are registered businesses.

Main business areas of those surveyed are diversified, covering services, trading and production. As the sampling emphasized food processing and tourism areas, a large number of respondents involve with these two sectors (24% and 29% respectively).

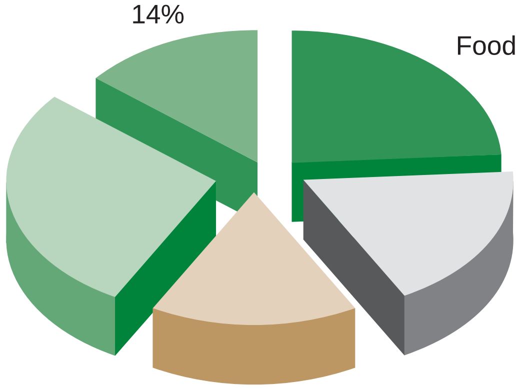

Chart 3: Business lines of surveyed household businesses

The average invested capital of each business is 880 million VND, a very high proportion of that is owner's capital (83%). Working capital accounts for approximately 20% of the total capital. The majority of surveyed businesses (86%) are owned and directed by an individual.

More than half of the business owners only completed secondary school. 15% graduated from university/college or technical high school. Half of those asked involve with other work apart from the current business, of them 33% are still working for government agency and 54% do seasonal farm work (rice or industrial crop cultivation). Most of the business owner had business experience before setting up their own business, which was acquired from their years running their small business or working for State/non-state enterprises.

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2.3 Managers/Executives of Private-owned companies

Of 40 respondents in this group, 65% are company staff and 35% are at managerial positions. Only 22.5% are university graduate, 30% just completed high school or even quit earlier. The remaining 46% were certified from technical or vocational training schools.

More than half of the respondents are working for limited liability companies (52.5%) that are followed by private enterprise (25%), joint-stock companies (12.5%) and company branches (7.5%). The real ownership and management of these enterprises is far different from their official business registration forms. While two thirds of surveyed businesses were registered as limited liability or joint-stock companies, the majority of them are managed and owned by an individual or family. Only one third of businesses are managed by a group of business partners/share holders.

The average staff size of surveyed enterprises varies from 20-25. In the data analysis, the consultant had to take out several large-size enterprises (with hundreds of employees) to avoid statistic deviation.

57.5 % of the responder has month income of 1.5-3 million VND, which is consider "acceptable" for provinces. 40% are paid less than 1.5 million VND and only 2.5% have "good" salary of 3-5 million VND.

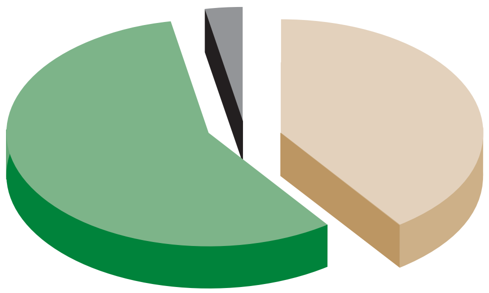


Chart 4: Average monthly income of private enterprise employees

Of various aspects related to the respondent's satisfaction with work, financial incentives (salaries, social securities) are the top concern and in fact, the most satisfactory aspect in their current work. Meanwhile, respondents tend to be less satisfied with such issues as relations between colleagues, relations between employers and employees, work safety or working rules. The general level of satisfaction with current work is "so-so", i.e. half way between "not satisfied" and "very satisfied".

2.4 Farm owners

40 farm owners were interviewed in the survey. A majority of them (70%) involve with castle breeding, which is followed by coffee growing (47%) and forestry (20%). It is noted that most of the farms do run more than one farming activities (e.g.: castle breeding and coffee growing or castle breeding and aquaculture). Other farming activities reported include rice/cereal growing (12.5%), aquaculture (15%), pepper growing (15%) and rubber growing (7.5%).

35% of respondents said that they run business besides farming activities. More than half registered as household businesses, one third stay unregistered and only one registered as limited liability companies. Understandably, the business areas that they involve are farm-related such as trading of agricultural materials/animal feeds, agricultural machinery repair or food processing.

On average, each family have from 5 to 6 people and 3 participate in farm work. Only 20% of farm have never employed outside workers. 80% hire additional labor on either regular (42.5%) or irregular (37.5%) basis. The average value of asset of farm owners is 550 million VND (min: 38 million, max: 1.7 billion).

Regarding the utilization of machinery in farming activities, pump and water supply system are most frequently used (62%), followed by tractors (52%) and rice grinding/food processing machines (37.5%).

2.5 Owners of Private-owned enterprises

As explained above, owners of private-owned enterprises were involved in the study as "living" example of those who did start up businesses - who know more than anyone issues, particularly difficulties related to business start-up. The experience shared by them will definitely be useful for those who are going/likely to set up businesses.

Of 30 asked, 18 are owners of private enterprises and 12 owners of limited liabilities companies. More than 90% of enterprises are owned and managed by the owners or their family.

It is noted that the largest number of respondents used to work for State-owned enterprises or government agencies (41%). This indicates the fact that the ex-staff of the State owned enterprises and Government agencies have been and will be a potential group to start up private businesses . 28% and 24% respondents used to work for private companies or household businesses. More than half (53%) graduated from technical or vocational training schools, 30% just completed high school or even quit earlier. Only 17% are university graduate.

As the sampling emphasized food processing and tourism areas, a large number of respondents involve with these two sectors (33% and 20% respectively). Other popular business areas are agricultural material trading and general trading.

3. Who are business players in Daklak?

To address the first key issue of the study about who are likely/have tendency to start up businesses in Daklak, the consultant used both "direct" and "indirect" questions in the questionnaire survey and interviews. While one direct question "Do you have intention to set up your own business" was posed to all the interviewees, various indirect questions were asked for each target groups. For students, such questions may direct to their future career plan or their personal interests in business, etc. Meanwhile, farm owners or household businesses were asked about their business development orientation/plan and their perception on the business outlook/environment, etc. Employees of private-owned enterprises were asked about their satisfaction with their current work and their own assessment of their advantages that could be "premises" for their future businesses (relations, knowledge of the business areas, working skills).

3.1 Real intention vs. Assumption

Data analysis shown that possibility/intention of starting up/upgrading business is low among three out of four target groups.

75% of surveyed students said that they wish to pursue higher study after graduation or work for State sector (government agencies/state-run enterprises). Only 5% of the respondents revealed their intention/interest of running their own business or working for their family's business.

