

Entrepreneurs on the Periphery:

A Study of Private Sector Development Beyond the High Performing
Cities and Provinces of Vietnam

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Acronyms

APSEM	Asia Pacific School of Economics and Management
AUSAID	Australian Aid Agency
BOT	Build-Operate-Transfer (private-public sector partnerships)
CEO	Chief Executive Officer (used here to mean owner or General Director)
CIEM	Central Institute for Economic Management
CSOE	Central State-Owned Enterprise
DOF	Department of Finance
DOI	Department of Industry
DPI	Department of Planning and Investment
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
HCMC	Ho Chi Minh City
ICOR	Incremental Capital Output Ratio
IFC	International Finance Corporation
INCOM	Industrial and Commercial Bank
IZ	Industrial Zone
JV	Joint Venture
LLC	Limited Liability Company
LSOE	Local State Owned Enterprise
MDG	Millennium Development Goals
MPDF	Mekong Private Sector Development Facility
MPI	Ministry of Planning and Investment
PCOM	People's Committee
PSE	Private Sector Environment index
SME	Small and Medium Size Enterprise
SOE	State-Owned Enterprise
VBES	Vietnam Business Environment Survey
VND	Vietnamese Dong
WB	World Bank

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Executive Summary

In Vietnamese provinces with good initial conditions -- such as strong infrastructure, closeness to markets, and ample skilled workers -- private firms have multiplied in number and generally performed well. However, in Vietnam's periphery provinces (ie. those with fewer advantages, and consequently lower levels of economic growth), private firms have made some progress, but continue to lag behind those in the more well-endowed provinces.

This study was undertaken in order to better understand which factors promote and hinder the development of the private sector in Vietnam's periphery provinces. To date, most research on private sector development in Vietnam has focused on the five high performing provinces of Binh Duong, Da Nang, Dong Nai, Ha Noi, and Ho Chi Minh City. Indeed, these five cities and provinces are responsible for most economic activity in Vietnam. Other than these, only the oil rich province of Ba Ria Vung Tau, with substantial foreign investment into the oil industry, has been as successful.

There are four main reasons why such a study, that makes an explicit comparison between the high performing provinces and the provinces farther down the spectrum of economic development, is necessary. First, from a methodological perspective, early efforts at private sector development were limiting, in that they tended only to identify the necessary -- but not the sufficient -- conditions for private sector success. Second, it would be a little shortsighted to believe that best practices in the more successful provinces could be extrapolated nationally, without a greater recognition of the specific differences between provinces. Thus, private sector development programs should be tailored, to some degree at least, to the specific needs of local entrepreneurs in specific locations. Third, studies of periphery provinces in other transition economies have proved highly fruitful in generating policy-pertinent findings. Finally, a few of the periphery provinces in Vietnam have begun to develop quite rapidly, particularly in the wake of the Enterprise Law of 2000. As a result, a systematic study, which compares both successful and unsuccessful provinces, will help us better understand these developments.

As a consequence, MPDF, AusAID, the World Bank, and IFC funded a joint study of eleven provinces, including the 'high performers' and six other medium and low performers (in terms of the size of the private sector relative to total population). This report draws on data collected for that study, and offers a depiction of the environment for private sector development.

Chapter 1 describes the sample selection, the research methodology, and provides an overview of the six periphery provinces selected for this study, comprising: Long An, Hai Phong, Thua Thien Hue (TT Hue), Nam Dinh, Ha Tay and Thanh Hoa. Throughout the study, the private sector environment in these six provinces is compared with the environment in the high performing provinces of Ho Chi Minh City, Ha Noi, Da Nang, Binh Duong and Dong Nai.

Chapter 2 is designed to familiarize the reader with the special economic situations in each of the periphery provinces. Firms in the periphery provinces were established under conditions that were less favorable for their development. As they developed, they were typically burdened by being: farther away from markets, having inferior infrastructure, and being dependent on agriculture and state-owned production. Moreover, existing and potential workers and managers were significantly less well educated and trained than their peers in the high performing provinces. While these conditions were important, they do not necessarily determine success or failure. For example, a province like Binh Duong began with relatively poor conditions, but incorporated appropriate improvements into its development strategy. Conversely, provinces such as Hai Phong and Ha Tay

had relatively decent initial conditions, but failed to develop to the same degree as Binh Duong. Over time, the negative impact of initial conditions in periphery provinces has been reduced by higher costs and diminishing profits incurred in the high performing provinces, and by the positive influence of the Enterprise Law. These critical changes have attracted some domestic and foreign investors away from the more well-established centers of private sector growth, and towards the periphery provinces.

In the second part of Chapter 2, descriptive information is provided on the firms randomly chosen for the survey. This is intended to shed most light on the research findings in the context of the unique factors affecting the private sector in each province. With the exception of Hai Phong, periphery firms tended to be smaller in terms of assets size and number of employees relative to firms in the high performing provinces. With regard to registration of new companies, the high performing provinces recorded a similar pace of registrations both before and after the Enterprise Law was enacted in January 2000, while in the periphery provinces, there was a boom in registrations after the January 2000.

Chapter 3 compares the business performance of periphery firms to the high performers. Periphery firms, while still slightly behind their high performing counterparts, have shown impressive profit, employment, and sales growth. Ha Tay was the periphery province with the highest performing firms, whereas the indicators for firms in Long An were less impressive. These results may reflect a slight shift in the business climate in the northern region of Vietnam. Impressive expansion, however, has pushed firms in Hai Phong, Thanh Hoa, and Ha Tay to their capacity ceilings. The only province where firms appear to be in poor financial health is Thanh Hoa. Here, firms are heavily in debt, probably because impressive returns on investment in the previous year encouraged them to borrow heavily to fund capacity expansion.

Chapter 4 analyzes the market environment of periphery firms, by identifying: the destinations of their sales, the origins of their inputs, and the profile of their competitors. The market environment among periphery provinces is far more constrained than is the case with the high performers. Except for Hai Phong, firms located in these provinces sell very little internationally, and buy even less from overseas. One potential cause of concern was the heavy dependence on state-owned enterprises (SOEs) that appeared to be the case with private firms in a few northern periphery provinces. Chapter 4 also poses the question: is competition among enterprises taking place on a level playing field, or are some firms benefiting from the special support of provincial governments? There was good news on this front. The major source of competition was other small private firms, which suggests a robust and healthy competitive environment.

Chapter 5 contrasts the regulatory and governance environment in the periphery with that of the five high performing provinces. Governance issues drew a visible dividing line between high performers and the periphery, but not in the sense that is usually discussed by analysts of Vietnam. Implementation of various components of the Enterprise Law has generally been very good across the provinces. In fact, problems with licensing are more likely to be found in the high performing provinces. Moreover, delayed development has given periphery provinces an advantage in their ability to allocate land to the private sector, although they need to be diligent in providing firms with secure tenure, by granting them land use rights certificates. A cause of future instability may be the tendency of private firms in some northern periphery provinces to rent land from SOEs, rather than seek land of their own.

One dimension of local governance is transparency. Simply put, are domestic entrepreneurs aware of the activities of their provincial leaders, and are important government documents available to them that might aid business decisions? A composite measure of transparency demonstrated quite

clearly the burden in periphery provinces that is caused by a lack of sufficient clarity in provincial decision-making. On this question, differences were greater on a regional level than they were between specific high performing and periphery provinces.

The study also sought to measure the level of indirect tax placed on firms by government procedures, which then limit productivity. Analysis of transaction costs yielded three different types: 1) customs regulations faced solely by the high performers and Hai Phong; 2) inspections that were a source of trouble in Nam Dinh and Hue; and 3) waiting periods which held up progress in Hue and Hai Phong. Governance problems in the form of direct payments and "wheel greasing" were evident, but there was not a discernable pattern across provinces. The study also found that in provinces with higher foreign direct investment, "wheel greasing" costs appeared to be higher. This suggests that foreign investment may have raised the cost of unofficial payments.

With regard to contract disputes, settlement mechanisms to resolve them are still in their infancy, and very few firms felt comfortable turning to government institutions for assistance. Only firms in the northern part of the southeast region, near Ho Chi Minh City, felt comfortable using the court system. When probed as to why they did not use formal institutions to resolve conflicts, firms cited fear of damaging business relations and wasting too much time.

Dynamic and pro-active local officials were shown to be a decisive contributor to robust private sector growth, as previous studies have also found. However, this element is poorly understood. Detailed case studies will be necessary to truly understand how this works.

Chapter 6 depicts the means that firms employ to finance their activities, and the constraints that access to financial resources can pose. As in other studies, this survey showed that personal funds and money borrowed from friends and family is the primary source of capital for firms in periphery and high performing provinces alike. Bank financing played only a minor role in the total capital structure, despite the fact that the actual success rate of applications for loans was a quite impressive 60% in the periphery provinces. Applications were few because many periphery firms assumed that their collateral would be too low to obtain a loan, or that the loans would be too small and the interest rate too high to make borrowing worthwhile.

Chapter 7 analyzes the important role played by friends and families in periphery provinces. This role proved substantial in a number of areas, including bargaining with banks, developing good relations with government and promoting sales. The main divide between high performing and periphery provinces on this front seemed to be the special role that family played in supplying business services. Because of the impressive role played by relations, very few firms sought commercial assistance, except with regard to computers. When periphery firms did venture into the private market for business services, they tended to be highly concerned about cost. The difference between periphery and high performing firms, with regard to their willingness to pay for business services, may be the most salient schism in the entire study. It also provides the most potential for corrective efforts on the part of international donors.

Finally, chapter 8 summarizes the study's findings, with individual assessments for each of the periphery provinces. And chapter 9 provides some concluding remarks.

Summary report cards for the periphery provinces							
Province	Initial Conditions	Firm Performance	Market Environment	Local Governance	Access to Financing	Business service provision BSP	Corporate governance
Hai Phong	Very good infrastructure and good human capital resources	Low profits, mediocre capacity utilization, good sales and employment growth.	Most internationally oriented periphery province, high dependence on SOEs for sales and inputs, robust private sector competition, and high government support to main competitor.	Minor problems with Enterprise Law, low transparency, high rent-seeking and low response rate of firms to governance questions. Low-medium dynamism levels.	Medium access to private commercial banks and formal lenders, many firms complain a lack of access restrains their activity.	High reliance on family and friends for BSP and market information for sales. Firms are somewhat sensitive to price of service.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Mixed scores on non-institutional measures.
Ha Tay	Very good infrastructure and close proximity to market. Low human capital resources.	High profits, high capacity utilization, very low liabilities per firm, very good employment growth, and good sales growth.	Very high SOE dependence for sales and inputs, high competition from state sector and smuggled goods, high government support to main competitors.	Good Enterprise Law implementation, some land issues, good transparency, high number of non-responses, and low dynamism levels.	High success rate for loan applicants, but bank loans a very small portion of total financing, high reliance on friends and family, problematic collateral requirements.	High reliance on family and friends for BSP and market information for sales. Firms are highly sensitive to price and quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has medium scores. Good scores on non-institutional measures.
Nam Dinh	Decent infrastructure and low human capital resources	Low profits and return on investment, mediocre capacity utilization, good financial positioning, good employment and sales growth.	Very high SOE dependence for sales and inputs, high competition from state sector, and very high government assistance to main competitors.	Good Enterprise Law implementation, problems with land acquisition, low transparency, high inspections, and low dynamism levels.	Very low access to banks and formal lenders, yet good loan success rate, but few firms applying and biased toward large firms, many firms believe activities restrained by lack of financing.	Very high reliance on family and friends for BSP and high reliance for sales. Firms are somewhat sensitive to price, and very sensitive to quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has fair scores. Medium scores on non-institutional measures.
Thanh Hoa	Mediocre infrastructure and low human capital resources	Low profit per employee, but high return on investment, high capacity utilization, high firm liabilities, very good employment and sales growth from a low base.	High dependence on SOE sector and local government for sales, medium dependence on state sector for inputs, robust private sector competition, and very high government support to main competitors.	Very low response rate on governance questions, low transparency, high inspection rates, high rent seeking, and low dynamism levels.	Medium level of bank loans in capital structure, high success rate of loan access, low loan size considered problematic and thereby creating some constraints on activities.	Very high reliance on family and friends for BSP market information for sales, and legal advice. Firms are very sensitive to price and very sensitive to quality of providers.	Very low scores on institutional measures and very high scores on non-institutional measures. Thanh Hoa is a corporate governance puzzle.
TT Hue	Mediocre infrastructure and human capital resources	Mediocre profits and return on investment, mediocre capacity utilization, strong finances, good employment growth, and low sales growth.	Low SOE dependence for sales, but high dependence on local government, very robust private sector competition, and medium government support to competition.	Good Enterprise Law implementation, many firms without formal land rights, low transparency, high transaction costs, and medium dynamism levels.	Medium rate of bank loans in capital structure at start-up and at present, high loan success rate, collateral requirements considered a constraint on activities.	High reliance on friends and families for BSP and sales assistance. Firms are sensitive to experience, price and quality.	Institutional indicators of corporate governance related to type and size of firm, so province has lower scores. Low scores on non-institutional measures.
Long An	Mediocre infrastructure and low human capital resources, but close proximity to markets.	High profit per employee and mediocre return on investment, good capacity utilization, low liabilities, very low employment and sales growth.	Very low SOE dependence for sales or inputs, very robust private sector competition, very low government support to competition.	Good Enterprise Law implementation, high percentage of firms with formal land rights, very high transparency, low transaction costs, and very high dynamism levels.	Medium rate of banks loans in capital structure and as a percentage of loans, low loan success rate and many non-applicants, high bias in favor of large firms, small loan size problematic, but does not constrain activities.	Medium reliance on friends and family for sales assistance and low reliance for, BSP. High number of firms paying for BSP, and only moderately sensitive to price and quality.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Low scores on non-institutional measures.

Summary report cards for the high performing provinces							
Province	Initial Conditions	Firm Performance	Market Environment	Local Governance	Access to Financing	Business service provision (BSP)	Corporate governance
Binh Duong	Small state sector presence in economy. Had very good infrastructure and good human capital at the time of measurement, but early on in the decade these score would have been much worse.	Medium profits, high return on investment, high capacity utilization, relatively high liabilities, good sales and employment growth.	High international sales, low dependence on SOEs, some credit to customers, medium competition with private sector but high competition with foreign investors, medium government support to main competitors primarily in contracting and finance, low SOE support.	Good Enterprise Law implementation, excellent distribution of land use rights certificates, good transparency level, low transaction costs on waiting periods with pretty high inspections, very high dynamism	Good access to private commercial banks and formal lenders, high loan success rate, many firms complaining about high collateral requirements.	High reliance on family and friends for sales assistance and service provision. Firms are not very sensitive to price of service.	Institutional indicators of corporate governance related to type and size of firm, so province has medium scores. Very few firms have control boards or shareholder meetings. Mixed scores on non-institutional measures.
Dong Nai	Very good infrastructure, proximity to markets, and human capital resources.	Medium profits, highest return on investment in sample, low capacity utilization, low firm liabilities, profit, decrease in employment, satisfactory sales growth.	Medium international sales, low dependence on SOEs, some credit to customers, robust private sector competition, very low support to main competitors and low assistance to SOEs.	Good Enterprise Law implementation, problems with land and foreign exchange acquisition, good distribution of land use rights, extremely transparent, high inspections but low waiting periods, very high dynamism.	Low access to private commercial banks and formal lenders, high reliance on family for capital, many firms complain of high collateral requirements and red tape.	High reliance on family and friends for everything, but especially BSP, sales and market information, firms willing to pay for BSP and primarily worried about reliability.	Institutional indicators of corporate governance related to type and size of firm, so province has low scores. Low scores also on non-institutional measures.
Da Nang	Large state presence in the economy, very good infrastructure, poor proximity to Ha Noi or HCMC, but has its own international port. Among best human capital resources in the sample.	Low profits, mediocre return on investment, strong financial position, low capacity utilization, high employment growth, highest sales growth in sample.	Medium international sales, medium dependence on SOEs, high competition within private sector and with SOEs, medium government assistance to main competitors, but not SOEs.	Good Enterprise Law implementation, big problems with land acquisition and poor distribution of land use rights, good transparency, low inspections and low waiting periods, medium dynamism	Good access to private commercial banks and formal lenders, high loan success rate, many firms complain of high collateral requirements and red tape.	Medium reliance on family and friends for BSP and sales. Firms are somewhat sensitive to price and very sensitive to quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has very good scores. Medium scores on non-institutional measures.
Ha Noi	Very good infrastructure, proximity to market, and best human capital resources in the survey.	Medium profits, high returns on investment, strong financial position, high capacity utilization, good employment and sales growth relatively high.	Medium international sales, high dependence on SOEs, high percentage of firms giving credit to customers, robust private sector competition, high government support to main competitors including SOEs.	Problematic implementation of Enterprise Law, problems with land acquisition and only medium distribution of rights, very low transparency, high inspection hours, mixed waiting periods, low dynamism.	Good access to private commercial banks and formal lenders, high success rate at receiving loans, very high use of friends and family, many firms complain of high collateral requirements and bias in favor of SOEs, and red tape.	Very high reliance on family and friends for market information, sales, and accounting advice. Many firms paying for services, but highly interested in reliability.	Institutional indicators of corporate governance related to type and size of firm, so province has mixed scores. There are very few control boards. Good scores on non-institutional measures.
HCM City	Very good infrastructure, proximity to market, but only decent human capital resources relative to high performing peers.	Very high profit per employee, mediocre return on investment, medium capacity utilization, strong financial position, very good employment growth and sales growth.	High international sales, medium dependence on SOEs, some credit to customers, robust competition with private sector and foreign sector, low government support to competition, but some support to SOEs.	Average Enterprise Law implementation, due to problems with land and foreign exchange, high percentage of firms with formal land rights, very good transparency, high inspection hours, mixed waiting periods, medium-high dynamism.	Best access to private commercial banks and formal lenders, low loan success rate, many firms complain of high collateral requirements.	Medium reliance on friends and family for sales assistance, and low reliance on BSP. High number of firms paying for BSP, especially information provision. They are generally not very price sensitive.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Medium-low scores on non-institutional measures.

I. Introduction

In Vietnam, private firms in provinces with good initial conditions -- such as strong infrastructure, close proximity to markets, and access to skilled workers -- have multiplied in number and performed well, while firms in Vietnam's periphery provinces have made some progress as a result of the Enterprise Law, but continue to lag behind those firms located in better endowed provinces.

To date, most research on private sector development in Vietnam has focused on the five high performing provinces of Binh Duong, Da Nang, Dong Nai, Ha Noi, and Ho Chi Minh City (hereafter referred to as the 'high performers').¹ These five cities and provinces are responsible for a substantial proportion of economic activity in Vietnam. Other than these five, only the oil rich province of Ba Ria-Vung Tau, with its foreign investment in the oil industry, has been as successful. Though there are crucial differences between the successful provinces, as a group, their growth has been very impressive.

Table 1: Contribution of the five 'high performers' to total economic performance in Vietnam			
Active private enterprises in 2000	Private sector labor in 2001	Post-Enterprise Law registrations in 2003	Private capital registered in 2003
52%	59%	64%	63%
GDP in 2000 (w/o Vung Tau)	Foreign Direct Investment in 2000 (w/o Vung Tau)	Total Revenue in 2000 (w/o Vung Tau)	Industrial output in 2000 (w/o Vung Tau)
39%	72%	66%	56%

Sources: *General Statistical Office and Statistical Handbook (Nien Giam Thong Ke), 2001; Data on active enterprises supplied directly by the General Statistical Office 2001; Data on registrations supplied directly by the Center for Enterprise Information of the Ministry of Planning and Investment, January 2004.*

As yet, no known concerted effort has been made to review the special problems and issues faced by the periphery provinces.² Time has proven, however, that there is a need to embark on a research study that attempts an explicit comparison between the high performing provinces and the provinces farther down the spectrum of economic development.

There are three important reasons for such an endeavor. First from a methodological perspective, the early efforts were limiting in that they only identified the necessary -- but not sufficient -- conditions for private sector success. Finding similarities in economic conditions among the high performers did not necessarily mean that those were the cause of success. The same conditions could have been present in other provinces without the same success. For example, if being near to HCM City's markets and port accounted for Binh Duong's and Dong Nai's rapid growth, why did Long An and Tay Ninh not experience similar economic booms in the mid-1990s?

Second, it was somewhat short-sighted to believe that best practices could be spread without understanding the differences between provinces. As entrepreneurs have learned, there are strong differences in provinces' initial conditions, absorptive capacity, infrastructure, business practices, governance, and networks of business relationships. Private sector development programs must be

¹ For simplicity, this report will refer to these five provinces collectively as the 'high performing provinces' or 'high performers'.

