



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN VIETNAM

Bolstering the Private Sector during COVID-19 and Beyond:
Relief, Restructuring, and Resilient Recovery

Executive Summary

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Cover photo: Workers at a production line in the electronics manufacturer Hanel PT. Photo by IFC.

EXECUTIVE SUMMARY

COUNTRY CONTEXT

The private sector has played a central role Vietnam's outstanding development journey. From boosting investments to creating productive jobs and growth, it has helped propel Vietnam to the ranks of a middle-income economy in one generation. Driven by its trade openness and an exported-oriented growth model, Vietnam has attracted large amounts of foreign direct investment (FDI) in labor-intensive segments of manufacturing global value chains (GVCs). Extreme poverty declined from 50 percent to around 2 percent between 1990 and 2018. Today, Vietnam is the world's second-largest smartphone exporter, producing over 40 percent of Samsung's global phone products—an embodiment of the success of the country's growth strategy. Entry into the domestic private sector has been equally dynamic, and large domestic enterprises are emerging with Vingroup, VietJet Aviation, and Masan Group operating across the East Asia region.

Vietnam was preparing for its next economic transformation when the COVID-19 crisis unfolded. Building on its impressive achievements, Vietnam's ambition is to become a high-income country by 2045 by following the path of its regional peers, such as the Republic of Korea, which underpinned its development trajectory with increasing reliance on productivity growth and thereby avoided the middle-income trap.¹ The challenges of the global slowdown in growth and trade, combined with rapid changes in technologies related to Industry 4.0,² and the push toward servicification of manufacturing³ have been compounded by the COVID-19 crisis that hit Vietnam in early 2020.⁴ Vietnam demonstrated leadership and swift action in the containment of the virus by imposing strict lockdown measures and stringent border controls. These measures led to a significant decline in economic activity resulting in social and economic hardship on businesses and households. While Vietnam stands out as one of the few countries in the world to register positive growth in 2020, recording a gross domestic product (GDP) growth rate of 2.9 percent (IMF 2021), its performance was less than half of what was registered during the pre-COVID period. By the end of the second quarter of 2021, Vietnam's output was well above its pre-pandemic level. However, by July 2021, Vietnam had been hit by the highly infectious Delta variant, which, combined with the country's low vaccination rate, risks a setback for the recovery path. Nonetheless, to resume its ambition of realizing a high-income growth trajectory, strengthening private sector development and investment through a productivity-led and inclusive growth model is necessary.

The objective of the Vietnam Country Private Sector Diagnostic (CPSD) is to examine opportunities and challenges, both cross-sector and sector-specific, to strengthen private sector development and facilitate investments in Vietnam. The CPSD is closely aligned with the government's strategic priorities (as outlined in Vietnam's Socio-Economic Development Strategy [SEDS] 2021-2030 and the *Vietnam 2035* report) and World Bank Group policy priorities and programs (WBG Vietnam Country Partnership Framework [CPF] FY18–FY22 and IFC's Vietnam Country Strategy 2020–22). The CPSD relies on multiple data resources, including knowledge from the literature (including sectoral studies) and from World Bank Group staff, enterprise surveys, high-frequency/real-time data generated by private firms, and interviews and consultations with the private sector, Vietnamese authorities, and other external stakeholders.

BUSINESSES HAVE BEEN SEVERELY HARMED BY THE COVID-19 PANDEMIC

The COVID-19 crisis has dealt a severe blow to businesses and employment, mirroring the downward pressure on overall growth. Several factors make businesses in Vietnam particularly vulnerable to the crisis, including the country's integration in trade and GVCs, and its reliance on investment flows and the tourism sector. The COVID-19 shock is transmitted to businesses through multiple and mutually reinforcing channels—including falling demand, reduced and disrupted input supply, tightening of credit conditions and a liquidity crunch, and rising uncertainty. The successful containment of the first wave of COVID-19 had enabled the continued reopening of businesses bringing the total share of opened firms to 94 percent in October (Tan and Trang 2020). However, many businesses are still running below normal (pre-crisis) capacity and will be further constrained by the renewed lockdown measures introduced over July and August 2021. Reduced demand appears to be the most important channel of impact. Almost 1 in 4 firms still have decreased operating hours, and the extent of the sales drop is about 36 percent lower than the same period last year. Net employment has stayed significantly below the January 2020 level. Further, recovery has been mixed and uneven, and firms are facing further and acute pressure from the renewed lockdown as a result of a sharp resurgence of COVID-19 cases in Vietnam over July and August 2021. On average, small firms and firms in manufacturing, services, and agriculture continue to experience revenue shocks. While liquidity has improved, firms are still at significant risk of arrears, which will be worsened by the ongoing rise in new COVID-19 cases. Even after a recovery in demand, in a climate of uncertainty, being saddled with debt and negative expectations can reduce investment and threaten bankruptcies and job losses that could slow growth even further.

Encouragingly, businesses continue to respond to the new normal by adopting digital technologies. Close to 60 percent of firms in September-October 2020 had adopted or increased use of digital platforms in response to COVID-19 (Tan and Trang 2020). Uptake was higher among larger firms and service firms. E-commerce activity has surged following the outbreak; the leading e-commerce site, Tiki, has seen an explosion in the number of purchase orders, and big retailers have seen a dramatic increase in online sales. SMEs have been more likely to use digital platforms for less complex front-end business functions, suggesting potential capacity or resource constraints. The COVID-19 outbreak has demonstrated the urgency for Vietnam to step up the pace of adoption and diffusion of technologies and digital solutions to support business resilience and growth.

Fiscal constraints limit the public sector's ability to address development investment needs, particularly in infrastructure and human capital. The crisis has increased pressure on the government's budget as it swiftly moved to support affected businesses and households through fiscal measures. Looking forward, Vietnam's recovery is tied to enhancing the role of the private sector in the economy. An effective public-private partnership (PPP) framework will play a critical role in mobilizing private sector participation in the infrastructure and education sectors.

Vietnam's exceptional growth has been accompanied by the degradation of environmental and natural assets. Greenhouse gas emissions are outpacing the country's economic growth, reflecting a rising dependence on carbon-fueled power generation. The country is highly vulnerable to climate change and natural disasters while rising salinity threatens two-thirds of fish production from aquaculture.

RECOVERY AND SUSTAINING ECONOMIC GROWTH DEPEND ON A PRODUCTIVE PRIVATE SECTOR

Meeting these challenges will require ramping up productivity growth. Rapid GDP growth has relied heavily on expanding the labor force and on investment, while total factor productivity (TFP) growth has been slower than in most other fast-growing East

Asian economies. To achieve the government’s ambition of achieving high-income status by 2045, productivity will have to become the main driver of growth, with continued contributions from capital accumulation. Boosting productivity will require exploiting the full potential of the private sector, through policy reform to reduce constraints on the efficiency and innovation of private firms, accompanied by progress in ensuring inclusion and sustainability. Digitalization, which was accentuated by the COVID-19 pandemic and is shifting the source of growth from industry to services, will also be critical.

ENTERPRISE SECTOR OFFERS OPPORTUNITIES FOR GROWTH, INCREASED PRODUCTIVITY, AND INNOVATION

The enterprise sector has grown rapidly over the last 20 years. The number of active registered enterprises in Vietnam increased from 42,300 in 2000, when the Enterprise Law 1999 was adopted, to 758,610 in 2019 (General Statistics Office of Vietnam, 2019a). Non-state domestic enterprises accounted for 60.6 percent of employment of all registered enterprises in 2018; foreign-invested enterprises (FIEs), 31.8 percent; and state-owned enterprises (SOEs), 7.6 percent. There is also considerable churning of enterprises—in 2019, 89,282 firms closed or suspended their business and 138,139 new firms registered their business. Preliminary reports indicate that the number of newly registered enterprises in 2020 was 134,000, down 2.3 percent from 2019.

FIEs play an important role in the Vietnamese economy. As a share of GDP, FDI inflows to Vietnam exceed those into China and most large ASEAN countries. FIEs tend to be much larger in size than domestic enterprises and are major drivers of manufacturing production and exports. Vietnam specializes in the labor-intensive, low-complexity, and final-assembly stage of GVCs—primarily exporting apparel, shoes, and mobile phone handsets. However, FDI in these activities has not been a catalyst for generating spillovers to the domestic private sector, either in the form of increased demand for inputs, access to technology and managerial skills, or agglomeration benefits. Foreign investors point out that the main constraints to shifting to local production inputs are the dearth of domestic suppliers with the ability to meet required quality, quantities, delivery times and prices, as well as the absence of policies to assist local firms.