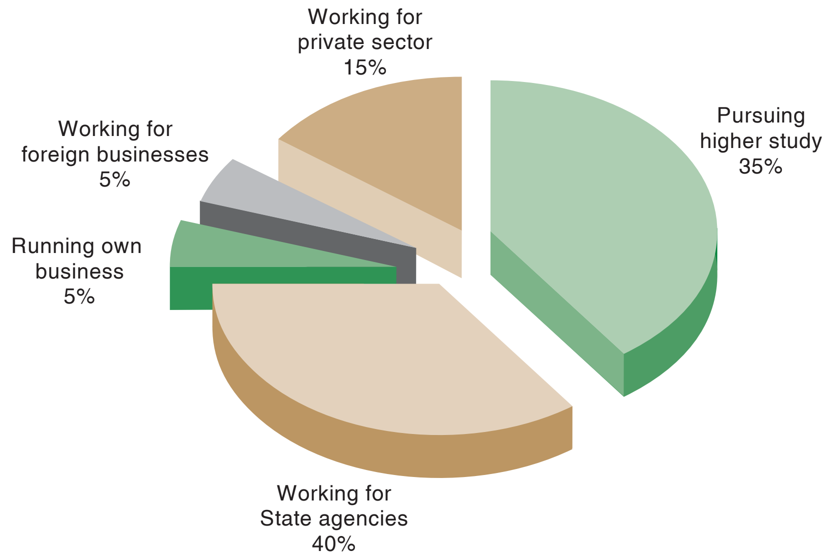


Chart 5: Students' intentions after graduation

82.4% of surveyed household business owners are happy with their current situation and do not have any plan for business expansion. A very small proportion (4%) think of upgrading their businesses into registered private enterprise or limited liability companies. 13.7% will add new business lines, but will stay unchanged in term of the business legal status.

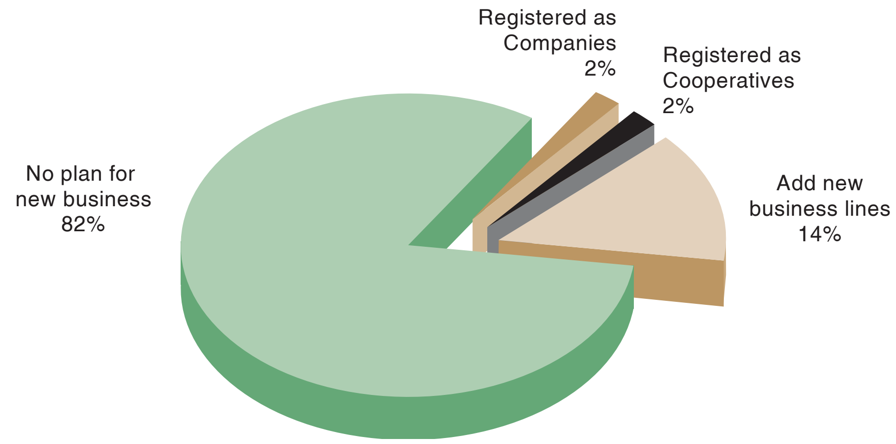


Chart 6: Intentions of Household Businesses

72.5% of farm owners have no intention of starting up business out of their current work. 15% and 10% are looking at setting up household businesses or cooperatives respectively. Only 2.5% expressed their interest in registering as private enterprise or limited liability companies.

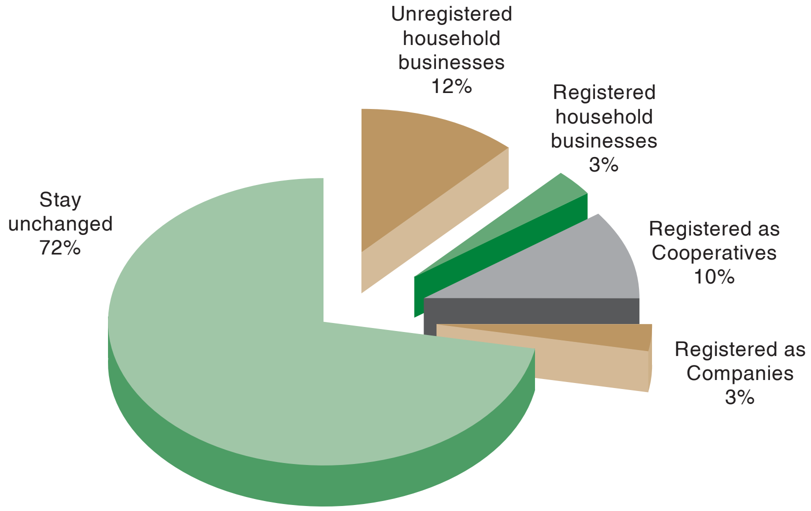


Chart 7: Intentions of Farm owners

Employees of private-owned enterprises are the most "positive" group for business start- up. 50% of the respondents said they have intention of starting their own business.

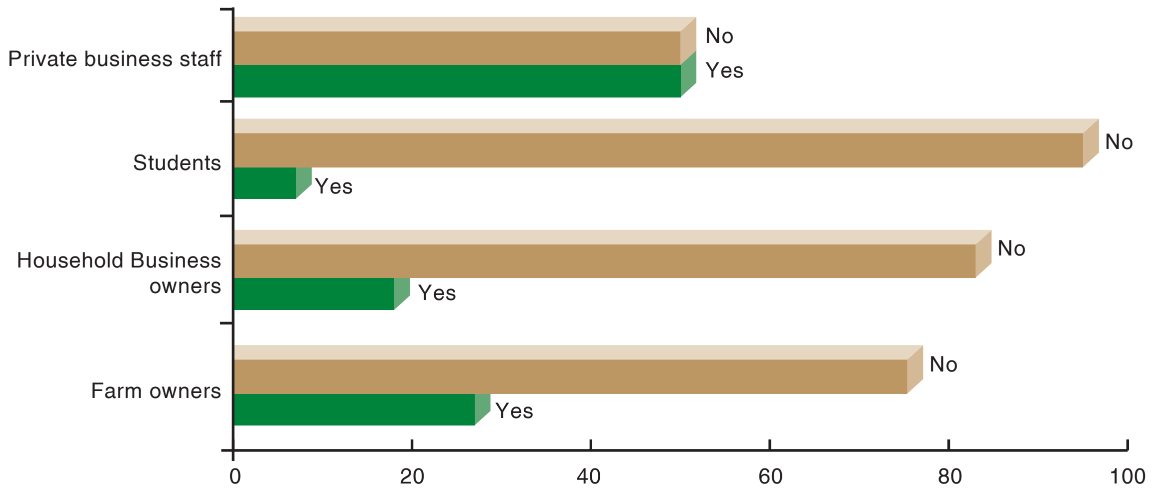


Chart 8: Start-up intentions among surveyed groups

3.2 The underlying reasons

The face-to-face interviews with specific questions for each group provided rather sound evidence that explains the low intention of the surveyed.

a. Students

The majority of students are from farmer's or government officials' families who are living at substance level. Their exposure to business and "entrepreneurships" must be much lower than those from business families.