² Previous studies include: Hemlin et al (1998); Webster and Taussig (1999); Steer and Taussig (2002); and JBIC (2002). These studies covered, respectively: i) Ha Noi, Hai Phong, Ha Tay, HCM City, and Long An; ii) Da Nang, Dong Nai, Binh Duong, Ha Noi, Hai Phong, HCM City, Thai Binh; iii) Da Nang, Dong Nai, Binh Duong, Ha Noi, Hai Phong, HCM City, Long An; and iv) Da Nang, Dong Nai, Binh Duong, Can Tho, Ha Noi, Hai Phong, HCM City.

tailored to the specific needs of the local entrepreneur. To do that, donors must know what those specific needs are.

Third, a few of the periphery provinces have begun to develop quite rapidly, especially in the wake of the Enterprise Law of 2000. A systematic study, which compares successful and unsuccessful provinces, would help to understand these developments. Looking closer at the indicators of economic success shows some interesting patterns. Forty-eight percent of the active private enterprises and 36% of the post Enterprise Law registrations have taken place in the periphery. While registrations of companies after the 2000 Enterprise Law, as a percentage of total firms actively operating in 2000, was 170.4% among the five high performers, 30 secondary provinces bettered that rate, including TT Hue, Hai Phong, Ha Tay, and Nam Dinh (included in this study). Some periphery provinces like Tuyen Quang (527.3%), Ha Nam (376.8%), and Hung Yen (266.7%) have shown phenomenal growth in business registrations.

While part of this impressive growth is caused by the low base at which many of these provinces began, it also probably results from three combined factors:

1. Declining profits and higher priced land and inputs in the high performing areas have forced both foreign and domestic entrepreneurs to look elsewhere to site their investments, thereby spurring opportunities for the private sector.
2. Successful domestic entrepreneurs in the five high performing provinces have reached the size and accumulated the necessary capital to seek growth opportunities in other provinces. The decision of HCM City's Kinh Do Bakery to open a large factory in Hung Yen province is an excellent example of this trend.
3. The 2000 Enterprise Law has clearly created opportunities for and spurred the interest of entrepreneurs in provinces previously thought to lack an entrepreneurial climate.

For these reasons, MPDF, AusAID, the World Bank, and IFC funded a joint study of eleven provinces, including the high performers and six other provinces (hereafter referred to as the 'periphery provinces') that are considered medium and low performers, in terms of the size of the private sector relative to their population. Data from this survey have contributed to a number of reports dealing with various aspects of business development and governance.³ This particular report focuses on the special conditions and situations of Vietnam's second and third tier provinces. The goal of this report is to offer a description of the environment for private sector development in these provinces for future analysis.

This report is divided into nine chapters:

- Chapter 1 provides the background material for understanding the survey results, by explaining what is meant by periphery provinces and detailing the methodology used in the survey.
- Chapter 2 is intended to better acquaint the reader with the different economic conditions, and the unique structure of the domestic private sector, in each of the periphery provinces.
- Chapter 3 compares the business performance of periphery firms to the high performers, by measuring their profitability, sales growth, employment, capital utilization and investment

³ APSEM and CIEM (2002), *Vietnam Business Environment Survey* (unpublished).

performance.

- Chapter 4 analyzes the market environment of periphery firms by looking at the destination of their sales, the origin of their inputs, and the composition and strengths of their competition. Most importantly, this chapter asks the question: Is the competition taking place on a level playing field, or are some firms benefiting from the special support of provincial governments?
- Chapter 5 contrasts the regulatory environment and governance of the periphery provinces with the high performing provinces. Six indicators are used: implementation, transparency, transaction costs, additional payments, dispute settlement mechanisms, and provincial dynamism.
- Chapter 6 examines how firms finance their activities, and the constraints to financing.
- Chapter 7 analyzes the important role played by friends and families in periphery provinces. After finding that one of their key roles is providing business services not offered by the market, the report traces the extent of business services in the periphery, and the possibilities for donors to impact development on this front.
- Chapter 8 offers a summary analysis of the above results.
- Finally, Chapter 9 offers some broad conclusions, and suggests future steps for the Vietnamese government and donors. This is done in two ways. First, the report sums up the broad distinctions between high performing and periphery provinces. Secondly, it offers tailored analysis for the six periphery provinces in the sample.

Chapter 1: Background to the research project

1.1 A word on the periphery provinces

The notion of periphery provinces has become popular in Vietnamese development circles to describe provinces that have followed the five more economically developed regions towards private sector development. This concept, however, includes 54 other provinces and the city of Hai Phong. For the purposes of this report, it is important to be somewhat clearer about the term. Figures 1 and 2 will be helpful towards that end. Using data from the General Statistical Office 2000, these figures demonstrate the extent of private sector development in the provinces.⁴ Provinces often discussed in the literature on Vietnamese economic development are highlighted. In figure 1, the vertical axis shows the number of enterprises per 1,000 people, and figure 2 illustrates the contribution of private sector workers to the entire provincial labor force.

Figure 1: Active formal private sector enterprises, per 1000 people, in 2000

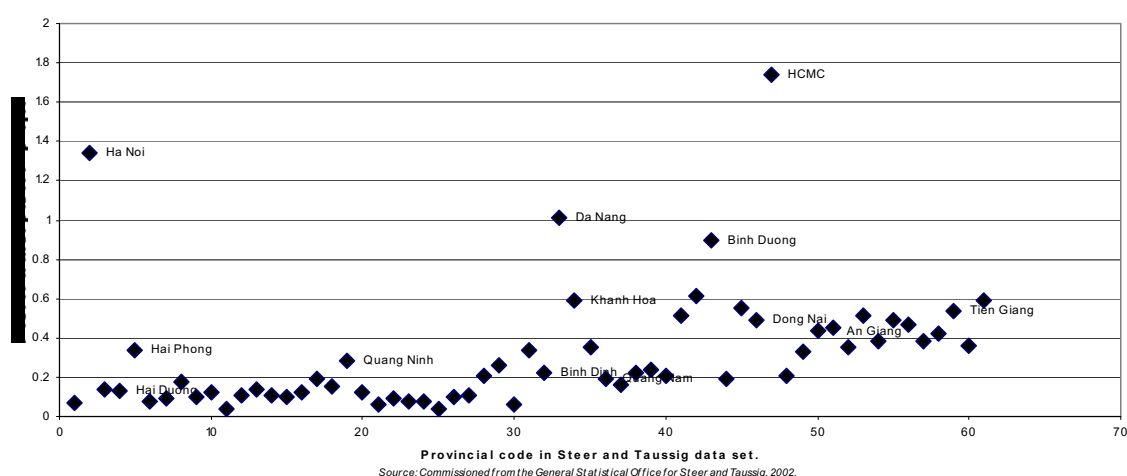
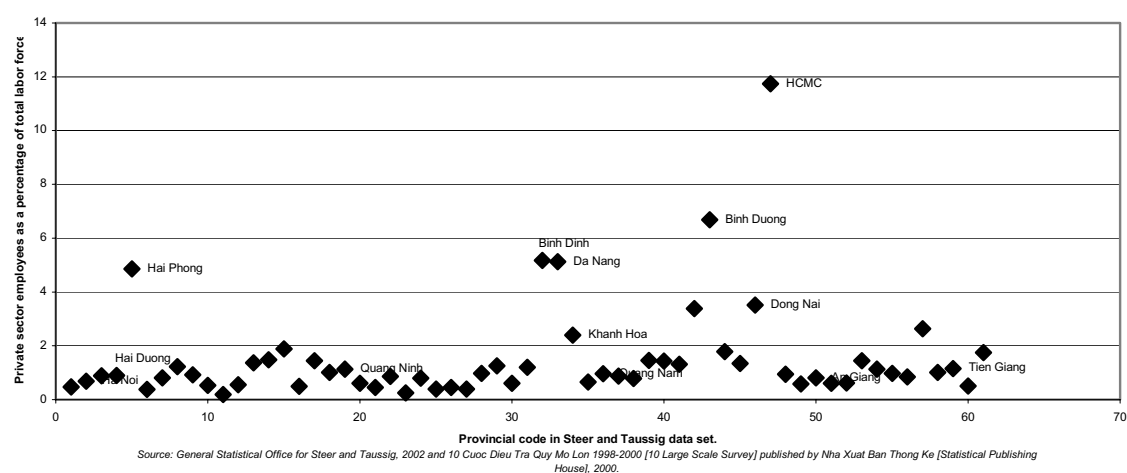


Figure 2: Formal private sector's contribution to total labor force



⁴ See Appendix 7 for a complete list of private enterprises active in each province between 1995 and 2000.

That the five high performers have distanced themselves from the pack is immediately obvious in both figures. The only exception is Ha Noi, where the large number of government employees dwarfs the number of workers dedicated to the private sector, despite the substantial number of enterprises. A second level of provinces, with approximately 0.5 firms for every 1,000 people can be seen, and a third level with less than 0.2 enterprises per 1,000 people is also apparent.

The goal in selecting firms for this study was to choose a representative sample of provinces from each level, in order to test developmental hypotheses. Researchers tried to choose provinces based on variation in infrastructure, proximity to markets, and geographic location, so as to test how important these factors were for economic development. Another contributing factor was an attempt to select provinces that had been included in earlier studies, or had been the focus of individual studies of development organizations, so that some progress over time could be considered in the analysis. After weighing these conditions, Long An, Hai Phong and Thua Tien Hue (TT Hue) were selected from the second level, and Nam Dinh, Ha Tay, and Thanh Hoa from the third level. These periphery provinces are highlighted by white lightening bolt symbols in the map of Vietnam below. The five high performing provinces are marked by blue lightening bolt symbols.

Red River Delta

**Ha Noi, Hai Phong
Vinh Phuc, Ha Tay
Bac Ninh, Hai Duong
Hung Yen, Ha Nam
Nam Dinh, Thai Binh
Ninh Binh,**

North East

**Ha Giang, Cao Bang
Lao Cai, Bac Can
Lang Son, Tuyen Quang Yen Bai
Thai Nguyen, Phu Tho, Bac Giang
Quang Ninh**

North West

**Lai Chau, Son La
Hoa Binh**

North Central Coast

**Thanh Hoa, Nghe An
Ha Tinh, Quang Binh
Quang Tri
Thua Thien-Hue**

South Central Coast

**Da Nang, Quang Nam
Quang Ngai, Binh Dinh, Phu Yen
Khanh Hoa**

Central Highlands

**Kon Tum, Gia Lai
Dak Lak, Lam Dong**

North East South

**Ho Chi Minh, Ninh Thuan, Binh Phuoc
Tay Ninh, Binh Duong, Dong Nai
Binh Thuan, Ba Ria- Vung Tau**

Mekong River Delta

Long An, Dong Thap

An Giang, Tien Giang

Vinh Long, Ben Tre

Kien Giang, Can Tho Tra Vinh, Soc Trang

Bac Lieu, Ca Mau



1.2 Methodology ⁵

For this study, four tools were used: 1) a mail-out survey to a stratified-sample of private firms; 2) follow-up interviews with directors or chief executive officers (CEO) of a subset of the mail-out firms; 3) structured interviews with representatives of eight government institutions in the province; and 4) macro-economic data on all 61 provinces supplied by the General Statistical Office (GSO) and the Ministry of Planning and Investment (MPI). The survey tools were designed by the Asia Pacific School of Economics and Management (APSEM) and administered by the Central Institute of Economic Management (CIEM). Interviews with government officials were divided between APSEM and consultants hired by MPDF. The fieldwork for the survey was conducted in early 2002.

1.2.1 Some methodological limitations

For the most part, the methodology chosen was successful, but a few limitations emerged that should be taken into consideration. A total of 629 questionnaires were returned for a response rate of 16 %. This is a rather low rate, as compared to 26.2 % on a similar survey conducted in China, but roughly equivalent to the rate achieved in the 2002 Japanese Bank of International Cooperation (JBIC) study of the business environment for Vietnam's private enterprises. It seems likely that the firms declining to participate included those that were more distrustful of the provincial government, and more fearful about the repercussions that their answers might have. On the positive side, CEO interviews were not simply conducted with the firms that returned questionnaires. A new random sample, undertaken for the interviews with CEOs, ensured that firms declining to participate, were captured in the second round.

Secondly, CIEM is one of the premier economic research institutes in Vietnam, but it is a governmental agency and officially a branch of the MPI. If firms were aware of this relationship, one might expect that they would be more cautious in their answers. In addition, in two provinces, Department of Planning and Investment (DPI) officials accompanied interviewers into the meetings with CEOs. Their motives were a sincere attempt to learn more about the firms in their jurisdiction, but this may have inadvertently introduced a bias. In cases where DPI staff were known to have joined the interviews, the relevant questionnaires were discarded.

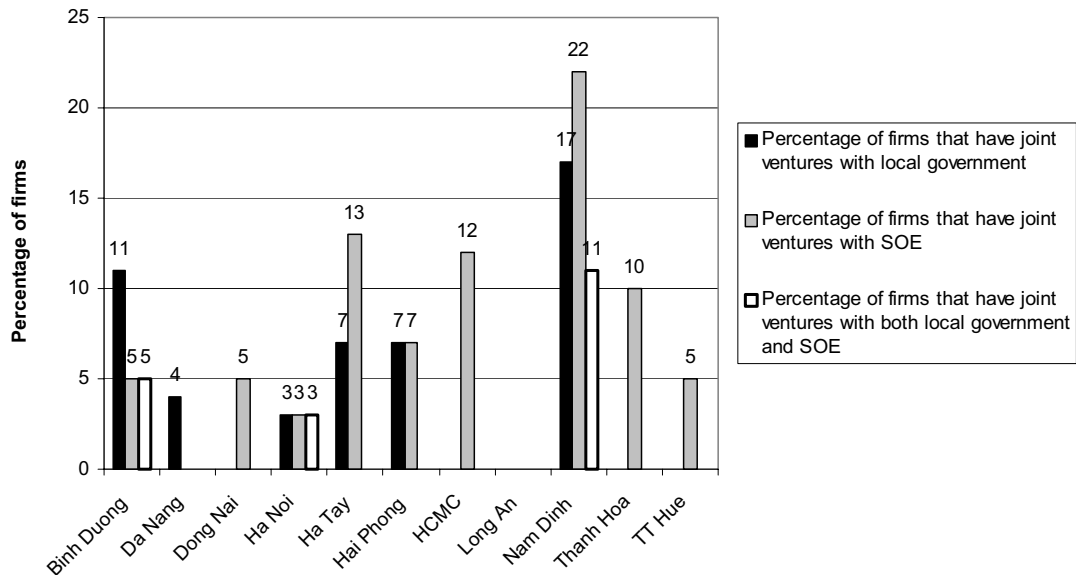
A third limitation, which is common in surveys trying to capture cross-sectional differences, is an 'anchoring' problem. Put simply, firms that have operations only in one province do not know much about the administrative quality of the neighbors. Therefore, on questions where officials were asked to rank their province along a scale, they may have ranked their province lower or higher than would an objective observer with knowledge of all provinces.

The CEO interviews, while also being limited by the anchoring problem, are much more useful because interviewers were directly in front of respondents, and therefore were able to supply context to the questions. This better enables firm managers to compare their provinces with others. Moreover, the CEO interviewers also asked several open-ended questions and objective questions, where firms had to put hard numbers to their responses. For instance, in addition to being asked how much of an obstacle bureaucracy was for their business, firms were asked how many days their senior management was required to spend dealing with provincial government paperwork. Objective numbers make comparisons between provinces much easier. As a result, this report will use the CEO interviews exclusively when analyzing firms' perceptions of governance and their legal framework.

⁵ For a more complete discussion of the methodology of the survey, please see Appendix 1 of this report, and Chapter 1 of APSEM and CIEM (2002), *Vietnam Business Environment Survey*.

The anchoring bias is particularly likely in instances where an enterprise has a close relationship with an SOE. As figure 3 demonstrates, we can see that provinces in which enterprises have a tendency to overvalue their governments have very strong business relationships with government.⁶ Altogether, 28% of Nam Dinh firms and 20% of Hay Tay firms have joint ventures with either the local government itself or SOEs located in the province.

Figure 3: Percentage of firms that have joint ventures with local government or state owned enterprises (SOEs)



⁶ Firms surveyed in Long An province either did not have joint ventures, or did not respond at all to this question.

Chapter 2: The initial conditions and sample populations of the "periphery provinces"

2.1 Initial conditions

2.1.1 Economic structure

The first step in understanding the present state of private sector development in the periphery provinces requires a look at the initial obstacles these firms had to overcome in the early years of economic reform in Vietnam. Two key obstacles to overcome were competition with the state sector, and the shift from agriculture-based economic activities to manufacturing and service sector businesses. Large state sectors are often cited as an obstacle to private sector development because they constitute unfair competition.⁷ Similarly, indirect help to the state sector, in the form of cheaper financing and land, may have discouraged private firms, because they lacked these advantages.

Looking at the contribution of agriculture to GDP helps us understand the structural difficulties in the economic transition of the provinces. A related factor in initial conditions for economic

growth, is the provincial level of urbanization and the initial size of agriculture in the province. These two factors are very closely related. Provinces burdened with large agricultural economies prior to 1986 have had a hard time developing quickly, for three reasons. First, complicated and expensive national compensation procedures for building on farm land tends to limit the amount of land that can be made available for investors. Of course, some innovative provinces

Interview Insights Box 1: Are transitions from agriculture and food security compatible goals?

In four out of the six periphery provinces (Ha Tay, Nam Dinh, Long An and Thanh Hoa), People's Committee representatives cited the shift away from dependence on agriculture, to industry and manufacturing, as one of their top two achievements over the past three years. The second most common achievement was food security – the ability to produce enough rice to feed all of the provincial population in a disaster. Taking these two goals together implies that agricultural production has improved dramatically over the past ten years, so that provinces can produce more food with less of their population devoted to the activity.

Though understandable, due to the history of famine in many provinces, it should be noted that a focus on food security in every province runs counter to the economic principle of comparative advantage. Provinces that are less well suited for agricultural production should allow firms within their boundaries to produce goods for which they are best endowed and import their foodstuffs from other provinces better suited for agriculture. An overt focus on agricultural production in every province can be inefficient.

have found ways around these difficulties through industrial concentrations (*khu vuc tap trung cong nghiep*). These are like industrial zones, but do not require the Prime Minister's approval. Second, training for displaced farmers is expensive, and has had limited success. Third, provinces with low urbanization in provincial towns and large agricultural sectors miss opportunities to achieve the benefits that occur when companies cluster in a single area. Thus, provinces with large agricultural sectors have more scattered economic development, and it is difficult for a small business in one part of a province to make use of the goods and services offered by businesses in another part of the province.

⁷ The term 'crowding out' used here refers to direct and indirect subsidies provided to the state sector, which raise entry barriers to free and fair competition by the private sector.

Table 2 depicts the way our sample provinces looked in 1997.⁸ As is quite clear from the table, both the agriculture and the state sectors were larger in the periphery provinces than in the high performing provinces. Small agricultural sectors are, in part, the result of the urbanization of HCM City, Ha Noi, and Da Nang. However, this is not always the case. Dong Nai, for example, had a larger agricultural sector than Thanh Hoa in 1997, and both Ha Noi and HCM City have larger state sectors than Ha Tay and Long An. In Dong Nai, Binh Duong and TT Hue, foreign direct investment (FDI) has been the driving force in industrial output.

Province	Agriculture/GDP (%)	State share of industry (%)	FDI share of industry (%)	Non-state share of industry (%)
Ha Noi	6.9	66	29	5
Ha Tay	60.5	45	43	12
Hai Phong	23.3	66	29	6
Nam Dinh	58.2	78	0	22
Thanh Hoa	42.7	98	1	1
TT Hue	32.3	22	75	3
Da Nang	8.9	45	43	13
Binh Duong	27.9	19	55	26
Dong Nai	49.6	16	82	2
HCMC	3.8	66	25	9
Long An	64.1	33	53	15
High Performers Average	19.4	42	47	11
Total Sample Average	34.4	50	40	10

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nha Xuat Ban Thong Ke, 2001.

2.1.2 Infrastructure and proximity to markets

Officials in periphery provinces often state that private sector development is most constrained by deficiencies in infrastructure. These raise transaction costs because it takes more time to manufacture, communicate with customers, and get products to market. Analysts should not put too much weight on this, though, because the quality of infrastructure is partially determined by the decisions and priorities of local government.

The constraint rated second in importance for early economic development is proximity to large markets. Provinces near Ho Chi Minh City and Ha Noi have benefited greatly from being located close to these large cities. Not only do they benefit from a large domestic market, but they are also closer to international markets, because these cities are near international airports and seaports, and have a larger percentage of more affluent expatriate

Interview Insights Box 2: Song Be's decision to improve initial conditions

Song Be province, which was subsequently divided into Binh Duong and Binh Phuoc, recognized its initial deficiencies in infrastructure and set about improving them in the 1990s. To do this, provincial authorities relied heavily on locally generated funds and strong lobbying of the Central Government for their priority projects (e.g., the electricity, water, and road system leading to their industrial zones). In 1994, a similar effort was made to improve the quality of labor in Song Be through a technical training center jointly funded by the province and aid from the Singaporean government.