Domestic private enterprises are mostly small, less productive, and less innovative than FIEs, and not well integrated into GVCs. Most domestic private enterprises are micro and small enterprises that have less than 50 employees, operate in relatively low productivity services (such as small retail and restaurants) and simple manufacturing, and produce for the domestic market rather than for exporting. While the number of domestic private enterprises increased sharply from 2000 to 2016, the average size fell by about 40 percent. Vietnam is still far from the global productivity frontier, investment in research and development (R&D) and patenting is low, and self-reported innovations seem to be lower than expected given the country’s level of development. In addition, there are large and growing productivity gaps between leading and lagging firms across and within sectors.

Nevertheless, some large domestic private enterprises have emerged. Seven Vietnamese corporations are among the 200 top-performing listed companies across the Asia-Pacific region with revenues of US\$1 billion or more (Burgos, 2019). In 2018 the 40 most valuable brands in Vietnam had a total value of more than US\$8.1 billion, up by over 30 percent compared with the list announced in 2017. These large enterprises primarily focus on the domestic market and production of non-tradables, and some adopt new technologies, invest in training, and recruit locally and globally. A number of large private corporations participate in multiple sectors and rank among the top private companies. Three of the top 10 private companies are conglomerates that have diversified into at least three entirely different economic sectors. Still, the value of Vietnamese brands remains low compared with that of many countries in Southeast Asia.

State-owned enterprises (SOEs) maintain a large economic footprint in Vietnam and may discourage private investment (Dinh and others 2019). While the number of SOEs has declined over time, they remain dominant players in the economy, generating nearly a third of GDP. Vietnam had 2,486 active SOEs at the beginning of 2018 (compared with 3,281 in 2010). SOEs account for 0.4 percent of registered enterprises but produced nearly 30 percent of GDP (General Statistics Office of Vietnam 2018). The government holds a majority share in 1,500 companies, including about 740 listed on the two main stock exchanges in Hanoi and Ho Chi Minh City (HCMC). This included the majority of shares in at least 6 of the top 10 companies on the Vietnam Stock Exchange, as of 2017. Although Vietnam is undertaking the equitization of SOEs on a large scale, progress is slower than planned.⁵ With the state remaining a dominant player in enabling sectors, especially in absence of social or economic rationale for government participation, it may crowd out much-needed private investment and innovation.

Sustainable growth in the future will rely on a shift toward private investment that is associated with efficiency, innovation, and productivity gains. The objective for the government is to ensure that scarce resources are directed to tasks in which the private sector cannot fully meet a particular need (Ogus 1994; Sauter and Schepel 2009). Whereas large shares of investment could be justified in socially sensitive sectors such as water, sanitation, and health, investment in other sectors that can be more efficiently operated by private firms, such as information and communication technology (ICT), energy, and construction, may not be the most efficient use of public resources. For instance, the state provided nearly 84 percent of total investment in energy, nearly 70 percent in transport and storage, and 54 percent in the information technology sector in 2018 (General Statistics Office of Vietnam 2018). By undertaking market reforms, increased private sector participation in these sectors could potentially lead to a considerable increase in the overall productivity and competitiveness of the economy, as was evidenced by reforms in the airlines industry.

As Vietnam moves toward recovery, the development of a productive and diversified private sector will become imperative given scarce public resources. For Vietnam, the path to becoming a high-income country is predicated on increasing value addition in existing sectors, expanding and deepening participation in GVCs, and diversifying into new sectors and markets while ensuring sustainability and the digitalization of the economy. This effort entails tackling the key cross-cutting constraints that deter private sector growth, productivity, and diversification.

KEY CROSS-CUTTING STRUCTURAL CONSTRAINTS HOLD BACK PRIVATE SECTOR DEVELOPMENT

The COVID-19 pandemic provides an impetus to accelerate implementation of unfinished structural as well as second generation business climate reforms, that build on the government's earlier reform efforts. Key priorities include: (i) reducing the regulatory burden on businesses to facilitate expansion of existing firms and entry of new digital businesses; and expediting the opening of markets and sectors, through a strengthened competition framework and SOE reforms, to enhance efficiency and competition in strategic sectors; (ii) improving access to finance for underserved SMEs as well as supporting financial inclusion and innovative financial services through growth of the fintech industry; and developing capital markets for future growth; (iii) addressing skill gaps and building managerial practices to support innovation; and (iv) lowering high logistics and infrastructure costs to support the development of a productive and vibrant economy. Tackling implementation and governance challenges, especially at the sub-national level, remains a cross-cutting agenda.

LEVEL THE PLAYING FIELD TO INCREASE PRIVATE INVESTMENT AND SCALING UP OF DOMESTIC FIRMS

The large size and influence of SOEs could hinder competition for smaller and less established firms. The potential for entry and the operations of firms may be affected by SOE market dominance, or by the greater ability of established firms to influence government decisions of importance to firms, or both. Private firms find it difficult to fully participate and compete in many markets because of the preferential treatment given to SOEs. Commercial banks continue to lend to under-performing SOEs on a noncommercial basis (IMF 2019) thus increasing the local cost of borrowing for profitable firms. SOEs in financial trouble can receive state support through loan write-offs and rescheduling, limiting resources that could be directed to private firms. While existing laws and regulations on land assignment and rent for business and production do not discriminate between SOEs and non-state enterprises, SOEs hold 70 percent of land dedicated to production and business purposes.

Domestic private conglomerates are emerging as important economic players but generally do not compete in the same sectors as SOEs. While domestic private conglomerates are evolving, they do not appear to have a dominant position in the economy and their shares of sector-wide sales range from 5 to 27 percent. The largest conglomerates operate in commercial sectors rather than in natural monopolies or network sectors. Barring a few exceptions, private conglomerates do not appear to compete against each other in the same sector. In some markets, conglomerates are contesting with more established players, including in a few cases with SOEs. In general, however, the overlap between SOEs and private conglomerates is insignificant.

Conglomerates may use their influence to erect barriers to entry or thwart the scaling-up of smaller domestic firms. Earlier work and recent in-field consultations suggest that some conglomerates leverage political connections as they expand their businesses. These corporations appear to have easier access to factors of production (land, skilled labor, and finance) than smaller firms and new entrants. While domestic private conglomerates do not benefit from explicit regulatory protection, they may be benefiting from restrictions on foreign investment. For example, Vietnam has an economic needs test for foreign-invested retail outlets.

KEY GAPS IN ACCESS TO FINANCE RELATE TO UNDERSERVED SMES AND AVAILABILITY OF LONG-TERM CAPITAL

Although Vietnam has a sizable banking system and ample liquidity, financial inclusion is limited. The Vietnam Provincial Competitiveness Index 2020 found that 41 percent of firms surveyed faced difficulties in getting credit. Credit growth to SMEs has been anemic, around 3 percent annually. According to an SME survey by the Central Institute of Economic Management, SMEs have a much lower chance of obtaining bank loans than large enterprises do. Long-term finance is particularly scarce: more than 85 percent of commercial bank liabilities are due in less than one year. Banks generally view liquidity as one of their key risks, a situation which limits commercial banks' lending capacity and appetite for long-term lending.

Difficulties in using secured assets as collateral remain a key barrier for SMEs to access bank credit. Banks in Vietnam generally require fixed assets and tend not to accept other movable assets, such as account receivables and inventory, as collateral. Building on earlier reforms, focus needs to shift to developing regulations along with an action plan for inventory and receivables financing needs. Banks and other credit providers are often uninformed about the potential for the market, and they lack the required expertise in valuing movable assets, especially machinery and equipment.

