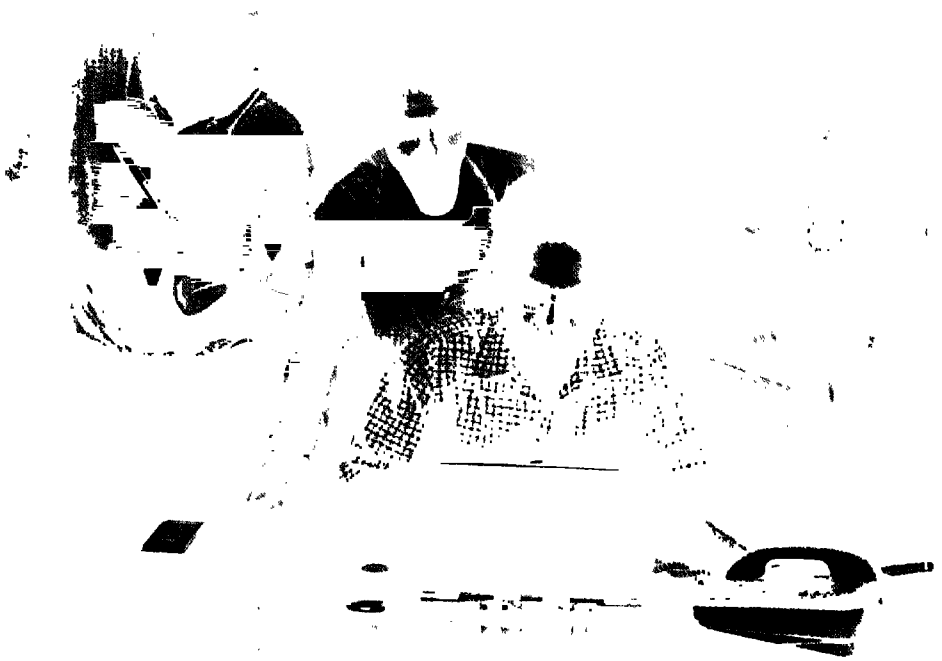
Vietnam Private Sector Development Policy Note

30434

Firm Dynamism: *Beyond Registration*

How are Vietnam new domestic private firms faring?

June 2004



Amanda S. Carlier
Son Thanh Tran

A PSD Policy Note
on

Firm Dynamism: Beyond Registration,

How are Vietnam new domestic private firms faring?

Hanoi, June 2004

Abstract: In recent years much focus has been placed on the number of new enterprises registered in Vietnam. Much less analysis has been done to see how these newly registered firms are actually faring. Are they growing fast? Are they concentrated in certain sectors? What portion of new entrants are failing? Are they able to adapt quickly to new markets? This Note explores these questions and identifies opportunities to further promote firm-level growth and job creation.

Acknowledgments

This Policy Note report has been completed thanks to the overall direction of Khalid Mirza, Sector Manager, and Klaus Rohland, Country Director of the World Bank in Vietnam. We are grateful to the following people: Simeon Djankov and Quynh Trang Phuong Nguyen, who were kind enough to be the peer reviewers; and Martin Rama for his invaluable comments. Special thanks are extended to my colleagues Dung Thi Ngoc Tran and Ha Thanh Hoang for their administrative and publication support.

Executive Summary

The Enterprise Census counted about 50,000 private enterprises operating in Vietnam at the end of 2002, compared to double that number that had registered under the Enterprise Law (EL) by that date, raising the question of what had happened to all the firms that registered but were not captured by the Census. To better understand the reason for the large gap between these numbers, we conducted a mini-survey to trace the fate of 300 firms that had registered after the EL. We found that while a very high proportion of the new firms had moved from their registered location and some were extremely difficult to track, about ¾ of the firms in our mini-sample were still operational; indicating a reasonably high survival rate for this sample at least. Nation-wide the actual number of firms operating will lie in the middle of the registration vs. census range; at one end the registration numbers don't capture those firms that have closed, but on the other end, the census undercounts as it was limited to firms that were relatively easy to find and provided complete information.

General Statistics Office (GSO) census data over the 2000-2002 period also indicate relatively high firm survival rates. From a pool of about 36,000 private firms covered in the 2000 Census only 13% were no longer in existence by the time of the 2002 census. Firms established in the last few years seem to have a much greater probably of survival than the pioneering private firms of the early days of Vietnam's transition to a market economy. A study based on enterprise surveys carried out in 1991, 1997 and 2002, found as few one third of the firms interviewed in 1991 had survived until 1997, whereas almost 2/3 of the firms surveyed in 1997 were still in existence in 2002.

Many of the firms registered under the EL were existing businesses before the enactment of the EL. In our mini-survey, despite limiting the sampling to enterprises that had been registered between 2000-2002, subsequent interviews revealed that the majority of firms were in business before 2000, typically as household firms. If this finding holds true nation-

wide this would indicate that the EL has been particularly effective in encouraging the formalization of the informal sector firms through greatly simplifying firm entry procedures – which arguably was the desired impact of the law. On the flip-side commentators on the growth of the private sector post-EL should be careful not to imply that the significant growth in registered firm numbers indicates the same rate of growth in new private sector business activities. New entrepreneurship would be expected to come second (after the formalization of household firms) when a fresh cohort of entrepreneurs matures.

The last decade has witnessed a formalization and growing maturity of the corporate sector. While the simple corporate form of sole proprietorships is still the most popular form of registered firms, a growing portion of more complex corporate entities, such as joint stock firms are appearing (5.4% by end of 2002). The sole proprietorship firm now employs an average of 14 workers. And more than half of Vietnam's private firms are located in just 7 of her 64 provinces. In terms of performance, one out of two foreign invested firms and two thirds of the domestic limited liability or joint stock firms were profitable by the end of 2002. Although the average profit of these firms has shrunk significantly compared to two years earlier, as they face increasing competition in the market place, compared to the "easy gains" of the early entrants.

There are signs of firm level growth especially from small-scale to the medium-scale, but private firms overall remain very small. Amongst the pool of about 36,500 firms covered in the 2000 and 2002 census, the proportion of firms employing between 50-299 employees had increased from about 10% to 24%. In contrast very few firms had graduated to the large-scale category, possibly reflecting greater environmental barriers to grow from medium to large-scaled than small to medium-scaled. By 2002, of this pool of 36,000 firms only 4% employed 300+ workers.

Vietnam's smaller private firms are profitable, but only marginally so. At the end of 2002, about 85 percent of the relatively small sole proprietorship firms recorded an average profit of 58 million dong (USD 3,700), increasing from an average of 51 million dong two years' prior. While, the hard-work of the private firms is reflected in the fact that these firms are able to generate per employee turnover volumes almost on par with the State-owned enterprises (SOEs), despite only having a fraction of the capital and asset base of these larger state owned competitors, the average profit margin of these firms is very modest; the profit/revenue ratio is only 1.14 percent and the average

return on capital employed is only a little better at 3.30 percent. While these results are not surprising given the relative young age of most of these firms, they do suggest that many of Vietnam's small private firms are just surviving.

Consistent with this bigger picture, our mini-survey found that most private domestic firms were surviving, but not thriving. Only a small proportion of the firms interviewed showed significant signs of firm-level growth. Many still resembled household style firms in terms of management structure and capital. Firms were experiencing difficulties breaking into new markets, such as accessing public bidding opportunities and larger contracts that could enable significant/rapid firm-level expansion.