⁸ Agricultural data is taken from the General Statistical Office's *Nien Giam Thong Ke* [Statistical Annex] 2000. Industrial data is the "contribution to the state budget of industry in 1997 by ownership and province," taken from p. 816 of *10 Cuoc Dieu Tra Quy Mo Lon* [10 Large Scale Surveys] 1998-2000, published by *Nha Xuat Ban Thong Ke* [Statistical Publishing House], 2001.

consumers. HCM City has its own port, while export products from Ha Noi usually travel along Highway 5 to the port at Hai Phong.

Table 3 illustrates the differences in infrastructure and proximity to markets of the sample provinces in 1997. As is to be expected, the high performers have better infrastructure and are closer on average to market centers. Though some provinces (notably Thanh Hoa and Long An), have poorer quality

Interview Insights Box 3: Thanh Hoa's improved access to Ha Noi

According to provincial officials, the improvement of Highway 1 in the late 1990s has cut the travel time to Ha Noi in half — from seven hours to roughly three and a half hours. This means a critical reduction in shipping costs for firms attempting to access the Ha Noi market.

electricity and road infrastructure, all provinces have a fairly high percentage of communes with serviceable infrastructure. The number of telephones per 1,000 people varies considerably among provinces, but its importance is in part determined by the target customers for a firm's products, and the sector within which it functions. For instance, exporters and high technology producers are more likely to need telecommunications infrastructure than suppliers to the provincial market. Proximity to market centers is very important, especially for TT Hue and Thanh Hoa. Da Nang is far from the two centers, but its large urban population and international-quality port perhaps make up for some of the difference. Long An and Ha Tay, however, are adjacent to HCM City and Ha Noi respectively, and still lag behind Binh Duong and Dong Nai, which are similar distances away from HCM City. To be fair, however, the two northern success stories of Hung Yen and Vinh Phuc have made quite an effort to market themselves to entrepreneurs as being "close to Ha Noi and Noi Bai airport," in order to attract investment.

Table 3: Infrastructure and proximity to markets in 1997

Province	Percent of communes with electricity	Percent of communes with roads to center	Telephones per 1,000 people	Distance from Ha Noi or HCM City (km)
Ha Noi	100.00	99.20	109.76	0
Ha Tay	99.00	100.00	1.04	11
Hai Phong	96.20	98.10	26.18	101
Nam Dinh	100.00	100.00	8.26	90
Thanh Hoa	87.40	97.20	5.01	153
TT Hue	81.50	95.20	18.75	654
Da Nang	85.70	100.00	47.76	759
Binh Duong	100.00	100.00	26.73	30
Dong Nai	100.00	100.00	22.33	22
HCMC	100.00	98.40	73.96	0
Long An	86.40	86.40	13.53	47
High Performers Average	97.14	99.52	56.11	
Total Sample Average	94.20	97.68	32.12	

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nien Giam Thong Ke 1997.

The low education levels of the workforce in 1997 are the result of the lack of secondary schools in the provinces. As column five in table 4 shows, TT Hue, Binh Duong, and Long An all lacked secondary education possibilities in about half of their communes

Interview Insights Box 4: Brain Drain from Nam Dinh to Ha Noi.

Nam Dinh has a unique human capital dilemma. According to provincial officials, ninety percent of Nam Dinh's top students, who receive admission to universities in Ha Noi, do not return to work or start businesses in the province. Rather, they pursue employment opportunities in the national capital. Officials are not certain of how to tackle this intra-provincial 'brain drain'.

in 1998. A final comparison is that of the education level of the owner. The five high performing provinces have a much greater number of owners with college education than any of the other provinces. TT Hue, with 1.39% of its owners possessing college degrees, comes closest to the top performer's average of 3.81%. But 3.81% is still a very small number, and certainly cannot account for the differences in provincial success at developing the local private sector.⁹

Province	Percentage of owners of private companies with college degrees	Percentage of private labor with college degrees	Percentage of private labor with secondary education	Percentage of private labor with technical school training	Percentage of communes with secondary schools
Ha Noi	3.49	1.08	1.76	5.04	99.5
Ha Tay	0.44	0.07	0.07	0.20	100.0
Hai Phong	1.37	0.76	1.96	3.40	97.5
Nam Dinh	0.28	0.04	0.25	0.21	100.0
Thanh Hoa	0.38	0.15	1.13	1.89	96.9
TT Hue	1.39	0.75	0.19	0.75	47.5
Da Nang	4.63	0.89	1.97	4.15	100.0
Binh Duong	3.21	0.80	1.10	0.60	57.6
Dong Nai	4.66	2.42	2.42	3.88	82.0
HCMC	3.05	0.69	1.67	1.84	79.0
Long An	0.21	0.08	0.08	0.47	59.3
High Performers Average	3.81	1.18	1.78	3.10	83.62
Total Sample Average	2.10	0.70	1.15	2.04	83.57

Source: 10 Cuoc Dieu Tra Quy Mo Lon 1998-2000 and Nha Xuat Ban Thong Ke, 2001.

2.2 General description of sample firms in the 2002 survey

2.2.1 Firm Type

The Enterprise Law clearly delineates different legal responsibilities for four different types of private enterprises. The Vietnamese abbreviations for these types must be clearly visible on the firm's own seal.

- Private enterprise or sole proprietorship (*tu nhan* -- TN): A private enterprise is owned by one individual who is liable for all the activities of the enterprise with all his/her assets. The investment capital of a private enterprise must be declared accurately at the time of the firm's registration at DPI. The owner of the enterprise has the full power to decide all business activities of the firm, and may lease, sell, or close the business, as long as the provincial DPI is notified. Private enterprises tend to be fairly small scale, with some notable exceptions where individual owners have worked hard to expand their business.
- Partnership (*hop danh* – HD): Partnerships are firms that must be formed by at least two partnership members (owners), who are liable for all the obligations of the company with all of their personal assets. A partnership may also have capital-contributing members, who are liable for only their contributions, and may receive dividends from company profits.

⁹ In the Webster and Taussig study (1999), they found that 54% of owners were college educated. For just those firms surveyed in the south, the number was lower, at 45%.

Partnerships are allowed flexibility in the determination of their management structure, provided it is detailed in the company charter. There is only one obligation on the firms—all partnership members must have equal rights in company decisions. These firms tend to be larger than private companies in terms of employment and assets, though for strategic reasons, small service firms have often opted for this form.

- Limited liability company (*trach nhien huu han* – TNHH): This type of enterprise may have up to fifty owners or members, who are either individuals or organizations. They are liable for the debts and property obligations of the enterprise within the amounts they contributed. The capital contribution of each member must be stated, and their signatures supplied at the time of the registration of the firm at the DPI. By law, these firms are required to hold regular meetings of their Members' Council, and appoint a General Director. In addition, all limited liability companies (LLCs) with more than eleven members must form Control Boards, whose power and obligations are stipulated in the charter of the company. Article 46 of the Enterprise Law provides for one-member limited liability companies, wherein the owner is liable for all debts within the chartered capital of the company. This protects large investors from full responsibility in the case of bankruptcy. LLCs tend to be relatively large, employing more workers and possessing more assets than private companies or partnerships at the time of registration.
- Joint-stock company or shareholding company (*co phan* – CP): Joint-stock companies are enterprises where the charter capital is divided into equal portions called shares. Shareholders are liable for debt within the amount of capital contributed to the enterprise. Joint-stock companies differ from limited liability companies, in that they are allowed to freely assign their shares to other persons with some exceptions, which are detailed in Articles 55 and 58. Two types of shareholders are allowed. Ordinary shareholders can vote at the General Assembly of Shareholders under the principle of one share, one vote and receive dividends from the company. Should a shareholder hold more than 10% of the firm for six consecutive months, the shareholder is allowed to nominate candidates to the Board of Directors and Control Board (if there is one).

Preferential shareholders are allowed more votes than an ordinary shareholder. The precise amount of votes is flexible, and must be stated in the company charter. Unless authorized by the Vietnamese national government, preferential shareholders should include only founding members up to three years after registration at DPI. All joint-stock companies must have a General Assembly of Shareholders, a Board of Directors and a General Director.¹⁰ Any joint-stock company with more than eleven members must form a Control Board that cannot include members of the Board or the General Director. All joint-stock companies must be audited by independent experts, prior to submitting financial reports to shareholders. After each fiscal year, these same financial reports must be submitted to the tax authority and DPI.

Like LLCs, joint-stock companies tend to be relatively large and sophisticated firms. In fact, only firms registered as joint-stock companies can trade shares publicly on the stock exchange. Former state owned firms which have been equitized generally take this form. In 2002, the National Assembly passed a new law allowing foreign-owned firms to register as joint-stock companies, albeit under very specific conditions.

¹⁰ The terms “CEO” and “General Director” have been used inter-changeably in this report to simply denote the highest decision making authority in all types of firms. Consequently, the CEO interview sometimes comprised owners, partnership members, or General Directors.

Tables 5 and 6 illustrate the spread of firms covered in both the samples of mail out and CEO interviews, by both legal type and province. As is clear from the two tables, very few joint-stock companies or partnerships from any province responded to the survey. Actually, registration of partnerships is a rare phenomenon across the country. The two largest groups of respondents were private firms and limited liability companies. Of the high performers, 71% of the firms were LLCs, which was replicated fairly well in the sample of for CEO interviews (63%). In the high performers, 22% of the mail-out respondents and 24% of the CEO interviews were from private sole proprietorships.

Interview Insights Box 5: Findings regarding firm type across the sample

Interviews in the provinces revealed some interesting findings about provincial application of the Enterprise Law, with specific regard to firm type.

- For one firm in Thanh Hoa, registration (investment capital of 700 million VND) was a highly complicated process, as it was the first single-owner, limited liability to ever register in Thanh Hoa province. Officials in the People's Committee had never heard of this type of organization and decided to move very slowly. Eventually, the director had to bring in law books from Ha Noi to show them that it was legal. According to him, the process was tedious and exhausting. Nevertheless, when the company re-registered at DPI (investment capital of 760 million VND), he found that the process had improved tremendously over time.
- A Nam Dinh firm operated as an LLC from 1996 to 1999 and re-registered in 2001 as a joint-stock company. The General Director argued that this switch was vital, as the firm had negative interactions with government officials and other businesses, which associated LLCs with a string of corruption cases and cheating that took place in the mid-1990s.
- A Long An LLC, which had re-registered twice already in order to increase the size of its investment capital, was preparing to go through the process one more time. Its intention was to convert into a joint-stock company and list its shares publicly. When

Among the six periphery provinces, there was a great deal of variance, both between provinces and across the two surveys. For instance, 70% of the TT Hue respondents were private, but only 7% of Hai Phong firms were sole-proprietorships. In fact, Hai Phong (83%) and Ha Tay (75%) had a higher percentage of limited liability companies respond than the first tier provinces. As noted earlier, Thanh Hoa had a very low number of all firm sub-types respond.

Table 5: Legal form of the sample enterprises in the mail-out survey

Province		Private	Partnership	Joint-Stock	Limited Liability	Other	Total
TT Hue	Number	38	-	3	13	-	54
	% of Total	70%	-	6%	24%	-	100%
Hai Phong	Number	2	-	3	24	-	29
	% of Total	7%	-	10%	83%	-	100%
Ha Tay	Number	11	-	2	44	2	59
	% of Total	19%	-	3%	75%	3%	100%
Thanh Hoa	Number	3	1	3	9	-	16
	% of Total	19%	6%	19%	56%	-	100%
Long An	Number	22	-	3	19	1	45
	% of Total	49%	-	7%	42%	2%	100%
Nam Dinh	Number	12	-	5	31	-	48
	% of Total	25%	-	10%	65%	-	100%
High Performers	Number	83	-	21	270	4	378
	% of Total	22%	-	6%	71%	1%	100%
Total	Number	171	1	40	410	7	629
	% of Total	27%	0.20%	6%	65%	1%	100%

Table 6 profiles the CEO interviews, so that one can see clearly that the distribution of firms was much more even, with many more joint-stock companies, but still few partnerships responding. Long An, Hai Phong, TT Hue, Ha Tay and Nam Dinh all had more joint-stock companies interviewed than the high performers. Once again, the number of individual private firms interviewed in Hai Phong was much lower than many of its peers. Long An (8%) and Thanh Hoa (10%) also had few small private firms interviewed. While the Hue and Ha Tay firms accurately reflect the proportion of registered firms in those provinces, the samples of Long An and Thanh Hoa are highly skewed toward limited liability companies. It is important to keep these numbers in mind when analyzing the survey results that follow.

Table 6: Legal form of the sample enterprises in the CEO interviews							
Province		Private	Partnership	Joint-Stock	Limited Liability	Other	Total
Hai Phong	Number	1	1	3	8	1	14
	% of Total	7%	7%	21%	57%	7%	100%
Ha Tay	Number	4	0	2	9	0	15
	% of Total	27%	0%	13%	60%	0%	100%
Nam Dinh	Number	3	0	4	11	0	18
	% of Total	17%	0%	22%	61%	0%	100%
TT Hue	Number	7	0	3	9	0	19
	% of Total	37%	0%	16%	47%	0%	100%
Thanh Hoa	Number	1	0	1	8	0	10
	% of Total	10%	0%	10%	80%	0%	100%
Long An	Number	1	0	2	10	0	13
	% of Total	8%	0%	15%	77%	0%	100%
High Performers	Number	33	1	15	86	1	136
	% of Total	24%	1%	11%	63%	1%	100%
Total	Number	50	2	30	141	2	225
	% of Total	22.2%	0.9%	13.3%	61.8%	0.9%	100%

2.2.2 Firm size

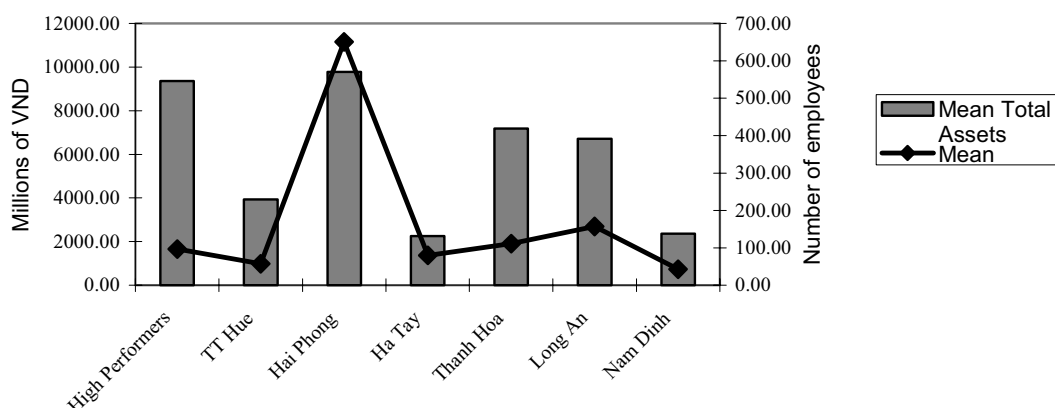
Two definitions of firm size are often used. One can either look at the total assets of the firm, or the number of employees. The mean assets of firms in Hai Phong (9.3 billion VND) are roughly comparable to those in the high performers (9.76 billion VND). The other second and third tier provinces have much smaller mean assets, with the smallest firms from Ha Tay (2.36 billion VND) and Nam Dinh (2.25 billion VND).

Employment differentials are much greater between the high performers and other provinces. Hai Phong is an exception, with a mean employment of 650. However, a few large firms in Hai Phong skew this figure. By contrast, the median employment in Hai Phong is 50 employees. Of the other periphery provinces, Long An and Thanh Hoa have higher mean employment (157 and 111 respectively) than the average of the High Performers (96). This is likely an artifact of the bias toward limited liability in these provinces.

To track down the question of firm size a little bit more clearly, one can group firms by their asset size. The groupings are admittedly somewhat arbitrary, and do not follow any standard determination of firm size, but a large group of these firms would be considered SMEs by Vietnam's present definition, and it is important to come to grips with the wide variance in firm

asset size.¹¹ This is done in table 7 below. Most of the firms are concentrated in the small to medium range (in Long An, Nam Dinh, Ha Tay) and the medium range (TT Hue and the high performers). Hai Phong is skewed toward larger size firms, with 44% of its sample larger than medium size, compared to 19% in the high performers. Thanh Hoa also demonstrates some skew, with only two firms smaller than medium size.

Figure 4: Mean size of firms by province, by asset size and employment



Province		1. Small (0-200 million VND)	2. Medium-small (200-1,000 million VND)	3. Medium (1-5 billion VND)	4. Medium-large (5-10 billion VND)	5. Large (10-20 billion VND)	6. Very Large (20-50 billion VND)	Mega (more than 50 billion VND)	Total
TT Hue	Number	1	11	29	3	5	1	0	50
	% of total	2	22	58	6	10	2	0	100
Hai Phong	Number	1	4	9	4	3	4	0	25
	% of total	4	16	36	16	12	16	0	100
Ha Tay	Number	1	29	18	7	1	0	0	56
	% of total	2	52	32	12	2	0	0	100
Thanh Hoa	Number	0	2	8	1	4	1	0	16
	% of total	0	12	50	6	25	6	0	100
Long An	Number	2	16	9	1	6	1	1	36
	% of total	6	44	25	3	17	3	3	100
Nam Dinh	Number	3	17	16	4	2	0	0	42
	% of total	7	40	38	10	5	0	0	100
High Performers	Number	21	81	123	33	27	20	12	317
	% of total	7	26	39	10	9	6	4	100
Total	Number	29	160	212	53	48	27	13	542
	% of total	5	30	39	10	9	5	2	100

Table 8 shows the mean total assets across different types of firms. Single owner private companies vary from 325 million VND (medium-small) in Ha Tay, to over 2 billion VND (medium size) in Binh Duong province. Limited liability companies range between just over 1 billion in VND (medium) to 10 billion VND (large) in Binh Duong province. Finally, joint-stock companies,

¹¹ The SME Decree (number 90), issued by the Government in 2002, defines SMEs as companies having a maximum registered capital of 5 billion VND and/or less than 300 employees.

which are interestingly absent in the Binh Duong and Dong Nai samples, range from medium size or 2.6 billion VND in Da Nang, to large size—13 billion and 17 billion VND—in Thanh Hoa and HCM City respectively. Employment variance seems to correlate with asset size.

Table 8: Median assets and employment, by type of firm and province							
Province	Type of Firm	Median total assets in 2001 (millions of VND)	Median total employment	Province	Type of Firm	Median total assets in 2001 (millions of VND)	Median total employment
Ha Noi	Private	940	14	Dong Nai	Private	731	9
	Joint-Stock Company	4250	70		Limited Liability	2226	23
	Limited Liability	1487	20		Total	1500	16
	Total	1489	20				
TT Hue	Private	2000	25	Long An	Private	500	10
	Joint-Stock Company	6003	37		Joint-Stock Company	2609	63
	Limited Liability	3200	62		Limited Liability	4758	70
	Total	2262	27		Other	NA	NA
HCM City	Private	1264	7	Nam Dinh	Private	311	9
	Joint-Stock Company	17064	72		Joint-Stock Company	9384	120
	Limited Liability	2725	28		Limited Liability	1266	35
	Other	15825	218		Total	1100	26
Hai Phong	Private	7894	24	Da Nang	Private	1042	32
	Joint-Stock Company	2600	34		Joint-Stock Company	2586	108
	Limited Liability	4089	156		Limited Liability	2515	44
	Total	3478	50		Total	1500	40
Ha Tay	Private	325	6	Binh Duong	Private	2505	25
	Joint-Stock Company	3640	415		Limited Liability	10000	200
	Limited Liability	1114	33		Total	5278	120
	Other	1086	82				
Thanh Hoa	Total	975	30	Total	Private	1000	15
	Private	1010	54		Partnership	NA	NA
	Partnership	NA	NA		Joint-Stock Company	4569	76.5
	Joint-Stock Company	13500	230		Limited Liability	2000	35
	Limited Liability	4697	50		Other	4370	140
	Total	3474	69		Total	1800	30

2.2.3 Distribution by Sector

The sample of firms was explicitly designed to capture manufacturing, trading, and service firms. Therefore, the small number of agricultural firms in table 9 should not be surprising. Distributions across the periphery provinces are similar, with the exception of the small industrial sector in TT Hue. This is to be expected, given the heavy focus on the tourist industry in the former imperial city. One might expect that comparative differences in industrialization and service sector development are determined by geographical factors. As a result, table 9 is broken down by region. Nevertheless, there is little direct impact of location on the sectoral distribution. Rather, geography impacts with urbanization to create an interesting pattern. The northern and southern cities of Hai Phong, Ha Noi, and HCM City have large service and commerce sectors, whereas Da Nang has very few non-industrial firms. The Da Nang distribution looks much more like the distribution of the less urban high performers of Binh Duong and Dong Nai. The final column looks at the number of firms that are operating in more than one sector. Firms in Ha Tay, Hue, Dong Nai, and Binh Duong are unlikely to spread into other areas, but HCM City, Thanh Hoa, and Nam Dinh firms are more likely to operate in multiple business sectors.