The availability of supply chain financing is limited for SMEs. Supply chain finance (SCF) enables suppliers and distributors to optimize their working capital management by converting their sales receivables and inventories to cash and to obtain lower-cost financing.⁶ According to Vietnam's secured transaction registry, only 30 percent of total filings are related to receivables and inventory, significantly lower than those in more developed markets (for example, compared to 60 percent in China). Vietnamese micro enterprises and SMEs embedded in supply chains and ecosystems of larger corporate anchors have limited opportunities to leverage the enhanced credit standing of anchor firms to get better access to finance. In addition, low productivity and low-quality production make it difficult for SMEs to participate in GVCs. As of December 2018, only 300 SMEs in Vietnam's supporting industries were part of a global supply chain. SCF e-platforms are critical in creating a transparent database of transactions among suppliers and buyers and can support lending by financial institutions. These e-platforms are available in Vietnam but most of them are bank-led, and the penetration of third party e-platform providers is not strong. Further improvements in the enabling environment for collateral management (such as national warehousing and logistic systems) and the development of nonbank financial institutions, as players in the SCF market, also are important.

The COVID-19 pandemic has underlined the urgency for the development of digital financial services (DFS). There is significant scope for growth in DFS (including digital payments, lending, insurance, and savings) given that Vietnam has a high rate of smartphone penetration and cost-effective internet and Wi-Fi access. While the State Bank of Vietnam (SBV) has taken a cautious approach to fintech regulations, it could increase granting of licenses which could in turn help fintech firms diversify into other areas such as lending. In response to the pandemic, the government has recently allowed, as a pilot, the implementation of mobile money. Overall, development of DFS and the fintech industry will lead to increased financial inclusion and help address constraints in SCF and collateral registries.

Vietnam's capital markets are experiencing an expansion but remain shallow. Despite the growth, Vietnam continues to lag other ASEAN member countries, as evidenced by the size of its bonds market. The relatively rapid expansion of the bond market in Vietnam has been concentrated in issuances from the public sector, whereas the use of bonds by corporations has remained mainly limited to banks and real estate companies. Most of these were private placement bonds and not listed on the exchange market. A well-developed corporate bond market will be important to recapitalize state-owned banks, fund major SOEs, finance infrastructure projects, provide opportunities for various sectors to create instruments appropriate to their funding needs, improve financial stability, and potentially attract more local and foreign institutional investors. However, several obstacles hinder the growth of the market, including an inadequate legal and regulatory framework for corporate bonds; lack of necessary and standardized documentation; limited use of credit ratings; and the lack of a credit culture based on proper disclosure.

Meanwhile, only a few companies have used the equity market to raise capital, and foreign investors have limited access to Vietnamese equities. The total of initial public offerings and follow-on offerings reached US\$3.8 billion between 2016 and 2018, which was lower than the amount raised by peers: the Philippines (US\$4.7 billion), Malaysia (US\$5.1 billion), Thailand (US\$5.8 billion), and China (US\$143 billion). The secondary market in Vietnamese equities has been more active, with a modest turnover ratio of 40 percent, which is in the mid-range of the ratios reported by peer markets in the region. Obstacles to greater equity market issuances include limits on foreign ownership, which have created some price discovery issues for companies whose foreign ownership has reached the limit, and a lack of information

disclosure (including the timely availability of information in English) and access to management for listed companies. Capital control measures – for instance, access to foreign exchange hedging instruments – also hinder foreign participation.

It is important to continue the development of the building blocks for long-term finance. These include enhancing pricing mechanisms through yield curve development, thus taking advantage of the existing momentum through the improved government bond market. Development of money market and reliable short-term reference rates would help solidify the yield curve and indirectly facilitate the development of innovative instruments in the capital markets. Banks are unlikely to meet the full extent of growing demand for financing because of their liquidity and capital constraints, and maturity mismatches. In this context, new types of instruments—such as infrastructure bonds, asset-backed securities, and other structured instruments—are necessary to support infrastructure and other long-term investments in Vietnam. These developments should be accompanied by efforts to broaden the investor base, which is important not only to sustain market growth but also to increase liquidity and reduce volatility. Among other efforts, the development of mutual funds and private pension funds would be important as long-term saving vehicles for individuals and as a long-term funding mobilization tool through the capital market. The launch of the first private pension fund in April 2021 is a promising development. In addition, an appropriate incentive system (such as through tax incentives) should also be considered to channel more investments through these vehicles.

IMPROVING SKILLS

As Vietnam transitions toward an innovation-led growth model and increases value addition, the demand for skilled labor as well as for more sophisticated technologies will increase. The growth of knowledge-intensive exports, the service industry, and automation will require a labor force with a range of skills and a means for continuous upskilling. However, Vietnam’s labor force has low levels of education, and skill gaps (poor quality of skills) and skill shortages (inadequate quantity of workforce with required skills) are major constraints for engaging in/investing in firms’ innovation practices (Cunningham and Pimhidzai 2018). The 2018 Global Competitiveness Index (WEF 2019b) ranks Vietnam 127th of 140 countries on the industry-relevant skills of university graduates. Although Vietnam is recognized globally for its high and equitable level of PISA (educational) scores that are on par with fellow member countries of the Organization for Economic Co-operation and Development (OECD), Vietnam has not yet capitalized on this great potential of high school graduates because of the low quality and low relevance of the tertiary education system. COVID-19 has also underlined the need for Vietnam to build digital skills, which will affect the way service sectors such as tourism and agribusiness recover from the pandemic.

Skills gaps are a major obstacle to firm performance. Almost half of employers who responded to the 2015 World Bank Enterprise Survey for Vietnam identified “skills” as an obstacle to firm performance, compared with 31 percent of firms in the rest of developing East Asia and Pacific. Exporting firms are also three times more likely than non-exporting firms to identify this skills constraint. Managerial skills are particularly scarce. And skills gaps are widening rapidly. The 2014 and 2017 Labor Force Surveys show a reduction in jobs that require simple skills (such as subsistence farmers and street vendors). In contrast, 8 of 10 of the fastest-growing occupations require higher-level knowledge and a broader range of skills, including in manufacturing and modern services (telecommunications, finance, and transport).

STRENGTHENING KEY INFRASTRUCTURE SECTORS—LOGISTICS AND POWER

Vietnam's investment needs for infrastructure are enormous. Between 2012 and 2017, Vietnam invested 6–8 percent of GDP in infrastructure per year, which was in the upper range of estimated investment needs for low- and middle-income countries (needs are estimated between 2.0 and 8.2 percent of GDP per year). Estimates by ADB, KPMG, UNESCAP, and the World Bank indicate that Vietnam's annual investment needs could range from \$17 billion to \$25 billion for 2015–25. In addition, Vietnam's existing infrastructure needs substantial improvements. The Global Competitiveness Index (WEF 2019b) ranked Vietnam 77th of 141 economies in infrastructure, behind its regional peers Thailand, China, and Indonesia. The CPSD considers two infrastructure service sectors, i.e. logistics, particularly domestic logistic services, and power, because of their crucial role in private sector growth. In addition, the private sector can contribute to greening of infrastructure through new investments in renewable energy.

LOGISTICS

Vietnam has done a remarkable job in investing in infrastructure connectivity but weaknesses remain. Overall performance and efficiency of domestic logistic services are lagging. Vietnam's ranking on the World Bank's Logistics Performance Index improved from 53 in 2010 to 39 out of 160 economies in 2018. However, total logistics costs in Vietnam were estimated around US\$41 billion in 2016, accounting for about 21 percent of total GDP, compared with a global average of 12 percent and much lower figures in China (15.4 percent), the United States, and Singapore (both 8-9 percent). The high proportion of total logistics costs to GDP in Vietnam reveals underdeveloped domestic logistics infrastructure and relatively low connectivity, resulting in congestion in road transport, airports, and ports. Inefficient logistics, particularly in trucking, also cause unnecessarily high emissions of greenhouse gases.

Foreign companies tend to dominate the high-value segments of the logistics market with experience and professional management. Local logistics companies have difficulties matching these attributes. Foreign investors are mostly present through sizable companies, typically with sales over \$100 million. Although there are only about 25 foreign companies participating in the logistics sector, they currently capture the majority of the market share, providing high-value-added logistics services, such as supply chain management. They have brought with them higher service expectations and requirements.

Road transport accounted for 77 percent of the total transported freight volume in 2018. Transported volumes grew by an average of 10.6 percent per year (compound annual growth rate) between 2008 and 2018, and in 2020 road freight tonnage was expected to grow by 8.0 percent. Trucking services are inefficient because the industry is fragmented and lacks aggregators. Excessive fragmentation drives down margins and the sustainability of the trucking sector. A recent World Bank study (2019) found that logistics costs per ton-km have been falling because of an increase in the number of trucks owned, increases in truck tonnage, and better truck utilization rates.