In many cases the pace of firm-level growth was constrained by their lack of access to critical external resources, especially land and investment capital. Firms ready and able to expand manufacturing opportunities report spending years and making many informal payments to find land. Several firms reported that their inability to secure land was the major blockage to their expansion. Even service sector firms spoke of major difficulties finding suitable premises. Without a certificate of Land-Use-Right (LUR) as collateral most firms have found their access to commercial finance blocked, as banks are reluctant to accept the types of collateral that firms can offer, such as machinery or equipment, although this is normal practice in other countries. Some private firms are resorting to informal ways to circumvent their lack of access to commercial finance, such as getting another firm to borrow on their behalf and paying them a service "fee" to do so. But many private firms, lacking other options are forced to rely only on internally generated resources (retained earnings) which take considerable time to accumulate and therefore limit the rate at which firms can grow and their ability to capture market opportunities in the meantime.

In many areas, state management is still more geared to controlling rather than facilitating private sector activities. Our mini survey confirms that firm registration and other entry procedures are no longer considered a hassle, indeed many firms just contract-out this work to special agencies who have emerged to meet the demand. In contrast, in their interactions with the tax authorities, firms speak of very time-consuming procedures (especially for the purchase of tax invoices, a procedure some firms need to go through twice a month) and frustrations with the discretionary authority of tax officials

(especially in determining the amount of eligible expenses for income tax purposes). The nature of these interactions creates a vicious cycle, where private domestic firms have disincentives to accurately report their financial status. This in turn creates an overall business environment where there is little real transparency, which further blocks the private firms from the resources it needs. Without reliable information potential investors, bankers or business partners shy away from investing or lending to private firms.

Many opportunities exist to help spur domestic firm-level growth and stimulate greater private investment, which in turn could provide the much needed jobs for Vietnam's rapidly growing labor force. Effectively addressing the land and premise constraints could perhaps have the greatest impact and pay-back for domestic private sector development of any reform effort at this stage. Strengthening the capacity of the new Secured Transaction Center (STC) should make it easier for banks to accept machinery and equipment as collateral, and thus help many firms access working capital. Providing a real opportunity for private firms to compete in state projects could be a win-win situation for all. These are just a few of the options that could have a significant impact in promoting private sector development. Opportunities also exist to improve the business environment through streamlining procedures associated with firm-change and firm-exit. A private firm is still required to go through complex and time-consuming regulatory procedures as it adapts its business to a changing market (e.g., changes locations) expands (opens new branches), or even when it closes down. Recent reforms in Vietnam have been successful at making firm entry much easier for entrepreneurs, now official attention needs to turn to creating a regulatory environment that supports rather than frustrates firm dynamism and growth.

Firm Dynamism : "beyond registration"

This Policy Note is based on an analysis of information from two main sources (a) GSO enterprise census data, and (b) a "mini" firm-level survey conducted jointly by MPDF/WBG. To gain some insight into how firms registered under the EL are performing, we randomly selected a small sample of 300 enterprises in Hanoi and three surrounding provinces, comprising of 100 enterprises that had registered each year from 2000-2002 and tracked their development and progress (see pg15). This "mini" survey was not intended to be representative (i.e., is not statistically significant) instead it was designed to provide some insights to the big picture provided by the GSO census data. The Policy Note also draws on a study by Henrick Hanson et al based on three partly overlapping enterprise surveys sampled during 1990-2002[i].

1. Firm Numbers and Survival in Vietnam

In recent years much focus has been placed on the entry of private sector firms in Vietnam. The number of new firm registrations has repeatedly been offered as evidence of a rapidly growing private sector. Indeed, MPI records show that as of the end of 2003 there are 128,878 registered enterprises in Vietnam of which 83,890 registered between 2000-9/2003 following the enactment of the Enterprise Law, compared to 45,000 for the whole of the previous decade. In contrast, the recent GSO enterprise census data suggest that only about half the number of registered firms are actually in existence. If the GSO's census data is more accurate does this suggest that the private sector is not growing at the impressive rate many claim?

Table 1. Firm Registration Data v's Enterprise Census Data.

	End 2000	End 2000	End 2000	End 2000
Census data (I)	31,458 (53%)	40,193 (50%)	50,551(50%)	N/a
Registration (II)	59,413	80,453	101,988	128,878

Source: (i) GSO; (ii) Ministry of Planning and Investment (MPI)

In fact, the Registration and Census numbers are not inconsistent, but tell a story that would be expected. The difference can be explained by two factors (i) methodology and (ii) firm turnover. Firstly, the Registration and Census are measuring different things. MPI is recording the number of firms that apply and are granted a business registration in accordance with the EL. This is only the very first step in the process of setting-up a business in Vietnam. (See Diagram "Administrative Procedures During Life-Cycle of a Firm, page 15 for all the start-up steps involved). Not all businesses that register will ever start operations, for many legitimate reasons; for example some entrepreneurs who register a business idea may subsequently fail to obtain the resources they need to go into operation, or the market opportunity they are trying to capture may pass (the contract they sought never eventuated); or potential partners may lose interest. In our mini-sample, we found that at least 8% of the firms that registered never made it to the tax code stage, suggesting that they never actually started operations.

The second and probably the most important reason why the number of firms actually operating differentiates significantly from the number that originally registered is firm turnover/ failure. The registration statistics do not take into account the numbers of firm-closures, the vast majority of which go unreported and unrecorded as the current system provides no incentives, nor enforces the need to formally record business closure.

A market-economy is harsh on small new private firms anywhere in the world, and there is no reason why Vietnam would be an exception. A recent analysis of firms in 20 OECD countries found that about 20 percent of firms enter and exit most markets every year. These entries and exists are part of a process in which a large number of new firms displace a large number of inefficient firms. In these economies, only about 60-70% of entering firms survive the first two years of activity

and only about 40-50% of entering firms in a given year are still in business seven years later[ii]. If we applied these ratios to Vietnam we would only expect about half of the enterprises that registered before 2000 to still be in existence and maybe ¾'s of those that started operations after 2000.

These levels of firm turnover in OECD countries are consistent with the findings of a study by Hansen et al, based on surveys of Vietnamese enterprises carried out in 1991, 1998, and 2002. Of the 447 enterprises they surveyed in 1991, only 35% of these survived the 6 years until 1997 and only 21% of the original 447 firms survived all the to 2002. In other words, about 10 years after their establishment 79% of these firms were no longer in existence. Hansen et al also surveyed a new patch of 750 firms in 1997, which have proved more resilient than the pioneering firms probably as a result on an improved business environment. Sixty four percent of the 750 firms were still in operation 5 years later (i.e., survived 1997-2002).

In an effort to gauge the survival rate of Vietnam's newly registered firms, i.e., registered after the EL became effective in 2000, we went to considerable lengths in the first phase of our survey to try and track the firms in our sample. As a starting point, our research team made telephone calls to all 300 companies, and received confirmation that 174 were still operational, (either at the same address/phone number as registered, or at a number provided by directory services 1080 using the company name), 8 had closed, but we were unable to make contact with the remaining 118 (status defined as unclear). Next, the researchers went to the registered address of each of the 118 "unclear" companies. The site verification process included the following steps: (i) the researchers would check for the existence of the firm in the neighborhood by talking with current residents at the address and neighbors; (ii) researchers would subsequently check with Tax office to find out if the missing firm had already registered and received a tax code, (a sign that could suggest the firm may be operational at a different address). If a firm could still not be found after these steps; in other words, it was not present at the registered address, or at a forwarding address known to the neighbors/local tax officials, not registered with the phone services; and had not been granted a tax code (without which firms cannot buy official invoices and therefore cannot operate in legal term), we concluded that these firms had probably either never started operations or had subsequently closed. Based on these tracking efforts, we concluded that out of our mini sample of 300 firms, 218 firms were clearly operational (73%), 14 firms

were definitely closed, 24 firms were probably closed and 44 firms may still operational but were untraceable. These findings suggest that while many of Vietnam's newly registered firms move relatively quickly from their registered location[1] and are difficult to track, a relatively high portion (at least three quarters) are surviving.