Interview Insights Box 6: Firms operating in more than one sector

One Thanh Hoa firm operated in four completely distinct product lines. It had significant operations in seafood processing (3 billion VND turnover annually), mining, rattan, and sales of forest products such as herbs. In the rattan industry, the firm was more of a sales agent, taking orders from overseas and domestic firms and passing them on to local farmers with free time. A Nam Dinh firm was a sales agent for paper products, but was gearing up to extend into ceramics production.

Province	Firms in Industry (%)	Firms in Agriculture (%)	Firms in Commerce (%)	Firms in Services (%)	Two or More Sectors (%)
<i>North</i>	45.3	3.0	47.6	34.1	26.2
Ha Noi	39.7	3.1	55.0	37.4	30.8
Hai Phong	44.8	0.0	31.0	55.2	24.1
Nam Dinh	50.0	4.2	54.2	31.3	37.0
Ha Tay	54.2	3.4	33.9	18.6	8.6
<i>Central</i>	49.2	1.6	37.7	34.4	22.9
TT Hue	27.8	0.0	44.4	42.6	15.1
Thanh Hoa	56.3	6.3	37.5	50.0	43.8
Da Nang	69.2	1.9	30.8	21.2	24.5
<i>South</i>	50.0	1.7	50.0	28.8	29.4
Dong Nai	54.2	0.0	33.3	25.0	13.0
Long An	57.8	0.0	42.2	20.0	20.5
HCM City	34.8	1.8	65.2	43.8	43.2
Binh Duong	71.2	3.4	33.9	8.5	15.8
High Performers (average)	48.1	2.4	50.0	31.7	30.3
Total (average)	47.9	2.2	46.6	32.1	26.8

2.2.3 Firm age

One expectation of this author was that firms in the periphery provinces would be younger, mostly arising after the initiation of the Enterprise Law in 2000. The median initial founding year, however, was actually older in the secondary provinces than in the high performers, as table 10 shows. Comparing provinces, registration at the provincial DPI was in the same general timeframe,

with TT Hue (1995) and Nam Dinh (2000) at the far ends of the spectrum. Nam Dinh's late mean year of registration gives an indication of the early difficulties private firms had in establishing themselves in that particular province.

The earliest year of firm founding was, in a number of provinces, well before the beginning of the economic renovation program (ie. prior to 1986). For example, firms in Ha Tay and Thanh Hoa were established in the late 1950s and early 1960s, as agricultural cooperatives or state owned industrial units. As Webster and Taussig discovered in their study, about 9.4% of the sample were founded between the Cambodian War in 1979 and the formal recognition of the private sector in 1998. This "fence breaking" development, when the central government seemingly allowed for some experimentation in the private sector, was most apparent in TT Hue, Hai Phong, Dong Nai, and Binh Duong.¹² Overall, 30.8% of firms in the entire sample were founded between 1992 and 1995, in the early years of economic reform. Another 30.2% were founded between 1995 and 1999. The percent of post-Enterprise Law firms in the sample was fairly small, at just 9.7%. Nevertheless, 26% of the Thanh Hoa firms and 17% of those in HCM City were founded during this period.

The above notwithstanding, it is somewhat misleading to measure firm age by the year of founding, as many owners will give the date of original formation when the firm was still informal, or even part of the state sector as an agricultural cooperative. For the purposes of this report, it is more important to understand when the provincial business environment became conducive for firms to formalize their activities.

The year firms registered at the provincial People's Committee or DPI (after the Enterprise Law) gives a better idea of the business and regulatory environment for private sector firms, as this denotes when they decided to formally declare their activities and assets. Of the sample firms, 39.4% were registered between

Interview Insights Box 7: Former cooperatives becoming private firms

Many firms in the sample began their business lives as cooperatives and therefore record their founding year as the year the cooperative came into existence. This was particularly common in the periphery provinces, where firms found opportunities to extend their cooperative activities in the private sector. A few interesting examples include a Thanh Hoa firm, which started as a cooperative exporting stones in 1986, but after re-registering as a LLC, became one of the leading marble producers in the province.

Two Ha Tay firms have had different fortunes after converting former cooperatives. A manufacturer of spare parts for motorcycles was quickly able to find a market for his product upon re-registering in 1995. A second garments producer, which originally operated as a cooperative, producing for SOEs has been unable to lure additional clients since re-registering in 1997. It remains dependent on production contracts supplied by big SOEs, such as Garment Company 10 and Industrial Garments.

1995 and 1999, while 29% were registered after the passage of the Enterprise Law.¹³ As can be seen in figure 5, the high performers have balanced registration across the 1990s, while in the periphery provinces (notably Nam Dinh with 59%), registration boomed significantly after the Enterprise Law. TT Hue, which had its boom during the 1992-1995 period, and Thanh Hoa, with primarily "fence breaking" firms and former cooperatives (71%), are the key exceptions.

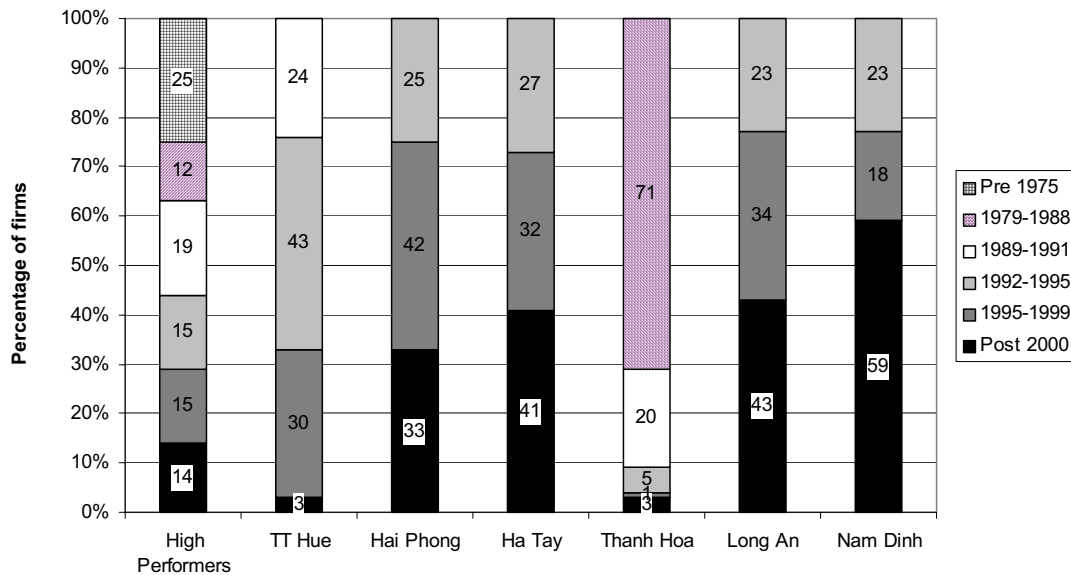
¹² The term was first popularized in Fforde and de Vylder (1996).

¹³ Firms that registered before the 1992-1995 period, probably registered at the provincial People's Committee and did not re-register after 2000.

Table 10: Median year of founding and registration, by province

Province		Year of Initial Founding	Year of Registration at DPI
TT Hue	Median	1991	1996
	Minimum	1976	1991
	Maximum	2000	2001
Hai Phong	Median	1992	1998
	Minimum	1984	1993
	Maximum	1999	2001
Ha Tay	Median	1993	1997
	Minimum	1958	1992
	Maximum	2000	2001
Thanh Hoa	Median	1994	1995
	Minimum	1962	1987
	Maximum	2000	2000
Long An	Median	1995	1998
	Minimum	1981	1992
	Maximum	2001	2002
Nam Dinh	Median	1992	2000
	Minimum	1970	1993
	Maximum	2001	2001
High Performers	Median	1995	1998
	Minimum	1970	1975
	Maximum	2001	2001
Total	Median	1994	1998
	Minimum	1958	1975
	Maximum	2001	2002

Figure 5: Year of registration at People's Committee or Department of Planning and Investment (DPI)



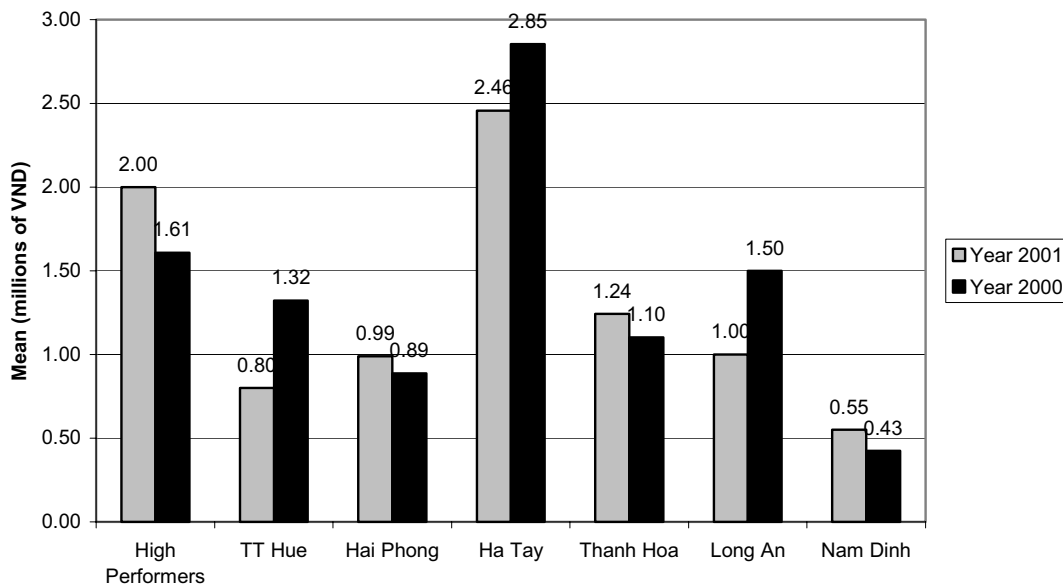
Chapter 3: Firm performance

In this section, the report compares the business performance of periphery firms to the five high performing provinces, by gauging their reported profitability, sales growth, employment, capital utilization and investment performance. A word of caution is in order on the reliability of the statistics, as these are the ‘self-reported’ numbers of the few respondents to the mail-out survey, and because of this bias, performance indicators are likely to be higher than in reality. Of course, this upward bias must be balanced against a tendency for firms to keep some of their performance indicators low, so as to avoid attention from the tax collector. As we will see in Chapter 5, negotiations with tax collectors are more frequent in periphery than high performing provinces, so we might expect that periphery provinces may be more likely to under-report their degree of success.¹⁴

3.1. Profit

2001 was a banner year for firms in high performing provinces. They recorded median profits per unit of labor of almost two million VND, almost 25% greater than every periphery province except for Ha Tay, which led the pack. In the year 2000, however, there appeared to be much more parity between periphery and high performers. Ha Tay firms actually were quite a bit more profitable than their more advanced counterparts, perhaps benefiting from diminishing marginal returns in Ha Noi. Similarly, firms in Long An were also not far behind the leaders, despite the large average employment of its firms. Other periphery provinces, especially Nam Dinh and Hai Phong lagged behind the rest (see figure 6).

Figure 6: Median profit per employee



¹⁴ In addition, the survey revealed little about the specific products and services offered by firms in each province. Performance scores for a province may reflect major changes in the international and domestic markets for key products offered by its firms, as some industries tend to be geographically concentrated. For example, if the aquaculture industry faces a bad year, Hai Phong and Da Nang may record worse net results than other provinces. Similar speculations could be made about the food processing sector in Long An, marble producers in Thanh Hoa, the tourist industry in Hue, or textile producers in Nam Dinh.

Another interesting measure of profit is "per investment dollar", to get a sense of the return on capital. This report combines both fixed and variable investment to measure capital. Table 11 displays the indicator known as Incremental Capital Output Ratio (ICOR). This measure allows us to see how much profit was returned for every dollar invested in the private sector of the province. We then can compare the firms that offered the highest payoff, given the risks taken by private sector entrepreneurs. Despite low profit per capita, firms in Thanh Hoa ranked first among secondary provinces, placing them alongside Ha Noi and Binh Duong. Dong Nai, however, was by far the most profitable location for private sector investments in 2001 (although some caution is necessary, as so few firms responded to the profit-related questions in Dong Nai). Firms in Hai Phong and Nam Dinh brought up the rear with a very low return on private investments.

Table 11: Return on capital (ICOR)					
2001 Profit over Investments (Fixed and Variable)					
Province	Median	Number	Province	Median	Number
Ha Noi	12.1%	17	Dong Nai	26.4%	4
TT Hue	11.3%	10	Long An	10.1%	5
HCM City	10.7%	8	Nam Dinh	5.9%	11
Hai Phong	2.0%	6	Da Nang	10%	9
Ha Tay	10.8%	6	Binh Duong	11.5%	10

3.2. Capacity utilization

This survey suggests that there has been steady improvement in capacity utilization across the country. The provincial high performers recorded 9.2% growth between 1998 and 2001, but still have a great deal of room for business expansion. Hai Phong, Nam Dinh, and Thanh Hoa showed the most growth, by a considerable amount, but this growth meant that Hai Phong and Thanh Hoa firms were pushing up against their capacity ceilings. By contrast, Ha Tay firms (already near 80% capacity) expanded very little over the late 1990s. It should be noted that the importance of capacity ceilings varies across sector. High capacity utilization for the service sector, such as hotels and restaurants, is considered to be very positive. Capacity ceilings are most dangerous for firms in light manufacturing, which means they will be unable to meet marked surges in demand.

Table 12: Mean capacity utilization over time, in percentages						
Province	At establishment	1998	1999	2000	2001	Percentage growth since 1998
TT Hue	49.9	52.9	56.3	62.3	58.1	9.8
Hai Phong	NA	58.2	55.6	66.7	68.9	18.4
Ha Tay	77.7	79.6	81.8	80.3	80.1	0.7
Thanh Hoa	60.0	67.5	72.5	76.3	80.2	18.7
Long An	57.8	75.2	70.2	77.3	78.8	4.8
Nam Dinh	62.5	57.3	51.9	63.6	67.1	17.1
High Performers (average)	58.7	67.9	68.3	68.2	74.1	9.2

3.3. Financial positioning

Once again, there is a great deal of variance among firms with regard to their financial health. Thanh Hoa firms are highly leveraged, with liabilities equivalent to almost 54% of total assets. On the other hand, Ha Tay firms have almost no liabilities, which could lead one to be concerned about the opportunities to acquire bank loans in this province – an issue we will return to later. Long An and Nam Dinh firms also hold very little in the way of liabilities.

Though the median of liabilities to total assets of firms in the high performing provinces is about 25%, there is little pattern across even the high performing provinces in this sample. Binh Duong is highly leveraged, with net assets equivalent to 58% of total assets, while Ha Noi and Dong Nai firms are around 80%. A healthy position depends on the investment climate and future prospects for firms within a province. It is also strongly related to the prospects for growth within the specific sector in which a firm competes. As firms in Binh Duong and Thanh Hoa offered high returns on investment in 2001, high liabilities in 2002 may not be as dangerous as they appear at first glance.

By contrast, Ha Tay and Long An offered high returns for investors in 2001, with firms holding very low liabilities. Interpreting this phenomenon is contingent on the banking sector in these provinces. If loans are easy to come by, and interest rates are low, firms within this province are in very good shape, because their liquidity risk is low. On the other hand, high returns and low liabilities may imply that firms are unable to take advantage of the profitable investment environment, either because they are unable to access the financial markets or they are overly worried about risk. Solving this puzzle requires research beyond the scope of this survey, but we will later learn that firms in Ha Tay have relatively good access to bank loans. Eighty percent of firms in Ha Tay received loans when they applied. Long An, on the other hand, has a more difficult banking environment. Only fifty percent of Long An firms applied successfully for loans, and of those, only large LLCs were likely to receive their full requests. Small firms in Long An complained vehemently about the small size of loans.

Table 13: Financial position of firms (Net assets, as a percentage of total assets, in 2001)	
Province	Median percentage
TT Hue	66.7%
Hai Phong	62.1%
Ha Tay	92.3%
Thanh Hoa	45.2%
Long An	83.3%
Nam Dinh	81.9%
High Performers (average)	75.4%
Total (average)	76.0%

3.4. Employment Growth

Employment growth in the private sector has continued to increase year after year in almost every province. As one might expect, due to the low bases in periphery provinces and diminishing marginal returns to additional units of labor in the high performing provinces, employment growth has been faster in the periphery provinces. The notable exceptions are firms in Long An and Dong Nai, which have actually shed workers since 1998. To some extent at least, this may be a result of the phenomenon Steer and Taussig highlighted, whereby many private firms in the Mekong Delta were adversely affected by both damaging flooding and increased competition from small-scale

foreign-invested firms in the food processing industry. Long An has seen a decline in its food processing companies and also a decline in mean labor per company.¹⁵ By way of comparison, Long An's southern neighbors have had mixed results. Dong Nai shows a similar pattern of average employment per firm decline over time, whereas Binh Duong firms have expanded employment by 25% since 1999.

Province	At establishment	1998	1999	2000	2001	Percentage growth since 1999
TT Hue	19.7	41.7	43.1	49.9	57.4	33.3
Hai Phong	156.1	628.3	541.7	680.9	650.6	20.1
Ha Tay	49.4	50.7	58.3	59.8	80.1	37.3
Thanh Hoa	47.9	67.1	80.0	83.5	111.0	38.8
Long An	90.0	177.3	152.9	152.7	157.4	2.9
Nam Dinh	35.6	31.8	37.0	46.7	42.9	16.1
Dong Nai	105.7	143.8	108.3	98.8	104.3	-3.6
Binh Duong	99.7	157.5	184.7	207.5	231.3	25.2
High Performers (average)	45.8	79.7	83.5	89.6	96.3	15.3
Total (average)	50.5	96.3	105.3	112.9	120.5	14.4

3.5. Sales

One highlight for firms in the periphery provinces was sales, as shown in table 15. The median sales growth of their firms over the 1999-2000 period outpaced the high performers significantly. Enterprises in Hai Phong and Thanh Hoa recorded 158% increases over the three-year period. In fact, three out of the four provinces that doubled sales since 1998 were periphery provinces, although sales per unit of labor in the high performers was higher than every periphery province except for Ha Tay. The province with the poorest sales performance of its firms was again Long An, which recorded only 23.8% growth, to bring its firms to 47.1 million VND in sales per unit of labor. The average growth in sales among Long An firms was less than half that for firms in the second lowest periphery province of Nam Dinh.

Long An's low sales growth, however, may be partly explained by regional factors. Historically, the high performing neighboring province of Dong Nai had sales growth and sales per unit of labor very similar to that of Long An. Moreover, every southern province had sales growth below the total sample median. Part of this may be simple mathematics; the periphery provinces in the north and central regions began from lower bases, and thus can very quickly reach high growth rates. This would certainly explain slow growth in Binh Duong and HCM City, where firms have very high median sales. Assuming firms in Long An and Dong Nai are trying to tap into the same southern market as their neighbors, we can understand why growth in sales in the southern provinces are the lowest in the entire sample.

¹⁵ Steer and Taussig (2002).

Table 15: Sales performance (All figures are median)				
Region	Province	Sales per unit of labor 2001 (million VND)	Gross sales in 2001 (million VND)	Sales growth 1998- 2000 (%)
North	Ha Noi	108.17	2800	87.6
	Hai Phong	61.03	6325	158.8
	Ha Tay	100	2500	138.1
	Nam Dinh	68.5	1929	54.3
	Total	99.44	2784	114.3
Central	TT Hue	68.7	2650	59.0
	Thanh Hoa	80.03	6923.5	158.1
	Da Nang	60	2402.5	177.6
	Total	69.9	3350.5	91.39
South	HCM City	130	6501	75.8
	Dong Nai	45.45	1432.57	34.3
	Long An	47.1	1827.5	23.8
	Binh Duong	79.82	7897	54.3
	Total	84.24	3653	66.7
High Performers		96.29	3428	76.5
Total		85.07	3193.5	86.6

Chapter 4: The market environment in the periphery

4.1. Sales

Thus far, it is clear that periphery provinces have expanded their sales tremendously over the past few years, but to whom are they selling? Sixty percent of the firms in the sample have more than 25 customers. Only in the three high performing provinces of Da Nang, Dong Nai, and Binh Duong do firms average less than 25 customers. By contrast, 80% of the firms in Thanh Hoa and 71% in Long An have over 25 customers. This is quite an interesting finding, which may imply that as the products and services of firms become more sophisticated, firms must service narrower markets.

