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STARTING A BUSINESS IN VIETNAM: How easy?

The Prime Minister recently requested the Ministry of Planning and Investment, Ministry of Public Security and Ministry of Finance to jointly develop an inter-ministerial circular to simplify the business startup process by streamlining the three main business entry procedures - business registration, company seal registration and tax registration. As is increasingly the case all over the world, the government of Vietnam seems to agree with the assertion made in the *Doing Business in 2006* report that if it is easy to start a business then more businesses are formally set up. And more formal businesses means more jobs, more investment, more productivity and higher economic growth.¹ This bulletin discusses the benefits of easier market entry for firms and how the government can improve the process thus stimulating the growth in the number of registered firms.

Simplified business entry procedures positively impact private sector growth

The Enterprise Law of 1999 was a significant reform that made it easier to start a business in Vietnam and led to a surge in new firms being started. Between 2000 and 2005, over 160,000 new firms entered the market - three times as many as the number of enterprises that registered during the previous decade.² Further streamlining the business entry process, however, might yield an even more significant result, if even a small percentage of the estimated two million informal household businesses in Vietnam were to register and join the formal economy.

More formally registered enterprises would benefit both businesspeople and the overall economy in three significant ways. First, because formal enterprises have less of a need to hide from government inspectors, they can grow to a more efficient size. According to *Doing Business in 2005*, on average, informal enterprises produce 40% less of goods and services than their counterparts in the formal economy.³ Moreover, registered entrepreneurs can obtain bank credit, use public services (such as the courts to resolve disputes) and directly export. Finally, formal enterprises pay taxes, which increase the government's revenue base. As more companies move into the formal economy, the government can consider lowering the tax burden on all firms, which would give them more

incentives to produce goods and services, and expand.

Business entry procedures in Vietnam are still cumbersome, time consuming and costly, due to inefficient coordination among administrative agencies

Doing Business in 2006 reports that it takes only two procedures, three days, and 0.9 percent of annual income per capita to register a private limited-liability company in Canada, and only two procedures, two days, 1.9 percent to do the same in Australia.⁴ In these top-ranked countries, an investor merely needs to register his or her business with the registration and tax agencies before starting operations. By contrast, in Vietnam, it takes 50 days, 11 procedures and 50 percent of annual income per capita to register a business. The three main procedures in this process are: applying for a business registration certificate (15 days), obtaining a company seal (14 days), registering for a tax code and purchasing pre-printed invoices (15 days). Over the past few months, these processes were mapped in several Northern provinces; the results were in fact very close to the findings of the *Doing Business* report.⁵

At the provincial level, three administrative agencies - the Department of Planning and Investment, the provincial Tax Department and the Department of Public Security - are responsible for these procedures. Firms complain that the entire process is disconnected and that the

administrative agencies do not communicate with each other. As a result: i) prospective entrepreneurs have to fill out many different forms containing the same information; ii) they have to perform those steps sequentially (for example, waiting for 10-15 days to get the business registration certificate before starting the process of obtaining a company seal, getting a tax code before purchasing invoices, etc.) rather than in parallel; and iii) most procedures are manual, requiring businesspeople to visit each administrative agency at least several times. Though some provinces have begun piloting online registration, investors are only able to obtain forms and track their applications online; they still have to physically go to the DPI office to submit hard copies of all documents and signatures.

A "one-stop" approach for the three startup processes (business registration, company seal and tax code registration) could contribute to effective reform of business procedures

International experience has shown that efficient coordination among different administrative agencies is critical to achieving effective business startup reform. Many developing countries have enhanced such coordination, and the lessons from these efforts could be useful to Vietnam. Successful measures include: i) creating a single entry

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The "Business Issues Bulletin" provides those interested in business issues with a short summary and analysis of a particular topic affecting the business environment in Vietnam, and exposure to different opinions held by various stakeholders on the topic.

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(1) International Finance Corporation and World Bank, *Doing Business in 2006: Creating Jobs*, September 2005.

(2) GTZ-CIEM, *6 years of implementing the Enterprise Law: Issues and Lessons Learnt*, 2006.

(3) International Finance Corporation and World Bank, *Doing Business 2005: Removing obstacles for growth*, September 2004

(4) The data for all sets of indicators in *Doing Business in 2006* are for January 2005.

(5) Fieldwork carried out by both IFC-MPDF and the Vietnam Competitiveness Initiative (VNCI).

