Reforming the business Environment:
From assessing problems to measuring results

Cairo, Egypt-29 November to December 2005

A PRIVATE SECTOR PERSPECTIVE ON
BUSINESS ENVIRONMENT REFORM
– THE CASE OF VIETNAM.

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Vietnam Chamber of Commerce and Industry
# Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BDS</td>
<td>Business Development Services</td>
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<tr>
<td>BTA</td>
<td>Bilateral Trade Agreement</td>
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<td>GTZ</td>
<td>German Technical Cooperation</td>
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<td>GSO</td>
<td>General Statistic Office</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>MPDF</td>
<td>Mekong Project Development Facility</td>
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<td>MPI</td>
<td>Ministry of Planning and Investment</td>
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<tr>
<td>MSE</td>
<td>Micro and small enterprise</td>
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<td>SME</td>
<td>Small and medium enterprise</td>
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<td>VNCI</td>
<td>Vietnam Competitive Initiative</td>
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<td>VCCI</td>
<td>Viet Nam Chamber of Commerce and Industry</td>
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<td>VND</td>
<td>Viet Nam Dong</td>
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<td>WB</td>
<td>World Bank</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Exchange Rate: 1 USD = 15800 VND
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EXECUTIVE SUMMARY

The terminology “Business environment” has appeared in the Vietnamese economic literature just in recent years, likewise, the imported terminology “Small and Medium Enterprises (SMEs). The business environment of the SME sector has significantly changed since the introduction of the Doi Moi (Renovation Policy) in the late 1980s. Most studies about Viet Nam’s business environment reform have common conclusions that this process has “Bottom-up” feature.

The whole decade after 1990, Vietnamese government has made significant policy changes. The dramatic changes in the better business environment have been made since year 2000. Today, the central point in the reform of business environment is shifted to the local level which touches daily activities of SMEs.

In general the private sector has positive views on business environment, which is improved year by year. Government’s action plans express the continuous willingness to carry on the reform and to support businesses by creating a more opened, more anticipated enabling environment that brings confidence to the business community. However, priorities should be given to factors such as defining scope and enhancing efficiency of State management and regulation.

Vietnam basically is still in the bottom group of most-difficult countries to do business - trailing behind many of its key competitors in the region. Hence, from the private sector perspective, continuity in the institutional reform is rather urgent in improving Business environment, which has to focus on issues such as :(i) the stability and the consistency of the policy (ii) the implementation of the policy; (iii) and the improvement of Local Business Environment

Vietnam Chamber of Commerce and Industry (VCCI) is a national organization which assembles and represents business community, employers and business associations of all economic sectors in Vietnam. VCCI’s major advocacy tasks include: To participate in the formation and implementation of the strategy for socio-economic development ; to study the views of business enterprises, and to facilitate forums, dialogues for recommendation and advice to the State for the improvement of the business environment;

To fulfill the advocacy function, Vietnam Chamber of Commerce and Industry (VCCI) needs to have number of investigations and initiatives. This can be a regular dialogue between government and private sector. It is more important to make a progress at all level of authorities act to have consistent changes.

Another initiative is an assessment on economics policies from the perspective of company size, rather than just of private sector. Reference Committee is instrumental to involve policy makers directly into study for understanding the issues from grassroots. Obviously, “Good policies” are those reflecting the real needs of targeted groups, in conformity with the overall development of the country. If progress is to be achieved, this process must equally involve not only policy-designers but also implementing bodies.

Advocacy exercises on improving business environment –design tools at all levels of policy implementation is necessary. The advocacy role of VCCI takes place at all levels – Central and local with integrated approach with many tools.. It requires the consistency with the provincial socio-economic development plans which need to be developed by
participatory appraisal of strong and weakness of each partners and each province, especially where the decree of informality is high

Based on the advocacy role of VCCI and other businesses associations, the Vietnamese Government takes great efforts to respond to the concerns of private sector. The actions taken by different governmental organizations after each meeting of Prime Minister and business community have shown clearly the willingness of Government in improving business environment for SMEs and the private sector. It is necessary to improve the methodology of policy assessment by governmental organizations themselves. It is also important that this assessment should be conducted in cooperation with business community.
I. BUSINESS ENVIRONMENT IN VIETNAM- A BOTTOM UP REFORM PROCESS

The terminology “Business environment” appeared in the Vietnamese economic literature just in recent years, likewise the concept of “Small and Medium Enterprises (SMEs)". Since an overwhelming proportion of Vietnamese SMEs belong to the private sector, the issue of business environment is relevant not only to SME development, but also to the development of the private sector in Vietnam. Different Vietnamese and Donors organizations have actively studied what constitutes an “Enabling Business Environment” in Vietnam. This process has gradually enriched the content and understanding of what is meant by “business environment”.