Freight brokerage services are underdeveloped and contribute to empty backhauling rates as high as 50–70 percent. Given the fragmentation of the trucking industry, aggregators could play a key role in increasing efficiency—notably, by reducing empty backhauling—and promoting transparency. There is a lack of freight brokerage services covering the whole country, which has resulted in limited use of technology to improve logistics efficiency. The use of ICT to create digital freight aggregators has the potential to provide real-time matching of supply and demand and route optimization and could contribute to increasing the sector's efficiency.

Inadequate non-road infrastructure stifles the development of multimodal networks.

Recent World Bank analysis indicates that it is important to develop alternative modes of transportation, such as inland and coastal waterways, along with supporting infrastructure such as river ports and inland container depots (ICDs). Currently, 39 percent of traffic in seaports is for domestically transported cargo; this traffic has increased faster than international traffic. The majority of this traffic is in bulk, rather than containerized. The containerization of cargo would foster multimodal transport and facilitate shipping on waterways. However, this effort would require the development of adequate infrastructure for ports to handle containers. Inland waterways also lack proper landing stages with adequate access roads. Many bridges with low clearance also pose a challenge. ICDs are a key interface between roads and ports and can serve as points of road freight consolidation. Unfortunately, truck operators currently avoid them because of their long processing times and often-inconvenient locations, far from industrial zones.

Inadequate planning hinders the delivery of goods from fulfillment centers to consumers.

Demand for these last-mile services has boomed with e-commerce, as small parcels have multiplied. The main challenges for urban deliveries are linked to traffic rules, a lack of adequate infrastructure, and intense competition between actors. Surveyed logistics providers complain about insufficient road infrastructure, such as overpasses, underpasses, and bridges. Rules limiting truck circulation in Hanoi and HCMC during peak hours help regulate the traffic in congested city centers but also stifle the development of needed services.

The demand for efficient logistic services in Vietnam is expected to increase substantially in the coming years. Rising incomes will increase the demand for consumer goods and safer food products, which will place greater emphasis on modern food distribution and retail chains. Preferences for remote purchases have increased in the wake of the COVID-19 pandemic, underlining the lack of adequate urban consolidation centers and cross-docking facilities to facilitate the aggregation/disaggregation of the traffic exiting and entering urban centers and the organization of deliveries by clusters. Efforts to increase value addition in the agribusiness sector will increase the demand for cold chain facilities. The rapid growth of the airfreight market will place increasing pressure on inadequate cargo facilities at airports.

Several major constraints limit private sector participation in the logistics sector:

- **Limited access to finance** impedes efforts by smaller logistics services providers to upgrade and scale up the vehicle fleet, and for innovative start-ups to enter the market. Financing options, such as leasing, are underdeveloped, particularly for commercial vehicles.
- **Restrictions on foreign ownership** of some logistics providers and difficult and costly processes to obtain licenses, particularly in the air sector, impede entry.
- **Pricing guidelines for public procurement** issued by subnational governments can facilitate collusive agreements by making it easier for private providers to engage in price setting.
- **Weaknesses in the regulatory framework**—including the lack of a process for bonded warehouses to transfer goods for sale in the domestic market, inadequate food safety requirements and poor enforcement, a lack of transparency and consistency in rules and regulations (for example, different rules may be applied by different authorities when regulatory changes are not well communicated), and the lack of documentation (such as a value added tax invoice) for e-commerce sellers—impair the efficiency of logistics.
- **Skills in the logistics sector are in short supply at all levels.** Industry leaders report difficulties attracting and retaining talent in the sector, especially for top-and mid-level managers. There are also difficulties in finding trained staff for lower-skilled jobs, such as drivers or equipment operators.

POWER

Electricity demand has grown 13 percent per year since 2000 and is projected to grow 8 percent per year to 2030, driven by further industrialization, a growing middle class, and urbanization. This growth rate would require generation capacity to increase from 55 gigawatts (GW) in 2019 to 60 GW in 2020 and to 100 GW by 2030. Electricity Vietnam (EVN)—the state-owned power company—is forecasting power shortages for at least 2021–25, with a deficit of more than 7.5 GW by 2025. It is estimated that a loss of US\$23 billion would be incurred between now and 2030 should Vietnam fail to solve the power shortfall. The ADB estimates that US\$152–\$185 billion of total investment in the power sector would be needed over the period 2016–30 to close the power shortage gap (Dang and Taghizadeh-Hesary 2019).

The public sector will not be able to provide this level of resources, particularly as concessional funding declines and the public debt ceiling of 65 percent of GDP constrains public borrowing and guarantees. The Revised Power Development Plan (RPDP7) envisions that private investment should rise from 42 percent of total capital investment in the power sector in 2019 to 70 percent in 2030. Public-private partnerships (PPPs) will be a major instrument to boost domestic and international investment in the sector. In addition, improved energy efficiency could save an estimated 10,300 megawatts (MW) of thermal power by 2030 if factories start to implement energy-saving actions (World Bank and MPI 2016). The government is working on the new Power Development Plan 8 (PDP 8), which will be published in 2021.

Private sector participation in electricity generation is large and growing rapidly. The private sector contributed 42 percent of generation capacity in 2019 (20.4 GW), an increase of approximately 54.8 percent from 2018 (13 GW). Most of this capacity was added through investment in renewable energy under the build-operate-transfer (BOT) and independent power producer (IPP) models.

Natural gas will play a critical role in bridging future energy demand. Vietnam's Gas Master Plan shows gas demand will grow from the current 10 billion cubic meters (bcm) per year up to 30 bcm per year by 2035. Cumulative investment needs for the period 2015–35 are estimated around US\$20 billion, including upstream production facilities, pipelines, gas treatment facilities, and liquefied natural gas (LNG) infrastructure. The development of Vietnam's next generation of gas fields will require large investments at a time when, due to lower oil prices, PetroVietnam (PVN) is financially stretched. At the same time, the need for new investments in midstream gas infrastructure and the challenges being encountered in moving forward with LNG import projects are exposing weaknesses in Vietnam's gas market structure and pricing regime. Under these, PVN is the monopoly midstream player and gas prices are based on bilateral negotiations referencing low-cost fields developed before 2007.

The government has recently highlighted the use of LNG as a source for power generation and will look to create more favorable conditions for foreign investors to develop such projects. This undertaking has already translated into strong investor interests in LNG projects, and a robust LNG-to-power project pipeline. There are now approximately 26 GW worth of gas-fired power projects in the pre-Final Investment Decision phase in Vietnam, which are slated to come online between 2022 and 2029.

In order to hit the target for renewable energy stipulated in RPDP7, Vietnam will require a total investment of \$23.7 billion by 2030. The government has taken some steps to unlock private investment in the renewable energy sector, such as allowing 100 percent foreign ownership of Vietnamese companies in the sector. Foreign investors can choose among permitted investment firms, such as 100 percent foreign-invested companies, joint ventures, PPPs, or BOT projects.

Vietnam has exceeded its target for solar energy, and it has enormous potential for developing wind energy projects. The RPDP7 goal of about 4 GW of solar power for 2025 was exceeded by mid-2019. PDP 8 is anticipated to increase the planned capacity of wind and solar well beyond RPDP7 targets. The country's technical potential for wind power is assessed at 27 GW. However, current wind power projects are expected to add just over 300 MW to total capacity, lower than the target of 800 MW by 2020 stated in RPDP7. An increase in the feed-in tariff for wind power projects in September 2018 may eventually attract developers back into the market, and previously distressed deals may become feasible again.

Foreign and domestic investment is on the rise in the renewable energy sector, but much more needs to be done to ease investors' concerns. In spite of the liberalization of the policies in the past few years, investors are facing numerous obstacles: lack of funding; high investment costs in newer technologies; lack of qualified human resources; underdeveloped supporting industries; weak grid capacity; unbankable power purchasing agreement (PPA) terms; delays in larger projects due to the complex regulatory framework; and lack of clarity on future energy prices.