Table 2. Levels of Firm Failure and Turnover: findings from Our Mini-Survey

Registration Year (sample size)	Confirmed operational	Confirmed Closed	Assumed never operational (never had tax code)	Non operational (b&c)	Status Unclear but with Tax Code
2000 (100)	75 (75%)	4	13	17 (17%)	8 (8%)
2001 (100)	68 (68%)	5	7	12 (12%)	20 (20%)
2002 (100)	75 (75%)	5	4	9 (9%)	16 (16%)
Total sample* 300	218 (73%)	14 (5%)	24 (8%)	38 (13%)	44 (15%)

* numbers are rounded.

The GSO census data also provides some insight into recent firm survival rates in Vietnam, if we isolate the same enterprises in 2000 - 2002 (i.e., take out the newly registered firms entering during this period). Of the 36,526 enterprises covered in all three years of GSO survey, 13 percent of the firms counted in the 2000 census (4639) were no longer in existence by 2002; but a relatively high 87% were still in operation. As discussed later even amongst the surviving firms there had been notably change over this period some firms had grown significantly, others had contracted. The findings of the GSO census data compared with Hansen et al study suggest that the survival rate of Vietnamese firms may be increasing over time.

In interpreting this data, it is important to keep in mind that the Census numbers are recording private firms that are actually in operation and only those of which provide adequate financial information for GSO requirements, and can easily be found. "Easily found" usually means that the firm hasn't moved from its original

1 *In subsequent interviews many entrepreneurs spoke of significant difficulties in findings suitable premises with long-term leases, stating that many land-lords would only rent on a short-term basis as they expected rental prices to climb, which would partially explain the high mobility of firms.*

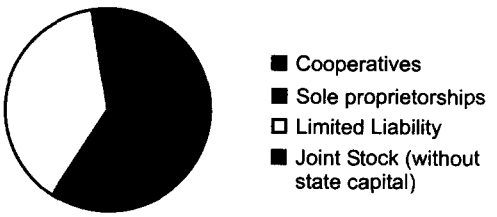
location, or can be easily tracked to its new location[2]. However, our mini-survey shows that a high proportion of firms move (in our case 42%) and some are very difficult to track/untraceable (in our case 15%), it is likely that firm mobility and incomplete information, would have a significant impact on the overall Enterprise Census numbers.

Thus in brief, although the number of private firms currently operating in Vietnam is certainly less than the registered number (as this does not capture firms that have never actually started operations, nor those that have started operations but have subsequently failed and exited the market), it seems that firm survival in Vietnam may now be relatively high. The following section looks at the profile of Vietnam's newly registered private firms who while surviving, may not be thriving.

2. The Profile of Private firms in Vietnam

Over the previous decade Vietnam has witnessed the progression and "formalization" of private business activities from informal household entities and cooperatives to registered simple corporate forms.

Figure 1. Corporate form of Private Domestic Firms (GSO Dec. 2002)



Source: GSO enterprise census.

Although these simple corporate forms such as sole proprietorships and limited liability firms remain over-whelming the most popular structure (together account for about 90 percent) there is now a steady trend towards more complicated forms such as joint stock firms (JSC). The number of private firms registered as JSCs increased five times between 2000 and 2002.

2 *GSO sends questionnaires to statistical offices in all provinces and down to district level. Statistic officials in districts then fill in the form either by collecting data from their records or visit the companies based on the address they have in database (filed to Statistics Office during registration process). Only the completed returns are counted, meaning if the official cannot collect all requested data items, or cannot find authorized personnel (e.g. business owners) after some visits, the firm would not be included in the census numbers, even though it may legally and operationally exist.*

Table 3. Capital, Asset & Turnover Level per Employee, by Enterprise Type (end 2002) (GSO).

	Average employees per enterprise (Person)	Average capital resource per enterprise (billion VND)	Average fixed asset and long term investment per 1 employee (Million VND)	Average net turnover per employee (Million VND)
SOEs	421	167	137	275
JSC with atate capital	258	78	69	207
Cooperatives	39	2	27	71
Private	14	1	35	271
Private LLC	39	5	41	222
Private JSC	62	14	59	175
100% Foreign Capital	344	93	127	184
FDI Joint venture	207	218	661	825

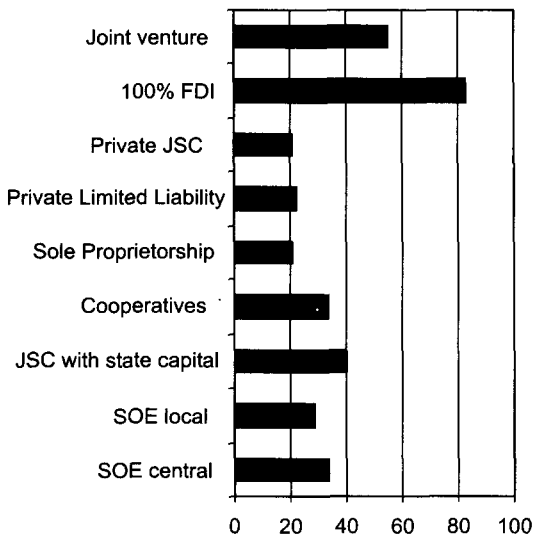
Private registered domestic firms are still small in scale both in terms of employees and capital compared to foreign or State-owned firms, as would be expected given the relative "newness" of private business in Vietnam. At the end of 2002, the average formally registered private and limited liability firm had 14 and 39 employees respectively, compared with an average employment of 421 for the SOEs.[3] Private JSC had an average of 62 employees, which is still small compared to JSC with state capital whose average employment size was more than 4 times higher. But, despite their small capital and investment base, private firms are generating turnover levels per employee almost on par with SOEs, the later of which benefit from much greater capital and asset base (see Table 3).

The overwhelming majority of Vietnam's private domestic firms are in the service sector. This bias towards firms entering sectors that have relatively low barriers to entry (e.g., capital investment requirements

3 *The informal or household enterprises in Vietnam (which reputedly number between 2-3 million), are excluded from these numbers. If they were included the average size of the private business could be considered micro-sized private sector.*

and lower risk) would be expected to some degree given the "newest" of private business in Vietnam and the limited resources of the domestic private entrepreneur. Nevertheless the low entry into the industrial sectors, especially manufacturing, may also indicate that there are significant barriers preventing domestic private players entering these sectors. The Census data show that slightly more than 1/5 of the private domestic firms are engaged in the industrial sector. Unfortunately the Census data does not further separate out manufacturing firms according to ownership within the industrial grouping.

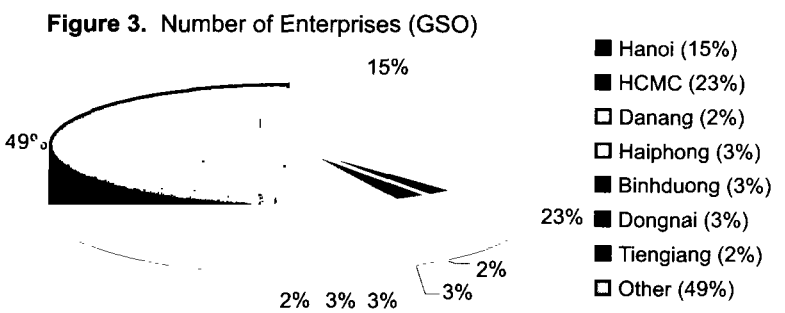
Figure 2: Percentage of Firms in industrial Sectors



Our mini-survey found as few as 12 percent of the private firms were engaged in manufacturing[4]. This finding is perhaps explained, at least in part, by the difficulties private entrepreneurs experience in accessing the land and capital needed for manufacturing activities, as confirmed by our firm-level interviews and discussed later.

Another dominant feature of Vietnams' new private sector is the concentration of firms in certain key locations ; seven provinces out of 64 are home to half of Vietnam's private firms. Earlier studies conducted by the World Bank suggest that in addition to factors of market centers and quality of infrastructure services, the attitudes of officials, whether they be pro-private sector or not, has also reinforced these patterns.