Most studies on Viet Nam’s business environment reform come to a common conclusion that this process has “Bottom-up” features: where pilot implementation of reforms, usually limited in scope and by geographic locations, precede higher level policy making and decisions regarding the reforms that are finally implemented. The decentralized administrative structure in Vietnam is one of the primary enablers of this type of bottom-up approach.

Period from 1975 to 1990

Since 1954 in the north of Viet Nam and since 1975 in the south, a centrally planned socialist economy model was established, similar to some Eastern European and former Soviet Union countries. The government nationalized lands, plants and mining industries, so that by the late 1970s the two main types of ownership were State-owned and collective. Accordingly, the two main forms of enterprise were State-owned enterprises (SOE) and cooperatives. Private enterprises were allowed to operate, but were limited in their size and developed at a modest speed.

In the middle of 1980s, when poverty was spreading nationwide, the first, small-scale trials of reforms in the agriculture sector took place in some provinces. That took the form of making “end-product contracts” with households, which was not new, but had continuously received criticisms from the top leaders, who insisted that it was a dangerous deviation from the socialist path. However, changing the incentive system improved efficiency in agriculture dramatically in the 1980s. The immediate success of the “good practice” encouraged authorities to expand the practice, but still with much caution.

While the Government decision paving the way for the “Family economy” was issued as early as October 1986, legislation recognizing the household, not the cooperative, as the basic production unit in agriculture (Decree 10) was only promulgated in 1988, and legislation governing private enterprises and companies was issued in 1991. Thus, the business environment of the SME sector has significantly changed since the introduction of the Doi Moi (Renovation Policy) in the late 1980s.

The transition from a centrally planned economy with a high amount of subsidization and government “red tape orders” into a socialist-oriented market economy is the key point of this economic renewal policy. This policy has created a legal, political and economic

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1 MPI-UNIDO, 1999; MPDF, 1999; Pham Thi Thu Hang, 2002; Raymond Mallon, 2002
framework for the development of a mixed economy in Viet Nam, including the State-owned, collective and private sectors, as well as individual and household businesses. A new Constitution was approved in 1992 allowing a “multi-sector economy”.

**Period from 1990 to 1999**

During a whole decade after 1990, the Vietnamese government made significant policy changes. However the business environment in Vietnam had still unfavorable elements, such as a preference for State owned enterprises over private sector entities that impeded the development of private sector. In 1999, the first comprehensive agenda for improving macroeconomic policies and administrative procedures for the development of SMEs was put forth in a report by the Ministry of Planning and Investment\(^2\). The private sector, in size, scope and significance, remained very small.

The business environment has discouraged businesspeople and hindered entrepreneurship. There are four main reasons for this in Viet Nam. *First*, the high risks associated with enterprise development have been exacerbated by frequent changes in the government policies and laws applying to this sector. *Second*, the social discrimination against private enterprises has stigmatized and hindered the exchange of successful experiences in business development and management. *Third*, mobilizing the requisite capital is often a considerable obstacle to enterprise owners and managers – a problem that stems not only from the financial and banking systems, but also from limited access to land. *Fourth*, poor infrastructure has discouraged business development and entrepreneurship. Difficulties in access to water, electricity and the slow development of new facilities hamper business activities.

**Period from 2000 to date**

Some dramatic changes have taken place in improving the business environment starting in the year 2000 and these changes can be clearly attributed to 4 main policy decisions:

- The promulgation of the New Enterprise Law (in June 1999, taking effect in January 2000),
- Efforts to fully integrate Vietnam into the global economy (signing of the BTA with the USA, AFTA and preparations to join WTO),
- The Resolution 14-NQ/TW dated March 18, 2002, the 5th session of the Communist Party Central Committee (IX tenure) on continuing reform of mechanisms and policies and encouragement and facilitation of economic activities of the private sector, and
- Government Decree on “Supporting policies for SME development” (November 2001, a document setting the framework of Government support for SMEs, although it mainly focuses on SME promotion rather than SME development, which would have included a framework for business environment reforms).

In order to illustrate the effects of business environment reform in Vietnam over recent years, one only has to look at some business sector statistics. According to the enterprises survey conducted in 2004 and Census results 2002 there were about 2.8 million business

\(^2\) MPI-UNIDO, 1999
establishments in Vietnam. Most of these establishments (about 98%) were micro scale, having less than 10 employees. A very large proportion of micro scale business establishments were in the form of household businesses; a semi-formal type of unincorporated business entity, Table 1. SMEs, excluding micro scale businesses, accounted for only about 2 percent of all business establishments.