There is little motivation/interest of students in challenging themselves in areas out of the traditional "beaten tracks" (working for the State sector, pursing further study). Their study purpose seems not to be very objective-oriented. A large number of students incidentally chose their study discipline from their personal interest. Just 27.5% have the express intention of relating their study to supporting their family business in the future.

The current study environment, even that of economic/business faculty students seems to be not "pro-entrepreneurship" enough. More than half of the student respondents do not do any extra work but study. Of the 18 students doing extra-work, only 7 involve with business of their families or seek to accumulate business experience from the work.

It is encouraging that 90% of students see the need to take extra courses to obtain skills needed for future work (courses in foreign languages, information technology, computer use or business and accounting). However, the impact of the training has still not been verified. 82.5% of the respondents assess their foreign language as "knowing a bit". The level of computer/internet use is high (82.5%) but only 47% really use this for study purpose (searching information, practicing IT skills, learning foreign language). The in-depth interviews showed limited awareness/interest of the students in headlining economic events such as APEC summit, Vietnam's rapidly growing stock market and Vietnam accession to the WTO.

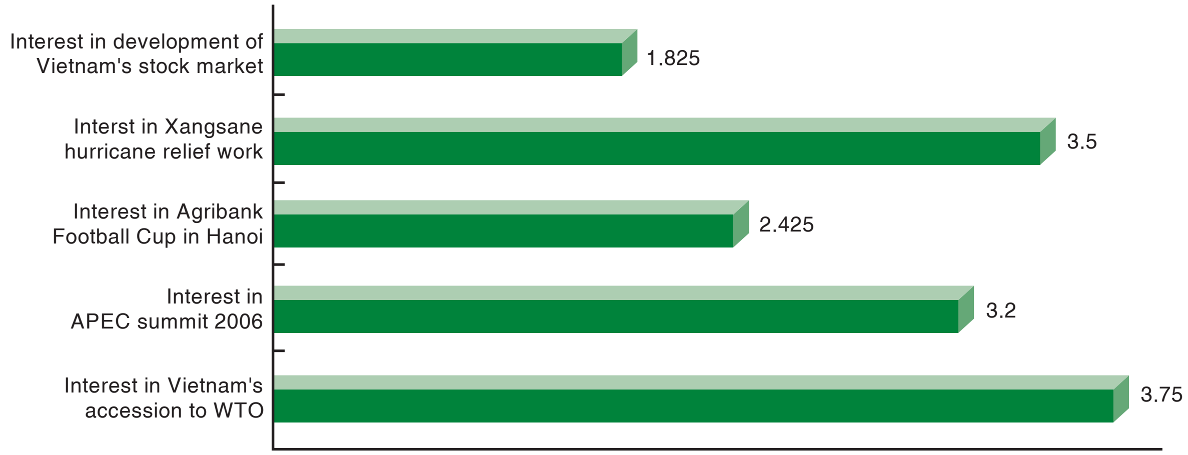


Chart 9: Interest in major headlining socio-economic events
(1: Not interested; 5: Very interested)

b. Household business owners

Meanwhile, the key issue with the household business that prevents them from stronger steps toward development is perhaps their limited "vision" and the very organizational and managerial model they are adopting.

More than half of the respondents in this group just completed high school and a large number of them started business from small trading activities. The prevailing management model is sole ownership and self-management, which relates business results too much with the owner's capability. In addition, because of the many responsibilities that the household business owners have to assume, they could hardly afford time for streamlining the business operation and tend to satisfy with the existing business situation.

The majority (85%) of the interviewees are happy with their current business results and positive about future business outlook. Most of them chose the "cautious" way of running business by their own resources. This can be seen in a very high proportion of owner's capital in the total invested capital, which amounts to 83% on average.

One contribution to the "self-satisfaction" of the household businesses is perhaps the low business pressure they are under. 100% of the surveyed businesses have nearby households and people as their main customers. 23% have customers who are State agencies/enterprises in the province and only 9% have customers from outside provinces. According to the interviewees, their two main competitors are household businesses of the same type in the province (98%) and private-owned enterprises (33%). With the absolute majority of customs being local households/individuals who often do not require official vouchers for business transactions ("red VAT voucher"), it is understandable that the surveyed businesses do not see the need to upgrade themselves to official legal entities. Also, the competition coming from same type of household businesses in the province seems not strong enough to drive the businesses to more drastic measures to be more competitive.

c. Farm owners

Just a low proportion of surveyed farm owners do other businesses besides farming activities and the majorities of them do not have any intention of setting up business in the future.

The first obvious reason that could explain the low start-up intention among this group is their very personal backgrounds. All the farm owners are farmers or originate from farmer's families and obviously, the "entrepreneurship" has been not with them instinctively.

However, an important finding from the study is that the current farm work occupies most of their time and farm owners could hardly do or even think of other businesses. The average cultivation area of each farm is large (5000 m2 for agricultural cultivation and 10,000m2 for forestry/aquaculture). Meanwhile, the level of use of labor and machinery is comparatively low (in average just 3 main labors/ farm). Main labor is still family members, including the farm owners. Although a majority of those asked said they have ever hired outside labor (of which 42.5% farms state that they always have to hire the outside labors; 37.5% of farms have to hire the outside labor at harvesting season), this is often seasonal and proportion of outside labor utilization is low.

The shortage of human power is also the main reason for lack of attention to post-harvest activities. The majority of farms sell their produce raw or virtually unprocessed when up to 65% of farm state that they always put their products on sale right after harvesting.

d. Employees of private owned enterprises

The survey shows that employees of private owned enterprises are the most potential to start up business among the four target groups. Haft of those asked stated their intention of running their own business in the future.

Their education background and working environment are the first to explain. Two thirds of interviewed company staff graduated from universities or technical/vocational training schools. Most of those asked have positive assessment of their knowledge in the business that they are doing (e.g.: knowledge in technology, relations with suppliers, labor supplies and sources of raw materials/inputs, etc). This very business knowledge is the main drive for them to set up future business, when asked about key reasons for their start-up intention.

Most of the interviewed private-own enterprise's staff is at the middle level in their satisfaction about the current work. As the result, they seem not to have strong and long-term commitment with the work. The present work seems to be acceptable with them in term of financial compensation (57.5% have "acceptable" salary, and salary/incentive is regarded the most satisfactory aspect in the current work). While this could meet their present needs, it is definitely not their ultimate goal in the end.

Besides, that the interviewees are least satisfied with the treatment/relations with their employers and colleagues could partly indicate the lack of long-term commitments with their companies. A deeper look at the management nature of surveyed enterprises show that the majority of them are actually owned and managed by one owner/a family, regardless of their legal registration forms. This may further decrease the work commitments of the company staff now that the sense of "employers" and "employees" is felt stronger.

The "volatile" work environment at private enterprises (vs. the "traditional" feeling of a secured career in the State sector) is also factor that counts. Half of those interviewed have ever seen their colleagues quit work to set up businesses of their own, which more or less will have some psychological impacts on their decision of plan.