Figure 3. Number of Enterprises (GSO)



Many of Vietnam's businesses are older than expected, and pre-date the Enterprise Law. Findings from the mini-survey suggest that many of

4 *As the survey was limited to the greater Hanoi area, the proportion is likely to be lower than the national average as many manufacturing firms are located in the south.*

the private firms registered since the EL are not new business activities. Among the firms interviewed as part of this study, the majority were in business before 2000 (when the EL was introduced). Of the pre-existing firms, most were previously informal (household) firms that elected to register under the EL. From the entrepreneurs perspective the benefits of registering, such as access to tax invoice books, and improved image/creditability from customers, now made it worth-while to go through the relatively simplified registration procedure). A lesser but still significant number were firms that had registered under the previous Company Law and either re-registered under the EL or had been "automatically" re-registered[5].

If this finding holds true nation-wide, it would indicate that the enactment of the EL has been particularly effective in encouraging the formalization of the informal sector firms through greatly simplifying firm entry procedures. Indeed, the formalization of the firms is exactly the impact one would hope to happen as a result of the improved legislation. On the flip-side commentators on the growth of the private sector post-EL should be careful not to imply that the significant growth in registered firm numbers indicates the same rate of growth in new private sector business activities. New entrepreneurship (i.e., new business activities, rather than the formalization of desired businesses) would be expected to come second when a fresh cohort of entrepreneurs matures.

Impact of the Enterprise Law (EL) — Market Entry is no longer a Major Constraint

Undoubtedly one of the greatest improvements in the business environment was the enacted of the EL. This law has had a direct and significant impact in two ways. Firstly, the EL has been effective in delivering the policy message that private business is now both acceptable and encouraged, reflected in the fundamental shift from a licensing system where permission was required for all activities to a registration system where all business is allowed except those explicitly restricted.

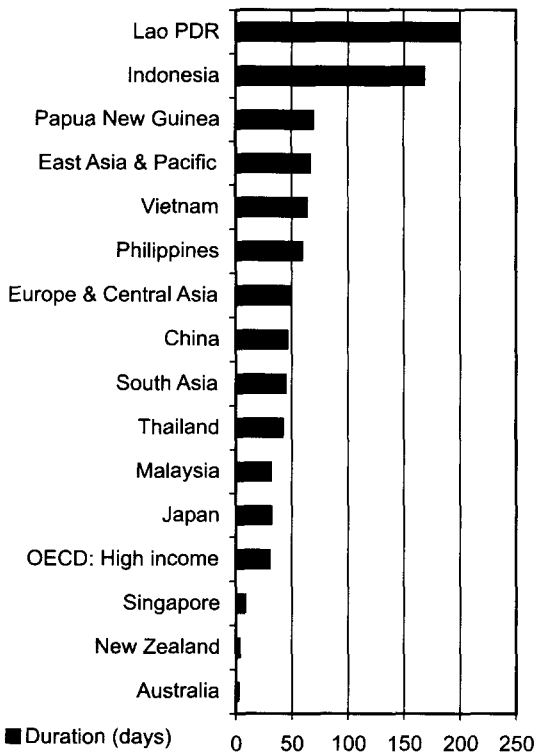
Secondly, the EL has clearly had an impact in encouraging the formalization of businesses (i.e., the registration of household businesses) and new business start-ups as a result of making firm entry much easier.

5 *In a few cases in our sample firms had been allocated new registration numbers without applying.*

Although the WBG international comparative studies entitled "Doing Business" (opposite) show that the registration process in Vietnam is still more complex and time-consuming than most other countries in the region, entrepreneurs themselves are reporting that the process is now relatively smooth and hassle-free. This can be explained by two factors; firstly, Vietnamese entrepreneurs only reference point was the old system, and from this perspective there has clearly been major improvements.

Secondly, indicative of the keen entrepreneurial spirit in Vietnam, private service agents have sprung-up who now, for between 1-2 million dong, take care of the whole registration process for the private firm. A significant number of firms interviewed in our survey used and fully satisfied with these services. But even for those who completed the formalities themselves, in general they had few complaints, and reported being able to get through the process without paying "unofficial" fees.

Figure 4. Number of Days required to start-up a business for Selected countries and Groupings



2.1 Performance of the Domestic Private Sector[iii].

Limited Liability and JSC firms. *Almost two out of three domestic LLCs and JSCs are profitable,* but the average profit for JSC is shrinking rapidly. In 2000 a profitable JSC made on average 760 million dong compared to 558 million dong, in 2002. Reducing profitability can be largely explained by increased competition as new players enter the market.

About 30 percent of the private LLCs and JSCs are losing money. In itself this relatively high proportion of loss-makers is not necessarily cause for concern, given the young age of many firms, as it is normal for newly formed firms to take a year or two to generate profits, especially if they have made heavy start-up investments. Moreover, the trend for these loss-makers is positive in-so-far as the percentage of firms losing money has reduced slightly over the last few years (down from 34.8% in 2000 in the case of LLC), and the amount they

are losing on average has also reduced. For example, in 2000 the average amount of the loss recorded by private JSC was 359 million dong, compared to 202 million dong in 2002.

Sole proprietorship. *A greater number of the smaller sole proprietorship firms are profitable (85.6%),* which is not surprising as generally small firms lack the resources to stay in business for long if they are loss-making. In other words, if they are not profitable they are more likely to close down completely than to continue to operate and lose money. The average profit of these firms is much smaller and has become increasingly marginal over the last few years, compared to LLCs and JSCs. In 2002 the average profit for these relatively small firms was 58 million dong (USD 3,700). The trend is also showing that more of these small firms are making losses, compared to couple of years ago, perhaps indicating increased competition.

Foreign Invested Firms. *One out of every two foreign invested firms is loss-making.* Although the average amount these foreign invested firms are losing has reduced over the last few years to an average of 5433 million dong (about USD 350,000) in 2002. On the flipside the average profit is also dropping sharply. In 2002, the profit recorded by the profitable foreign firms was almost 35,000 million dong, compared to 45,000 million dong only two years earlier. Again these results would in part be expected given that many of these are recently established firms recovering initial investments.

In general, formally registered private sector firms are still considerably less profitable than firms from other sectors, such as state owned or cooperative enterprises, despite the generally encouraging trends discussed above. In 2002, profitable SOEs on average recorded a profit of 6,546 million dong, over ten times more than the average amount for a private JSC. (The reader should be cautioned that the SOE results are undoubtedly distorted by the very profitable oil and gas SOEs; it is also likely that private firms underreport results whilst SOE's may inflate profits). Even profitable cooperatives generated on average about twice as much profit as a sole proprietorship firms.

Table 5. Profit Ratios of Enterprises by Ownership in 2002 (GSO)

	Profit/capital (ROI)	Profit/ revenues
SOE	2.9%	4.18%
Private sector	2.3%	1.5%
FDI	10%	13.6%

The profitability ratios calculated from the GSO census data, indicate that the profit margin for private firms (i.e., including sole proprietorships, LLCs, JSCs) compared to total revenue is very narrow at 1.5 percent. Similarly, although little better is its return on capital employed, at 2.9 percent. When assessing these returns, it should also be kept in mind that most of these firms are relatively new and it is not unusual for a private business any-where in the world to make losses or just breakeven as its establishes it's foot in the market-place.

In our mini-study, we found most private enterprises are micro-sized firms that are still in the starting-up phase and struggling to survive. More than half of the firms interviewed originated from household businesses and do not yet show significant change in either management or capital after the upgrade. The majority of these firms, for example, have maintained the sole owner-manager style in which the director owns and manages the firm. Many of them have transformed into companies simply to be able to issue official invoices to customers. Average revenues of interviewed firms was about two billion VND (less than USD150,000) in which they report a net profit rate of about 5-10%. Only a few (less than 15%) have reported significant expansion.