Table 1. Vietnamese operating Businesses (As December 31, 2003)
Classified by number of employees (cumulative)

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Under 10 workers</th>
<th>Under 50 workers</th>
<th>Under 300 workers</th>
<th>Total</th>
<th>SME/Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Owned Enterprises</td>
<td>32</td>
<td>799</td>
<td>3145</td>
<td>4845</td>
<td>64.91</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>1557</td>
<td>3480</td>
<td>4065</td>
<td>4150</td>
<td>97.95</td>
</tr>
<tr>
<td>Registered by Enterprises Law -</td>
<td>31782</td>
<td>53584</td>
<td>59458</td>
<td>60376</td>
<td>98.48</td>
</tr>
<tr>
<td>Household enterprises* (semi informal)</td>
<td>2,600,000</td>
<td>2,600,000</td>
<td>2,600,000</td>
<td>2,600,000</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>2,633,371</td>
<td>2,657,863</td>
<td>2,666,695</td>
<td>2,669,371</td>
<td>99.8</td>
</tr>
</tbody>
</table>

Criteria of SMEs: Company having less than 300 employees.

| Foreign Invested Enterprises (not belong to SMEs sector) | 158 | 886 | 2019 | 2641 | 2.80% |

Source: GSO-2005
* Figure estimated by Census 2002

Registration of firms, on the other hand, (called Enterprises according to the Enterprise Law of 1999), has greatly accelerated since 2000 and have increased by over 20% per annum, Table 2. Progress in business environment reform has encouraged new businesses to be set up as well as formalization of a significant number of household enterprises.

Table 2 New Business Registrations since 2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>State Owned Enterprises</th>
<th>One-member Limited Liability Companies</th>
<th>Private Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>14,457</td>
<td>16</td>
<td>0</td>
<td>14,441</td>
</tr>
<tr>
<td>2001</td>
<td>19,800</td>
<td>27</td>
<td>0</td>
<td>19,773</td>
</tr>
<tr>
<td>2002</td>
<td>21,535</td>
<td>12</td>
<td>59</td>
<td>21,464</td>
</tr>
<tr>
<td>2003</td>
<td>27,771</td>
<td>20</td>
<td>98</td>
<td>27,653</td>
</tr>
<tr>
<td>2004</td>
<td>37,230</td>
<td>6</td>
<td>125</td>
<td>37,099</td>
</tr>
<tr>
<td>As October 12, 2005</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26,156</td>
</tr>
<tr>
<td>Total</td>
<td>120,793</td>
<td>81</td>
<td>282</td>
<td>146,586</td>
</tr>
</tbody>
</table>

Source: Business Information Center (Ministry of Planning and Investment), 2005
Nonetheless, the process of implementation of most of policies (including the very “modern” Enterprises law) has not always been smooth. There has been significant differences in the implementation of national polices at local levels. In many cases, local authorities have stepped out of their official boundaries in promulgating local policies to attract investment. The successes of some provinces (even when they had very modest natural resources and socio-political conditions) in developing private sector through building enabling business environment shows again the “bottom–up” reform tradition in Vietnam. Thus the focus of reforms has now shifted from the central level to local levels, as the leaders at every level start to understand that the way reforms are implemented touch the daily activities of SMEs.

II. PRIVATE SECTOR’S VIEWS ON THE BUSINESS ENVIRONMENT

In general, the private sector has positive views on business environment as it has been improving year by year. Nevertheless, the pressures from the process of globalization have started to affect Vietnamese enterprises even more as the Vietnamese economy continues to integrate.

The private sector has seen challenges arising, in at least five issues at the macro level:

- First, economic events have illustrated the deep interdependence between Vietnam’s economy and the world economy, particularly in imports, exports and foreign direct investment flows;
- Second, accession to World Trade Organization (WTO) and the implementation of the Bilateral Trade Agreement (BTA) with the United States are not merely sets of commonplace trade agreements, but comprise an institutional reform program of huge scale and impact on the country;
- Third, economic and institutional issues have become more and more closely correlated and interdependent. The efficiency of policy measures depends greatly on the quality of institutions as well as the ability to harmonize interests;
- Fourth, the economy has maintained its development but the quality and pace of growth have become more important;
- Fifth, although FDI in Vietnam has tended to increase, Vietnam still lags behind when compared to many countries, especially with respect to neighboring countries that have implemented reforms faster.

As a result, improving competitiveness has moved higher up on the agenda of the private sector and the Government.

Business Environment Assessments

The on-going worldwide discussion on the links between a favorable business environment and competitiveness in the global market place has also come to Vietnam.

The WB report “Doing Business 2005” gives an assessment that although Vietnam in the top 10 reformers list in that year based on comparatively good legal reform agenda of 2004, it basically is still in the bottom group of most-difficult countries to do business –
trailing behind many of its key competitors in the region such as Thailand - and there's still a long way to go for further improvements (in business environment). Hence, from private sector respective the continuity in institutional reform is rather urgent and has to focus on the following issues:

- The stability of the domestic business environment is of top importance in creating conditions for enterprises to identify their vision and long-term business strategies. Unanticipated changes in regulations in Vietnam contributes to erosion of competitiveness of Vietnamese businesses, and at times, affecting their chances of survival. For example, regular changes in tax policy causes waste for Government, may be putting some SMEs out of business.