Simplified business entry procedures positively impact private sector growth

● Keeping track of each entrepreneur's identification-related information can help reduce the number of "ghost businesses" and prevent people with police and criminal records from doing business in sectors that affect public order and security. This can be achieved through strong and regular coordination among the business registration, tax and police agencies. It should be noted that as business startup procedures become easier, post-registration monitoring will be more important. It is critical to improve self-discipline and legal compliance among citizens and to execute strong punishment on any individuals who set up businesses for rent-seeking purposes.

*Mr. Nguyen Thai Dung,
Department of Administrative Management for
Public Order, General Department of Public Security*



● To spur local economic growth and increase tax revenues, it is critical to encourage more businesses to invest in this province. Simplifying business-related administrative procedures, especially the initial steps of business startup, is one way to address this issue. The argument that strict business start-up regulations help the state detect "ghost businesses" is simply incorrect. People who set up such businesses for rent-seeking purposes will

complete those complicated procedures at any price. However, most entrepreneurs want to save as much time and money as possible so that they can focus on business opportunities. More complicated or "strict" start-up procedures actually create less favorable conditions for people who want to set up legitimate businesses.

In Bac Ninh province, simplified business establishment procedures will i) encourage thousands of households in trade villages to formalize their businesses and grow them and ii) help the province attract more investors. This reform will also strengthen Bac Ninh's competitiveness and improve its ranking in competitive sub-indices by reducing entry costs (time and informal charges), increasing transparency and access

to regulatory information, and reflecting the commitment and initiative of provincial leaders.

*Mr. Nguyen Phuong Bac, Deputy Director,
Department of Planning and Investment, Bac Ninh province*



● The internationalization and globalization of business activities through increased trade and cross border transactions have also increased the need for a well-functioning business registry that allows business partners to confirm the official legal status of their enterprises and counterparts and thus feel more comfortable with those they deal with. Efficient services that verify the legal status of businesses are a prerequisite for any SME seeking to expand its activity beyond its manager's immediate social circle. Cumbersome and costly business registration procedures and services also prevent SMEs from taking advantage of opportunities such as wider markets for exports. Access to credit, insurance, public services and incentives are normally reserved for registered businesses, and lowering the cost of verifying the legal status and circumstances of enterprises ultimately lowers the cost of doing business.

*Mr. John Schjelderup Olaisen, Director,
Norway Registers Development AS*

● More simplified procedures will benefit both government agencies and the business community. More enterprises will be encouraged to move from the informal to the formal sector, enabling local governments to earn more tax revenues and creating more jobs with higher salaries in the formal sector. Moreover, transparency of business procedures will be enhanced, reducing corruption. The business community will also be happier with more simplified procedures because the business entry process will become less complicated, costly and time-consuming.

*Mr. Vu Quang Thinh, Partner,
Management Consulting Group (MCG),
Consultant to IFC-MPDF Provincial Simplification Project*

Business entry procedures in Vietnam are still cumbersome, time consuming and costly, due to inefficient coordination among administrative agencies



● Business registration, as a process in which the state recognizes the right to do business, as stated in the Enterprise Law, should be as simple and transparent as possible. Currently, it takes a lot of time for a person who wishes to set up a business to get information on the whole business establishment procedure. He needs to visit and consult multiple agencies about the entire process. Strong coordination and communication among these agencies will

definitely help business save time and costs.

*Mr. Nguyen Dinh Duong, Deputy Director,
Department of Planning and Investment, Hanoi*

● One of the major objectives of a recent survey of 80 newly-established enterprises in Hanoi and Vinh Phuc was to evaluate the operational effectiveness of the "one-door" mechanism for business registration in

the two provinces. The survey showed that the one-door concept (also known as a "one-stop shop," or OSS) is not well understood. One-stop shops are designed as "return and receipt" units for all kinds of administrative procedures, including those for businesses and those for civil servants. While the one-door mechanism has officially been implemented by almost all agencies, in practice, businesses still have to go through too many doors! As the OSS staff lack sufficient competence to provide businesses with the appropriate guidance, they tend to be rigid when dealing with businesses. For example, they refuse to accept an application if minor information is missing. In many cases, businesses have had to wait seven days to be informed of just one minor mistake! Businesses in both provinces attested that the processes to establish a business are complicated, time-consuming and costly.

*Mr. Nguyen Anh Tuan, Managing Partner,
Bizconsult*

● In my opinion, the company seal-making procedure is quite easy, but further simplification will require that a number of measures be undertaken. First, when applying for a seal, businesses should not have

to submit an introduction letter from the Business Registry or, for particular branches and representative offices, an approval from the Provincial People's Committee. Second, police agencies should not be allowed to request additional documents or information from businesses and should strictly observe the regulated procedures. Third, all seal-making units must commit to speeding up the production of seals. We should consider withdrawing the business license of any unit which cannot do this. However, we should still maintain a number of fundamental requirements, such as those specifying that only those people listed in the business registration certificate can apply for and register the company seal and that seals can be made only at certified seal-making units.

