



## MPDF helps local government in Vietnam simplify business startup

### Background and overview:

The World Bank and International Finance Corporation's (IFC) *Doing Business 2006: Creating Jobs* cited Vietnam as one of the world's top reformers in 2004, based on the fact that the central government reformed a number of policies and regulations that impacted on five of the 10 different *Doing Business* indicators. In 2005, Vietnam enacted new Investment and Enterprise Laws, aimed at further improving the business environment and encouraging more investment.

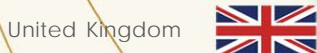
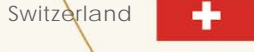
However, as is the case all over the world, well-intentioned policy does not always translate into good practice. Businesses in Vietnam register, operate and are regulated at the provincial level – and many entrepreneurs find that while central government policies aim to make doing business easier, local government implementation can be a very different story. In many provinces, overly controlling and restrictive measures such as cumbersome or outdated regulation, excessive licensing requirements, and arbitrary inspections cost companies time and money, deter investors, deny job opportunities to local communities and impede efforts towards achieving poverty reduction.

In 2005, with help from a USAID-funded project, the Vietnam Chamber of Commerce and Industry (VCCI) launched a *Provincial Competitiveness Index (PCI)* that ranked provinces according to the domestic private sector's perceptions on the business environment – a sort of sub-national *Doing Business*. The PCI drew wide media coverage and created a stir throughout the country, prompting the more reform-minded officials in some provinces to actively seek assistance to overhaul their existing business regulations and procedures. Despite their strong interest in reform, however, many local authorities lacked the tools or information to know where to start.

With MPDF's private sector development mandate and significant on-the-ground experience of partnering with government to implement reform, combined with IFC's global experience of sub-national simplification in other countries such as Bolivia, Peru, Honduras, and Indonesia, MPDF has taken the lead in Vietnam to design and pilot a Provincial Simplification Program, aimed at helping provincial governments develop and implement effective business reforms. In our current pilot phase, we are working with a local consulting firm to assist two provinces – Bac Ninh and Binh Dinh – to streamline the business startup process which entails **1) registration, 2) obtaining a tax code, 3) getting a company seal, and 4) buying tax invoices.**

### The Bac Ninh pilot – Initial impacts include reduction of time and costs to doing business

Bac Ninh province, with a population of one million, is located approximately 40 kilometers to the northeast of Hanoi. The province has a total of 1,674 total registered enterprises, of which 1,619 are domestic private companies, 50 are foreign-invested companies and five are state-owned enterprises. In addition, there are an estimated 52,000 unregistered, informal enterprises. The province's main industries include metal pro-



cessing, wood processing, service and trade, food processing and bamboo/rattan processing.

Bac Ninh was selected as an initial partner in our pilot phase primarily because it satisfied the most important criteria for engagement in any new reform project: stakeholder buy-in. Following the launch of the first PCI, in which Bac Ninh ranked as a middle-performing province, the Deputy Director of the province's Department of Planning and Investment (DPI) sought out MPDF and asked for our assistance. A follow-up engagement visit with the province's Vice Chairman for Economic Affairs (the Vice Mayor) convinced us that we had the commitment to reform from the highest level, and that engaging with the province would yield positive results.

MPDF has been working in Bac Ninh province extensively over the past four months. We have recently finished developing a detailed process map of the four business startup processes, based on extensive interviews with officials in the relevant Departments and over 30 newly established enterprises.

The initial findings show that current processes are indeed cumbersome: on average, it takes a total of 126 detailed steps over approximately 32 days to start up a business in Bac Ninh province (shorter than the *Doing Business* estimate of 51 days, but much longer than regional best Singapore's six days, and international best Canada's three days). These findings were presented to senior officials of the People's Committee and relevant government Departments in July 2006, and MPDF has recommended a streamlined single-door approach to the startup process that should very quickly reduce the time required to start a business to about 15 days. Additional reforms to be implemented over the long run should reduce time and costs even further.

Following that presentation, the Vice Mayor formed a task force led by DPI to develop a detailed plan of action within one month, for his approval. MPDF is already working with the task force on that Action Plan, and will continue to support the province to implement the identified reforms. Once a new process is in place, we expect a significant rise in business registration, which will generate more tax revenues for the province, create more jobs, and reduce poverty. The province already has plans to use the same methodology to tackle other procedures inhibiting the growth of business, including licenses and land lease and transfers.

#### ***National level impact: A case of practice influencing policy***

The Prime Minister of Vietnam recently issued a directive to the Ministry of Planning and Investment (MPI), Tax Authority and Ministry of Public Security to streamline the business registration process at the national level and apply the new process in all 64 provinces. As a direct result of the Bac Ninh pilot, MPDF has been asked by MPI to provide technical assistance directly to the Task Force responsible for streamlining this process at the national level. With its approach of on-the-ground, hands-on implementation, MPDF has in effect helped **practice** influence **policy** in Vietnam – to the benefit of the private sector and the millions of people it employs.

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#### ***Mekong Private Sector Development Facility***

IFC-MPDF is a multi-donor funded initiative set up by the International Finance Corporation in 1997 in Vietnam, Cambodia, and Lao PDR, to reduce poverty through sustainable private sector development. The Facility works through six interrelated programs that seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments.

IFC-MPDF's donors are the Asian Development Bank, Australia, Canada, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

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