- Policy implementation, not necessarily the policy design, is the main concern of the business community. According to a VCCI survey, more than 60% of interviewed enterprises considered the change in laws of tax, customs, land, SOE; in Decree of inspection, VAT… as more favorable to their performance. Only 17% were dissatisfied with the changes. Nonetheless, a relatively high ratio of total enterprises in the survey were not satisfied with the tax and custom procedures and officers, and the traffic police. Particularly, inspection procedures were considered as making little progress in spite of the fact that relevant regulations have considerably improved.

- The business community feels that issues of improving the business environment at local levels is now critical since most small business as to deal with district and provincial officials. Local government and its policy together with its mechanisms also play an important role in formalization of private sector. Small business, prefer to stay in the form of semi-informal household businesses. This explains why there are 2.6 million household businesses, many of them paying tax, but not incorporated as firms.

III. THE ROLE OF VIETNAM CHAMBER OF COMMERCE AND INDUSTRY IN ADVOCATING POLICY REFORM

3.1 The Vietnam Chamber of Commerce and Industry

The Vietnam Chamber of Commerce and Industry (VCCI) is the national organization that assembles and represents the business community, employers and business associations of all economic sectors in Vietnam. The purpose of VCCI is to protect the lawful, legitimate interests of the business community and employers, to assist businesses, to contribute to the socio-economic development of the country and to promote economic, commercial and technological cooperation between Vietnam and the rest of the world on the basis of equality and mutual benefit. VCCI is an independent, non-governmental, non-profit organization having the status of a legal entity and operating with financial autonomy.

The status of VCCI as the representative of national business community and its activities make it one of the dominant organizations that strive to improve the enabling environment in Vietnam (Brian Van Arkadie and Raymond Mallon, 2003). Although VCCI is a membership-based organization, it differs from other business organizations in most market economies in term of its close relationship with the government. In addition, unlike many other business associations in Vietnam, VCCI has a large number of professional
staff and is endowed with resources to finance its activities vis-à-vis the business community. VCCI has also enjoyed working with donors extensively since the 1990s.

3. 2 Regular dialogue between government and the private sector

VCCI works very closely with the government in organizing regular dialogue with the domestic private sector, including an annual high-level dialogue attended by the Prime Minister since 1998 and is held before the regular sessions of the National Assembly every year. In the last three years, the dialogue has involved all administrative levels: Provincial, ministerial, high-ranking officials. The documentation of the dialogue is prepared carefully in the form of a Booklet “Question by private sector and responses by the Ministries” (a good practice of VCCI in collaboration with the Ministry of Finance). This Booklet helps both the business community and governmental authorities to follow-up.

The stock taking by VCCI is exercised at each meeting with high-ranking officials, most importantly with the Prime Minister to evaluate what has been achieved since the previous meeting. The conclusions of Prime Minister at each meeting are promulgated in the legal form of “Prime Minister Decisions”.

In the year of 2004, the Government decided to assign the 13th October as the annual “Entrepreneur Day”, to promote entrepreneurship among the Vietnamese society at large. In addition, in 2004, as a result of the Annual Meeting of the Business Community with the Prime Minister, the Prime Minister established then Inter-ministerial Steering Committee, called the Committee 23 as per the Prime Minister’s Decision number that set it up3 “Committee 23” is responsible to collect comments and claims from the business community, to prioritize them and to keep track of the responses produced by responsible Government agencies in effort to resolve hottest business issues with delays.

In an effort to improve the quality of dialogue, VCCI conducts surveys among businesses to measure their satisfaction on certain issues: for example, on the willingness of different Ministries in cooperating with the businesses. According to the VCCI in survey 2004 indicated that the government agencies’ effort to set up dialogue and cooperation in an attempt to improve business activities is estimated higher than the previous year’s figure of 85%. Some agencies such as the Ministry of Planning and Investment, State Bank of Vietnam, Ministry of Finance receive good assessments of 88%, meanwhile Ministry of Industry, Ministry of Public Security; Provincial/City People’s Committees receive less positive assessments for their efforts in creating favorable conditions to improve business performance.

3.3 Policy Assessment

1. The 2001-2002 VCCI-ILO study (Pham Thi Thu Hang, 2002) that assessed the effects of policies, laws and regulations on employment patterns in the Micro and Small-scale enterprise (MSE) sector found out that, in the empty space between policy design and its implementation, the following factors were at play:

3 Decision of Prime Minister No. 23/2005/QD-TTg dated January 2001, 2005 on establishment of Inter-ministerial Steering Committee to deal with claims and proposals of businesses on administrative procedure
• The laws and regulations do not always reflect the demands of SMEs in the process of development. The lack of skilled labor for SMEs is the result of a lack in human resource development policy, for example.

• Insufficient awareness of the goals of legislative regulation on the part of policy-implementing authorities makes regulations less effective. Therefore, policy implementers, especially in the case of the highly decentralized administrative structure of Vietnam, have to also assess the provincial business environment, since they contribute significantly to its creation.