3.3 Potential business players in Daklak

Regardless of the above findings and analysis, the consultant still believes that all the target groups are potential for business start up. With the unduly tapped advantages in natural conditions and great potential for industrial production as analyzed in the previous section, the remaining question is how to nurture and arouse the "entrepreneurship" in them and what interventions are suitable for each group.

However, the survey has revealed two groups that are most likely to start up business in an immediate future, namely (i) staff of private-owned enterprises (particularly those at managerial level) and (ii) ex-staff of State-owned enterprises and Government agencies.

While the main driving forces for the first group are their education background, their knowledge and experience of the business they've involved with and the moderate satisfaction with the current work, the other group really benefits from the relations and understanding of the market acquired from their years working for the State sector. Both groups have comparatively high education as compared to other groups, which may broaden their view about business opportunities and challenges.

It is however a long way to go from business intention to start up. Interviewed private enterprise staff seemed to be cautious about their future plan. Two thirds of them said they would rely on their/their family's savings for future investment. Not many are "adventurous" enough to borrow from banks or mobilize capital from friends/business partners. A majority of the interviewees said that the business lines of the future enterprises would be similar or somewhat similar to those of the companies they are working for. This has logical link with their statement that the main reason for starting up future business is to utilize their knowledge of the market and technology.

4. Start-up issues

It is a common understanding that it is a long way to go from business intention to start up. This process does not only requires determination and efforts by the business doers but the assistance from Government agencies/institutions and business support organizations. Apart from the specific recommendations to these institutions/organizations to be presented in the next Section, the consultant believes that a review of start-up experience by those who are running business is essential. The review, while could provide more evidence for recommendations to the Government/business support organizations about how they could do more to create an inspiring business environment, is valuable for those who are going to/have intention of starting up business.

To that end, in-depth interviews were conducted with owners of household businesses and directors of private-owned enterprises (who have started up no longer than 3 years). Analysis of interview results has mapped out start-up issues/considerations, particularly difficulties/barriers that newcomers/would-be new comers should anticipate if they join/decide to join the market in the future.

4.1. Performance by start-up business

The current business situation for the private enterprises in Daklak seems positive at both "company" and household business levels. Up to 23 out of 30 directors of private companies interviewed said that the business situation of their companies now is at "good "or "normal" development. Only a director rated his company's situation being worse than expected.

The same sentiment could be felt in interviews with household business owners. 96.1% of survey household business owners rated their business results in three recent years as "good" as expected.

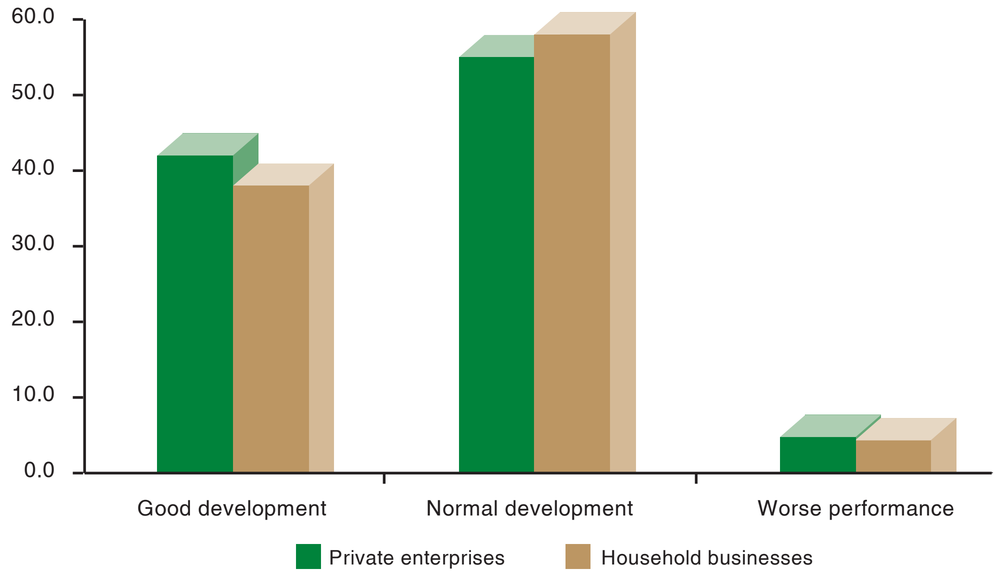


Chart 10: Seft-assessment on business performance

Two thirds of surveyed businesses reported earning profit through three years from 2003-2005 and the number of profit-making businesses tends to increase by year.

However, the question is whether the above self-evaluation does reflect the current business situation in DakLak or business doers are just over optimistic. A closer look at and analysis of several vital business indicators show that though the start-up conditions have been improved for the last few years, there remains many challenges to the businesses, particularly in their post-registration operation. The positive self-evaluation of businesses sounds reasonable, but in fact is attributed to that businesses are not aware of the constraints that they are in.

4.2. Several key performance issues

4.2.1 Legal forms and management models

For both groups of respondent, the interview teams pose two similar questions "What is the legal status of your business?" and "What are the actual management model of your business"?.

With regard to registration forms, nearly two thirds of surveyed businesses were registered as "sole proprietorship" or "private" enterprises under the Enterprise Law of Vietnam. The remainder was incorporated as Limited Liability Companies.

The domination of private enterprises in the surveyed population, while obviously different from that of big cities like Ha Noi or Ho Chi Minh City, is in line with the overall trend in Dak Lak. According to the statistical data provided by Daklak Business Registrar Office, from 1993 to 2005, 900 businesses were registered as private enterprises and as compared to 780 limited liability companies incorporated.

The finding about the actual management models of the surveyed businesses is interesting. Regardless of their registration forms, 90% of those surveyed are owned and directed by only one owner/a family. Only 10% have capital contributed and are managed by a group of business partners. This individual- or family-based management model in fact is a barrier to the development of the business in the way it limits their capital flows, technology and managerial capacity. According to a business study by the World Bank, registered enterprises work more effectively (by 40%) than unregistered ones in the same business area.

4.2.2 Owner capital and assets

Many interviewed private business owners refused to provide information related to their asset and capital. This is understandable as data related to "financial issues" is still considered a secret that the owners are unwilling to share with the outsiders. Of the valid cases, the average value of the total asset is 2,568 million VND with 63% being owner's capital and the remainder loan capital.

The capital volume by the household business is much smaller that that of the private enterprises. The average asset per household business is 881 million VND, of which owner's capital accounts for 83%. This reported figure is fairly high for household business; but could be explained by owners' tendency to include such assets like their own living houses or motor-bicycles in the business assets. While these assets are actually used for business purpose, it significantly "exaggerates" the capital volume of the household businesses.