4.1.1. Sales to whom?

Who are these customers? Table 16 profiles the main customers of firms in each province. Of course, many firms listed more than one type of customer.

Province	Foreign Individuals	Foreign Companies	Vietnamese Individuals	Private Vietnamese Firms	Coop- eratives	SOEs	Central Govern- ment	Local or Provincial Authorities	Others
TT Hue	18.52	11.11	53.70	24.07	7.41	38.89	5.56	31.48	0.00
Hai Phong	0.00	41.38	17.24	41.38	0.00	48.28	0.00	3.45	3.45
Ha Tay	8.47	18.64	59.32	44.07	6.78	55.93	5.08	18.64	8.47
Thanh Hoa	0.00	6.25	62.50	31.25	6.25	37.50	6.25	37.50	0.00
Long An	2.22	22.22	64.44	28.89	2.22	8.89	0.00	17.78	2.22
Nam Dinh	4.17	4.17	41.67	45.83	14.58	52.08	8.33	35.42	2.08
High Performers	10.05	27.51	46.83	40.48	2.91	33.33	5.03	6.35	3.17
Total	8.90	23.21	48.49	38.79	4.45	36.41	4.77	13.35	3.18

Across the board, the main customers seem to be Vietnamese individuals, other private Vietnamese firms, and SOEs. This is also the predominant pattern in the high performers. Many of the secondary provinces, however, diverge to some degree from this pattern. The study found that 41.38% of sales from Hai Phong firms are to foreign companies, while only 17% are to individuals. These figures result from the high proportion of large firms in the Hai Phong sample, and the presence of a world-class international port in Hai Phong, which facilitates exports and contact with foreigners.

Firms in TT Hue, Thanh Hoa, and Nam Dinh all have very close business relationships with local authorities; over 30% of firms in these three provinces claim local officials are among their main trading partners. Nam Dinh and Ha Tay also have close business relationships with SOEs, as over 50% of their firms cite major sales to them. This gives some insight into why Nam Dinh firms

Interview Insight Box 8: The state sector as the engine of private growth?

Representatives of the Provincial People's Committees in both Nam Dinh and Ha Tay stressed the importance of the state business sector in their development plans. Both provincial governments stressed that SOEs would be the engine of growth in their economies. Such growth they reasoned would create opportunities for the smaller private sector to provide intermediate goods and services. Both provinces correctly stated that such a role for the state sector was also articulated in the Enterprise Law and the 1992 Constitution, but it is worth asking whether such an explicit concentration on the state sector may create a disadvantageous environment for private sector firms as they seek to expand their businesses.

have a difficult time being critical of their government – over 80% of their private firms rely on the state as their primary business partner. Sixty-four percent of Long An firms, which are heavily involved in food processing and the service sector, see Vietnamese individuals as their primary market. This may result from their close proximity to HCM City. It also may account for the slow pace of sales growth in Long An.

4.1.2. Sales to where?

In other work, a significant relation between the size of the corporate private sector and the size of FDI inflows has been found.¹⁶ To some extent this result should not be surprising, as we would expect that FDI inflows would create opportunities for private businesses, especially those supplying investors with intermediate goods or services. Most provincial officials interviewed for this study, however, saw little in the way of business relations between private domestic and foreign enterprises, which includes both firms abroad and ones based in Vietnam. Confirming these results, even with the domestic content requirements of the Vietnam government, economist Prema-chandra Athukorala found little evidence to suggest a clear economic relationship between inflows and private sector growth.¹⁷ The survey appears to reinforce evidence of a limited relationship. Only 23% of the firms in the survey sold to foreign companies, but most of the sales are accounted for by the high performers and Hai Phong and Long An, where FDI is the highest. By contrast, sales to foreign companies are marginal in Nam Dinh, Thanh Hoa, and TT Hue.

Interview Insights Box 9: Sales to other provinces

While firms in periphery provinces are likely to sell domestically, they are by no means confined to sell only to customers within their province. Firms in the periphery provinces are creative about managing their sales outside the province. A biochemical firm in Nam Dinh sells its shampoo and cleaning products in both the big northern and southern outlets. In Ha Noi, which is closer, the firm employs one agent; in HCMC, the firm pays for the services of a specialized private trading company; and in smaller provinces, the firm sends one of its two trucks to deliver directly to small stores.

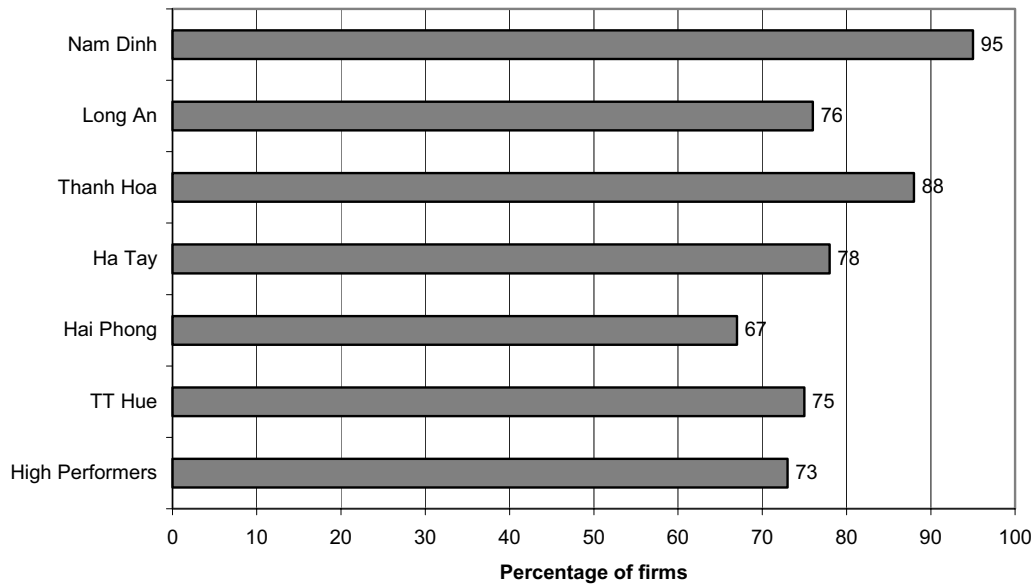
Another LLC in Thanh Hoa employs sales agents in Ha Noi, Lang Son and Mong Cai, and rents agents in Hai Phong and HCM City. Though the CEO did not mention it, it is quite probable that the Lang Son and Mong Cai agents are selling product to Chinese customers.

Figure 7 gives even more insight into the markets of firms. Secondary provinces are much less likely to look overseas for sales than the high performers. As noted earlier, Hai Phong (with 33% of its sales to foreigners) is an exception. Nam Dinh and Thanh Hoa, which are quite far from Ha Noi, are notably locked in to domestic sales.

¹⁶ See Malesky (2002a).

¹⁷ See Athukorala (2002).

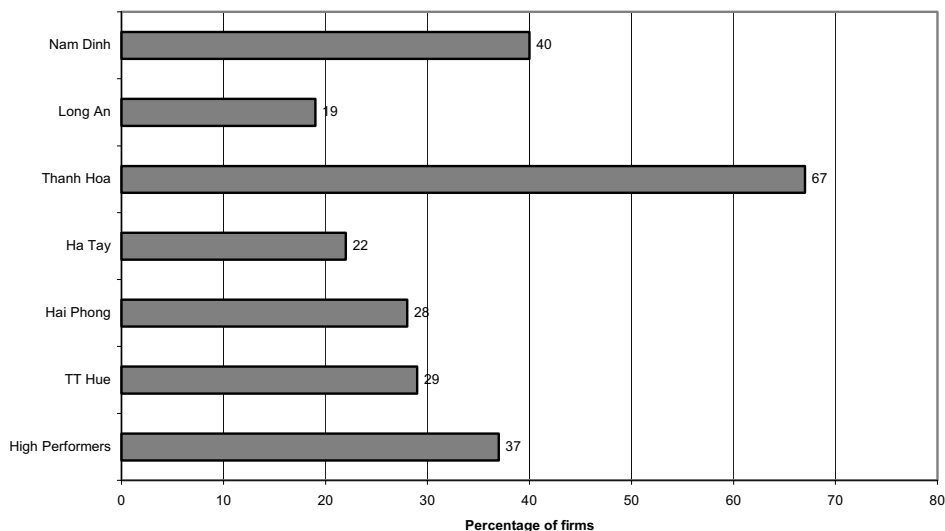
Figure 7: Percentage of firms with 100% domestic sales



4.1.3. Credit in lieu of payment for sales

Thanh Hoa and Nam Dinh, which are heavily dependent on government and state-owned customers are also the locations where private firms are most likely to offer credit to their customers in lieu of immediate payment (see figure 8). This is potentially unsustainable. According to the self-reporting of firms, the median amount of credit given by companies in the five high performing provinces has only grown 32% since 1998, to 500 million VND. By contrast, median credit given by Thanh Hoa firms has grown by 183%, to 850 million VND, nearly 70% greater than the high performers. Median credit given in TT Hue is nearly two billion VND, doubling since 1998. Nam Dinh firms give a much smaller amount of credit on average (128 million VND), and have actually reduced that amount by 47% since 1998.

Figure 8: Percentage of firms giving credit to customers



4.2 Sources of inputs

4.2.1. Where are firms in the secondary provinces getting their inputs?

Firms in the secondary provinces are much more likely to buy inputs from the state sector than firms located in the high performing provinces. There may also be a north-south divergence evident here, as only 18% of Long An firms buy inputs from the state sector. The rest of the periphery provinces, however, are highly dependent on SOE inputs, with Ha Tay (over 70%) clearly the most dependent.

Relying on other registered private companies is also quite popular. All firms in periphery provinces, except Long An, are more likely to buy from the private sector than the firms in the high performing provinces. Hai Phong and Thanh Hoa firms buy from their peers in very high numbers. Self-production of inputs, rather than direct purchases is less popular, though still significant in Ha Tay, Thanh Hoa and Long An.

Interview Insights Box 10: Complicated business relations with the state sector

A private firm with seven employees in Nam Dinh province illustrates just how complicated sourcing relationships with the state sector can be. This firm operates as a sales agent of Bai Bang Paper Mill, selling material and processed paper. The firm receives a 0.8% commission for every million VND in sales. The mill's credit term is three to five days on average, although credit terms of one day, seven days or even a few months are possible. The firm does not have to pay any fees or penalty for delayed payment. There is a five-year agent contract signed between the firm and the mill. Accordingly, the mill holds the owner's certificate of title to her house as collateral for the whole contract life.

Table 17: Main suppliers of inputs by province¹⁸
(Mean Percentage)

Province	SOE	Registered domestic private firm	Local government	Unregistered domestic private firm	Cooperative	Foreign company	Household	Foreign joint venture	Self produced
TT Hue	59.3%	57.4%	5.6%	3.7%	0%	1.9%	9.3%	9.3%	16.7%
Hai Phong	51.7%	72.4%	0%	0%	3.4%	0%	6.9%	10.3%	6.9%
Ha Tay	71.2%	64.4%	6.8%	3.4%	1.7%	1.7%	17.0%	0%	25.4%
Thanh Hoa	56.3%	68.8%	0%	0%	6.3%	0%	6.3%	6.3%	31.3%
Long An	17.8%	44.4%	2.2%	6.7%	0%	4.4%	17.8%	11.1%	28.9%
Nam Dinh	54.2%	47.9%	0%	2.1%	0%	2.1%	22.9%	4.2%	18.8%
High Performers	34.4%	57.1%	2.6%	5%	3.8%	4.2%	12.4%	10.3%	19%
Total	41.6%	57.2%	2.9%	4.3%	1%	3.3%	13.4%	8.7%	19.9%

4.2.2 International sourcing

It is clear from table 17 that foreign companies supply very little of the inputs to the domestic private sector in the second and third level provinces. Similarly, periphery provinces import few of their intermediate goods from abroad. Figure 9 shows the percentage of goods purchased locally, as compared to those imported directly and through foreign intermediaries. As is to be expected, high performing provinces import roughly 34% of their inputs, 23% directly. This is in stark contrast to the periphery provinces, which purchase close to 80% of their inputs locally. TT Hue is especially locally dependent, purchasing 95% of its product locally from SOEs and domestic private companies. It is difficult to interpret TT Hue's complex results. Why have foreign firms had a difficult time entering this particular local market? One possible reason is the relative isolation of TT Hue on the central coast. A second reason may be the bad reputation of the central coast region in the investment community, due to a series of early investment failures.¹⁹ A highly speculative

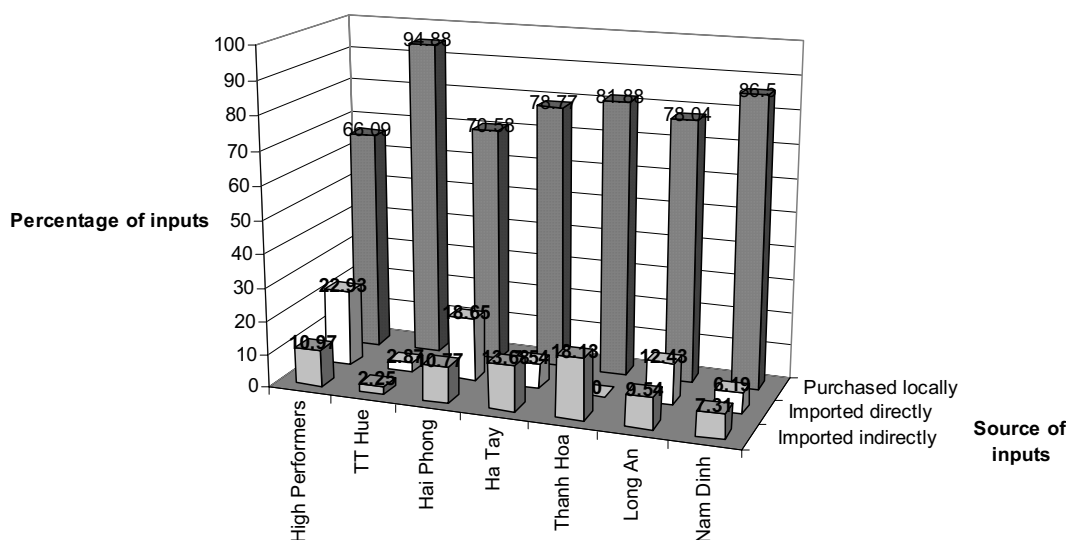
¹⁸ The statistics provided in table 17 are the mean of firms' own estimations of how much they purchase from each supplier. This is not, however, a measure of the mean source of inputs for each province, and as a result, some rows add up to more than 100%.

¹⁹ See Malesky (2002b).

theory may be the relative competitiveness of the domestic sector in TT Hue. As Yasheng Huang has shown in China, foreign investment tends to flow to areas where the domestic sector is weakest.²⁰

Hai Phong firms are the sole exception among secondary provinces, with imports comparable to the average of the high performers. Once again, one can attribute this international outlook to its large port facilities, and a higher level of urbanization relative to its secondary peers.

Figure 9: Sources of inputs



4.2.3 Suppliers of imported goods to the domestic private sector

For the firms that do import, who is their major supplier of imported goods? Table 18 demonstrates that there is a great deal of variance. The high performing provinces, especially southern ones, prefer to purchase their imports from foreign suppliers directly, and as a second-best alternative, purchase from foreign companies operating in their province. Periphery provinces on the other hand, rely much more heavily on SOEs operating in their provinces. This is especially true of Ha Tay, Hai Phong, and Nam Dinh in the north. TT Hue and Thanh Hoa offer interesting exceptions, as firms in these provinces are most likely to buy inputs from other registered private firms. An intriguing question not asked in the survey, but important for further research and policy making, is whether the marginal cost of the inputs is higher for firms relying on the state sector as an intermediary. Most analysts speculate that SOEs indeed raise transactions costs when operating as middlemen. If this is the case, firms in Ha Tay, Hai Phong, and Nam Dinh are likely to be disadvantaged in competition.

²⁰ See Huang (2002).

Table 18: Main suppliers of imported inputs, by province (Percentages)						
Province	SOE	Domestic Private Firm (Unregistered)	Foreign Supplier Directly	Domestic Private Firm (Registered)	Foreign Company	Private Trading Agent, Wholesaler
TT Hue	25.9	3.7	1.9	3.07	5.6	9.3
Hai Phong	27.6	3.4	13.7	17.2	17.2	10.3
Ha Tay	30.5	3.4	6.8	20.3	13.6	11.9
Thanh Hoa	12.5	0.0	0.0	18.8	11.1	6.3
Long An	4.4	4.4	11.1	13.3	17.2	15.6
Nam Dinh	25.0	2.1	6.3	20.8	6.3	14.6
High Performers	16.7	4.0	28.7	20.1	20.1	11.1
Total	18.9	3.4	20.0	21	15.9	11.4

Across the sample, LLCs are most likely to be importing their inputs. They account for 77% of the firms importing directly, and 71% of those importing indirectly. Their median percentage of inputs imported directly and indirectly is 30% and 10% respectively. This seems to be true across the provinces, except in TT Hue, where there are only a small number of LLCs. The small amount that TT Hue firms are importing is carried out by five individually-owned private firms. Of the importing LLCs, only 44 (or 21%) come from the second and third level provinces, and 12 of these are based in Long An alone.²¹ Importing inputs is the domain of the big and established firms, and to date has been primarily concentrated in the provinces adjacent to HCM City and in Ha Noi.

Two possible conclusions can be drawn from these results. First, it is possible that LLCs simply have a higher need for sophisticated intermediate goods from abroad. But a second explanation is that they may be privy to market information not available to smaller private firms, who cannot afford to invest time or money in gathering information on the cheapest source of inputs. If the latter is true, there is a clear role for international donors to play in facilitating that kind of information gathering and collation.

4.3. Competition

4.3.1. Who is the major competition?

In Chapter 2, this report explored the potential effect of the large state sector in inhibiting economic development. There was speculation that the state sector possibly played a role in crowding out private sector development, but one cannot say this for sure without knowing how many potential private entrepreneurs were dissuaded from starting a business because of a strong state sector. One can pursue the issue further by asking, what is the role of the state sector on post-1999 private sector development in the provinces?

But the competitive environment is much more diverse than just competition between the private and state sector. Private firms must compete against an array of other ownership types, which include other private firms (some with very good government relations), foreign companies, joint ventures with some foreign capital, and even smuggled goods from neighboring countries, such as China or Cambodia. Table 19 looks at who firms deem to be their main competitors.

²¹ Long An's LLCs import about 20% of their inputs directly and 27% indirectly.

In every province, the majority of competition faced by firms is supplied by the small and medium size private enterprises, which is a healthy development and suggests that a robust private sector is developing. Provided that firms are competing on a level playing field, price competition and innovation are likely to follow. But can there be a level playing field when so many firms have business relationships, either through sales or joint ventures, with the state sector and local government? This is an important question, which we will return to later.

Competition with SOEs is most fierce in the periphery provinces. Firms in Ha Tay (50.8%) and TT Hue (40.7%) face particularly strong competition from the state sector, followed closely by firms in Hai Phong and Thanh Hoa. If this competition is taking place on a level playing field, without SOEs benefiting from indirect subsidies in the form of cheaper utility inputs or favored access, then we can conclude that such competition is healthy. On the other hand, in provinces where SOEs are favored, such competition could be damaging to robust private sector development.

Province	No Competition	Domestic Private Firms (SMEs)	Domestic Private Firms (Large)	Foreign Invested Firms	SOEs	Smuggled Goods
TT Hue	9.3	51.9	16.7	3.7	40.7	3.7
Hai Phong	10.3	51.7	27.6	6.9	34.4	3.5
Ha Tay	6.7	61.0	13.6	11.9	50.8	15.3
Thanh Hoa	0.0	68.8	25.0	0.0	31.3	0.0
Long An	13.3	62.2	20.0	8.9	22.2	8.9
Nam Dinh	10.4	50.0	6.3	4.2	18.8	12.5
High Performers	9.5	50.0	23.3	18.8	20.6	13.7
Total	9.4	52.6	20.5	14.0	25.9	11.8

About 19% of firms in the high performing provinces face competition from the foreign-invested sector, but foreign competition is very small in Ha Tay, and virtually insignificant in the rest of the secondary provinces. The argument that foreign companies may be crowding out the nascent private sector, due to their better expertise and large sources of capital, is not supported by the evidence provided here.

4.3.2. Advantages of the competitors

Once we better understand the competition faced by private firms, we can begin asking whether that competition will lead to healthy private sector development. A crucial factor here is whether provincial governments grant any special advantages to favorite firms, and which may tilt the playing field in favor of less and more inefficient companies. The survey reveals that private firms across the sample feel that they are at a competitive disadvantage on price with their main competition. Advanced technology is a factor in close to a quarter of the firms in the sample. Hai Phong is an exception to this 25% rule, which may result from the higher proportion of large joint-stock and limited liability companies, as opposed to individual producers. Quality of products is a notably significant factor in Thanh Hoa.