• Lack of capacity to meet good policy making practices may result in policy goals “canceling out” each other (for example, lack of sufficient dialogue between the private sector and policy makers usually result in policies with uncertain effects to be issued in a hurry, and later to be amended as a result of dialogue).

The assessment has been carried out with Reference Committee, which is one of the initiatives from VCCI-ILO study to involve policy makers directly to the study for understanding the issues from grassroots. By this way policy makers will understand more about private sector and SMEs that can reduce the conservative reaction from them.

The most important conclusion of the study is that “Good policies” are those reflecting the real needs of targeted groups, in conformity with the overall development of the country. If progress is to be achieved, this process must equally involve not only policy-designers but also implementing bodies. There some proposals-recommendations came out from study’s conclusion.

• As “Good policies” are those involved not only policy-designers but also implementing bodies, the reforming enabling environment should be also at local provincial levels.

• As the study gave the assessment on Business environment from respective of companies size, the issues of business development services are critical. It is necessary to develop BDS market and strengthening capacities of stakeholders for improving local business environment and BDS market: Business associations, private BDS providers, mass organisations etc...

• To reduce the vulnerability of private sector and MSE, it is important to formalize the household businesses to become incorporate.

2. One of the important issues that affect the competitiveness of enterprises is the extent of formalization of the business sector. In 2004, in cooperation with ADB, VCCI carried out a study to identify the reasons for the slow formalization process of private enterprises in Vietnam (ADB-2004). The study found that the enabling business environment had an impact on the entrepreneurial spirit in Vietnam. The starting hypothesis of the research team was that provincial governments in Vietnam have the power to directly affect the formalization decision calculus faced by entrepreneurs through their implementation of national policies.

This research found that the entrepreneurs made the formalization decision based on a reasonably rational analysis of the costs and benefits—formalizing only at “the point at which the expected marginal benefits of doing so equaled the (risk-adjusted) expected
marginal costs”, and not before. Major recommendations were proposed for central and provincial authorities:

*For central Government*, the relationship of more uniform business regulation with formality underscores the importance of clearer, more concise, and targeted national laws. Unrealistically complicated, broad or vague laws are more likely to be interpreted in significantly different ways across provinces in Vietnam’s highly decentralized system. The success of the Enterprise Law in creating a uniform registration system and thereby stimulating growth of companies and wage jobs in areas that had previously struggled is a prime example of how this can work. Vietnam’s complicated tax regime, while improved in recent years, would, in turn, appear to be an excellent example of an area with significant room for improvement.

*For provincial governments*, the relationship between broader enterprise regulation and formality emphasizes the value of transparent implementation processes that deal objectively with all enterprise forms—limiting subjective decisions on which firms need to be regulated and which do not. Such a broadening of regulation must be distinguished clearly from an intensification of regulation. The latter would not only frighten the business community and discourage investment, but would also detract from local authorities’ already limited capacity to achieve the former. Most clear in this study are the benefits of reducing differences and subjectivity in the way local officials apply the national tax regime across different enterprise ownership types.

3. The 2005 study of Vietnam Chamber of Commerce and Industry (VCCI) and the Vietnam Competitive Initiative (VNCI) – a project funded by USAID – on the competitiveness of Vietnamese enterprises has highlighted similar linkages in the case of Vietnam (VNCI, 2005)

The study statistically analyzed the impact of differences of local regulatory frameworks on private sector growth and prosperity. Nine factors – sub indices were surveyed from the entrepreneurs’ perspective: (1) market entry; (2) access to land; (3) transparency and access to information; (4) time it takes and costs of regulatory compliance; (5) informal charges on businesses; (6) implementation of policies and consistent application across provincial sub-agencies; (7) state favoritism; (8) proactive role of the provincial leadership; and (9) impact/importance of private sector development policies. The results were aggregated in the Provincial Competitiveness Index (PCI) that ranks the provinces studied.

The PCI has been publicized widely, and as such has made a strong impact on the awareness of local authorities about the local business environment. A number of provincial authorities have gone as far as starting diagnostic analysis on their weaknesses and strengths.

In order to address issues at local levels, VCCI and its provincial branches have started collaborating with the GTZ in implementing a Local Economic Development (LED) project in 4 provinces and with the ILO, the Project Poverty Reduction through Integrated Support to Enterprise Development (PRISED) in 6 provinces. Both projects will assist local authorities in undertaking a dialogue with the business community and other relevant bodies to develop economic strategies tailored to the specific needs of their localities, consistent with the provincial socio-economic development plans. The projects will thereafter support the realization of practical partnerships to implement those strategies.
4. In particular area like business development services VCCI and cooperation with GTZ, Central Institute of Economic Management (CIEM) and Vision Associate also has carried out an assessment on policy and regulatory environment and its constraints to the BDS market in Vietnam. Obviously, the development of BDS market will have strong effect on the development of SME if the interventions of Governmental organizations are in the appropriate ways. The assessment has had trial analyze on three BDS areas such as: training services; accounting and auditing services; and industrial property rights protection. The study has discovered a number of regulatory constraints to BDS market. It truly contributed to process of improving business environment for Vietnamese SMEs through raising awareness of policy makers of these fields.