Capital issue tops the list of difficulties that surveyed businesses encountered and leaves other issues such as market or human resources far behind. This again reiterates the limitations by the individual- and family-based business model that a large number of businesses are pursuing in term of capital mobilization. Besides, the high proportion of owners' capital pose questions about the effectiveness of current lending mechanisms in the province, which should be followed by more in-depth and specific study about the capital market. However, this finding is at least useful to those who are going to set up business when considering about their registration form and importantly, their actual management form.

4.2.3 Revenue/ profit

Only a surveyed company has the revenue in 2005 of more than 50 billion VND. Throughout 3 years from 2003 to 2005, private enterprises that have annual revenue of less than 1 billion VND still make up a large proportion. From 40% to 50% of private enterprises have revenue of less than 1 billion VND during this period.

Due to the absence of a standard accounting system in use, it is impossible for the household business to state exactly their annual revenue. However, the general impression from discussions with household businesses revealed the similar trend, with the majority having small-scale revenue.

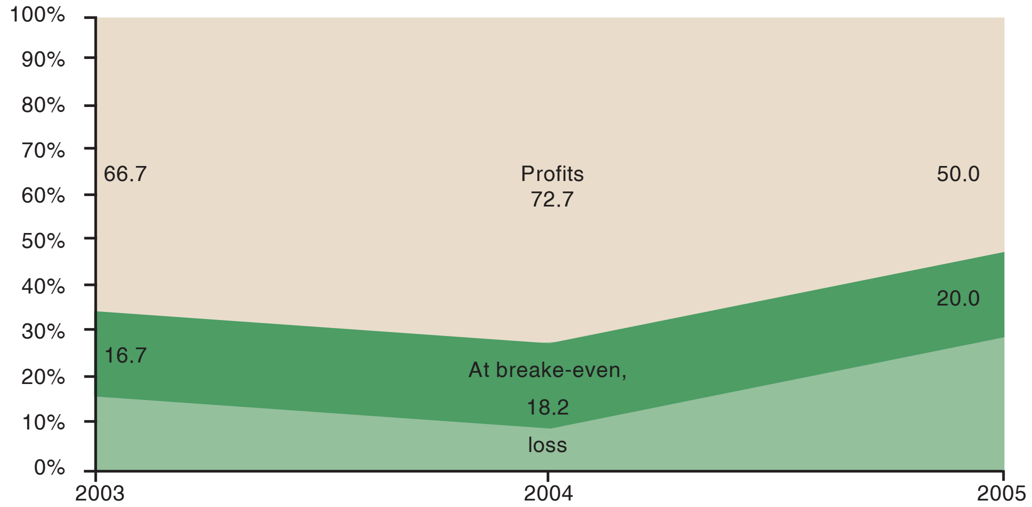


Chart 11: Income situation of the interviewed private enterprises

Two thirds of surveyed businesses reported earning profit through three years from 2003-2005 and the number of profit-making businesses tend to increase by year.

While the reported business outcomes look positive, what strikes the consultant is the small revenue volume of those surveyed. This makes a stronger case to consultant's assumption that surveyed businesses and small and medium businesses in Dak Lak in general are "self-satisfied" with their current business results. Looking from the perspective of a rapidly developing economy of Vietnam and particularly the growing competition pressure from outside, this "self-satisfaction" is concerning.

4.2.4. Utilization of banking services

Almost all of the private enterprises have relations with banks at different levels. 29 out of 30 private enterprises (97%) said that they maintain the frequent relations with the commercial banks, using basic banking services including either the current account service and lending services. This rate is high as compared with that of other provinces. However, only 76.7% of the interviewed private enterprises have ever received loans from banks.

The maximum value of a loan from the commercial bank to a private enterprises is recorded at 3.7 billion VND, and each private enterprises have borrowed money from banks receive an average loan of 1.034 billion VND. The average term of a loan is 18 months.

It seems that household businesses have not as strong relations with commercial banks as private enterprises. On average, each household business having lending relations with banks only receives 176 million VND for the biggest loan. The average term of loan is 13,5 months.

4.2.5 Market and distribution

a. Market/ principal customers

Again, the "self satisfaction" is reiterated among the business community in Daklak with regard to market issues. Regardless of the legal status or business scale, it seems that the interviewed businesses only focus on the intra-provincial market of Daklak.

When asked about the two principal clients, up to 100% of household business answered that they are in Daklak province. Only 9,8% of the interviewed household businesses have clients from outside of the province, and none has foreigners as the principal client.

The same situation has been found with the surveyed private enterprises. 67% of them have local individuals as their principal clients; only 20% of those enterprises have corporate or State-sector clients. A much smaller percentage (10%) states that they have client being foreigner (corporate or personal).

Box 1. The disappointment of DoST

With the assistance from SME-GTZ project, the Department of Science and Technology (DOST) of Daklak implemented a study on the chain- value of "avocado". From the study, it is a surprise to DoST to learn that during the harvesting times, farmers in Daklak sell to the market around 337 tones of avocado each day. Most of Dak Lak's avocado is distributed to the other provinces through some wholesale traders in Dalat (Lamdong province). From 2000-2002, Daklak's avocado has been presented on the self of METRO- a wholesale giant in Vietnam. A little more surprise to DoST happened; the sale division of METRO does not know they are distributing the Daklak's avocado. Instead, METRO thought that this type of fruit only exists in Lamdong province!.

c. Marketing and market expansion solutions

The concept of "patron" still has heavy impacts on the distribution channel of the business establishments in Daklak. 60 % of the private enterprises and 88% of household businesses answer that they mainly sell/ provide their products or services to the patron clients. While only 13% of household businesses and 30% of the private enterprises surveyed use the distribution channel through a system of agents/ wholesales company.

4.3 Business constraints

The general impression from interviews with business director is that procedures for business registration are no longer a big problem in their start-up stage. This could be explained by continued efforts by both the central and local government in streamlining administrative procedures regarding business registration [6]. As for start-up businesses, what really matter now are operative issues.

Apart from constraints identified via businesses' assessment of their performance, the consultant also asked a straightforward question about difficulties that private businesses in Daklak have been encountering. The question covers both internal issues such as skill of staff to the external/ business environment issues such as legal framework or business licensing procedures.

4.3.1. "Internal" constraints

Expansion of firms' markets (both in and out of the province) and formulation of business strategy and annual plan top the list of internal difficulties that businesses often encounter.