*Mr. Nguyen Thai Dung,
Department of Administrative Management for
Public Order, General Department of Public Security*



● In the past, we have piloted a merger of two steps: purchasing the first tax invoice and registering the tax code. However, this initiative was unsuccessful. Approving the first invoice purchase, which requires us to visit the premises of each applicant, takes longer than issuing the tax code. A delay in issuing the tax code, which is needed for other procedures, is unfavorable to businesses. That is why these two steps are separate.

*Ms. Nguyen Thi Thuan, Deputy Director,
Center for Information Technology and Statistics, General Department of Tax*

● In Vietnam, each province independently operates current registration services, which are characterized by: i) no verification service regarding the legal status of enterprises; ii) no national

harmonization or consolidation of procedures, services or information; iii) low transparency; iv) mostly manual operations that include cumbersome, time consuming and costly procedures; and v) no integration and cooperation with other public agencies and services. The results are: i) high cost barriers for those seeking to realize business ideas and enter into business activities; ii) the limiting of SME business activities to local markets; iii) costly risk management procedures for businesses; and iv) high transaction costs for enterprises.

*Mr. John Schjelderup Olaisen, Director,
Norway Registers Development AS*



● To start operations, a business in Vietnam needs to undertake at least four administrative procedures: getting its business registration certificate, registering its company seal, completing its tax registration, and purchasing its first VAT invoice book. In some provinces we have worked in, a person starting a business has to visit his local administrative authorities at least thirteen times to complete the three first business establishment procedures.

In one province, the staff of the relevant administrative agencies spend 27 days over 98 operational steps to process a business establishment application! Each administrative agency tends to try and complete its duty without coordinating and communicating with the others. As a result business owners have to run around to fulfill several complicated procedures. Many businesses have to pay informal charges, either directly or indirectly, for the convenience of completing each procedure.

*Mr. Vu Quang Thinh, Partner,
Management Consulting Group (MCG),
Consultant to IFC-MPDF Provincial Simplification Project*

A "one-stop" approach for the three startup processes (business registration, company seal and tax code registration) could contribute to effective reform of business procedures



● Businesses in Hanoi and Vinh Phuc are recommending that the government regularly review and further simplify the existing business entry regulations and procedures so that more businesses are encouraged to register their operations. The government should authorize the Business Registry, which is under the Department of Planning and Investment, to act as the "single-door" for processing business registration and to coordinate registration

requirements from the provincial level Departments of Public Security and Taxation. In the long run, it is recommended that the business registration number be integrated with the tax code so that the Government's source of revenue from business enterprises is predictable and efficiently managed. The national business information database should also be upgraded to facilitate the name-checking process nationwide.

*Mr. Nguyen Anh Tuan, Managing Partner,
Bizconsult*

● Under Decision No. 233/2004/Qé-UB of the Lao Cai People's Committee, the Business Registry of Lao Cai DPI has been authorized as the single door to receive and process business establishment applications. According to this Decision, the Business Registry is also

responsible for helping businesses register their seals at the Public Security Department and get tax codes at the Tax Department. The greatest benefit of this model is that it reduces the time to start up a business. It now takes only seven to eight days for businesses to get all the necessary documents (one day for the business registration certificate, five days for the company seal and seven days for the tax code) as some steps can be undertaken simultaneously. The second benefit is that businesspeople do not have to repeatedly visit many places. The third benefit is that thanks to regular communication among public agencies, especially between DPI and the Tax Department, it is easy for both agencies to track businesses. This is a good starting point for putting into place an efficient post-registration monitoring system.

*Mr. Vu Kim Quy, Head of Business Registry,
Department of Planning and Investment, Lao Cai province*

● We need to distinguish between simplifying administrative procedures and reforming public administration. In my opinion, simplifying administrative procedures means abolishing overlapping steps required by different administrative agencies; citizens and businesses should not need to provide the same information repeatedly to different agencies. Rather, public agencies should communicate and share such information. In public administration reform, it is critical to review the functions and responsibilities of each agency so that overlaps and bureaucracy in the whole administrative mechanism can be eliminated.

In the short term, it is advisable to combine the three administrative

steps (business registration certificate, seal-making and tax code registration) to further simplify business establishment procedures but not take major steps like combining the business registration number and the tax code. It is too early to do this as it would affect the operations of each agency, which are difficult to adjust in the short term.

