

Country Briefing

VIETNAM

Reported period: April, 2006 - June, 2007

Published annually by the World Bank and the International Finance Corporation (IFC) - the private sector arm of the World Bank Group, *Doing Business* reports investigate global regulations that enhance business activity and those that constrain it, ranking countries on their "ease of doing business".

Doing Business studies regulations affecting 10 areas of everyday business: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. This fifth edition covers 178 economies, updates all 10 sets of indicators, ranks countries on their overall ease of doing business, and analyzes reforms to business regulation - identifying which countries are improving their business environment the most and which ones have slipped. The report also identifies what reforms have worked, where and why.

The *Doing Business* reports give policymakers the ability to measure regulatory performance in comparison to other countries, learn from global best practices, and prioritize reforms. The indicators are used to analyze economic and social outcomes, such as informality, corruption, unemployment, and poverty.

According to this year's report, Singapore retains the most business-friendly economy. Other top ranking economies in the region are Thailand (15), Malaysia (24), and Taiwan (China) (50).

As evaluated by the *Doing Business* report this year, Vietnam is among countries that improved in the *Ease of Doing Business*. Reforms in two important areas - *Protecting investors* and *Access to finance* were reported. Vietnam strengthened investor protection with a new enterprise law and securities act, which mandate investor involvement in major company actions and increase disclosure requirements, especially for related-party transactions. Vietnam also eased access to credit by broadening the scope of asset that can be used as collateral. The 2005 Civil Code and Decree 163/2006 in Secured transaction allow businesses to use movable assets - present and future, tangible and intangible as collateral. These two legislations have also an impact on the indicator *Closing a business*, as they help strengthen the power of creditors by granting a higher priority ranking to secured creditors.

Although *Doing Business in 2008* provided an encouraging picture on Vietnam, the report also found that Vietnam have room to improve in a number areas. The country's lowest rankings fall into three areas: protecting investors, closing a business, and paying taxed.

The following is a brief analysis of ten Vietnam's Doing Business Indicators 2008.

BRIEF OF VIETNAM'S DOING BUSINESS INDICATORS 2008

	DB 2008		
<i>Ease of...</i>	<i>Economy Rank</i>	<i>Best Performer</i>	<i>Worst Performer</i>
<i>Doing Business</i>	91	Singapore	Congo, Dem. Rep.
Starting a Business	97	Australia	Guinea-Bissau
Dealing with Licenses	63	St.Vincent and the Grenadines	Eritrea
Employing Workers	84	United-States	Venezuela
Registering Property	38	New Zealand	Timor-Leste
Getting Credit	48	United Kingdom	Cambodia
Protecting Investors	165	New Zealand	Afghanistan
Paying Taxes	128	Maldives	Belarus
Trading Across Borders	63	Singapore	Kazakhstan
Enforcing Contracts	40	Hong Kong, China	Timor-Leste
Closing a Business	121	Japan	Central African Republic

Starting a Business

It is reported that in 2006/07 the cost of starting a business in Vietnam decreased to 20% of gross national income (GNI) per capita. It is also noted that online name checking is now available in the country. However, reforms to reduce time in business start-up in Vietnam were not captured in this year's report yet. The new Enterprise law effective from July 2006 reduces the number of days it takes to obtain business registration certificate to 10 days, i.e. 5 days less than stated in the old law, but this change was not reflected in this year's indicators. The introduction of one-stop-shop in March 2007 for these three start-up procedures (business registration certificate, tax code and stamp carving permit) which can help shorten the time and save the number of administrative visit involving in the start-up process was not reported in this year's report as well. Consequently, the indicator on *Time to start a business* remains 50 days as last year. But this should be improved next year

<i>Indicator</i>	<i>Vietnam 2008</i>
Procedures (number)	11
Time (days)	50
Cost (% of income per capita)	20
Min. capital (% of income per capita)	0.0

Dealing with Licenses

The indicators on dealing with licenses record all procedures officially required for an entrepreneur in the construction industry to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, including preconstruction inspections, and obtaining utility connections. Due to changes in the methodology for this topic this year, Vietnam's indicators in dealing with license are adjusted accordingly. It takes 194 days and costs 373.6% of income per capita to obtain building permits in Vietnam. Compared to other countries in the region, complying with building regulations in Vietnam is relatively costly.

<i>Indicator</i>	<i>Vietnam 2008</i>
Procedures (number)	13
Time (days)	194
Cost (% of income per capita)	373.6

Employing Workers

To measure this indicator, Doing Business focus mainly on regulation of Fixed-term contracts, flexibility in work schedules and procedures for redundancy firing. The difficulties that employers in Vietnam face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

This year, there are changes in the methodology for calculating indicators in this area resulted in a change in Vietnam's firing indicators, although Vietnam made no changes in this area in the reported period.

<i>Indicator</i>	<i>Vietnam 2008</i>
Difficulty of Hiring Index	0
Rigidity of Hours Index	40
Difficulty of Firing Index	40
Rigidity of Employment Index	27
Non-wage labor cost (% of salary)	17
Firing costs (weeks of wages)	87

Registering Property

The ease with which businesses can secure rights to property is measured below. No reform is made in this area in the reported period in Vietnam. The indicators thus remains the same as last year. It takes 4 steps and 67 days to register property in Vietnam. The cost to register property accounts for 1.2% of overall property value.