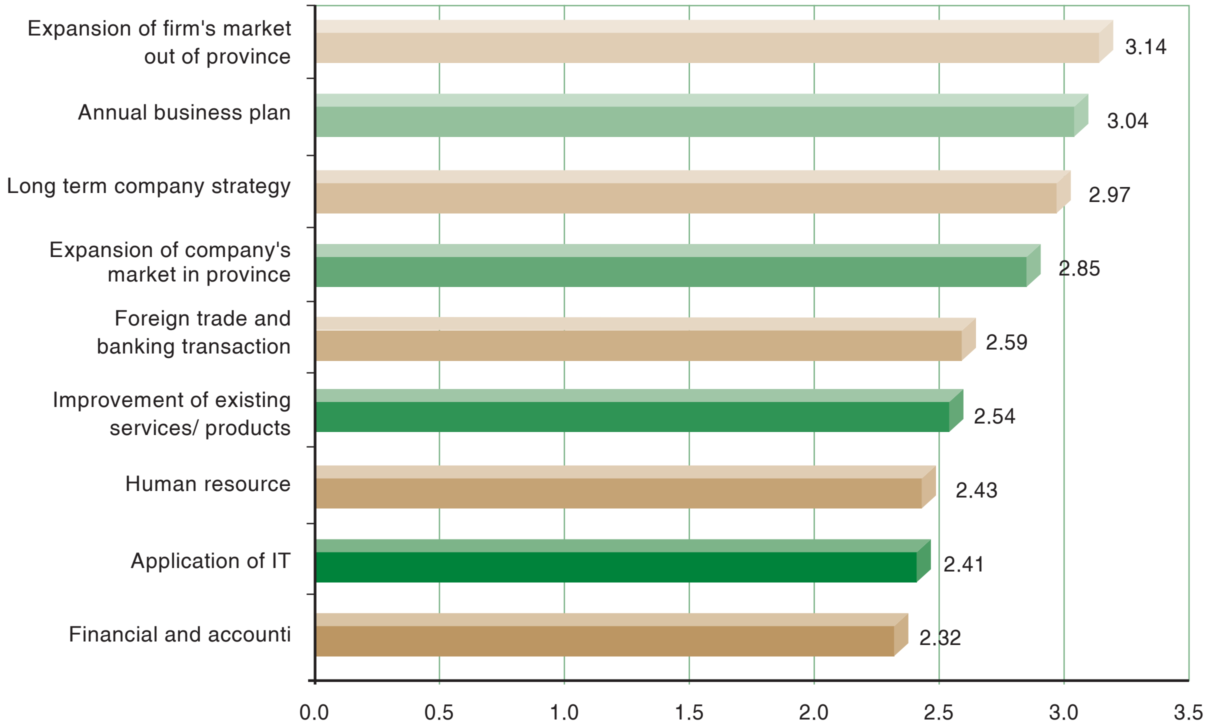


Chart 12: "Internal" business constraint to start-up businesses (1: Not difficult; 5: Very difficult)

6 The survey "Domestic business: From idea to reality" by GTZ, CIEM and Vision & Associates on in 6 provinces in 2005 reported that only 54% (as compare with the general average of 69%) of interviewed businesses in DakLak had the all registration procedures completed within statutory time limit. However, the consultant's discussions with start-up businesses and related government agencies in Dak Lak have revealed much more positive assessment of registration procedures.

In the in-persons interviews, this was explained and again, the issue of "vision" is really a factor that counts.

It is contradictory that businesses realize the importance of market expansion but seem satisfied with their current business performance and do not have strong motivation for changes to become competitive. The majority of interviewees are content with clients in their limited geographical area and inclined to rely on personal relationship in business doing. A large number of those surveyed earn half to majority of their revenue from traditional clients. When asked about groups of client that they wish to approach and expand to in the coming years, many still choose "intra-province clients". Very few businesses take professional and extensively impacted measures in market expansion such as participation in trade fairs/exhibitions, public advertisement/establishment of website or attendance in a business/mass association. The majority of them choose to market their products/services through personal relationship or attracting clients by the product/service quality itself. Obviously, as long as businesses are stick to these measures, there is little opportunity for their products/services to be known outside of their traditional provincial market. Only two survey businesses have division/staff in charge of marketing in their organizational structure. That the number of businesses will continue increasing in the coming years while the out-of-province market seems out of reach will present stronger competition pressure on the intra-province's market. It is understandable that "expansion of market" within the province is among the top concerns for businesses.

The positive increase in the revenue, profit and assets are only "surface" issues, which may be more attributed to the growth of the general economy than the inner development of the businesses themselves. Meanwhile, factors that decide long-term competitiveness of businesses and their ability to reach beyond the provincial market, such as legal status (registration vs. unregistration, limited liability company vs. sole proprietorship), management model and clear and well-shaped long-term strategy are still of their daily concern and consideration. Only two household businesses expressly said they would upgrade themselves to a limited liability/joint-stock companies. Many still mistake "ownership" and "management", thus limiting their own development opportunities by the direct and absolute control over the businesses.

Accounting and financial management, human resource and IT application are not rated as the most difficult issues by surveyed enterprises. However, this does not mean businesses are competent in such areas. They are just not issues of their primary concern. However, these may become real problems in the next period of development.

4.3.2.Constraints from business environment

Difficulty in access to bank loans was complained being the top constraint from the business environment. The large majority of Dak Lak's businesses are SME, which may partly explain the obstacle. So far, it is still challenging for SME across Vietnam, let alone Dak Lak to access formal loans due to strict conditions on collaterals. The GTZ, CIEM and Vision survey "From business to reality" in 7 provinces revealed shorter time for bank loan process in Dak Lak the average across provinces (30 vs. 32 days) and assumingly attributed this to the higher availability of land that could be used as collateral. However, shorter loan processing time is only one of the aspects and further study is required to assess the effectiveness of the province's formal lending mechanism.