The absence of a clear and transparent policy framework and bankable PPAs is constraining private investment in the power sector, including renewable energy. Despite high feed-in tariffs and investment incentives for renewable energy, only a few wind projects have made it to the construction stage and are in operation to date. International renewable energy developers have encountered many challenges in getting projects to the operational phase, including the questionable bankability of the PPA, and the operational risks that projects face.

The regulatory framework for private sector participation in infrastructure through PPPs is governed by a new PPP law. The recently approved PPP law serves as the main legislation governing PPP transactions in the country. Looking forward, legal and fiscal risks could be lowered with further development of implementing regulations and standard contract forms to ensure that the remaining ambiguities are addressed in a way that encourages investment. The new PPP law includes many positive measures, such as (a) allowing wider sector inclusion for PPPs; (b) enabling a special purpose vehicle framework or "Project Enterprise" status to facilitate investment; (c) clarifying policies and mechanisms for the availability of viability gap financing for national and local PPP projects; (d) establishing a regime for the provision of minimum revenue guarantees that will make risk sharing between the public and private sectors more equitable; (e) providing standard form contracts for use in PPPs; (f) providing for the eligibility of bond-based financing for PPPs; (g) permitting the option of third-country international arbitration; and (h) including competitive bidding processes.

However, the new PPP law still lacks elements required to optimize private sector participation and international bankability for PPP projects. The PPP law is a step in the right direction; however, the following issues would still need to be resolved to create transparency and a level playing field for private investors (both international and domestic): (a) PPP contracts should be governed under international law and not Vietnamese Law; (b) change the minimum revenue guarantee process so it is less complex and no longer heavily weighted against the private investor; (c) make the financial closing timeline less restrictive; (d) clarify the termination clause and payment regime; (e) allow foreign lender security regarding land rights; and (f) have the process of certifying completion of works be certified by an independent engineer selected by the parties, not the government.

Making PPAs for renewable projects bankable, in line with international standards, is key to attracting private investment. Regulatory provisions that place excessive risk on the private party reduce the bankability of projects. Major issues under solar and wind PPAs include strict limits on compensation in the case of termination of an agreement; Vietnam Electricity (EVN's) authority to curtail a project for technical reasons,

without compensation for lost revenue to the project company; and arbitration of disputes by a government agency or local court, which raises doubts about the impartiality of decisions.

The procurement process for IPPs is subject to bottlenecks. At present, negotiations over PPA and BOT concessions typically take at least three years. Since the introduction of the PPP decree in 1997 on such concessions, only a handful of projects have been implemented with foreign investors. In addition, there is a lack of consistency across provinces with respect to the many licensing and permitting procedures required.

SOEs in the power sector face challenges in mobilizing commercial financing. The ability of SOEs, such as EVN and PVN, to raise commercial financing hinges critically on the creditworthiness of the enterprises as assessed by an adequate credit rating from a reputable rating agency. EVN received its first credit rating in June 2018 and EVN Hanoi in July 2020, although financial difficulties remain. Key EVN subsidiaries in the power sector, such as the distribution companies (PCs), are corporatized but do not have the financial strength to raise commercial finance from their own balance sheets to meet their large investment requirements.

Progress in the government's divestiture program in the power sector is important to generating required investments. The planned divestiture of at least 50 percent of two subsidiaries would increase the financial health of EVN as the sole buyer in PPAs (Dang and Chuc 2019), and thus help to attract foreign investment. Foreign investors may be reluctant to buy these assets, owing to concerns over corporate governance, transparency, and the quality of accounting among Vietnamese SOEs. Hence, the government recently issued legislation to provide greater transparency and protection to investors. It remains to be seen whether those changes will be sufficient for private investors to participate. Major reforms to liberalize the gas sector are not scheduled to start until 2025, leaving doubts as to how the much-needed investments will be financed during the intervening years.

MARKET INSTITUTIONS AND GOVERNANCE

A well-functioning and efficient regulatory environment will be crucial to reinvigorating productivity growth in Vietnam. The regulatory process for setting up and expanding businesses, while improving, remains cumbersome in Vietnam. Entry barriers depend on a broad range of procedures that go beyond business registration and vary by type of firm and sector. While there were some improvements in the legal framework governing bankruptcy, Vietnam could reinforce the insolvency framework, which could include: easing the commencement rules to provide incentives to initiate cases early on; strengthening creditors rights, including in the appointment of the insolvency administrators and in the divestiture of assets; building stronger national professional standards for insolvency administrators; and enhancing the role of commercial courts.

Recent legislation represents significant progress toward a comprehensive corporate governance framework, but the quality of corporate governance remains well below that of peer countries. Vietnam's score on the ASEAN Corporate Governance Scorecard increased from 28.4 in 2012 to 41.3 in 2017. However, Vietnam still ranked the lowest among the assessed ASEAN countries. The main weakness stems from the lack of an effective enforcement mechanism to ensure that rules are consistently applied. Only about 10 percent of listed companies' boards in Vietnam meet the independence requirement set by the State Securities Commission. In the banking and financial sector, governance issues include a lack of independent directors; a lack of board oversight and accountability mechanisms; inadequate internal audits, asset-liability management, know-your-customer and compliance functions; and poor disclosure practices. In addition, a high degree of cross-ownership between banks and with enterprises, as well as complex shareholding structures, raise risks of conflicts

of interest and connected party lending. The Vietnam Corporate Governance Initiative, launched in December 2016, is a promising attempt to promote good governance practices in the corporate sector.

The new competition law is an important step toward boosting competition. The 2018 Competition Law, which came into effect on July 1, 2019, improves the 2004 law in several respects, but in other aspects it still falls short of international practice: (a) the notification requirement for mergers is still partially based on the market share of the combined firms, which creates regulatory unpredictability because the definition of relevant markets can vary depending on technical assumptions; (b) participation in the new leniency program designed to streamline enforcement against cartels is likely to be limited, because cartel members may still be subject to penalties under the penal code; (c) the law allows agencies to provide exemptions for hard-core cartel agreements that should be exempted rarely, if ever; and (d) the prohibited acts of dominant firms are defined so broadly that actions benefiting consumers could be penalized.

Important concerns on enforcement also remain. The application of merger control to SOEs has reportedly been uneven, the competition authority may not have even been notified of some major mergers between SOEs, and enforcement of the competition law is undertaken by the same ministry to which most of the SOEs are mapped. Setting priorities for enforcement targets, advocacy and outreach to the private sector, and the transparent and well-publicized resolution of cases is important for effective enforcement. The 2018 Competition Law requires that decisions of the National Competition Committee (NCC) be publicly announced, which can foster even-handedness and provide firms with a greater understanding of what is viewed as anti-competitive behavior. The NCC's independence is critical to limit political interference and gain broad acceptance of its decisions. Thus, the NCC's establishment under the line ministry with responsibility for many SOEs raises concerns over whether it is capable of making unbiased decisions with respect to SOEs. Moreover, members of the NCC are both appointed and removed by the Prime Minister at the request of the Minister of Industry and Trade, so that political pressure could potentially affect the decisions of the NCC.

KEY SECTORS—EDUCATION AND SKILLS TRAINING, AGRIBUSINESS, AND TOURISM

The CPSD identified five sectors in which private sector participation can make a significant difference to economic growth: power (energy), logistics, agribusiness, tourism, and education and skills training. Because power and logistics are considered in the section on cross-cutting constraints, here the focus is on higher education and skills training, agribusiness, and tourism.

HIGHER EDUCATION AND SKILLS TRAINING

The gross enrollment rate for tertiary education increased from 10 percent in 2000 to 28.6 percent in 2019, driven by the rise of the middle class and increased high school graduation rates, as well as by policies to promote non-university technical and vocational education and training (TVET) institutions and private sector tertiary education institutions. Nevertheless, the gross enrollment ratio in higher education remains below 30 percent, compared to gross enrollment ratios of close to 50 percent in China and close to 50 percent in Malaysia, and a global average of 38 percent (UNESCO data, 2020, <http://data.uis.unesco.org>).

There are several opportunities for private sector institutions to help improve skills. Information technology skills are particularly in short supply. It was estimated that Vietnam needed an increase of 411,000 information technology staff during 2016–20 which is likely higher in the post-COVID-19 era. Rapid growth in construction

has greatly increased the demand for civil engineering skills, and it is estimated that the industry needs an additional 400,000 to 500,000 workers per year. There is increasing need for college-graduated engineers and vocationally trained workers. Business and management skills are also in high demand, with a recent World Bank survey (2019) reporting that 73 percent of firms find it difficult to hire an employee with managerial and leadership skills. Private universities with international affiliation are playing an increasing role in business and management education, targeting students from affluent families in Vietnam who find the tuition fees more affordable than studying abroad.