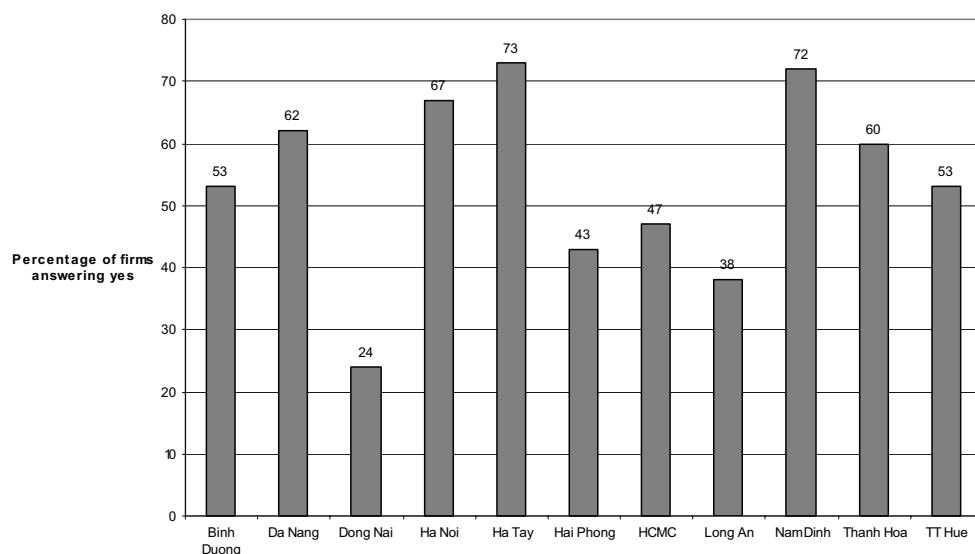
Government support to a competitor is an interesting source of variance. Only 16% of the firms in the high performing provinces cited this as a competitive disadvantage, but nearly 40% of the firms in Hai Phong, close to 30% in Ha Tay and Thanh Hoa, and 20% of the firms in Nam Dinh felt disadvantaged in this way. There is north-south divergence on this question as well. Including Ha Noi, northern provinces cited government support as their main competitive disadvantage 27.4% of

the time, whereas southern firms cited government support as a disadvantage only 13.8% of the time. Ha Noi even has 19% of its firms claiming their main competitor receives help from government institutions (see Table 20).

Province	Low Price	Advanced Technology	Government Support	Better Quality
TT Hue	55.6	20.4	16.7	16.6
Hai Phong	55.2	10.3	37.9	6.9
Ha Tay	52.5	20.3	27.1	15.3
Thanh Hoa	56.3	25.0	31.3	37.5
Long An	42.2	24.4	13.3	17.8
Nam Dinh	41.7	27.1	20.8	20.8
High Performers (average)	54.2	25.4	16.4	17.7
Total (average)	52.5	23.8	18.9	17.6

Table 20 may be slightly misleading, as firms were only asked to pick their major competitive disadvantage. Low price, advanced technology, and better quality may only be the proximate cause of difficulties with competition. In fact, problems may be the result of government support itself. Government assistance with access to financing and land may lower the final price that a firm can charge for its products or services. As a result, figure 10, which is produced from the CEO interviews, simply records the number of firms who felt their competition received some government assistance, regardless of whether CEOs felt it disadvantaged them.

Figure 10: Is your main competitor receiving government support?



The provinces of Nam Dinh, Ha Tay, and Ha Noi are far above the others in the amount of support they give to firms, thus preserving the northern-southern dimension of this impact. The southern provinces of Long An, Dong Nai, and HCM City all have very little government intervention. The fact that the north-south distinction is stronger than the difference between high performing provinces and periphery provinces suggests that firms in provinces like Ha Noi survive in spite of government assistance to their competitors. One reason for their survival may be that they themselves are well connected to government—an issue that will be explored later in this section.

Interestingly, small private firms are the least likely to feel that government is aiding their main competitor. Generally, it is the larger-scale partnerships and shareholding companies, which are bothered by government intervention.

4.3.3. What types of assistance does the government supply to competitors?

The four main types of government assistance usually provided are: access to cheap land, help in receiving special licenses or permits, financing in the form of cheap or easier loans, and assistance through contracting.

In every province except Ha Noi and Nam Dinh, the primary source of government support was assistance in obtaining financing. For Dong Nai, over 70% of firms felt their competitor was aided with government financial assistance.

The second most popular form of government help overall, and the most popular form in Ha Noi and Nam Dinh, was contracting. This form of assistance usually has to do with how local government officials allocate contracts in construction and manufacturing, choosing favored firms or state-owned enterprises, rather than awarding the contract through competitive bidding. Good relations with local officials can be quite important in helping firms to win lucrative long-term contracts.

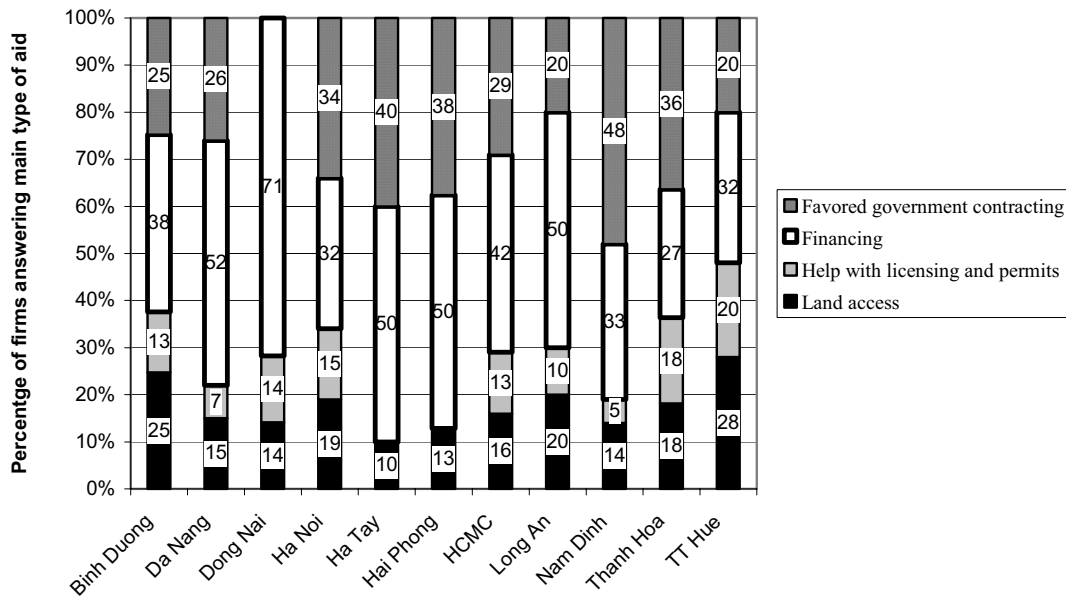
In TT Hue and Binh Duong, over a quarter of firms felt that government assistance in obtaining land had aided their main competitor. Assistance in obtaining land can mean preferential access, favoritism in bidding procedures, or even insider information about infrastructure improvements, which will improve the value of land. Across the board, very few firms cited government help with licensing and permits, a clear sign that legal changes made under the Enterprise Law have spread to the periphery.

Interview Insight Box 11: Unfair competition or flawed decisions?

It is important to recognize that sometimes what a firm considers to be unfair competition may simply be a flawed business decision on its part. One example from this survey is that of a small private company (12 employees) selling bottled milk that has not fared well in competition against Vinamilk, a centrally-owned state corporation, and Dutch Lady, a multinational corporation. According to the CEO of the small firm, the large competitors have brand-name advantage, access to capital, and better distribution networks. The small firm relies on bicycles to transport its product and is heavily dependent on credit from its customers to continue production. The CEO believes that with improved access to capital, he could buy a truck and steal market share from these behemoths.

The travails of this firm are truly troubling, but should have been anticipated. The producer entered the market in 2000, long after Vinamilk and Dutch Lady were well-established in the province. Potential creditors of this firm are undoubtedly aware of this fierce competition as well.

Figure 11: Types of aid to main competitor



4.3.4. Government support to the state-owned sector

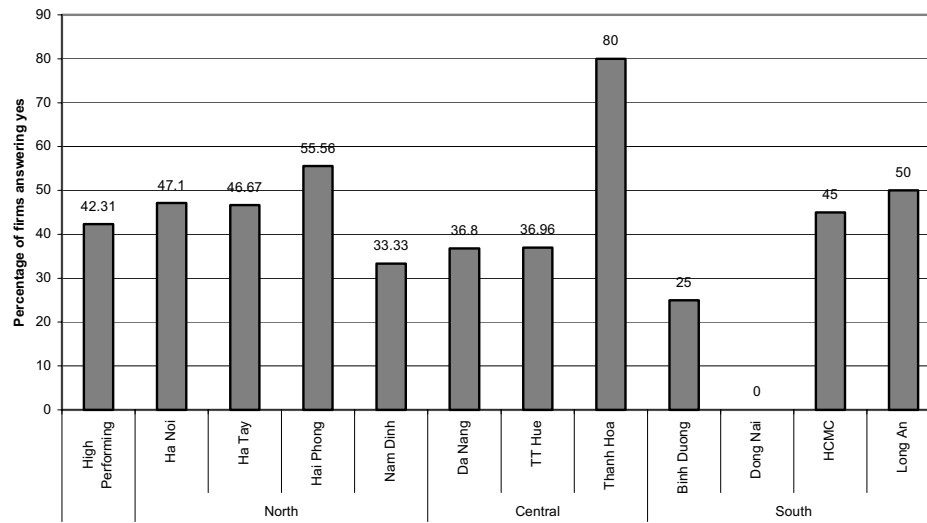
Of course, not all government support goes to the state sector. Figure 12 combines the two above questions, in order to determine what percentage of the firms that cited

SOEs as their main competitor also believed their main disadvantage was lack of government support. We can say with some confidence, that northern provinces -- whether they be peripheral or high performers -- are more likely to get support from the state sector.

Interview Insights Box 12: Declining support for the state sector in Long An

In Long An, discrimination in favor of SOEs has been reduced tremendously over time, as the province decided to equitize all 30 of its poor performing local SOEs. According to the Bank of Industry and Commerce officials in Long An, "in other provinces, a letter from the Ministry of Finance will be used in place of collateral, if the SOE uses funds from the central budget". In Long An, however, this is a very rare occurrence. Long An has been trying for several years (since 1997) to make their local SOEs accountable and business oriented as if they were private." In 1994, SOEs received over 75% of all loans. The loan gap has closed in Long An now, so that SOEs receive only 60% of Bank of Industry and Commerce loans, and the private sector receives 40%.

Figure 12: If main competitor is an SOE, is it receiving government assistance?



Chapter 5: Views of local governance and the regulatory environment

5.1. Implementation of the Enterprise Law

Recent work charting Vietnam's progress toward the development of economic institutions has focused primarily on implementation of the Enterprise Law, which is usually measured by counting the number of registrations in each province. This is a useful measurement, but it is slightly misleading. Firms can register their businesses without actually starting business activities, leading to the highly publicized, but probably overblown problem of 'ghost firms'. Or worse, a firm could register, but find the business environment so troublesome and tilted toward the state sector that it closes its doors.

As discussed in Chapter 3, private firms were able to register and in many provinces did register prior to the Enterprise Law. Many of the ideas legislated nationally in the Enterprise Law simply formalized the policies already practiced by several reform-oriented provinces over the course of the 1990s. These provinces had already registered a substantial number of firms and could be helped only marginally by the new law, which improved the efficiency of the registration process in the slower and SOE-dominated provinces. As a result, a high number of post-Enterprise Law registrations may not be a measure of present good governance practices, but rather a measure of the problems faced by the private sector in those provinces over the course of the *doi moi* period.²² Finally, the Enterprise Law covered a range of issues – from tax procedures, to financing, to land allocation – and was not simply confined to business registration. Measuring the implementation of these policies requires a closer look at the perceptions of firms that actually face these obstacles.

In figure 13, we can see immediately that business registration and business licensing are only minor problems faced by firms across the sample.²³ No firms in the entire sample listed business registration as an obstacle to development. Of course, there is a selection bias in this question; these were the firms who already registered, not the firms that had quit because of complications. Nevertheless, one can presume that given the opportunity, firms that struggled to register their activities would have voiced their grievances on this question. But in this case, few did. In-depth interviews with a few firms revealed that their primary complaints about the registration process occurred in the mid-1990s, before enactment of the Enterprise Law. At the time, the long waiting periods before decisions were made and multiple actors in the process were considered to be major transaction costs for firms hoping to begin their business activities immediately. This report will cover this notion of transaction costs in more detail in section 3 of this chapter. The answers from the survey reveal a widespread acknowledgement that the situation has improved tremendously over the past three years. Now, firms can worry more about policies that are fundamental to their businesses and not simply the start-up.

²² See Malesky (2002a).

²³ Thanh Hoa is dropped from the analysis because too few firms responded to the survey to allow for statistical significance.

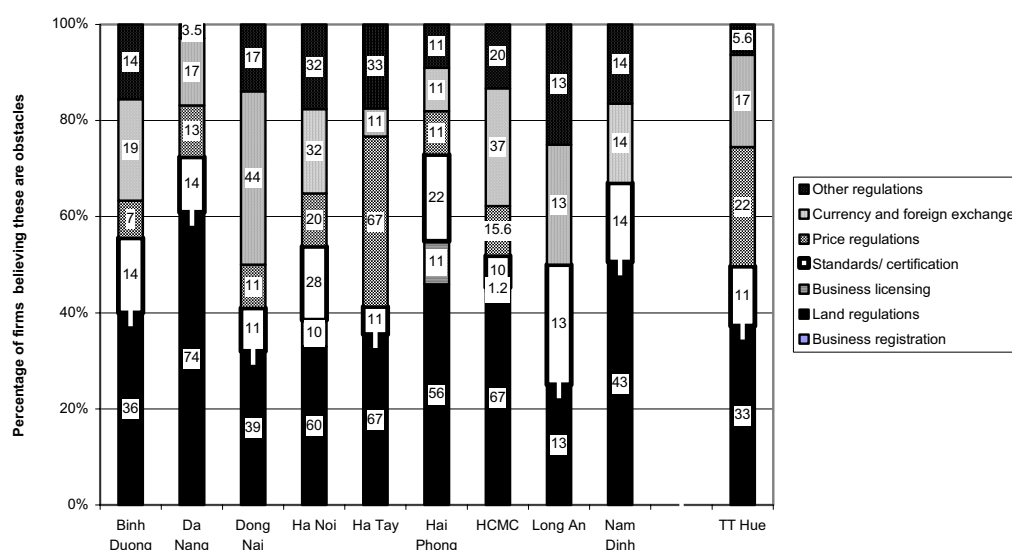
Licensing was only considered to be a problem in the high performing provinces and Hai Phong. This may be because so many business licenses were removed as a result of the Enterprise Law. Those additional licenses that remain concern restrictions related to environmental protection, technology usage, and importing. These are problems primarily for high value-added, large-scale firms. Registering small service sector businesses usually proceeds without significant difficulty. Therefore, it is firms with the larger and more technologically dependent operations that are more likely to face problems with licensing. The same can be said of currency and foreign exchange regulations. These are dilemmas faced by firms involved heavily in importing and exporting—the exclusive sphere of the high performing provinces and Hai Phong, according to earlier evidence. The 17% of firms in TT Hue facing currency and foreign exchange problems can probably be attributed to the importance of the tourist sector, but this merits further exploration. Land problems were also a much smaller issue for periphery firms. As a result, on the whole, periphery provinces like Long An, TT Hue and even Nam Dinh outperformed their more well-known peers on these categories of Enterprise Law implementation.

Interview Insights Box 13: The ‘price scissors’ in Ha Tay.

One clear warning from this analysis is the 67% of firms in Ha Tay who cited price regulations as an impediment to their development. Follow-up interviews in Ha Tay revealed that this is related to the proliferation of smuggled goods, which 15.25% of firms believed were their primary competitors. Ha Tay firms, especially those involved in the motorcycle industry, complained about being stuck between ‘price scissors’. Imports of spare parts for motorcycles were limited by expensive tariffs, but cheap Chinese motorcycles were being shipped into the Ha Noi market in droves. Ha Tay firms, which specialized in assembling motorcycles from kits or retailing spare parts, were unable to lower their prices to compete with Chinese knockoffs.

Figure 13: Implementation of the Enterprise Law (provincial obstacles faced)

Firms in joint ventures with the local government or local SOE were dropped from analysis.



5.2. Land use policies

5.2.1. Problems in obtaining land

The clear factor differentiating provinces across the sample is land. Over 50% of the firms in the high performing provinces, Hai Phong, and Ha Tay cited land regulations as an obstacle to their development. Nam Dinh followed closely, with 43% of firms citing land problems as debilitating to their progress. On the other hand, land was only of minor difficulty in Long An and TT Hue. Differences among these provinces can be attributed in part to the land price bubble and land speculation in Vietnamese metropolises, which has subsequently spread to the adjacent provinces. But this is one slice of the problem. Divergence in land use policies and practices deserves a much closer look.

Interview Insights Box 14: Land dilemmas.

It was not uncommon for firms across the sample to complain about waiting for two years or more for decisions about land titles. Some firms, such as a biochemical partnership in Nam Dinh, have never actually received a formal land title, and an LLC in Ha Tay claimed that land acquisition had been its "most consistent headache."

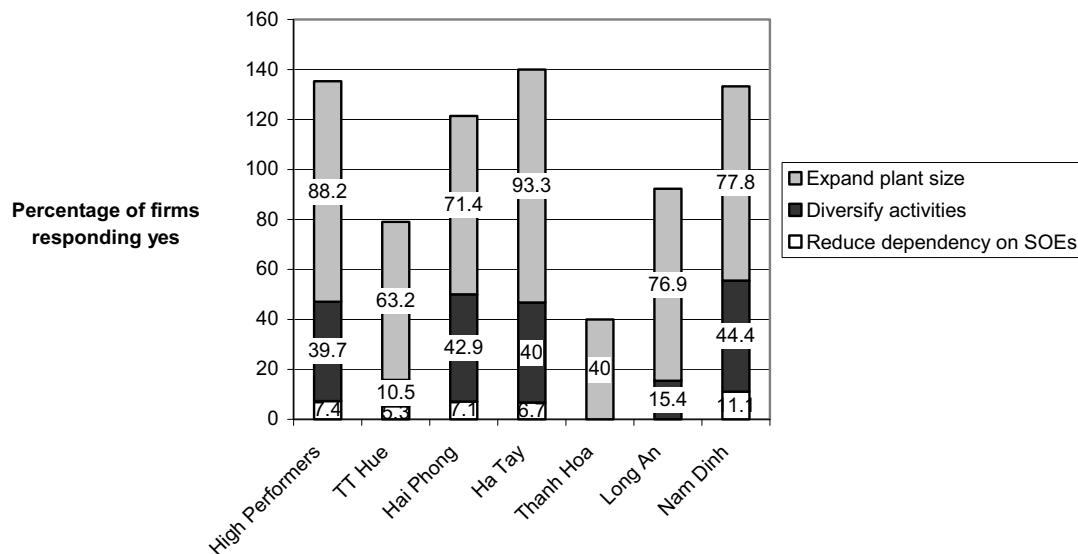
The present piece of land the biochemical firm is using took three separate agreements with local authorities in 1993, 1997, and 1999 with a maximum time cost to the firm of three full years waiting to obtain 2,700 square meters of land. Similarly, a Ha Noi firm waited over two and a half years, visited 10 different local institutions, and received 17 different seals before being granted formal title.

A Nam Dinh CEO argued that were it not for his cramped space, he would have been able to expand the scope and profitability of his business. As figure 14 shows, he is clearly not the only entrepreneur who feels this way.

In every province except Thanh Hoa and TT Hue, over 70% of the firms claimed that if land were easier to obtain they would expand their businesses. The problem is most acute in the high performing provinces and Ha Tay. Nam Dinh and Hai Phong joined these same provinces, as provinces with over 40% of firms surveyed claiming that they would diversify their business activities if land were easier to obtain. Nam Dinh had a unique problem that is associated with the close relationship between its firms and the state-owned sector; 11% of firms in Nam Dinh felt that if land were easier to obtain it would reduce their dependence on SOEs. Long An, Thanh Hoa and TT Hue had the most accessible land according to firms in the sample.

Figure 14: If land were easier to obtain we would...

Firms in joint ventures with the local government or local SOE were dropped from analysis.