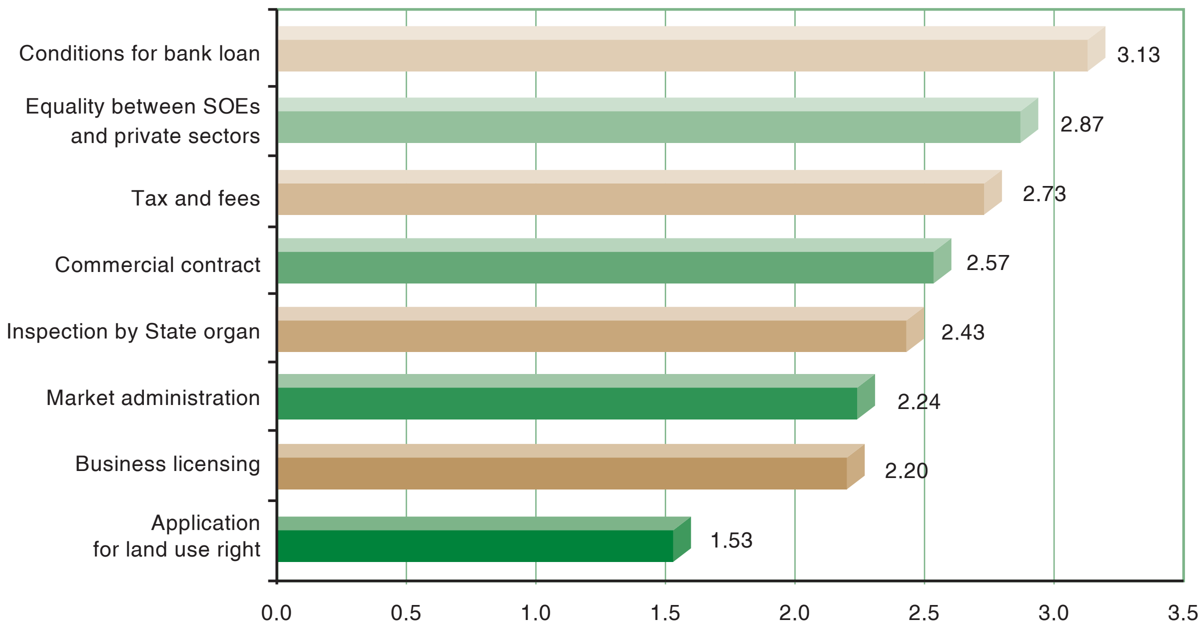


Chart 13: Constraints from business environment on start-up firms

Inequality between SOEs and private enterprises is also an obstacle to survey businesses, which is followed by complaints about tax and fees. Unequal treatment between SOEs and non-state enterprises still happen in many places in Vietnam and Dak Lak is not an exception, as the consequence of a long period that SOEs keep a dominating role in the economy. The problem related to tax and fees could be explained by the change from simple tax system applied to household businesses to a more complicated one for registered businesses. This is an area that SME support program could act to improve the situation.

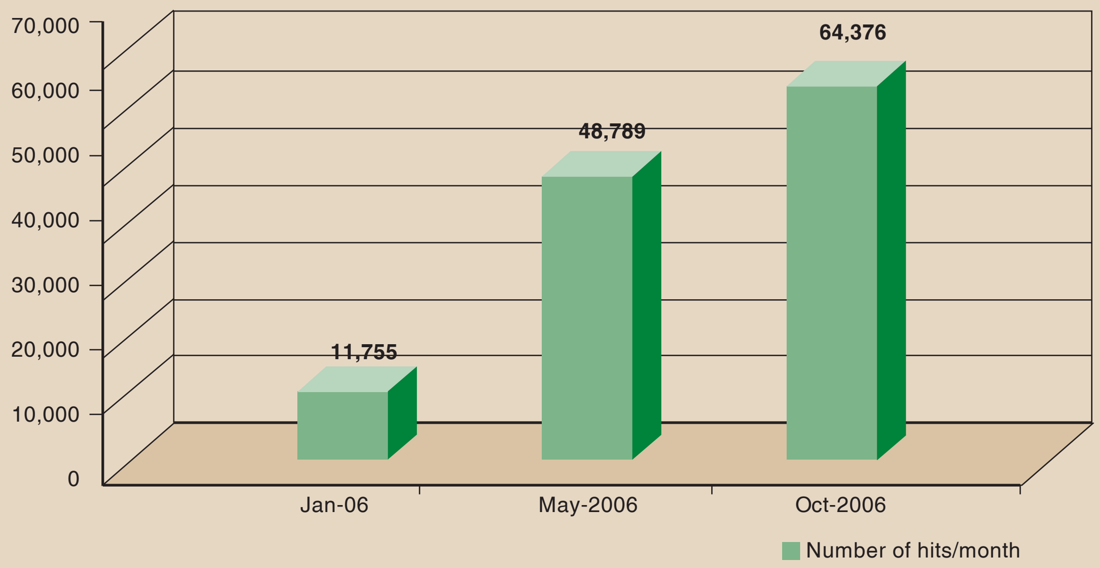
There is no surprise that business registration/licensing is no longer a problem to businesses. This is thanks to the continued efforts of the Government in streamlining business registration procedures. It is interesting but understandable that application for land use right is not an obstacle at all to the surveyed businesses. This could be explained by the high availability of land in Dak Lak. The GTZ, CIEM and Vision study reported that it takes only 33 days to fulfill all procedures related to land use right application while this amounts up to 168 days for all seven provinces across the study.

The in-person interviews also revealed a noted constraint, which is the lack of market information for businesses. The efforts by the Center of Trade and Tourism Promotion (under Department of Trade and Tourism of Daklak) to address part of this problem should be seriously considered as an example of how business support/Government agencies could act toward an enabling environment for businesses.

Box 2: The efficiency of www.daktra.com.vn

www.daktra.com.vn is a website specialized in trade and tourism promotion for Daklak province. This website is owned and managed by the Center of Trade and Tourism Promotion (a branch of Department of Trade and Tourism of Daklak. The number of the people looking at this website increases almost monthly. If during January 2006, the number of hits to this website was recorded at 11,755; this number in May reached 48, 789 and in October 2006- the number was 64,736. At the time of this report drafting, there are totally 457,000 visits to the www.daktra.com.vn.

According to the director of the Center, one of the biggest constraints private enterprises in Daklak are face is the lack of market information. Thanks to the launch of this website, the business community in Daklak has one more source of information reference for their trading and investment decision making. Also, he points out that provision of trading data and information should be considered as a priority in trade and tourism promotion in Daklak in the coming years.



Section 3

Conclusions and Recommendations

3

1. Conclusions

1.1. There is low intention/possibility of business start up among three out of four surveyed groups (i.e.: students, farm and household owners). The two most potential new business players in Daklak in the near future are still the people who are working for business sector in both private and State sector.

50% of the private enterprise respondents interviewed express the intention of setting up their owned businesses in the future, and 41% of directors of the surveyed private enterprises established during 2003-2005 are the former staff of State-owned enterprises or Government agencies. This trend is logical as these people have much more advantages such as knowledge/experience in business practice, technology etc to start up a business than other target groups of this survey.

1.2. The low intention among the two groups assumed to be the new players (farm and household business owners) could be explain by the lack of driving force to transform their existing business into enterprise-based establishment though this transformation is supposed to bring about more opportunities for development. Both groups are satisfied with their current business situation. The underlying reason is not that they are unable to realize development opportunities but their lack of vision, resources and capacity for further expansion.

A large number of farms in Dak Lak were established out of the intention of making full use of seasonal labor force and existing natural endowments. As such, they do not have motivation as well as resources to develop to their fullest potential. The surveyed farm owners could do nothing but concentrating on the farming activities because of the shortage of labor force vs. a relatively big farming area and the low level of mechanical application. Nearly 100% household businesses still rely their revenue on neighboring individual/household clients, thus seeing no reason to disturb themselves with a sophisticated tax and accounting system. Besides, ownership and management model of the household businesses implies the lack of managerial and operational capability. The consultant, however, still see these two groups as potential business players if actions are taken to change their perception and to improve their capability in support of further development.