In the interviews we asked the firms how their business experience compared to their expectations when they set-up the business. In response, 53 percent stated that they had found operating a business to be more difficult than expected and 48 percent had found it to be less profitable than expected. Given that the firms interviewed as the survivors had already had a better experience than the average, these responses would suggest that the majority of private entrepreneurs going into business find it more difficult and less profitable that their expectations at the time they made the decision to invest.

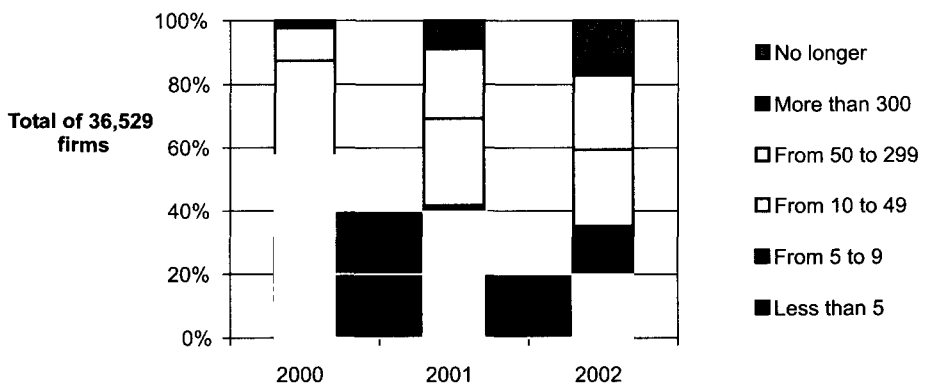
Table. 6 : Entrepreneurs Experience v's Expectations,

Compared to your expectations at the time of registering the business...	Easier than Expected	As Expected	More difficult than Expected
Q: How easy of difficult have you found operating a business to be?	13%	33%	53%
Q: How profitable have you found the business to be?	9%	41%	48%

The average size of the firm in Vietnam in terms of employment numbers is growing, but at a slower rate than would be expected if

firms were enjoying significant improvements in performance and profitability. A successful and growing firm will normally need to increase it's number of employees to handle increased demand. Grouping the three main corporate forms of private sector together (Sole proprietorships, LLCs and JSCs) the average number of employees per firm has increased from 25.3 persons/firm at the end of 2000 to 27.7 two years later. The growth of LLCs and JSCs have been the drivers in employment numbers with the average size of the sole proprietor firm remaining at 14.

Figure 5 : Transition in Size (by Empl. Number) of Private Firms from 2000 to 2002 (GSO census)



GSO's census data for the 36,526 firms that are captured in all 3 census years (2000, 2001, 2002) provides some insight to firm-level growth or contraction patterns, in terms of employment levels over this period. As Figure 5 illustrates, in 2000 about 57% of these firms had less than 10 employees, and only about 2% of these firms were large scale with 300 plus employees.

Two years later, we see a graduation of firms from micro to small and small to medium-scaled. The proportion of firms employing between 50-299 employees had increased from about 10% to 24%. The number of these firms employing less than 50 employees had declined from about 87% of the total to about 60%. Some of this change is explained by firm closure – about 13% of all the firms surveyed in 2000 were no longer in existence in 2002, and some by firm-level growth. As would be expected, there was much less movement from the medium to the large scale category (300 plus employees) than from the micro to small and small to medium. From this group of 36,529 firms only 4% by 2002 (up from 2% in 2000) employed over 300 employees; which is

equivalent to a medium (or small sized) manufacturing factory in most countries.

Most private domestic firms start very small. According to GSO census numbers of the 9,972 firms that were established between the 2000-2001 census, 31% had 1-4 employees, 33% had 5-9 employees, 30% had between 10-49 employees and only 6% had more than 50 employees. So to-date in Vietnam, the overwhelming majority of domestic private firms, start-up as micro- or small scale operations, and some succeed to grow to medium scale operations, but there is almost no net growth beyond the medium-sized firm.

3. Opportunities in the Business Environment to Promote Firm-level Growth and Greater Firm Dynamism

The above analysis suggests that while there is a steady increase in the net number of private enterprises active in Vietnam and some firm-level growth from small to medium scale firms, very few of these new market players seem to be enjoying strong performance or rapid firm level-growth. This in turns begs the question of whether it was realistic to expect rapid growth amongst the new firms, given that the most of the recent changes in the business environment have helped to remove entry barriers to establish a firm but have not significantly impacted on private sector access to market opportunities and critical resources, such as land and finance.

It's also important to remember the time-frame involved; the private sector has only emerged in the last few years; entrepreneurs are relatively inexperienced, and it takes time from the side of the firm to find markets and establish contacts etc. From the government side, it unavoidably takes considerable time to put in place an investment-friendly legal and regulatory framework and to create effective market institutions.

Nevertheless, the firm-level interviews conducted as part of our mini-survey suggest that a few core factors are the key constraints to firm-level growth; namely, market access, land/premises; finance and tax. These are certainly not new nor unknown issues, but the recent interviews provide useful insights into the nature of these constraints and hence what action would be required to resolve them. In addition entrepreneurs frequently cited difficulties and bureaucratic "hassles"

at the various stages of firm change, suggesting opportunity to improve the investment environment through further streamlining of procedures and reducing the opportunity for official discretion.

3.1. Market Access

In order for a firm to significantly expand its operations/grow, a firm needs access to larger markets and/or bigger deals. As it is unrealistic to expect many private firms to jump straight into the highly competitive international market (given their lack the resources and experience), two important market opportunities to support firm growth are contracts with the State or large firms (state or foreign).

As Vietnam is undergoing a rapid industrialization process, the State in particular offers important market opportunities for private firms. But in practice there is still a very limited window for private firms to participate in medium and large projects from Ministries and State agencies at all levels. Firms interviewed as part of our mini-survey felt that the way the eligibility criteria is structured in the public bidding contracts, for example, was deliberately biased in favor of SOEs. Most bidding documents require a firm to have many years of past experience, which given the short history of private sector in Vietnam effectively crowds-out the majority of private firms. One limited company in our survey, set up by a senior ex-State employee who had nearly 30 years of experience in some imported small machines used in road building, was not eligible to attend any bidding to supply the machines to State-funded road projects (for the reason his company does not have long enough history in business). Instead his firm ended up supplying that very same machines to the SOEs who won the public bid, but only earning a razor-thin profit margin as he had to work through the SOE "intermediary".

In addition to participating in State projects, supplying or sub-contracting to large firms (either state or foreign) could provide a very important market opportunity for firm growth. However, recent research into the extent and nature of sub-contracting in Vietnam found that the lack of an effective dispute resolution and contract enforcement mechanism and inconsistencies/over-laps in the economic contracts legislation discourages commercial linkages between firms and hence the limits the market opportunities for small firms. (See PSD Policy Note on Sub-contracting for a full discussion of this Issue).

Facilitating private firm access to public bidding or sub-contracting opportunities would be a win-win situation for all; the State would get its project implemented at a lower cost, SOEs would be exposed to greater competition which would help their adaptation to a more competitive market economy, also SOEs ability to sub-contract out would enable them to focus on their core competences and, of course, private firms would have access to larger contracts that could support firm expansion.

3.2. *Land and premises*

Difficulties to secure locations for the private businesses was an almost universal experience and concern of the firms interviewed[6]. We had expected that private manufacturing firms would complain of difficulties in accessing land for factories in the Hanoi area; but the extensive constraints they had experienced in securing land in Industrial Zones (IZ) and the surrounding provinces (several of which are trying to attract investors through land-friendly policies) surprised us. Also surprising was the extent to which many service sector firms expressed major difficulties in securing suitable premises for their office or shop space.