Interview Insights Box 15: Improving land acquisition in Long An Province

Long An's success in this category is a new phenomenon. One of the original problems Long An had in attracting foreign direct investment was the lack of quality land for factory construction. Long An was burdened by two fundamental concerns. First, its land was judged to be of poor quality early on in the reform period because of its sandy composition. Projects would have required additional expenditure to stabilize the land prior to factory construction, which made construction on this land relatively more expensive than similar investments in Long An's neighbors of Binh Duong and Dong Nai. Secondly, a large amount of the land in Long An was held by individual farmers who required very high compensation in exchange for the land use rights certificate.

Over time, these problems have reversed in Long An's favor. In part, this change is the result of basic economic forces. Diminishing marginal returns and the rising cost of land in the neighboring provinces of HCM City, Binh Duong, and Dong Nai have lowered the relative cost of land in Long An, making it more attractive to investors. Nevertheless, Long An officials have also done a great deal to facilitate land acquisition and lower transaction costs for investors. In fact, a multi-million dollar joint-stock company was lured away from HCM City to invest and expand its business in Long An primarily because of the ease of land acquisition. After applying for land in HCM City in 1992, the company waited over three years for a decision by the various actors involved in the process. These actors included the provincial People's Committee, land authority, and chief architect, as well as the district-level People's Committee. Each actor had its own agenda and eventually the determination was made that the Indo-Petrol project did not match city plans, and the firm was asked to submit a new application.

By contrast, the Long An People's Committee responded within ten days to a company's request for a location for its project. Compensation for the committee of farmers, who were to be replaced, was more complicated and took an additional three months and two billion VND. This time period, however, was minute compared to the years of waiting in HCM City. In 2001 when the joint stock company submitted an application to expand its operation on to new land, the procedure was even easier and faster, at just 10 days. To be fair, this firm was highly valuable with large employment and revenue potential. Clearly, Long An province stood to gain a great deal from improved hospitality. Long An's improved easy land procedures are reflected in the survey of other firms below.

5.2.2. Land use rights certificates

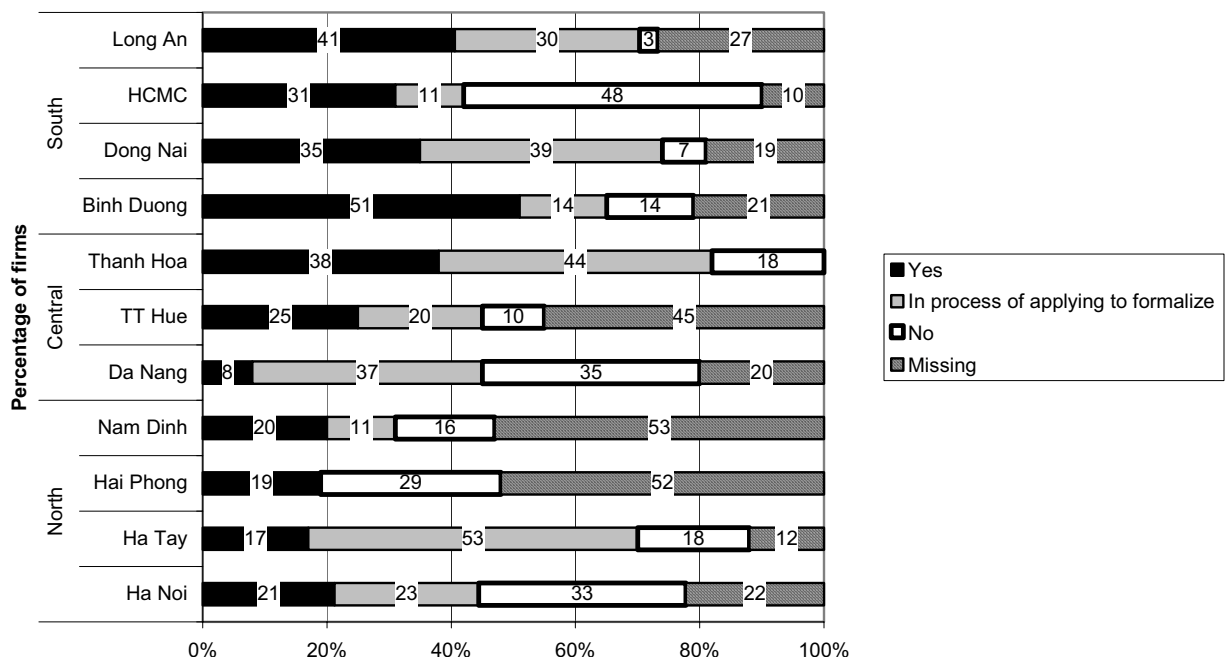
In this section, the land issue is pursued further by asking firms if they have the formal title for their land (*bia do* or red book) and thus the stability and confidence to make future investments. There is clear variance even among the high performing provinces. Binh Duong, Dong Nai, and HCM City, often cited as the cutting-edge provinces in terms of economic governance, are among the provinces with the largest number of firms who possess their land use rights certificates. After viewing this figure, it is clear why Long An, Thanh Hoa and Hue had the fewest number of firms complaining about land procedures. Among periphery provinces, they have the largest number of companies with land use rights certificates. ‘In the process of applying’, means that these firms either have an informal title to the land and have applied to convert it under the new procedures, or that a firm has applied for land outside of its original household land use rights certificate.

Interview Insights Box 16: Conversion to legal land holdings

An LLC in Nam Dinh province recorded itself as applying to formalize its land use rights certificate. It acquired one of its land titles after buying out another firm (the original holder), when the two split apart after a failed venture into the hotel business. The land authority, however, has refused to recognize this transaction as legal. As a result, the firm has not been able to convert its land certificate into an official red book and constantly worries that its premises could be seized.

The number of firms that did not answer whether or not they have land certificates (see figure 15) is rather worrisome (shown as “missing” in figure 15). These are firms that, for whatever reason, chose to remain silent on this question. One might speculate that these firms are on unregistered premises, or on land where the title is in dispute.

Figure 15: Possession of Land Use Rights Certificates
Firms in joint ventures with the local government or local SOE were dropped from analysis.



5.2.3. Firm premises

Table 21 explores what exactly is meant by the "no" category in the analysis above, by looking at the exact location of firms' premises. The vast majority of firms in the sample either used their own household land for their business activities, or had somehow obtained the residential land of others. This was done through direct purchase, leasing, or simply borrowing the land of a close friend or relative. Firms in Long An and Nam Dinh rely most heavily on residential land. Very few firms had made use of the cheap and serviceable land in industrial zones or other concentrated areas. Thanh Hoa was the only province with a significant number of private firms choosing to solve their land problems by locating within an industrial zone.

The most interesting category is that of firms that are renting land directly within an SOE compound. Land rented directly from provincial People's Committees, who have control of the land owned by local SOEs, was also counted in this category. Compared to the high performing provinces, firms in Hai Phong, Thanh Hoa, and Nam Dinh were heavily tied to the land of SOEs. Hai Phong had a particularly high number of renters, whereas TT Hue and Long An had very few firms directly renting the land of SOEs. Though one would surmise that renting SOE land is an uncomfortable position for firms, as their futures are tied to the business prospects and fortunes of the respective SOEs, very few firms in this position seemed to register concern.

Interview Insights Box 17: Advantage of renting land from SOEs

A marble producer in Thanh Hoa province actually saw renting from SOEs as advantageous, because it cuts down on their administrative responsibilities and interactions with local officials.

Table 21: Where are your main facilities located? (Percentage of firms from CEO interviews)							
Province	Household property	Other residential land	Renting land inside SOE compound	In an industrial zone or concentration	Other	Did not answer	Total
TT Hue	66.0	4.0	6.0	2.0	0.0	22.0	100
Hai Phong	27.9	3.5	37.9	6.9	24.1	0.0	100
Ha Tay	57.9	3.5	10.5	5.3	0.0	22.8	100
Thanh Hoa	50.0	6.3	18.8	12.5	0.0	12.5	100
Long An	76.7	2.3	7.0	7.0	0.0	7.0	100
Nam Dinh	68.3	0.0	17.1	0.0	0.0	14.6	100
High Performers (average)	50.0	16.9	10.7	8.2	0.0	14.2	100
Total (average)	54.2	11.5	12.0	6.8	1.2	14.5	100

Table 22 is more difficult to interpret. There seems to be some confusion among firms about whether they purchased or hold a long-term lease to the land. Under the present Land Law, a land use rights certificate is really only a long-term lease, of as long as ninety years, but the "purchasing firm" continues to hold the title. Most of these purchases took place in the mid-1990s. Median years of purchasing range from 1992 in TT Hue, to 1995 in Long An and the high performing provinces. In the high performing provinces, some firms hold land titles that date back to 1968. Firms in the high performing provinces are much more likely than other firms to be renting land from SOEs, other private firms and local government institutions. Primarily Da Nang and Ha Noi, however, drive this result. Firms in Binh Duong and Dong Nai are unlikely to be renters.

Table 22: How did you obtain your land? (Percentage of firms from mail-out survey)						
Province	Purchased long term lease and title	Inherited the land	Renting the land	Informal arrangements	Did not answer	Total
TT Hue	38.9	7.40	25.90	3.70	24.1	100
Hai Phong	13.8	0.0	0.0	0.0	86.2	100
Ha Tay	28.8	30.5	13.6	0.0	27.1	100
Thanh Hoa	56.2	6.3	31.2	0.0	6.3	100
Long An	40.0	22.2	17.8	0.0	20.0	100
Nam Dinh	47.9	4.0	25.0	0.0	23.1	100
High Performers (average)	31.5	14.5	45.8	1.6	6.6	100
Total (average)	33.5	14.0	35.0	1.3	16.2	100

5.3 Transparency and accountability

A third dimension of local governance can be characterized as transparency and accountability. Simply put, are domestic entrepreneurs in the provinces aware of the activities of their provincial leaders? Are budgets, master plans, statistics, and land use allocations available to all that ask, or only to a lucky few with good connections? Do businesses feel that the local government is accountable to the needs of all citizens, or does it require special relations to win the attention of government?

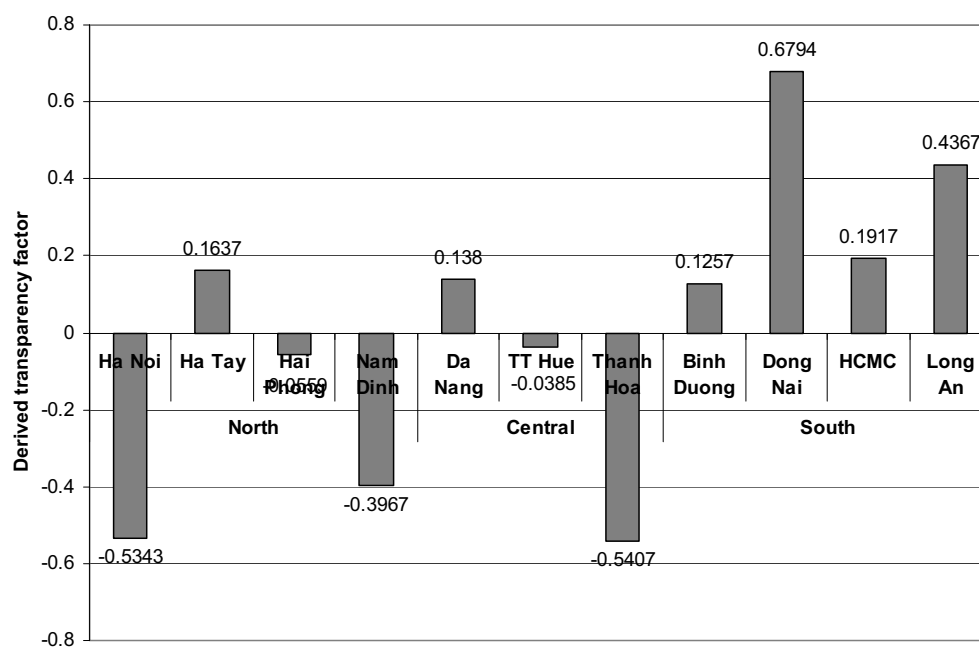
In table 23, five key dimensions of transparency and accountability were derived from the CEO interviews. Columns 1 and 2 stemmed from questions that probed whether special relations with government actors are needed to survive in business in the province. Column 1 records the earlier discussion of whether firms feel that the government tilts competition against them by aiding their competitors in the form of land, financing, or market information. Columns 3 and 4 are designed to judge the predictability of laws in the province. Firms that felt a lack of information was an obstacle, or who must negotiate with tax authorities, demonstrate the limited value of legal documents in the province. Information problems do not seem to be associated with high performing provinces. Binh Duong and HCM City have as many firms complaining as Nam Dinh. Finally, column 5 reports whether provincial officials can be distracted by political concerns. Firms were asked whether their provincial officials were hard to deal with during either local or national party conferences. This question was designed to gauge whether the normal business-to-government interface was put on hold during major political events or whether procedures and institutions performed their regular functions even during these events. Provinces with few firms agreeing to this question had more formalized business procedures, which are not subordinate to politics. Provinces with high agreement are more likely to have amorphous and politically contingent mechanisms. Not surprisingly, Ha Noi, Nam Dinh, and Thanh Hoa, which all have close contacts with the central government, are not transparent by this measure.

A method known as principal component analysis was used to replace the five highly correlated variables with a much smaller number of uncorrelated variables. (The procedure is akin to rotating these variables in space until underlying dimensions are found that they share.)²⁴ The new factor is then subtracted from zero, so we can interpret provinces with above 0 scores as being transparent and provinces below 0 as less transparent. The farther a province diverges from 0, the more powerful its score. The final factors are shown in figure 16.

²⁴ For information on this useful statistical tool, see Bartholomew et. al. (2002).

Table 23: Transparency and accountability						
Province	Percentage of firms who felt government was aiding their main competitor	Percentage of firms who say friends are highly important in negotiating with government	Percentage of firms who feel that lack of information on laws is an obstacle	Percentage of firms who claim that they negotiate with tax authority	Percentage who agree or strongly agree that local government is difficult to deal with during party conferences	Derived Transparency Factor
North						
Ha Noi	66.7	8.3	34.4	8.6	83.3	-0.5343
Ha Tay	73.3	13.3	28.6	6.7	46.7	0.1637
Nam Dinh	72.2	38.9	33.3	11.1	71.4	-0.3967
Hai Phong	42.9	21.4	16.7	7.7	91.7	-0.0559
Central						
Da Nang	61.5	15.4	17.4	3.8	12.5	0.1380
TT-Hue	52.6	36.8	26.3	20.0	27.8	-0.0385
Thanh Hoa	60.0	20.0	10.0	0.0	80.0	-0.5407
South						
Binh Duong	52.6	10.5	37.5	0.0	21.4	0.1257
Dong Nai	23.8	9.5	15.8	0.0	46.2	0.6794
HCMC	47.1	11.8	36.4	3.0	41.9	0.1917
Long An	38.5	0.0	16.7	0.0	50.0	0.4367
Total	53.8	16.9	26.8	5.7	50.3	0.0154

Figure 16: How transparent are the provinces using the derived transparency factor?
Firms in joint ventures with the local government or local SOE were dropped from analysis.



5.4. Transaction costs in terms of time

Another governance factor that some suggest may limit the success of firms in periphery provinces is the amount of productive business activity that is lost to inefficient relations with local

government. Provincial governments can cost their private firms significant amounts of money by being slow to remove obstacles and bottlenecks that produce transaction costs for local entrepreneurs. A few examples of strategies for removing such costs are: 1) reducing the number of workdays that managers of enterprises must spend negotiating with senior officials; 2) reducing information gathering costs by making statistical annexes and land plans publicly available; and 3) reducing the number of inspections domestic firms must endure from provincial agencies.

To analyze whether periphery provinces were more likely to impose high transaction costs on their firms in terms of time, questions from the survey were chosen that captured how much time firms lost in meeting local government requirements, or waiting for provincial government approval. As can be seen in table 24, eight factors were highlighted, related to how long firms waited to receive:

- their licenses
- land use requests
- bank loans
- imports from the port
- and export approval from customs

Principal component analysis yielded three separate components for these questions.²⁵ The first component included total inspections and average inspection hours. The second component comprised all the waiting periods for loans, land, and licenses. The third component included days to receive imports and exports after customs procedures, and days senior management dealt with government requirements.

Table 24: Transaction costs (time)											
	Inspections and regulations			Waiting Period				Customs			
Province	Total Inspect-ions (md).	Avg. Inspect-ion hours (md)	Trans costs – Inspect-ions (Factor 1)	Wait for bank loan (md. days)	Land wait sum of all agencies (md. days)	% of firms waiting over 1 month for licenses	Transact-ion costs - Waiting (Factor 2)	# days to get imported goods from port (md days)	# days to get exported goods to clear customs (md days)	# days senior mangmt deals with govt require-ments (md days)	Transact-ion costs, Customs
North											
Ha Noi	4	24	0.044	7	411	42.2	0.8924	6	9	17.5	1.2184
Ha Tay	4	15.5	-0.732	10	317	14.3	-0.4464	3	2	10	-0.5322
Hai Phong			.	15	320	40	0.0833	3	3	22.5	-0.3888
Nam Dinh	5.5	32	1.503	7	78		-0.6503		16	15	
Central											
Da Nang	2	48	1.698	7.5	65	12.5	-0.4816	4.5	2.5	30	1.2926
Thanh Hoa	5.5	96	0.165	1.5	68		-0.6595	.		20	
TT-Hue	3	9.5	-0.638	4	72	100	0.0329			20	0.7539
South											
Binh Duong	4.5	8	-0.618	6	75	29.4	-0.3355	2	1	15	-0.421
Dong Nai	3	4	-0.718	12	278	75	0.1132	3	2.5	22	-0.2424
HCMC	3	20.5	-0.436	7	414	31	-0.2897	7	2.5	20	0.7539

²⁵ See the Appendix 3 and 4 for loadings.

Table 24: Transaction costs (time)											
Long An	3	14.5	-0.416	15	147	27.3	-	3	1.5	18.5	
Total Sample	3	15	-0.378	7	90	28.4	0.4637	3	90	20	0.4358

Interview Insights Box 18: Damaging fines

One beverage wholesaler in a province had a particularly rough time with transactions costs imposed by provincial officials. In addition to the tax office, the firm was inspected by the environmental office two or three times a year, and by the market control office an additional two or three or times a year. The company had been fined by both the environmental office and the market control office, and has had to hand out small gifts to others. Recently, it was fined five million VND (about one year's profits) for bottling its product with another company's serial number. The fine was levied as 5% of the total quantity of bottles in stock. The firm admitted that the fine was legitimate, though quite steep—its workers made a mistake and mixed up the bottles. Over the few months prior to the interview, the company had been trying desperately to get the market control office to break the fine up, into smaller, more affordable pieces. But it had been unsuccessful, which raises a difficult conundrum. The company may have to shut down operations until it can somehow raise enough money to pay the fine, but does not know how it will raise the money without selling more products.

Table 25 accumulates all the direct costs that could be ascertained from the CEO interviews. It is quite difficult to differentiate between high performing and periphery provinces on these indicators. Thanh Hoa and Hai Phong officials are likely to use regulation to extract rents from firms, but so are officials in Ha Noi. Officials in Dong Nai, Da Nang, and HCM City—all high performing provinces—are more likely to seek rents than those in Nam Dinh and Long An. Interestingly, Ha Tay firms, which claim their local governments do not seek rents at all, give the most "gifts" per firm. Similarly, TT Hue firms, which also have a 0% score on rent seeking, paid the highest amount of unofficial payments as a percentage of sales. Discovering a pattern from this information is quite difficult, because of our limited understanding of these processes. Nevertheless, some recent work has suggested that a high percentage of foreign direct investment in a province may increase the "extra-curricular" costs of doing business there for domestic enterprises.²⁶ The logic here is that numerous foreign companies may be willing to 'grease the wheels' of local bureaucrats, in a bid to quickly move forward with their investments. Consequently, they accidentally create a culture of such payments, and so others must be willing to pay them too, in order to win the same level of attention.

²⁶ See Hellman et. al (2000).