Some barriers to private sector participation in higher education persist. The new Law on Higher Education, which came into effect in July 2019, does not state how a private educational institution should be established. In addition, there are gaps in the Investment Law and the Enterprise Law relating to investor protection. The process for obtaining licenses to establish and operate a private educational institution remains cumbersome. While foreign education institutions are permitted in Vietnam they are subject to minimum investment requirements and constraints on the size of facilities for a given number of students as well as obligations to provide political and cultural subjects and content in the curriculum.

Vietnam comprises a wide variety of TVET institutions. TVET institutions have grown more slowly than those in higher education despite potentially meeting employer needs better. Public TVET institutions are under resourced and undersupplied with qualified teachers, offer outdated curricula that do not meet industry needs, are not well managed, and suffer from inadequate certification, accreditation, and quality assurance standards. Vietnam has encouraged non-public provision of TVET since 1998, and many private providers have entered the market. Today, private TVETs account for 33 percent of the total. The main recurring challenge is the unequal treatment in terms of government investment between private and public TVET institutions. Some employers have invested in third-party TVET institutions, in exchange for oversight or board positions and preferential or first-choice of trainees and students. Nevertheless, program choice and design are not market responsive; the majority of new TVET programs are started through government initiatives and have weak industry links, making them unable to offer curriculum aligned to industry needs. International TVET programs are also available, mostly provided through twinning programs with local partners. Corporates are also providing extensive in-service/on-the-job training and retraining.

Significant opportunities exist for private providers of TVET. The demand for TVET among Vietnamese youths is increasing, particularly in light of poor employment prospects for university graduates, including in the low-cost fields (ICT, business subjects, and languages) in which private trainers tend to concentrate. The regulatory environment for private training providers is relatively favorable, because private training providers can set their own fee levels and go through the same registration screening as public institutions. Private training providers also must follow the same curriculum framework as public institutions.

The effectiveness of the TVET system is impaired by several factors. Obtaining permission from the Department of Vocational Training (DVT) takes significant time, which means that institutions can lose the opportunity to respond to training orders from enterprises. The system is decentralized, with 2,000 institutions providing a range of courses to about 2 million students and managed by several ministries or state-level departments. There is no quality assurance or accountability structure in place. There is no national examination for vocational training, and assessment policies and procedures need to be strengthened to ensure that learners are assessed according to national skills standards. The system relies heavily on funding from the DVT's

budgets, where the allocation of funds is based on inputs rather than linked to performance, and tuition is far below levels necessary to ensure cost recovery. Inconsistency in the legal framework has impeded the use of TVET institutions' own assets to invest or operate joint ventures or other industry-linked businesses. There are no national or institutional scholarship programs, and the student loan scheme is accessible only for a narrowly defined set of beneficiaries. The ability to increase tuition and attract new students is limited by negative attitudes toward vocational education. Industry participation in TVET is minimal, and most teachers are recruited through the schooling or university systems, leading to a disconnect between curricula and actual workplace requirements. Many classrooms and technical workshops have limited materials and equipment, low teacher salaries make it difficult to hire highly skilled teachers, and teachers have few opportunities to gain experience in industry and to learn new technologies.

AGRIBUSINESS

Crop production has become more diversified over time, while livestock remains dominated by pork and poultry. Although rice continues to be the largest crop, the agricultural sector has been transformed from largely producing rice to feed domestic production to one of the world's largest producers and exporters of a wide range of agricultural products. Vietnam is now recognized as a leading producer of coffee, cashews, black pepper, cassava, rubber, and tea, as well as aquaculture. In animal protein, pork represents 71 percent of production value, while poultry represents 20 percent. Feed is the principal cost related to production of both pork and poultry, so that international commodity prices determine a large portion of production costs.

The agribusiness sector is dominated by smallholder farmers and the challenge is to improve their productivity. Nearly 90 percent of agricultural land falls under household farms, with 94 percent of household farms being 2 hectares (ha) or less (with 69 percent being less than 0.5 ha), and in many cases this land is fragmented (World Bank, 2016). Private sector farms face difficulty in accessing or leasing land. Most pigs are slaughtered in backyard facilities or are collected by traders and killed in small slaughterhouses handling one to three pigs a day, while many broilers are slaughtered in backyard operations tied to wet markets. While Vietnam has many industrial-scale processing firms in rice, coffee, cashews, wood, tea, sugar, vegetables, and fruits, of all agricultural businesses, more than 96 percent are small or very small in scale. Vietnam's retail food landscape is largely dominated by traditional wet markets and small independent stores. The dominance of small-scale production and processing, combined with fragmented land, limits potential gains in productivity and the shift to higher-value markets.

Production and exports have increased sharply. Agriculture production rose by 189 percent and livestock 282 percent over the past three decades. Mechanization has increased over the past two decades, but more rapidly in the rice sector than in other sectors. Irrigated land area also has increased, with more than 70 percent of Vietnam's cultivated area (taking into account multiple crops within a year) now serviced by irrigation infrastructure. Agricultural exports increased by more than half from 2007–12 to 2013–17, and the structure of export products is slowly transforming from lower-grade commodities to processed, high-quality, and high-value-added products. Nevertheless, commodity price/yield gains have now leveled off, and total factor productivity has fallen. Almost all accessible arable land is already in cultivation, so future growth in production will have to rely on increasing yields, and growth in incomes will come from transition to higher-value commodities. Recent trade agreements open the door for increasing access to higher-value markets, but challenges remain to meet international market requirements while also competing with new domestic market entrants.

Several problems constrain private sector production in the sector:

- **Lack of access to finance** is identified as the main constraint on doing business by a higher share of firms in agribusiness than in any other sector in Vietnam. There is only a limited supply of financial and nonfinancial products and services, such as leasing, warehouse finance, receivables and contracts financing, guarantees, collateral management, and agri-insurance.
- **Vietnam's high cost of logistics** has serious implications for agricultural products, particularly the transport of fruits and vegetables from small-scale producers. Cold chain infrastructure is needed for development and modernization of the sector.
- **Poor biosecurity** threatens production and sales of agricultural products, particularly the sharp reduction in pork production due to African swine fever and the dangers of diseases to poultry in village-level production and informal slaughterhouses. (Highly pathogenic avian influenza wreaked havoc on production in 2010.)
- **Food safety concerns hamper both domestic and international market access.** Reported high levels of chemical and pesticide residues in fruits and the overuse of antibiotics and growth promoters in both the pork and poultry value chains are impairing the domestic and international reputation of the sector. Monitoring of farms and slaughterhouses (especially of small-scale facilities) is limited, and the lack of recordkeeping makes it impossible to track products to verify conformity to food safety and quality requirements, a prerequisite for participation in exports, especially in a post-COVID-19 environment.
- **Digital technology has not been widely adopted.** A number of farmers are beginning to adopt digital technologies to manage their irrigation on smart phones or to mark their brands with QR codes. The scope and benefits are large as a wider adoption of digital technologies would help raise the productivity of agricultural producers and help achieve food safety standards.
- **Risk management instruments such as agricultural insurance are limited.** These products are critical in dealing with systemic risks in the sector such as natural disasters and crop diseases. Only 3 percent of those who work in agriculture purchased agricultural insurance.

TOURISM

The tourism sector accounts for a significant share of economic activity in Vietnam. In 2019, the tourism industry contributed 9.2 percent to GDP, accounted for 3.9 percent of total exports, and employed nearly 5 million workers (VNAT, 2020). Tourism is dominated by small and micro establishments. Individual-owned establishments accounted for 81 percent of the accommodation and the food service workforce (the closest approximation to tourism in the national economic statistics), with each establishment employing 1.8 workers, on average.