Among the firms interviewed not one occupied land or premises and had a CLUR in the businesses name (as distinct from the personal name of the firms owner(s)). Some occupied the houses of the owner(s) or relatives who in some cases had CLUR for the household. The majority of firms interviewed rented land; the smaller firms rented from individuals and almost ¼ of the firms interviewed rented land from state owned enterprises or state institutions such as educational facilities or the military[7]. As one firm explained,

> *"... the company needs a bigger place however cannot find one with suitable prices and location. Renting directly from the State is out of question because we have no connection and know it's hopeless to pursue. Individuals usually do not have that large and manufacturing-ready kinds of land (has some basic infrastructure such as a concrete surface, industrial electricity ...), so the only source of land for them is to rent from SOEs, who cannot do it formally, causing the unstable feeling for the renter. It's hard for us to make any long term investment in such situation."*

6 *As our mini-survey was limited to Hanoi and the surrounding provinces where land shortage is particularly acute this results are probably worst than would be expected on a national average.*

7 *Firms renting from SOEs are competitively disadvantaged with a higher tax liability; as SOEs are not "allowed" to su b-let land, these firms are unable to deduct the business expenses associated with renting the premises from SOEs (i.e., rent, electricity) from their income reports/tax statements.*

In respect to shop or office premises, firms reported spending months searching for suitable premises, and many complained of the short-term leases provided by the land-lord (3-6months) who expect rental prices to increase so wouldn't provide long term lease. This created considerable uncertainty among entrepreneurs who were understandably reluctant to make investments into the premises as their rental contract could be terminated at any time. Some firms "best" alternative was to operate inefficiently from several locations (one for office, another for warehouse, another for show-room).

The interviews confirmed that lack of access to factory facilities or land to build factories was a severe constraint to the development of the private manufacturing sector, at least for the provinces concerned. Firms able and willing to expand their businesses were prevented from doing so because of the unavailability of land; others were operating sub-optimally in several crammed locations and temporary spaces. Many reported stories of years of efforts involved in securing land and very high costs, even in the industrial zones. A successful manufacturing firm wanting to invest in an additional production line for 200-300 workers, explained;

> *. ... "It is difficult for us to find an ideal space for both show room and plant. Very often, land in Hanoi, if available to lease, is on a very short term basis, and this puts us under pressure of moving out any time. Land for plant site can be found in other provinces, like [...], but infrastructure in these locations is not ready for operation, that means we have to level the ground, clear the land and build basic infrastructure, and that means very high cost for us. ... After leasing the land we have to do site clearance by ourselves, and that is too costly and so we decided to hold back our project. Currently we are seeking additional amount of financing for expansion"..*

> *... "Our factory already stopped operations in July because the site was to taken back by the lessor. I was looking around to lease land but not easy. I tried to lease land in [.....] industrial zone but it's complicate. Recently, farmers in its surrounding areas protested the IZ management for low land clearing compensation and that has threatened enterprises currently operating in the IZ"....*

The few firms that did succeed in getting land in IZ reported that they had to pay large unofficial costs, and that it still took years. One firm that managed to get a 50 year lease on land in an IZ, explained that they had a relative help with the procedure, and that "without a personal contact there is no way to get close to State land" but even

then it took them 3 years to get the land, and involved enormous unofficial costs. Another firm that started the process to get land in an IZ for SMEs in 2001 finally got all procedures completed and officially received the lot in December 2003, reported that they "needed to buy support from nearly every official involved"....

These entrepreneur stories, albeit antidotal, clearly suggest that if the private sector had greater access to affordable land, Vietnam could expect to see a much faster pace of private sector expansion and a significant increase in the volume of private investment and employment. Effectively addressing the land and premise constraints could perhaps have the greatest impact and pay-back for private sector development of any reform effort in Vietnam at this stage. Given the complexity of this issue it is not possible to adequately discuss the issues and policy options in this Note, so the reader is referred to The Private Sector Policy Note entitled "Private Sector and Land: Availability, Affordability and Administration" for a fuller discussion of this issue.

3.3. Access to Commercial Credit.

Private firms continue to face major constraints in accessing commercial finance (working capital and especially investment capital) due to a mix of factors including the limited incentives of commercial banks to lend to the private sector (i.e., no pricing differential, high transaction costs, lower risk investment alternatives, and potential personal liability for bank officers etc) and inability of the private sector to provide 'unacceptable" collateral. In this sense private firms access to commercial credit is closely linked to the issue of their access to land. Commercial banks in Vietnam will extend credit to private firms without adequate collateral coverage in only very exceptional cases (when they have a long established track record). For the vast majority of private firms, banks require collateral valued at more than the total value of the loan. And in most cases the only collateral the banks will accept is a CLUR which almost no private firms have (in their company name) and only some firm owners have for their personal household property. So the result is that for most private firms there is simply "no way" for them to borrow from commercial banks as they lack the collateral, and/or the long-term performance track record to do so.

Despite no legal barriers to do so, commercial banks in Vietnam are typically unwilling to accept manufacturing equipment and other machines as collateral to underwrite working capital loans, although

this is standard practice in most countries. The banks' unwillingness seems to be because they consider this simply too much hassle; on one hand there is no pricing differentiation in loans to compensate for the additional transaction costs, and on the other hand if the loans default and the bank needs to draw on this collateral, there is no easy way for them to do so; in particular the lack of private liquidators who could collect and sell the equipment, means that untrained bank staff would be required to handle this job. Given that many private firms in Vietnam lack CLURs, but have machinery and equipment, if banks would accept this as collateral, private firms access to working capital could be greatly improved. With the recent establishment of the STC that can register such items, part of the difficult of using these forms of collateral has been addressed (note: institutional building activities may be required to ensure that the STC can fulfill its design mandate).

Even among the firms in our mini-survey that had succeeded in getting commercial finance they expressed several concerns; they spoke of the complicated procedures; the short-term of the loan (usually up to one year, when they needed investment capital), and the low value related to their collateral. The experience of one "lucky" entrepreneur was ...

> *" the procedure to borrow from bank is too complicated and corrupt. We had to show a business plan and go through a two-month procedure in order to borrow 500 million for one year, and we had to tip the credit official 1% of the loan's total."*

One issue that arose repeated was what banks would accept as collateral from private firms compared to SOEs. Entrepreneurs complained, for example, that banks do not accept a signed Contract or Project as collateral from private firms whereas this is acceptable from SOEs ... *"SOE can use sales contracts as collateral to get loans, but we cannot. In fact, for some projects we have to pour a big amount into production and receive full payment from clients only at the completion. This put us under situation of being short of cash, and in that case we have to refuse other clients"*. A rental car company complained that the bank wouldn't accept their cars as collateral so couldn't get loans.

Some firms reported that because they lacked collateral to enable them to borrow from banks, that they had to go through a third party to get the loans from banks, and pay a "fee" to the intermediary for that service. For other firms the options were limited to informal financing sources at higher interest rates, and/or the slow process of building up internally-generated funds and retained profits that

could be used to very gradually expand the business, but foregoing market opportunities in the meantime.

Facilitating private sector access to land would directly improve their ability to access commercial finance. Strengthening commercial banks credit appraisal skills to move towards a cash-flow based analysis of a firms creditworthiness rather than a collateral based review would also help. Greater use of the recently established STC by commercial banks to enable them to expand the forms of collateral they will accept from private sector is also part of the answer. Initiatives to improve the Creditor Rights system in Vietnam, and specifically the ability of commercial banks to collect on pay debts, will also increase the private sector access to commercial credit. The private sector itself also has an important role to play in improving its ability to access credit, through raising the quality and transparency of their financial records and information. This in turn raises the issue of the private firms incentive to report accurately, which arguably requires a different approach from the tax-man, as discussed next.