3.4 Contributions to economic policy and regulation design

VCCI, as the representative of the business community, the target group of economic policies and regulations, contributes to economic policy and regulation design. Since 2001, Vietnamese Government has authorized VCCI to collect the views of business community on draft policies and regulations. The relevant policy makers-bodies are required to send draft of regulations to VCCI for comments. In addition to making comments on drafted legal documents, VCCI has also directly taken part in drafting teams of most important economics laws, regulations and policies, affecting private sector and SMEs development:

- Enterprises Law (1999)
- Decree 90 on Supporting policy for SMEs development (2001)
- The ten-year Socio economic Development Strategy for 2001-2010 (SEDS)
- The Resolution 14-NQ/TW dated March18, 2001, the 5th session of the Communist Party Central Committee (IX tenure) on continuing reform of mechanisms and policies and encouragement and facilitation of economic activities of the private sector.
- Comprehensive Poverty Reduction and Growth Strategy (CPRGS), (May 2002)
- Labor code (2002)
- The five year Socio economic Development Strategy for 2006-2010 (SEDS),
- The draft five year SME Development Plan 2006-2010 (2005)

3.5 Contributions to monitoring of policy implementation

Furthermore, VCCI plays an important role vis-à-vis the government in improving the implementation of Laws and Policies. One of the tools in achieving this is the Website (www.VIBonline.com.vn), where businesses can express their comments online on prevailing legal regulatory frameworks.

A recent example of monitoring of policy implementation, where VCCI took a leading role on behalf of the business community can be seen in the work of the Task Force for the Implementation of Enterprise Law. A study lead by VCCI within this Task Force uncovered more than 200 sub-licenses hindering the market entry of private enterprises.

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4 The Directive of Prime Minister No. 28/2001/CT-TTg dated November 2001 on “Continuing creation of enabling business environment for businesses
Finally, the private sector is represented by the VCCI in the Inter-ministerial Group for implementation of CPRGS. VCCI even have two staff sitting in the Inter-ministerial Steering Committee 23.

**Box 1. VIBonline.com.vn- a tool for improving enabling and transparent business environment**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Forum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will be united special tax for cigarette and liquor</td>
<td>Draft of Amendment of VAT Law and Law of Special Tax</td>
</tr>
<tr>
<td>Seven recommendations on Drafted Anti-Corruption laws</td>
<td>Draft of Anti-Corruption Law</td>
</tr>
<tr>
<td>Problems at the implementation</td>
<td>Draft of United Investment Law</td>
</tr>
<tr>
<td>More &quot;strong hand&quot; for violation</td>
<td>Draft of United Enterprise Law</td>
</tr>
<tr>
<td>Procedure of announcement strike</td>
<td>Draft of Ordinance on Procedure of Settlement Strikes</td>
</tr>
</tbody>
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**IV. THE READINESS OF GOVERNMENT TOWARD REFORM IN RESPONSE TO PRIVATE SECTOR CONCERNS**

Our foregoing discussion illustrates the fact that the private sector and the Government has to work hand-in-hand in affecting reforms and in improving the business environment. Both sides have to be willing to assess and discuss policy issues. In the process, mutual trust has to be built gradually. Effective policy dialogue and participatory policy design and policy monitoring require capacity for informed policy assessment and learning processes to be at work.

In Vietnam, the Government and the private sector has gone a significant way in learning the lessons mentioned above. Based on advocacy activities of VCCI and other businesses associations, the Vietnamese Government takes great efforts to respond the concerns of private sector. Actions taken by different governmental organizations after each Meeting of Prime Minister and Business community have shown clearly the willingness of Government in improving business environment for SME and private sector. At central level, the Government has tried to make an assessment on the implementation of some important but concrete policies, such as:
- Assessment on 3 year of implementation of Decree 90 on Supporting policy for SMEs development (2001);
- Assessment on 2, 5 year of implementation The Resolution 14-NQ/TW dated March 18, 2001, the 5th session of the Communist Party Central Committee (IX tenure) on continuing reform of mechanisms and policies and encouragement and facilitation of economic activities of the private sector.

A recent example is the extensive consultative exercise conducted jointly by the Government and the private sector during the formulation of the draft SME Development Plan 2006-2010. While UNIDO has assisted the exercise from its start, other donors have been invited to make comments on its draft outline in a workshop and on the draft Plan at a meeting of the SME Partnership Group, a government-donor coordination initiative.