1.3. The survey shows a particularly low intention among students about business start up. Up to 70 % of those asked wish to pursue higher study or to work for the State sector after graduation. This could be partly explained by their family origin (mostly from farmer and State official's families) and the lack of exposure to a business environment.

However, the current studying environment are what really should be accountable for. The studying environment of even economic/business administration faculty students is not "pro-entrepreneurship". While the lack of applicability and weak link between study and practice are the issue of the whole tertiary education system of Vietnam, the study environment of the surveyed students is still much less "fueling" and competitive as that in big cities. Although the awareness of acquiring work skills through training is high, the reality is that the students in Daklak are lacking fundamental skills such as foreign languages or computer use. The proportion of students doing extra jobs to obtain work experience is also much lower than in big cities. The in-depth interviews show a lack of extra activities organized by the Schools or Students' Associations that nurture entrepreneurship and future career orientations as a whole for students. Many things could be done to improve the low intention among students, at least from awareness raising and orientation perspective. With such, the start-up outlook is not so "gloomy" for this target group.

1.4. It is encouraging that the current environment for doing business in Dak Lak is positive, at least from the evaluation by those surveyed. However, a number of issues from experience of those already starting up should be considered and future business players should beware of difficulties/challenges waiting for them ahead.

- The actual ownership and management model should be carefully considered. While there is an advantage of high self-determination, the one-owner model limits development opportunities in term of management capability, capital and human resources mobilization. The observed consequences of this one-owner model among surveyed businesses in Dak Lak is small capital and revenue scale and limited competitiveness due to low competition pressure and exposure.
- Access to bank loans is also a challenge to currently operating businesses in DakLak. Lack of capital tops the list of difficulties encountered and obstacles in getting loan from commercial banks is most frequently complained by business directors interviewed.
- Competition will be much stronger in the next few years in the context of Vietnam's accession into WTO and increasing labor division and specialization. For businesses in Dak Lak, the competition comes first from enterprises from other provinces. The market will be "narrower" while market requirements are higher and stricter. Without a long-term strategy/well-defined business plan and measures to become more competitive and obtain "quality" development, the business outlook could hardly be as positive as the assessment of interviewed enterprises.

1.5. The low intention among surveyed groups, while being considered a setback, also presents a good opportunity for business support programs to render support and create impacts. With all the untapped potentials for development and its role as the "growth engine" for the Central Highland Region, Dak Lak is well placed for a comprehensive start-up support program.

2. Recommendations

The recommendations of this study reflect opinions of surveyed businesses and relevant State management authorities in Daklak as well as consultant's views based on the analysis of survey findings. There are two clusters of recommendations with key recommendations targeting those who are highly likely to set up businesses (private and state-owned enterprise employees) and suggestions for the remaining groups (students, farm and private household business owners)

2.1. In order to assist the potential business players in realizing their intention of setting up the businesses, there is a high need for more short-term training courses on business start-up and management. Future and current training courses including those run by the GTZ program and COOPME should broaden their scope in term of training participants and programs.

These training courses should not only focus enterprise's owners/directors as they do at the moment but also target senior staff of the private and State-owned enterprises. The knowledge/skills provided through these courses, while being helpful for the existing businesses, are valuable assets for those who intend to start up businesses in the future.

The start-up training program should be designed with practical approaches. In addition to the general startup issues, some specific topics should be included, such as:

- Legal issues and considerations in establishment and management of private enterprises.
- Product/service branding- marketing; registration for the industrial properties (trademark, industrial design, etc) of the products/ services
- Accounting, banking and financial management for the small and medium enterprises.

As a matter of course, the practical approach of those training courses also necessitates participation of guess speakers who are practitioners from banks, tax-custom offices and business registration office.

2.2. As a step toward a business-inspiring environment, technical assistance will be needed to enable business support organizations in Daklak to provide the necessary backstopping for the business sector, including would-be start up enterprises. Some suggested topics for technical assistance:

- Legal issues on private enterprise registration and management.
- Industrial properties' registration.
- Commerce and market information.

Issues related to an enabling business environment such as bank loans access need to be addressed for the sake of currently operating businesses and would-be start-up enterprises.

2.3. Long-term efforts should be invested to create a business inspiring study environment for university/college students. This requires the active participation of School Management Board and Students' Associations. Ideally, there should be additional lectures on "entrepreneurship" at the university. While formal training curriculum is rigid and could hardly modified by individual efforts to include more practical topics, schools, particularly

those with economic/business faculties should consider extra-class activities such as future career orientation sessions, talks by guess speakers who are business practitioners about business-related topics, business start-up/idea contests, etc. Schools should even think of approaching businesses in the province for summer internship programs, which offer students opportunities to be exposed to real business activities. It is noted that this internship program should be designed to be different from the required formal apprenticeship program for last year students, which are often complained as superficial and impractical.

2.4. For farm and households business owners, awareness building activity should be implemented among other measures. The self-satisfaction with the current business situation should be changed and information should be "fed" via various channels so that these groups adopt a more realistic view of challenges waiting for them in a very near future. One important message should be conveyed is the need to do business in a formal way, as a measure to become competitive and be able to response to stricter market needs and increasing competition.

Household businesses should be encouraged to upgrade themselves to registered and formal enterprises to address the barriers as analyzed in the previous section. A simple but thorough and explanation about benefits vs. costs of this upgrade should be repeatedly conveyed to household businesses.

As for farm owners, there is a need to show them, even through demonstration models, the great potential of business activities that bring about added values to their current farming activities. First and foremost, farm owners should be encouraged to reduce their direct involvement as a key labor to farming activities by hiring more external labor or increasing mechanization level in their farm work. As such, they could afford time for other management work and additional businesses. Any business, if set up, should be related to farm work and in the consultant's opinion, should focus on post-harvest and food processing activities. Training/workshop on issues related to organization/management aspects farms will be as much beneficial as workshops on technical issues.

2.5 It is also high time started business support progams for existing companies in business development and market reach. Throughout this process, priority for support should be given to product-oriented companies because of the general tendency that these companies create more jobs and growth than trade companies. It was found during the survey that promising products/areas for support include wooden processing, high-value agroproducts (eg: honey, avocado, pepper, etc).

As for market expansion, there need be strong support from relevant Government/donor agencies to break the "vicious circle" that DakLak's businesses are in. That is the paradox of wishing to get to the national (even international) market to become more powerful and competitive but lacking means and resources and falling back to a narrower intra-province competition that make them less and less competitive. Support may be provided via trade promotion activities such as assistance for businesses to attend national trades/fairs, establishment and launch of effective business information website, assistance in development of direct distribution channel, etc

2.6 A focal point/coordinating body will be needed to keep all these recommended efforts, if accepted, operational and on-going. To be sustainable and cost-effective, such a body should be upgraded from an existing business support institution in Dak Lak. The Center of Trade and Tourism Promotion is highly recommended given their experience with trade promotion and a wide variety of businesses that this Center aims to support.