The financing situation for private firms in Vietnam is further compounded by the dearth of equity financing vehicles (such as equity funds and venture capital companies) and the weakness of the capital market. Equity financing is particularly valuable for newly established firms because of the stability it imparts and as it allows them to finance investments and pursue activities that involve risk and up-front costs but don't generate immediate cash-flow (such as penetrating new markets) without the burden of servicing debt. In practice however, except for a handful of cases, the domestic private sector in Vietnam has no access at all to formal equity finance (i.e., beyond the contributions of family/friends/self). Establishing an appropriate legislative and institutional framework (i.e., independence and transparency of institutions) to underpin the development of an effective capital market and facilitating the entrance of new equity vehicles (the first few venture capital funds were licensed in 2003) are critical steps to support the development of a robust private sector. These initiatives should be implemented in parallel with activities to enhance private access to commercial debt finance, as firms require an appropriate balance of debt and equity financing.

3.4. Tax Issues and Treatment: A Vicious Cycle.

Tax is a complex issue that cannot be adequately handled within this policy note, but it is important to highlight the key issues as these

have a significant effect on the overall business environment. Capacity issues aside, the firm-level interviews in our mini-survey reflect that at present time *private domestic firms have no incentive to accurately report their financial status and many reasons not to.* This creates an business environment where there is little real transparency. Stakeholders with an interest or potential interest in a firm, such as equity owners or potential investors, creditors including commercial banks and business partners lack the reliable information they need to make informed decisions; such as whether to invest in a firm, create a joint venture with a firm, sub-contract to a firm, or lend to a firm.

This environment of non-transparency in-turn creates a vicious cycle, where stakeholders lacking the financial information are reluctant to provide critical resources to private firms, such as equity or commercial financing or even business contracts. For example, commercial banks do not have reliable financial information upon which to assess the creditworthiness of a private firm and are therefore reluctant to provide credit to the private sector (except when backed by solid collateral which most private firms don't have) and; the private firm can not therefore get access to credit (without sufficient collateral) and thus lacks a key resource necessary for its growth. This lack of transparency also creates fertile land for corruption. In the words of one entrepreneur *..."there's always some "unheard of" part in the regulations that only the officials know about and will quote against companies whenever they need to"...*

The interviews conducted in our mini-survey suggest that private firms treatment by tax officials varies significantly by district and tax official (except in respect to red invoices, discussed below). Some entrepreneur's reported relatively few hassles with the tax officials whereas others expressed significant difficulties.

> *...We have a lot of difficulties in dealing with tax officers. They come to us almost once a month, looking at our book system. If they discover something wrong, they never tell us immediately, they wait until the year end to point out all mistakes! I think in their position, they should keep us informed of newly updated rules and provide guidance to us, but they never provide anything, they only demand from us... They insisted that we should have been profitable by now, despite the fact that our business just newly started. As I understand, the law allows a business to have loss for the first 3 years. In reality, we are still making loss, but they don't trust us.*

....Tax authorities are very much demanding and for each time they come to the company, the director has to pay unofficial fees....

...Sometimes, precinct's tax officers took their relatives to our shop to buy things or to order tailor-made things for them. In these situations we had to offer services and clothes for free.

In terms of specific tax procedures/issues two issues were echoed frequently by private firms (i) income tax deductions, and (ii) getting the Red Invoice book:

(i) *Income tax deductions.* A common concern by firms in respect to income tax was not the level, but discretion of the tax officials to determine what items and how much they could deduct as expenses; complaining that they were not allowed to deduct genuine businesses expenses. Entrepreneurs who had borrowed from informal sources and had to pay higher interest rates, because they had no access to bank credit, reported that tax officials did not accept any interest payment higher than the official rate. Firms using their private homes for office space or renting from SOEs were unable to deduct rent/electricity etc. Other items related to employee cost and benefits: *"tax officials will argue to eliminate or reduce some expenses (to increase tax payment). For example they agree only with a monthly worker salary of 500,000VND while in reality the company are paying 800,000"...*

(ii) *"Red invoice" purchase process.* The hassles and time involved in buying red "VAT" invoice books was universal theme from the entrepreneurs interviewed. Entrepreneurs reported that tax officials would only allow them to buy one book (containing 50 invoices) at a time, so that they had to return frequently to the tax office. For some firms this could mean two times each month. Firms reported spending several hours to 3-4 days each time to get a new book and spoke of requiring the signatures from three officials (and if one of them not there at the time, the entrepreneur would need to come back another time).

The underlying theme of many of these discussions was the discretionary power of the tax officials, which makes entrepreneurs feel vulnerable and creates uncertainty in their business results. Private firms are going out-of-their-way to keep tax officials happy, reflected in the common practice of *"sending gifts to tax officials on public holidays."*

This does not imply that all tax officials are causing unwarranted hassles for private firms, but certainly some do. There are various options available to government that would help remove these types of hassles and improve the business environment generally. Greater transparency through wide-spread publication and dissemination of tax regulations (on rates, allowable expenses etc); a safe complaint mechanism for entrepreneurs, and; moving towards a system of "self-appraisal" for income tax (i.e., where the firm completes and submits the income statement, which is the norm through the world) could generate significant improvements. But such changes also require political will and a change of official mind-set away from the wide-spread assumption that private entrepreneurs are all trying to evade tax, or operate fraudulent companies.

3.5 Firm-level Dynamism

Another finding of our mini-survey was that the existing regulatory environment makes it difficult for firms to change and adapt to market opportunities. Firms world-wide follow the same basic life-cycle: entry, growth adaptation and eventuality exit. In the adaptation phase a firm may, for example, adjust its corporate form (e.g., from private to joint stock); change location(s), diversify/ re-focus product lines, expand or reorient its customer base and expand representations through opening branches. A conductive investment environment supports this firm metamorphosis and rejuvenation of assets.

In contrast, while the firm entry in Vietnam has been greatly facilitated, the current regulatory environment remains overly complex for firm-change and firm-exit. For example, firms report that the Tax authority still makes it unnecessarily complicated for them to move offices or open new branches/facilities. A firm wanting to move from one district to another will have to first go to the current district to finalize all tax duties, then bring all signed-off files to the new district's tax department to register. The whole process takes from two to eight weeks. Nor is it uncommon that tax officials from the new district to reject some part of the files (already approved by the previous district) and require the firm to return to the previous one to get more clarification. Similarly, for companies opening branches, the branch is requested to pay the VAT duties at the local tax authority, however the headquarters who issue the sales invoices will have to go through a very complicated procedure to claim back these input VAT.

The following diagram outlines the many regulations involved at the various stages of the firm cycle in Vietnam. Official attention and regulatory reform now needs to focus on simplifying the procedures and regulatory requirements associated with firms operations and adaptation, and exit. It is hoped that the amendment of the EL due to be presented to the National Assembly in 2005/6, will address these constraints. To improve the business environment this Amendment of the EL would also need to address the role of other ministries and state agencies in supporting the development of a business friendly environment through restricting their ability to impose unwarranted licensing or approval demands on private sector operations and to streamline those that are necessary.