The 2005 shift toward encouraging private sector participation in tourism led to a boom in the sector. From 2007 to 2019 the number of rooms rose from 180,000 to 650,000, and the number of tourism establishments grew from 9,000 to 30,000. The rise in domestic tourism reflected the expansion of Vietnam's middle class and the introduction of low-cost air carriers, such as Vietjet Air. The growth of international tourism arrivals was driven by tourists from East Asia (particularly China and Korea), but travelers' spending and length of stay are quite low compared with visitors from long-haul markets such as France, Germany, the United Kingdom, and the United States. Nevertheless, the competitiveness of Vietnam's tourism sector remains below that of many regional competitors. While Vietnam's absolute score on the WEF Tourism Competitiveness Index (WEF 2019a) improved from 3.6 in 2015 to 3.9 in 2019,

its ranking remains 5th lowest of the nine major developing East Asian tourist destinations.

The most immediate challenge facing private tourism firms is to survive the impact of the COVID-19 pandemic, due to restrictions on entry, the banning of international flights, restrictions on domestic movement, and the decline in incomes. The Vietnamese government is providing emergency support, including low-interest loans, tax reductions and payment deferrals, and opportunities for debt restructuring. The country's lack of a digital platform and digital skills for tourism has exacerbated the impact of the COVID-19 pandemic on the sector.

Over the medium term, private sector participation in the tourism sector will be limited by several problems:

- **The number of countries benefiting from unilateral visa exemptions for their citizens is quite small**, and the maximum duration of stay for visitors with a visa exemption is only 15 days.
- **The failure to follow master plans or their modification during implementation (often not on the basis of objective considerations) has led to overinvestment and accommodation gluts** in crowded and at-risk destinations and thus have increased pressures on local infrastructure and the environment, promoted certain categories of investment (usually mass market) over others, and has placed less well-connected investors at a disadvantage.
- **Aggressive marketing of condotels has increased speculative investment and led to significant losses with the recent bust in the market**, while the lack of a clear legal and regulatory framework has impaired confidence in the duration of land rights for condotel projects and thus increased investor risk aversion.
- **Operating costs for tourism projects are high**. The base electricity price for the tourism sector is set at the rate for services sectors, which is two to three times higher than for production sectors. The land tax is set at a level that significantly reduces the profits of hotel owners. And the increase in infrastructure services has not matched the rapid expansion in accommodations in recent years.
- **The scarcity of management skills** has required tourism companies to spend large amounts to train their staff. Furthermore, in the context of ASEAN integration, Vietnam has not yet provided a nationwide tourism training curriculum.

SUMMARY OF REFORM RECOMMENDATIONS

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
LEVELING THE PLAYING FIELD AND ENHANCING COMPETITION		
Strengthen and modernize the regulatory framework for businesses		
<ul style="list-style-type: none"> • Improve entry of digital businesses and scaling-up of firms. • Accelerate digitalization for reducing administrative burden and physical interface. 	<ul style="list-style-type: none"> • Streamline business registration and licensing processes across ministries and provinces. • Strengthen the ecosystem for digital start-ups. 	<ul style="list-style-type: none"> • Transition to a full online system of registration through a single window and national portal. • Improve services of incubators and adopt policies on using cloud-based hosting.
<ul style="list-style-type: none"> • Prevent viable firms from premature exit and facilitate exit of "zombie" firms. 	<ul style="list-style-type: none"> • Promote use of informal restructuring and out-of-court or hybrid work-out. • Strengthen the insolvency framework by easing commencement rules to initiate cases early. 	<ul style="list-style-type: none"> • Introduce simplified procedures for SME insolvency provisions. • Enhance the role of commercial courts and strengthen creditor rights.
Enhance competition by opening up markets and sectors		
<p>Maintain commitment to international trade: further open up economy toward regional markets and service sectors.</p>	<ul style="list-style-type: none"> • Expedite the implementation of newly ratified trade agreements. • Improve market access by tackling behind-the-border hurdles. • Remove barriers to entry in sectors currently dominated by SOEs, especially the financial sector, ICT, transport, and utilities. 	<ul style="list-style-type: none"> • Rationalize procedures and expand use of risk-based inspections. • Enhance digital cross-border trade and logistics; implement national single window. • Advance trade facilitation by continuing to reduce trade costs related to nontariff measures.
<p>Facilitate links between FDI and smaller domestic firms as well as between large and smaller domestic firms.</p>	<ul style="list-style-type: none"> • Strengthen intellectual property rights regime. • Build domestic firm capabilities and management skills to facilitate technology adoption. 	<ul style="list-style-type: none"> • Improve implementation capacity of the IPR protection system for IPR enforcement. • Revise FDI framework to reduce limits on investment and hurdles for foreign investors.
<p>Implement competitive neutrality to encourage private sector entry and expansion.</p>	<ul style="list-style-type: none"> • Implement regulatory and tax-neutrality principles for SOEs. • Strengthen separation between regulatory and ownership functions. 	<ul style="list-style-type: none"> • Impose requirement of a market rate of return to SOEs as in private businesses • Develop a registry of state-aid recipients.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
ENHANCING ACCESS TO FINANCE		
Provide financial support to viable firms most affected by COVID-19.	<ul style="list-style-type: none"> • Ensure that credit institutions proactively monitor and assess potential losses and impact on existing borrowers. 	<ul style="list-style-type: none"> • Monitor the impact of financial intermediation and ensure that support is well-targeted to most affected businesses.
Increase role of the market and market discipline in credit allocation while preserving banking stability.	<ul style="list-style-type: none"> • Implement the Basel standards for all commercial banks. • Improve risk-based supervision, the macroprudential framework, and the banking resolution framework. 	<ul style="list-style-type: none"> • Strengthen State Bank of Vietnam's capacity to execute its core mandate of regulation and supervision. • Provide greater autonomy to the banking sector to manage loan portfolios. • Establish the principle of setting interest rates through monetary policy instruments.
Facilitate use of all secured and movable assets as collateral to enhance SME's access to finance.	<ul style="list-style-type: none"> • Develop regulations and an action plan on movable assets, especially inventory and receivables financing. • Encourage financial institutions to deploy movable finance products. 	<ul style="list-style-type: none"> • Reform the insolvency law and the secured transactions law. • Change regulations to allow new debt-related financial instruments. • Develop digital collateral registration.
Scale up supply chain finance (SCF) solutions for SMEs participating in GVCs.	<ul style="list-style-type: none"> • Leverage fintech to spur the adoption of SCF and facilitate its implementation. • Establish SCF e-platforms to create a transparent database on transactions. • Develop operational supporting services for SCF. 	<ul style="list-style-type: none"> • Scale up integration of local SMEs that are part of the ecosystem of larger corporate anchors into formal supply chains. • Further improve the enabling environment for collateral management and the development of nonbank financial institutions in SCF.
Deepen capital markets.	<ul style="list-style-type: none"> • Strengthen regulatory and enforcement in disclosure, market transparency, conduct of participants and efficient clearing and settlement. • De-risk the corporate bond market by promoting the public (listed) corporate bond market. • Improve the reliability of the benchmark yield curve. 	<ul style="list-style-type: none"> • Improve governance and market infrastructure. • Enhance supervision and enforcement capacity to ensure market integrity and efficiency. • Broaden investor base and improve market accessibility for foreign investors. • Develop private pension funds; introduce effective taxation to promote long-term savings.
Encourage development and use of digital financial services.	<ul style="list-style-type: none"> • Scale up mobile phone e-payment mechanisms. • Leverage e-know-your-customer processes for better financial inclusion. 	<ul style="list-style-type: none"> • Develop the data security policy framework. • Deepen the data ecosystem.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
BRIDGING SKILL GAPS AND SHORTAGES		
Enhance resilience in tertiary education institutions—TVETs and higher education institutions (HEIs)—for continuity of learning and skills formation.	<ul style="list-style-type: none"> Collaborate with private sector and development partners in supporting distance learning, e-learning teacher training, adapting training material and on-line testing. Provide incentives (tax deductions) for investments in workers training and innovation. 	<ul style="list-style-type: none"> Develop a national approach for continuity of learning and contingency planning as well as capacity building efforts. Systematically build distance learning capacity for delivery in TVETs and HEIs to mitigate the effect of emergencies.
Support adoption of technologies to improve the quality of learning in tertiary education institutions (TEIs).	<ul style="list-style-type: none"> Foster PPP approaches to implement e-learning in TVETs and HEIs. Enhance existing ICT infrastructure, including bandwidth, to host e-learning. Build digital content in TEI's curricula and improve quality of teaching. 	<ul style="list-style-type: none"> Develop a national digital strategy and management information system for the higher education system. Increase investments in digital infrastructure, including a centralized hosting infrastructure across member TEIs. Move toward output-based education financing, including voucher-based models.
<ul style="list-style-type: none"> Engage with the private sector to increase enrollment and respond to market needs. Develop alternative modes of education including e-learning Massive Open Online Courses (MOOCs) education. 	<ul style="list-style-type: none"> Develop and approve a tertiary education expansion strategy and implementation plan. Develop a TVET access and quality enhancement strategy. Remove legal/administrative, licensing hurdles to entry and expansion of private sector providers and foster alternative modalities. 	<ul style="list-style-type: none"> Improve pathways across HEIs and TVET colleges through strengthened coordination between relevant ministries. Develop a robust labor market information system and use this system to inform training provision. Develop and operationalize a coordinated e-learning platform.
Improve systemwide governance of TEIs to reduce fragmentation.	<ul style="list-style-type: none"> Improve stewardship and coordination at the national level. Approve the Higher Education Strategy 2021–2030 and a higher education master plan. Establish and operationalize a single funding agency. 	<ul style="list-style-type: none"> Progressively raise the share of public funding to higher education. Improve the income diversification and resource mobilization capacity of HEIs through public-private partnerships.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
IMPROVING CORE INFRASTRUCTURE SERVICES THAT SUPPORT GROWTH		
LOGISTICS		
Create an enabling environment to encourage private sector participation in logistics.	<ul style="list-style-type: none"> Facilitate operations of e-commerce sellers and logistics service providers via consistency of rules, fees. Optimize process, time, and cost of obtaining licenses for air freight operations. Review and amend potentially anticompetitive regulations. 	<ul style="list-style-type: none"> Review the overall regulatory framework and design an action plan in consultation with private sector. Develop appropriate TVET offerings in close collaboration with private sector to meet skill needs for agri-logistics, cold chain, ICT, and truck drivers.
Encourage growth of logistics service providers via coordinated planning for developing shared logistics infrastructure assets and a multi-model transport network.	<ul style="list-style-type: none"> Improve urban planning to include urban consolidation centers and inland container depots. Ease remaining FDI restrictions to encourage competition in key sectors. Encourage growth of aggregators. 	<ul style="list-style-type: none"> Create public-private dialogue platforms for planning process. Invest in ports infrastructure (landing stages, access roads) to promote freight containerization. Encourage domestic shipping companies to improve their fleets and switch to container traffic.
POWER		
Improve the PPP framework to attract more private investment in power sector.	<ul style="list-style-type: none"> Follow the international standard in enforcing contracts beyond Vietnamese law. Provide clarity on government support and risk allocation, especially termination and curtailment clauses. Set up the PPP Viability Gap Financing (VGF) fund expeditiously. 	<ul style="list-style-type: none"> Consolidate all relevant policies, decrees, and regulations for private participation under one law. Develop necessary implementing regulations and guidance for the new PPP law (June 2020). Develop consistent and streamlined licensing and permitting procedures across provinces for PPP. Strengthen technical capacity to conduct and implement PPPs within various ministries.
Support growth of the renewable sector by attracting private investments.	<ul style="list-style-type: none"> Make the power purchase agreements for renewable projects in line with bankability international standards. Roll out programmatic (and competitive) IPP procurement. Clarify the post feed-in tariff regime for solar energy. Increase the cap from 1 MW to 3 MW without requiring a power operation license. 	<ul style="list-style-type: none"> Improve the credit rating of the off-taker. Provide net metering credits for rooftop solar power. Build a transmission and distribution network to integrate new renewable energy capacity, especially solar. Launch tenders of solar photovoltaic with battery storage to improve integration of solar generation in the grid.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
Support development of liquefied natural gas (LNG).	<ul style="list-style-type: none"> Address the weaknesses in Vietnam's gas market structure and pricing regime that deter private investments. 	<ul style="list-style-type: none"> Build LNG storage and midstream infrastructure and gas power plants.
Advance the dialogue with Laos PDR to import hydro power.	<ul style="list-style-type: none"> Establish an arrangement between Vietnam and Laos PDR and support integration with the domestic grid. 	<ul style="list-style-type: none"> Propose a transmission corridor that builds new interconnection capacity between Laos PDR and Vietnam under the PPP structure.