One of the strengths of our business information database is its nationwide coverage, which enables better tracking and controlling of businesses. In the long run, our database is ready for linkage with the business registration database, so that businesses face reduced bureaucracy and public agencies operate more efficiently.

*Ms. Nguyen Thi Thuan, Deputy Director,
Center for Information Technology and Statistics,
General Department of Tax*



● Under Decision No. 1551/2006 of the Hai Phong People's Committee, the Department of Planning and Investment (DPI) has been coordinating with the Tax Department and Public Security Department to plan and implement a streamlined "one-stop shop" (*một cửa liên thông*) for business establishment procedures. This one-stop shop will reside within DPI, and its coordination is based on a number of fundamental principles. First,

businesses only have to visit a single place for advice on, to apply for, and to obtain their business registration certificates, register their company seals, and get their tax codes. Second, there should not be any conflict between the existing functions and responsibilities of the three agencies. Third, the staff appointed to work at this streamlined one-stop shop should be professional and have sufficient capacity and expertise to advise businesses on the whole process of business establishment.

However, in order to effectively implement this streamlined one-stop shop, four major issues must be taken into account. First, some questions related to its structure must be resolved such as: which agency should be authorized to manage this single door; and what kind of communication should there be between this door and the back office functions of relevant agencies? Second, what is the best and most efficient way of allocating human resources to this one-stop shop? In this case, how should the Tax and Public Security Departments assign their staff to be on duty at DPI? A police official normally spends only 25% of his time working on seal registration; is it efficient if he has to stay at the one-stop shop for 8 hours a day, as staff of the Business Registry usually do? Third, a national legal framework governing this coordination will definitely enable more effective implementation at the

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point through which businesses can conduct all business startup procedures (having all the interactions between agencies occur behind the scenes so that entrepreneurs would not have to go to each agency separately); ii) introducing a single business registration form through which businesses can provide all the information needed by different agencies; iii) issuing a single identification code to each business (which may mean merging the business registration code with the tax code); and iv) using information technology for business registration (allowing electronic filing, making registration information available to different government offices, developing a national registration database that allows for electronic name search, etc).

In Vietnam, while awaiting a national legal framework that governs inter-agency coordination, some provinces have already taken measures to make business registration easier in order to attract

local level. Fourth, the success of this model depends on the customer-oriented attitude of public servants and on their willingness to cooperate with staff across public agencies.

Finally, this linked one-stop shop is just a short-term solution. In the long run, public agencies must use information technology (email, LAN, intranet, etc.) to communicate with each other so that public services, especially those for businesses, are handled in the fastest and most cost-efficient way.

*Mr. Dang Van Hai, Head of Business Registry,
Department of Planning and Investment, Hai Phong City*

● It should be noted that in order to simplify administrative procedures for businesses, we should simplify not only market entry procedures, but also those procedures that encompass the overall life cycle of businesses, such as licensing for conditional businesses ("baby licenses"), resolution of internal conflicts of interest, registration of any change in the business registration dossiers, dissolution, and bankruptcy.

*Mr. Nguyen Dinh Duong, Deputy Director,
Department of Planning and Investment, Hanoi*

● In modern public administration, the government should treat citizens, businesses and investors as real customers. When entrepreneurs need any service from the state, such as a business registration certificate, a construction permit or an environmental license, it would be ideal if they only had to visit a single place where all procedures are simple and transparent. In conjunction with the effort to computerize business registration services in some provinces, the model of a streamlined "one-stop shop," where businesses can deal directly and at once with the authorized public servants from the DPI, Tax and Public Security agencies for the first three steps of business establishment procedures, is a good initiative and should be implemented to further simplify provincial-level market entry. In addition to having a single access point for these three services, it is necessary to review and streamline each administrative agency's back office procedures so that businesses can be established within ten days.

If leaders of a province are truly determined to reform business registration procedures and consider such change as a breakthrough step in the local public administrative reform agenda, this may help speed up reforms in other administrative areas, improve the province's image and enhance its competitiveness.

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investment. For example, the government of Lao Cai province has pioneered a "three-in-one" approach in which the business registration office within the DPI acts as the single access point for business startup procedures. In addition to issuing business registration certificates, DPI is responsible for interacting with the Tax Department and Public Security Department to obtain tax codes and seal making licenses within only 15 days. This streamlined "one-stop" approach has been highly praised by the local business community, and is being considered by other provincial governments.

It should be noted that there have been unsuccessful examples in Vietnam in the past of "one-stop shops" for administrative procedures that have been criticized as "one more stop shops." To ensure that a "one stop" approach for business entry does indeed simplify business startup, lessons learned from past experience indicate that capacity building and enhanced authority/decision-making power for staff of the single access point are necessary to ensure success.