The Plan formulation process has been conducted under the auspices of the SME Promotion Council and led by two agencies: the Agency for SME Development, MPI, organizing public sector stakeholders at national and provincial levels and VCCI, leading 34 business and civil society organizations to assess the existing situation of SME development and to prepare recommendations. Box 1 is an excerpt from the Government’s draft SME Development Plan 2006-2010.

**Box 2. Assessment of Shortcomings in SME Development in Vietnam (2005)**

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**Excerpt from the Draft SME Development Plan 2006-2010**

**Shortcomings in SME Development in Vietnam**

*In terms of awareness:* Although the Vietnamese Communist Party and Government have confirmed the consistent policy of multi-sector economy development, the implementation, in fact, faces discrimination by different state management agencies among enterprises in different economic sectors. In many areas, SMEs, mainly the private sector, are still discriminated against in transactional relationships that involve access to premises for production and business, investment grade loans and access to market information. In parallel to improving business environment, it seems that the awareness of emerging issues have been also very limited. Although Vietnam is on the way to access the WTO, the preparation for this event has not been paid proper attention.

*Policies and institutions:* The legal system and business environment are being developed and improved to meet the demand of the new conditions and tendencies as well as the new context of integrating into the regional and international economy. In this transitional period, policies and regulations are unstable, change frequently, legal documents are overlapping, sometimes they are not clear enough and not very effective, which has caused difficulties for SMEs in learning, applying and implementing them. The slow administrative reform process causes difficulties for enterprises in getting contact with state management agencies.

*Enterprise support:* SME development is a new task for state management agencies and governments at all levels. Therefore, they are likely to encounter difficulties and are hampered by inexperience in implementing Party and Government guidelines and policies. SME support programs tend to be administratively driven and fail to be widely socialized. The policies for enterprise development in general and SMEs in particular are not in timely, comprehensive, consistent and focused enough. Besides, there is no consistency and integration in policy implementation from the central to the local levels.

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5 See website [www.business.gov.vn](http://www.business.gov.vn) for the draft SME Development Plan 2006-2010 and the background reports from public and private sector stakeholders.
The lessons learned during the assessment and policy design exercise has confirmed the necessity for further capacity building for professional analyses of impact of regulations on SMEs by both the public and private stakeholders, the importance of dissemination of research to stakeholders to facilitate the emergence of informed solutions and alternative strategies and the necessity of structured dialogue.

Over 100 individuals have been mobilized through 21 SME Task Groups, involving business associations, and established at Ministries, Agencies and provinces, to take part in drafting of recommendations and over 550 individuals, including those from all provinces have been given a chance to provide comments on the draft Plan at workshops and in writing. The result is a rather impressive list of strategic commitments, made in the draft Plan, by the Government, as shown in Box 2.

**Box 3 Policy Statements from the Draft SME Development Plan 2006-2010**

**Excerpt from the Draft SME Development Plan 2006-2010**

**Qualitative objectives (Strategy) for SME Development**

- The Government’s strategy during the period 2006-2010 is to improve the regulatory, fiscal and administrative framework to create a conducive, transparent, stable, and equal business and investment environment for SMEs and business development services.

- The Government will seek to reduce the costs of SMEs’ start-up towards the most competitive in the ASEAN region and speed up the process by reducing burdensome procedures for approving new companies by using online access for registration.

- The Government will publicize new regulations and screen them to assess their impact on small enterprises and entrepreneurs. The Government will adopt user-friendly administrative documents and exempt SMEs from certain regulatory obligations. The Government will hold regularly electronic communication with SME sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, faster and at lesser cost.

- The Government will adapt its tax system to encourage start-ups, favor small business expansion and job creation. At the same time, the Government will conduct the reform of the accounting system, and reporting requirements to simplify them and encourage the tax self-assessment system that is suitable for small enterprises especially those in rural and mountainous areas, hence creating favorable conditions for enterprises and preventing tax losses.

- The Government will implement suitable policies to improve SMEs’ access to land and at the same time to protect the environment by formulating and publicizing the land master planning and land use plan. The Government will seek to ensure that SMEs have access to new and appropriately located industrial zones and support the relocation of manufacturing enterprises from residential areas to such zones.

- The Government will take steps to encourage an effective market (both supply and demand) for business development services and phase out the function of directly providing services from the State management function of state organizations. In order to encourage the growth of BDS market, State agencies will focus on their role of promoting, supporting, supervising and managing the quality of services provided by others. In the period 2006 to 2010, the Government will carry out support programs to ensure that (1) SMEs are properly equipped with the skills they need to compete internationally upon Vietnam’s accession to the World
Trade Organization. (2) Employment creation in rural and disadvantaged areas and among minorities so as to stem a wide-scale population movement from rural to urban areas.

- The Government will strengthen existing programs aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies. The Government will foster technology cooperation and sharing among different company sizes, develop more effective research programs focused on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises.

- The Government will foster the involvement of small enterprises in inter-firm cooperation, at local, national and international levels as well as the cooperation between small enterprises and higher education and research institutions through suitable support policies and encourage the establishment and growth of supporting industries.