Compared to the leading countries in the world, Vietnam businesses spend much more time in property registration. Furthermore, there are still some problems in this area: as unofficial transaction are popular, it is difficult to rationalize procedures at present; Land administration is ineffective, it is therefore still common for enterprises to lack ownership certificates for their land and property.

<i>Indicator</i>	<i>Vietnam 2008</i>
Procedures (number)	4
Time (days)	67
Cost (% of property value)	1.2

Getting Credit

Measures on credit information sharing and the legal rights of borrowers and lenders in Vietnam are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index ranging from 0 to 6 measures the scope, access and quality of credit information available through public registries or private bureaus. Higher values indicate that more credit information is available from a public registry or private bureau.

This year Vietnam is among countries that expanded the range of asset that can be used as collateral, and thus eased access to credit. Following the 2005 revised Civil Code, Decree 163/2006 on secured transaction issued in late 2006 further facilitates collateral-based lending by making it possible for all kind of movable property to be used as collateral. The two legislations also allow for mortgages to be created from tangible and intangible assets, including future assets, and simplify procedures for creating security interests. Consequently, there were 2 points increased in the index on legal rights.

However, it can be seen from the report that there is still a need to improve the availability of credit information in Vietnam. At the moment, access to information on personal and corporate

credit worthiness is not available and private credit information organization have not been developed yet. Without access to credit data, banks are conservative in lending, and thus access to credit is limited.

Vietnam is making efforts to set up the regulatory framework for credit bureaus. This, when comes into force, should improve the access to credit information.

Indicator	Vietnam 2008
Strength of Legal Rights Index	6
Depth of Credit Information Index	3
Public registry coverage (% adults)	9.2
Private bureau coverage (% adults)	0

Protecting Investors

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

In the reported period, Vietnam adopted new securities and enterprise laws, which helped strengthen investor protection. The securities law set up a new exchange and trading center. The enterprise law mandates investor involvement in major company actions. The two laws also increase reporting requirement and disclosure for related -party transactions.

However, Vietnam remains among the countries which protect investors least. The new laws introduce fiduciary duties for directors- but fails to provide a way to enforce those duties. No commercial tribunals in Vietnam have jurisdiction over investor suits against directors. Consequently the extent of director liability is among the lowest in the world. There is still a big room for improvement in this area. More reforms need to be done on all dimensions of investor protection, so investors can be more confident to invest.

Indicator	Vietnam 2008
Extent of disclosure Index	6
Extent of director Liability Index	0
Ease of shareholder Suits Index	2
Investor Protection Index	2.7

Paying Taxes

The effective tax that a medium size company in Vietnam must pay or withhold within a year is shown below. According to the report, Vietnamese entrepreneurs are among those who spend most time to fulfill tax requirements. In average they spend 1050 hours, equivalent to 130 staff days, to complete procedures relating to paying taxes (VAT, corporate income tax, labour contribution made by company etc.). The report also finds business have to make averagely 32 payments and pay 41.6% of gross profit in taxes per year. These figures would suggest that Vietnam ought to consider looking at ways in which paying tax can be made easier for businesses.

The situation may be changed next year, as the Law on Tax management which was passed in 2006 and took effect July 2007 may have impact on the time required to fulfill tax requirement.

Indicator	Vietnam 2008
Payments (number)	32
Time (hours)	1,050
Total tax payable (% gross profit)	41.1

Trading Across Borders

The costs and procedures involved in importing and exporting a standardized shipment of goods in Vietnam are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

The 2008 report shows that Vietnam's performance in this area is above average (ranked 63 out of 178). The accession to WTO last year facilitated further the import/export activities in Vietnam. The time to import and export reduced significantly. The cost of export also decreased. However, Vietnamese exporters still spend more time and pay much higher cost to export than their colleagues in the region such as China, Malaysia and Singapore. If this problem is not addressed, it will weaken the competitiveness of Vietnam, where economic growth is based largely on development of export-oriented sectors.

<i>Indicator</i>	<i>Vietnam 2008</i>
Documents to Export (number)	6
Time to Export (days)	24
Cost to Export (USD per container)	669
Documents to Import (number)	8
Time to Import (days)	23
Cost to Import	881

Enforcing Contracts

The ease or difficulty of enforcing commercial contracts in Vietnam is measured below. As the list of procedures to enforce contracts in DB report is revised this year, Vietnam's related indicator is adjusted accordingly. According to the report, Vietnamese businesses must go through 34 steps, costing 31% of the contract value to collect a bad debt or resolve a business conflict.

<i>Indicator</i>	<i>Vietnam 2008</i>
Procedures (number)	34
Time (days)	295
Cost (% of debt)	31

Closing a Business

It is still problematic to close a business in Vietnam, with the country ranking 121 out of 178 worldwide on this indicator. The indicators below indicate that the current mechanism for dealing with bankruptcy in Vietnam can often be difficult and time consuming. For example, a case of bankruptcy in Vietnam will take more than 5 years and cost up to 15% of the property value with a recovery rate of only 18%, if official procedures are applied. As a result, very few enterprises terminate their business using official regulations and procedures.

<i>Indicator</i>	<i>Vietnam 2008</i>
Time (years)	5
Cost (% of estate)	15
Recovery rate (cents on the dollar)	18