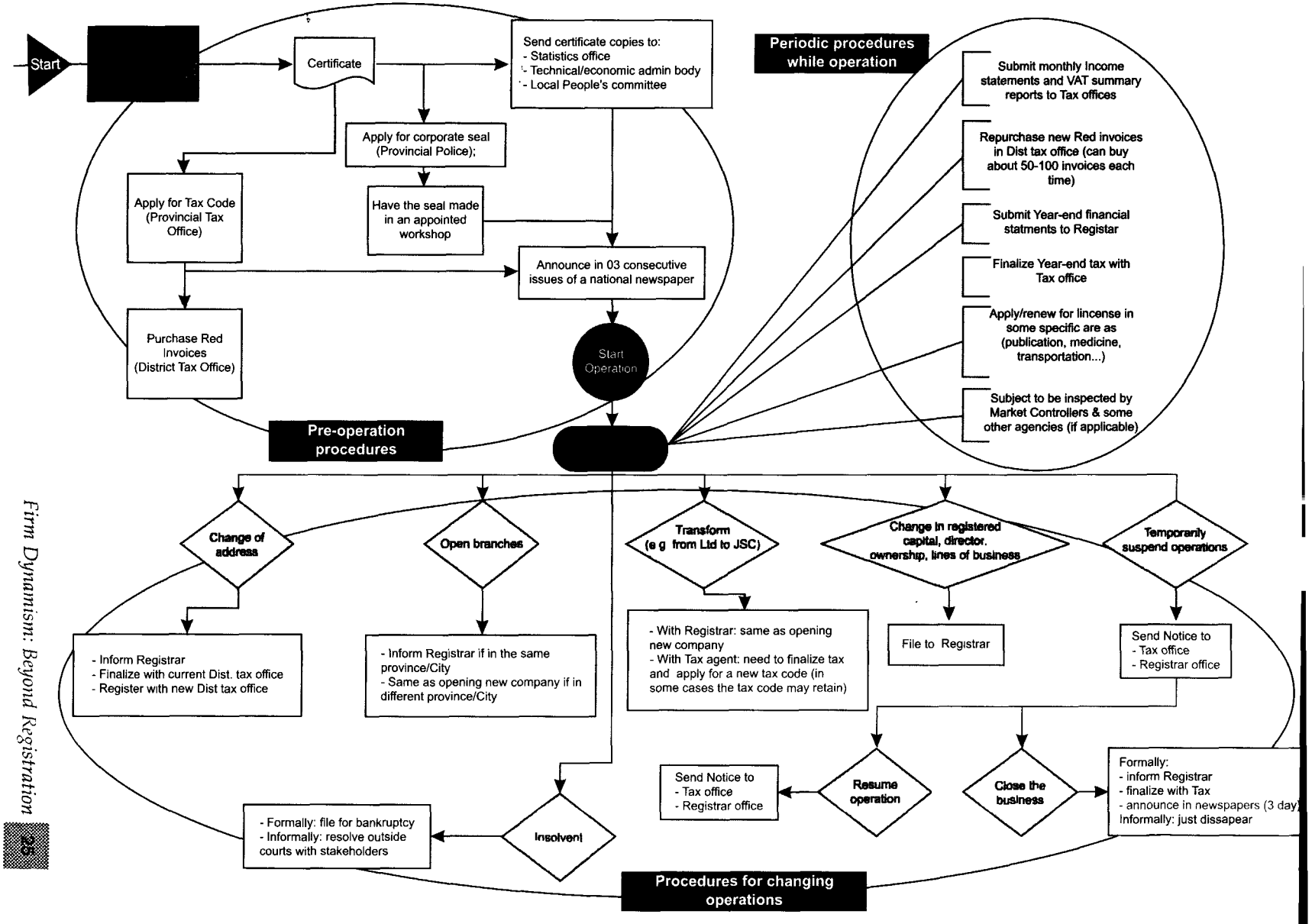
In our mini-sample, the degree with which firms complained of excessive licensing or regulatory procedures depended to a large extent of the sub-sector they operated in. Private firms in certain sub-sectors such as advertising, printing, health products, motorbike/car parts, car rental companies had many concerns. Complaints included unfair restrictions compared to SOEs operating in the same areas and excessive regulations and complex approval processes. For example, private printing firms are required to get approval from the Department of Culture and Information on the content of each company brochure they print. Firms claim that if they actually followed this requirement the customers would take their business elsewhere so they "find ways" with the officials to get around these requirements. One advertising company explained that each time it starts a new advertising campaign it needs permission from the Provincial Department of Culture which involved a cumbersome procedure taking about five days each time. A firm producing anti-mosquito coils explained that it took them more than one year to get a five year license to produce/sell this product from the Ministry of Health. A car rental company spoke of a time delay of one week per rental car to complete the procedures. Many of the views are reflected in the following quote.

> *"... don't trust in current regulations. Will take a wait-and-see approach until the regulations get better or find out a new business idea that does not depend too much on permissions... preferred the informal way of doing business, think it's more profitable and convenient...".*

Vietnam has made strong progress in improving its business environment in a relatively short-time frame. Market entry in

particular has been greatly facilitated and has spurred the development of a diversified private sector. But many of Vietnam's new enterprises are finding their opportunity for firm-level growth capped by the lack of access to markets, especially public bidding opportunities and key resources, such as land and investment capital. As a consequence of these constraints, their rate of growth, investment levels and ability to create jobs is retarded. From the perspective of state management, in some agencies there are signs of a shift in official mind-set from controlling to facilitating the activities private firms, but this tends to still be more the exception than norm especially when it comes to land or tax issues. There is also considerable opportunity support firm dynamism, through streamlining procedures relating to firm change and adaptation.

ADMINISTRATIVE PROCEDURES DURING LIFE-CYCLE OF PRIVATE FIRM IN VIETNAM



Methodology of our Mini-Sample to trace the performance of 300 private firms registered after the Enterprise Law in 2000.

Sampling: 100 enterprises registered in each of the years 2000, 2001 and 2002, (i.e. 300 in total) in Hanoi and surrounding provinces (Bac Ninh, Vinh Phuc and Ha Tay) were randomly selected from the MPI national registration database. The sample enterprises belong to three types: private companies, LLCs, and JSCs. The numbers of each type in the sample reflect their proportion in the whole population (of firms registered under the EL from 2000 to 2002 in the area). The study consists of two phases.

Phase I (October-December 2003) objective was to confirm if the sample companies are still operating at their registered address without going any into the quality of the operation. In the first part of Phase I, the team made telephone calls to all 300 companies, received confirmation that 174 are still operational (either at the same address/phone number as registered, or at a number provided to us by directory services 1080 using the company name), 08 have closed, and 118 cannot track (defined as "unclear"). Next, the researchers went visiting each of the 118 "unclear" companies. The site verification process includes the following steps: (1) The researchers would check for the existence of the firm in the neighborhood by talking with current residents at the address and neighbors; (2) In a second check researchers would check with Tax office to find if the missing firm already registered and got tax code, a symbol showing it may be operational in a different address. If a firm still cannot be found after these steps, meaning it is not presenting at the registered address, not being registered with phone services (cannot track through directory service 1080), not being granted tax code (without which firms cannot buy official invoices and therefore cannot operate in legal term), we will draw a conclusion that the company has ceased operation. After Phase I we have defined 218 firms as clearly operational (73%), 14 as clearly closed, 24 as probably closed and 44 may still operational however not presented at any searchable addresses.

In the first phase researchers also interviewed some relevant parties such as DPI and Tax Department of Bac Ninh Province, and some local law firms specialized in registration and other legal services for SMEs.

Phase II (December-January 2004) In Phase II, researchers have interviewed all enterprises defined as operational and agreed to give interview. Interviewers are senior staff from MPDF and the World Bank (with average 8 years working experience in related fields and have done several research projects). The interviews are based on a uniform questionnaire. The questionnaire is designed to find out the origin of the enterprise (is it new or transformed from another form), how they fare since inception and in what state they are now, what kinds of internal and external obstacles (legal and operational) they are facing. Researchers have been able to review 47 enterprises out of the 218 defined as operational from Phase I (22%).

---

i *Hansen H, Rand J and Tarp F. (2004) "SME Growth and Survival in Vietnam: Did Direct Government Support Matter?" Development Economics Research Group, at the Institute of Economics, University of Copenhagen.*

ii *Scarpetta. S. Hemmings P Tressel T and Woo Jaejoon. (2003) "The Role of Policy and Institutions and Firm Dynamics " Evidence From Micro and Industry Data", department of Economics OECD.*

iii *Unless otherwise specified performance data is derived from GSO Enterprise Census data.*