- In order to improve the access of SMEs to credit finance, the Government will continue to take steps (restructuring the state-owned banking sector, encouraging the strengthening of private banks, and opening the economy to foreign banks) to orientate the financial sector to more market driven approaches that respond to customer needs, including the development of the leasing sector and other forms of non-collateralized finance for SMEs.

- In order to nurture entrepreneurial spirit and entrepreneur culture, the Government will conduct general information and awareness campaigns of the entrepreneurship, and entrepreneur spirit to the masses. Especially, specific enterprise-related training modules will be made an essential ingredient of education schemes at high schools, colleges and universities, vocational schools.

- The Government will support the development of stronger, more effective representation of small enterprises’ interests at national and provincial level by encouraging and supporting the establishment of business associations at both central and local levels.

- The Government will develop a more effective system for collecting and analyzing data on the state of the SME sector for the policy making process for this sector and to provide business information to enterprises.

- The Government will improve coordination of its actions to support SME development through the operation of the SME Promotion Council and the establishment of various inter-ministerial work groups that will ensure an appropriate allocation of responsibilities within central and local government for SME development and the coordination of the implementation of the tasks necessary for SME development.

In parallel with the drafting of the first SME Development Plan of Vietnam, recently, the Central Directive No 9 of the Vietnam Communist Party has mentioned the need to develop entrepreneurs together with workers, farmers, intellectuals, as one of the important human resource groups in the industrialization and modernization process for the first time. The Government has affirmed entrepreneurs as the driving force in economic development. While more has to be done, good care taken by the Government and the Prime Minister, and the improving legal and social perceptions toward enterprises over the past time have helped create confidence in Vietnamese entrepreneurs and confidence by them that their contributions are appreciated.
V. CONCLUSIONS AND IMPLICATIONS

1. The business environment of the SME sector has significantly changed since the introduction of the *Doi Moi* (Renovation Policy) in the late 1980s. Dramatic changes in improving the business environment have been taken place after the year 2000, when institutional changes required during the integration processes have become more pressing and quality of growth has started attracting more attention from high-level policy makers.

2. “Bottom-up” feature of “Renovation“ in Vietnam makes the participatory approach quite meaningful by promulgating policies affecting business environment. In this regard, the advocacy role of VCCI as NGO representing business community, become very important. Use of new policy dialogue, assessment, design and monitoring tools such as well prepared Annual Meetings with the Prime Minister, documented recommendations presented to Government on needs for reforms—the annual VCCI Booklet of private sector questions and responses, on-line commenting facilities, SME Task Groups set up by stakeholders for making policy assessments and designing policies have yielded satisfactory results.

3. Vietnamese SME sector has double constraints due to its size and unleveled playing field between private and state owned sectors. Therefore assessment on economics policies need to be both from perspective of companies size, rather than just from perspective of private sector (classified by type of ownership). This kind of assessment will help avoid stereotype of underestimating the role of SMEs and designing inappropriate supporting policies for SMEs development. Reference Committee is instrumental meaningful to involve policy makers directly to the study for understanding the issues from grassroots. By this way policy makers will understand more about private sector and SMEs that can reduce the conservative reaction from them.

4. Advocacy organization like VCCI has to continue their role at all levels of policy implementation. Thus Central focus of reforms has started to shift to local levels, where SMEs conduct their daily business. Awareness raised through various research studies and new comparative tools such as the Provincial Competitiveness Index has been instrumental in expediting this shift. It is advised that the support to SMEs need to have integrated approach with many tools. It also requires consistency with the provincial socio-economic development plan which needs to be developed by participatory appraisal of strong and weaknes of each partners and each province, especially where the decree of informality is high.

5. Building reputation and constructive approach by advocacy for such organizations (like VCCI) are vital. The trust of Government enforcing every economic policy need to be advised and consulted with business community through VCCI is a good lesson. By this way, private sector is now proactive in “proposing good initiatives on State management economy” rather than claiming or petitioning on concrete and specific issues.

6. Private sector has started to support formalization of business activities and a large number of actions in the draft SME Development Plan are expected to support this trend. Donor agencies need to continue the support to the implementation of this Plan.
It is important that this assessment should be taken in cooperation with business community.

7. The need for capacity building for implementation of policy reforms at local levels has moved up in the reform agenda. Donors have welcomed and started supported local level business environment reforms as in the cases of EU, DANIDA, GTZ, ILO, UNIDO, USAID that have launched projects covering provincial business environment issues in over 30 provinces out of a total of 64.

8. The public and private sectors have learned to appreciate the importance of high-level, better-informed and structured policy dialogue. VCCI and other business organizations have played an important role in creating such awareness among stakeholders.

*I look forward to our discussions during this Conference on how to further the business environment reforms VCCI has helped launch in Vietnam and will be happy to respond to your comments and questions.*

*Thank you very much for your attention.*
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