PROMOTE GREATER PRIVATE SECTOR PARTICIPATION IN AGRIBUSINESS AND TOURISM

AGRIBUSINESS

Strengthen land policies to facilitate increased private sector investment and efficiency in agribusinesses.	<ul style="list-style-type: none"> Raise the ceiling on the agriculture land holding and usage to enable consolidation and a transition. Facilitate land conversion mechanisms to balance agricultural needs with other sectors. Improve land valuation methodology. 	<ul style="list-style-type: none"> Support and expand public-private mechanisms to monitor implementation and resolve issues, such as the Vietnam Business Forum working groups on land and agriculture. Clarify the framework for foreign lenders to take mortgaged land.
Improve access to finance for agribusiness firms.	<ul style="list-style-type: none"> Review interest caps on short-term loans to lend to the sector. Develop and implement an action plan for supply chain market development. 	<ul style="list-style-type: none"> Support the expansion of financial products using moveable assets as collateral. Support the scale-up of commercial agri-insurance.
Modernize the livestock sector.	<ul style="list-style-type: none"> Reduce Vietnam's dependence on imports of commodity inputs for commercial feed. Improve biosecurity and food safety at farm and slaughterhouse level. Review regulatory guidelines for biosecurity controls. 	<ul style="list-style-type: none"> Support domestic production of feed crops for livestock as an alternative to higher-cost imports. Identify sustainable small farmer models in livestock production.
Increase exports of high value-added fruits and vegetables.	<ul style="list-style-type: none"> Enhance access to high-value markets and links from production to market. Support agribusinesses to meet updated requirements of importing countries relating to sanitary and phytosanitary measures, traceability, quality standards, and food safety practices and adopt digital technology in doing so. 	<ul style="list-style-type: none"> Promote investment in cold chain/ cold storage facilities. Improve the institutional framework and capacity of national quality infrastructure to ensure product conformity to internationally accepted standards.

REFORM AREAS	SHORT-TERM MEASURES	MEDIUM-/LONG-TERM POLICY OPTIONS
TOURISM Keep financially viable tourism businesses afloat.	<ul style="list-style-type: none"> • Establish and support wage and training subsidies; enhance upskilling support. • Strengthen health and safety measures by leveraging digital technologies. 	<ul style="list-style-type: none"> • Adopt protocols and allocate resources to permit sanitary use of transport services in line with internationally recognized standards. • Enforce international health regulations at points of entry, especially airports and border crossings.
Re-attract tourists by stimulating demand via targeted marketing and policy measures.	<ul style="list-style-type: none"> • Promote domestic travel through implementation of a domestic tourism stimulus program while preserving high safety standards. • Develop a strategy for reviving tourism demand by first focusing on domestic tourism and travel, then international travel. 	<ul style="list-style-type: none"> • Further liberalize the visa regime, including an increase in the number of visa-exempt countries, and an increase in length of allowed visa-exempt stays. • Participate in tourism bubbles with countries that have declining infection rates and are ahead of the economic recovery curve.
Support adoption of digital business models in the tourism sector ecosystem.	<ul style="list-style-type: none"> • Provide advisory services and financial incentives for tourism-related SMEs to digitalize their marketing, sales, and product/service delivery processes. 	<ul style="list-style-type: none"> • Support firms to adopt more digital business models through financial and technical support. • Implement demand-driven training and upskilling, using information collected about jobs and skills in demand.
Promote investments in destination service infrastructure and quality.	<ul style="list-style-type: none"> • Promote PPPs in infrastructure services at the provincial level. • Enhance legal and regulatory frameworks for accommodation investments. • Improve coordination between tourism stakeholders and consistency between planning and investment execution. 	<ul style="list-style-type: none"> • Establish governing laws and regulations for condotels and other nonresidential tourism accommodations. • Invest in basic and tourism-specific service infrastructure in high-demand destinations, as well as in environmental and cultural asset preservation. • Enhance tourism sector management, particularly the consistency between national and province/destination-level tourism planning, and between destination master plans and investment approvals/execution.

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