Table 25: Direct costs through payments and gifts						
Province	Local Government uses compliance with regulations to extract rents (%)	Firm estimate of unofficial payments as % of sales (mean)	Mean sales reported to tax authority (% of actual sales)	Licenses and Permits required (md.)	Number of 'gifts' during inspection per firm (md.)	Estimated amount of gifts in VND (md).
North						
Ha Noi	50.7	0.636	90.57	2	1.5	375000
Ha Tay	0	0	99.93	1	3	175000
Hai Phong	57.1	3.750	99.09	1.50	.	.
Nam Dinh	8.3	0.200	89	1	.	.
Central						
Da Nang	30.4	1.788	95.21	1	1	50000
Thanh Hoa	74	2.929	89	1	.	.
TT-Hue	0	7.383	99.44	2	1	50000
South						
Binh Duong	6.7	0.800	100	2	1	50000
Dong Nai	26.7	1.254	91.89	2.50	1.5	150000
HCMC	37.6	2.433	93.47	1	1	250000
Long An	7.0	0.040	91.67	2.50	.	.
Total Sample	27.0	3.32	94.20	2	1	50000

5.5 Dispute settlement mechanisms

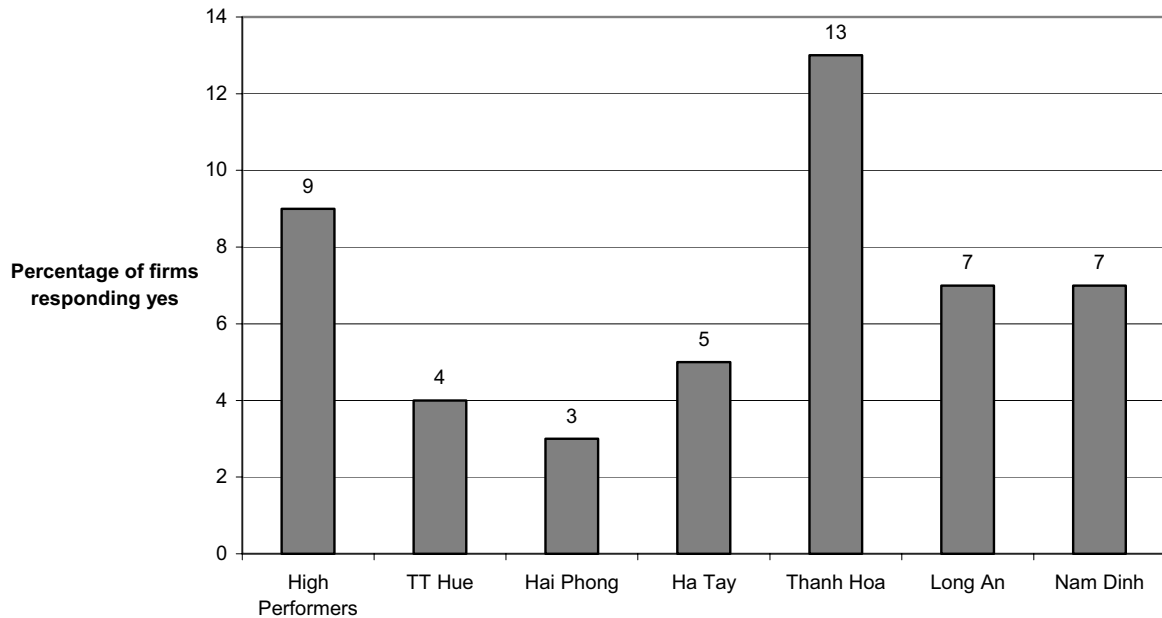
Another factor of local governance that has begun to receive a great deal of attention is the importance of dispute resolution mechanisms at the provincial level. One of the ultimate goals of Vietnam's intense efforts to develop a more formal legal system is to develop a business climate where firms feel safe in their investments, and can appeal to higher authorities to protect their property rights.²⁷ When legal institutions become more important than relationships, Vietnam has an opportunity to put to rest the accusation of the early 1990s that its business people are culturally risk averse or less entrepreneurial than in other states.²⁸

This survey can only give us a glimpse of this facet of governance. Very few firms in the sample claim to have contract disputes, and even fewer have opted to use formal institutions to resolve their predicaments. Figure 17 shows what percentages of firms in the periphery provinces have had a contract dispute over the last 5 years. The amount was very small across the sample; less than 8% of the total population of firms had contract disputes. Thanh Hoa's 13% was the only amount worthy of note.

²⁷ This has been evident by the annual Legal Needs Assessment, which lists the next steps in Vietnam's formalization efforts.

²⁸ This and other reasons for slow growth of the private SME sector are discussed in Riedel (1997).

Figure 17: Percentage of firms with contract disputes over the past five years



Of the firms that acknowledge having had contract disputes, an even smaller percentage have been willing to turn to formal institutions as intermediaries. Table 26 tracks responses in more detail, although too few firms responded to this question to yield any significant results. Listed in table 26 is the number of firms from each province that used various institutions to resolve their contract disputes. In the last column, is the number of firms who answered that in the case of a dispute they would rather negotiate directly with their counterpart. In all cases, this was equal to or greater than the number of firms who actually used any of the institutions. It is revealing that 58% of court cases occurred in the provinces included in the southern region, much greater than the 47% using state institutions or the 29% of firms preferring to negotiate directly. This may be due to the historic legacy of market institutions in these provinces.

Table 26: Which institution helped you resolve your business dispute?

(Number of firms)

Province	The Court	Friends/ Family	State Bodies	Business Associations	Directly with counterpart
TT Hue	3	1	2	0	5
Hai Phong	3	0	0	0	5
Ha Tay	0	1	0	0	4
Thanh Hoa	2	0	1	0	
Long An	3	0	0	0	3
Nam Dinh	0	1	1	1	5
High Performers	18	4	13	0	48
Total Sample	29	7	17	1	70

Reasons for not using the court system varied across the periphery provinces (see Table 27). Firms in TT Hue and Nam Dinh were most concerned about damaging business relations, while firms in Ha Tay and Long An felt the process was too complicated and time consuming. Firms in Hai Phong were split between those two factors, and weak enforcement of decisions. Firms in the high performing provinces were more likely than others to be concerned about time lost than about damaged business relations. Nevertheless, all the results in this section must be considered speculative—there are simply not enough observations to draw out anything more than educated guesses.

Table 27: Why firms do not use the court system to resolve disputes (Number of firms)					
Province	Fear of damaged business relations	Complicated and time consuming process	Weak enforcement	Unfair adjudication	Too expensive
TT Hue	4	1	1	0	0
Hai Phong	3	3	3	1	0
Ha Tay	1	3	1	0	0
Thanh Hoa	0	0	0	0	0
Long An	1	4	1	0	0
Nam Dinh	5	0	2	0	2
High Performers	41	64	42	3	13
Total	55	75	50	4	15

5.6 Provincial Dynamism

Recent work has demonstrated that the single biggest factor in promoting provincial economic development is the pro-activity and dynamism of provincial authorities. In the CEO interviews, private sector firms were asked this question: In situations where there is a lack of clarity in central law, does your local government:

1. Interpret it against your business
2. Postpone a decision until central laws have been changed
3. Interpret it in your favor

There is a positive correlation between dynamism and the size of the private sector, but it is not statistically significant. Dynamism is clearly important for the growth of firms in Dong Nai, Binh Duong, Long An, and even TT Hue, yet its impact is modified by initial conditions in the form of a large urban market to spur private sector activity. The four major metropolises of HCMC, Ha Noi, Da Nang, and Hai Phong all have larger firm sizes than their dynamism scores would indicate. Though even here we have some important correlation if we pair the cities by relative population size and economic importance. HCMC is more dynamic and has a larger private sector than Ha Noi. Similarly, Da Nang is more dynamic and has a larger private sector than Hai Phong. This question is a helpful first-cut, because it demonstrates a provinces' commitment to economic growth and its willingness to find clever and innovative ways to promote it.

Throughout the *doi moi* period, there have been many cases of provinces demonstrating dynamism in exactly this way. Some examples include Vung Tau province asking for special permission to let local businesses use land rights as collateral for bank loans; Song Be (Binh Duong) province

importing wood from Laos, and selling it below the high tariff inflated prices to local businesses; HCM City and Binh Duong beginning a “one door, one stamp” procedure to reduce the number of stops a firm has to make to get its license; Binh Duong and a multitude of provinces pushing beyond the 1993 Land Law, to improve transfers among private firms before the new Land Law of 1998 made these formal.

Ha Noi does not benefit, due to its proximity to the seat of government. Central government officials are only a motorbike ride away, thus creating a very difficult environment for re-interpreting central laws. Ha Tay's dynamism is similarly constricted.

Chapter 6: Financial status of firms

6.1. Sources of financing in the periphery: The prevalence of informal credit. ²⁹

6.1.1. Capital structure

Tables 28 and 29 provide the median sources of finances for firms in periphery provinces, compared to the high performing provinces.³⁰ As with firms in the high performing provinces, firms in periphery provinces are still heavily dependent on personal savings, both for start up capital and to finance their existing operations. Despite all the supposed alternatives, if they do not use their own savings, they are likely to draw on the savings of friends and family. Whether this can be considered an actual loan is a matter of some debate, and varies according to provincial norms. Hai Phong and Thanh Hoa were the most diversified of the sample, relying on moneylenders for 7% and 11% of their respective start up capital. The two provinces continue to rely heavily on moneylenders as sources of finance. TT Hue firms were the most likely to use bank loans to finance their start-up, with over 11% of start-up capital derived from bank credit. TT Hue continues to use bank loans at that rate, but has been joined by firms from Thanh Hoa (12%) and Long An (11%). Borrowing from suppliers, clients, and government loan programs are hardly represented at all in the capital structure.

²⁹ Kellee Tsai used the term 'back-alley banking' to describe similar informal money markets in China. See Tsai (2002).

³⁰ It is important to note that firms were asked to supply their own estimation of their capital structure. Tables 28 and 29 simply take the mean percentage of firms in that province. Therefore, the statistics do not represent the total breakdown in the province, but rather the mean of individual firms. Due to rounding, this led to some provinces recording means greater or less than 100%, though in most cases it was very close. The initial capital structure of Long An is far less than 100%, as some firms neglected to fully complete the entire questionnaire.

**Table 28 : Capital structure at time of establishment
(Mean % by Province)**

Province		Personal Savings	Private Savings from Friends and Family	Institutional Investors	Borrowed from Friends and Family	Informal Money Lender	Bank	Government Loan Program	Borrowed from Suppliers	Borrowed from Clients	Other	Total
Hai Phong	Average contribution	66%	9%	4%	3%	7%	2%	0%	2%	0%	5%	98%
Ha Tay	Average contribution	85%	5%	2%	1%	0%	5%	0%	1%	2%	1%	102%
Nam Dinh	Average contribution	77%	7%	6%	3%	3%	1%	0%	0%	0%	4%	101%
TT Hue	Average contribution	71%	5%	4%	3%	4%	10%	0%	3%	0%	0%	100%
Thanh Hoa	Average contribution	59%	11%	0%	11%	8%	7%	0%	0%	4%	1%	101%
Long An	Average contribution	41%	6%	3%	4%	1%	2%	0%	0%	0%	5%	62%
High Performers	Average contribution	76%	9%	4%	4%	1%	4%	0%	1%	0%	1%	100%
Total	Average contribution	68%	7%	3%	4%	3%	4%	0%	1%	1%	2%	95%

**Table 29: Capital structure at present
(Mean % by Province)**

Province		Personal Savings	Private Savings from Friends and Family	Institutional Investors	Borrowed from Friends and Family	Informal Money Lender	Bank	Government Loan Program	Borrowed from Suppliers	Borrowed from Clients	Other	Total
Hai Phong	Average contribution	56%	4%	5%	8%	9%	6%	1%	3%	3%	7%	102%
Ha Tay	Average contribution	76%	5%	1%	3%	2%	9%	0%	1%	1%	1%	99%
Nam Dinh	Average contribution	69%	3%	4%	8%	6%	4%	1%	0%	2%	3%	100%
TT Hue	Average contribution	68%	5%	2%	7%	3%	11%	0%	3%	0%	0%	99%
Thanh Hoa	Average contribution	54%	7%	0%	11%	5%	12%	0%	2%	6%	2%	99%
Long An	Average contribution	73%	2%	3%	7%	0%	11%	0%	1%	0%	3%	100%
High Performers	Average contribution	71%	6%	4%	4%	2%	9%	0%	2%	1%	1%	100%
Total	Average contribution	67%	5%	3%	7%	4%	9%	0%	2%	2%	2%	100%

6.1.2. Sources of loans

The picture changes somewhat if we look simply at the sources of loans for companies, shown in table 30, rather than the magnitude they represent in the total capital structure. The most important trend is that firms in periphery provinces are more dependent on state commercial bank loans than firms in high performing provinces, which appear to have an alternative source of financing from private commercial banks. Only firms in Long An (11.1%) and Hai Phong (10.3%) received a significant amount of loans from private commercial banks. Firms in the periphery provinces -- with the exception of Long An -- compensate for the lack of financing from private commercial banks by turning to informal moneylenders and loans from friends and family. Firms in Hai Phong are much more likely to receive loans from suppliers than others, which most certainly results from the city's heavy interaction with international suppliers. Thanh Hoa offers another interesting anomaly, with its high proportion of investment fund financing in the province.

Table 30: Sources of loans, by province (Percentage of total firms)									
Province	State Commercial Banks	Government loan program	Private commercial banks	Loan provided by suppliers	Foreign Banks	Informal loans/money lenders	Investment funds	Friends/Family	Credit Funds
TT Hue	55.6	3.7	0.0	7.4	0.0	37.0	5.6	29.6	0.0
Hai Phong	27.6	3.4	10.3	13.8	3.4	31.0	3.4	34.4	0.0
Ha Tay	44.1	3.4	3.4	3.4	0.0	10.2	6.8	37.3	5.1
Thanh Hoa	37.5	6.3	0.0	6.3	0.0	25.0	12.5	37.5	6.3
Long An	37.8	0.0	11.1	0.0	4.4	6.7	8.9	24.4	2.2
Nam Dinh	20.9	0.0	0.0	2.1	0.0	22.9	4.2	25.0	0.0
High Performers	23.0	0.5	22.8	7.1	1.3	13.5	1.6	27.2	1.9
Total	29.3	1.3	15.3	6.2	1.3	16.5	3.5	28.6	1.9

6.2. Bank Loans

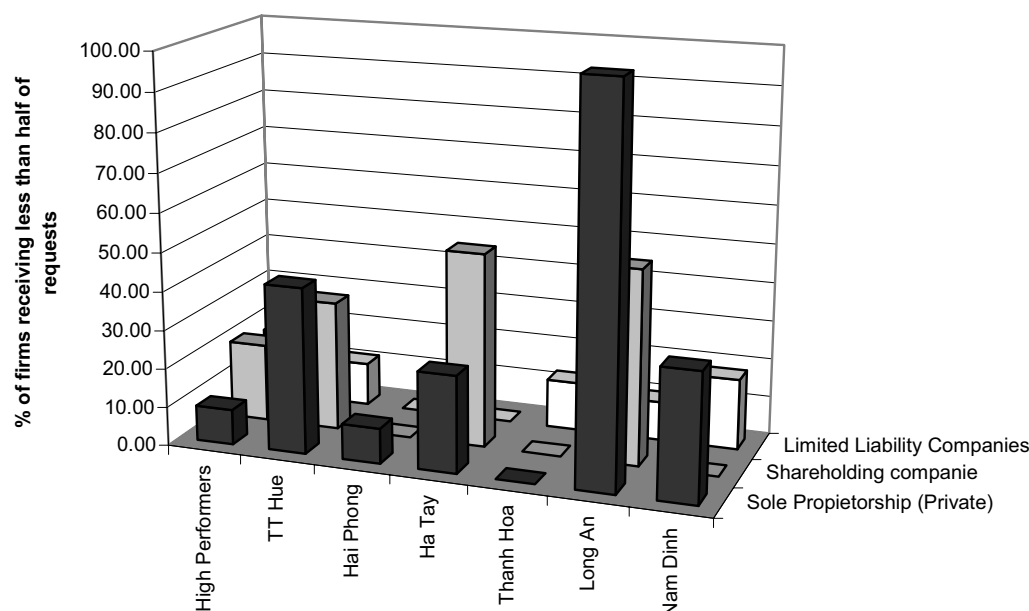
6.2.1. Are periphery firms accessing bank credit at all?

Bank financing plays only a minor role in the total capital structure of private firms across the country. Anecdotal evidence and traditional explanations have often focused on the difficulties firms have in applying for bank loans. Indeed, this is usually the primary complaint of companies and provincial officials alike. Of course, one would suspect that "not enough capital" would be a high-ranking complaint of small, private companies worldwide.

However, data from this survey appears to show that this is not the case. The mean success rate for loan applications across the entire sample population was 65% and, in fact, many of the periphery provinces bettered that rate. For example, Ha Tay and Thanh Hoa firms received over 80% of their loan applications; much higher than the average in the five high performing provinces. One might argue that it is only large or advanced firms that are applying for, and thus receiving, bank loans. To judge the validity of this statement, figure 18 charts the percentage of firms, which received between 0 and 50% of their loan requests, by type of firm. In other words, which firm types have been most unlucky in their loan requests? In Ha Tay, Long An, and Nam Dinh, there were quite large spreads. Limited

liability companies in Ha Tay and Long An have been far more successful than smaller private companies. In Long An, 100% of private companies have had poor luck in receiving loans, while less than 10% of LLCs have faced difficulties. In Ha Tay, not a single LLC fell into the unlucky category. In Nam Dinh, the bias was in favor of joint-stock companies, which were very unlikely to face rejected loan applications. The Nam Dinh bias may result from the importance of joint-stock companies in the Nam Dinh economy. (According to the 2001 Enterprise Census, the largest revenue producers by firm type in Nam Dinh province are joint-stock companies, which accounted for 657 billion VND. Of that amount, roughly 40% is produced by joint-stock companies, with some shares held by the state.³¹)

Figure 18: Percentage of firms that applied, but received less than half of their loan requests



A presumption that larger companies have greater success in the periphery would be premature, however, as it neglects the number of firms that self-selected out of the calculation by never applying at all for loans, because they felt they had little chance of receiving bank credit. As table 31 demonstrates, over 55% of the entire sample population had not applied for a loan in the last 5 years. Firms in Nam Dinh and Long An have been particularly shy about formal loan applications at banks.

Table 31: Bank loan success rate over the last 5 years

Province	Mean success rate in applying for loans, among those firms that applied (in %)	Number of firms that did not apply for loans (% of total CEO interviews)
TT Hue	58.3	7(37%)
Hai Phong	NA	NA

³¹ General Statistical Office (2002).

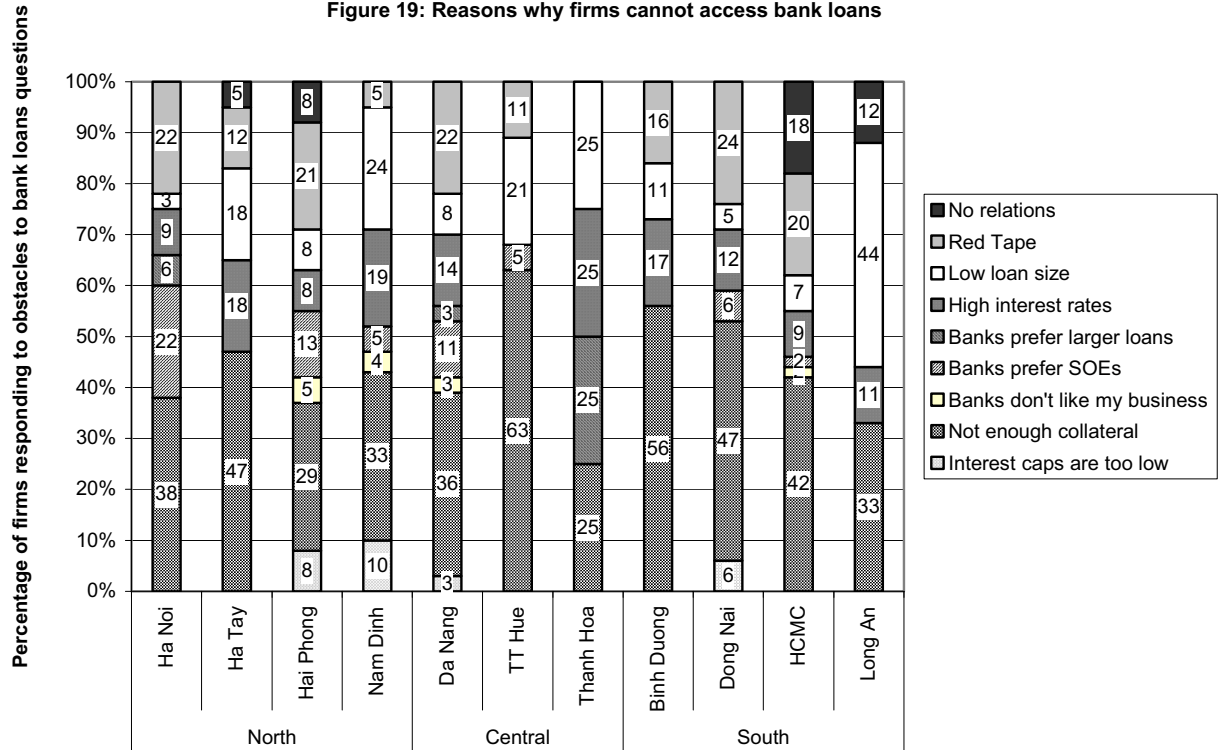
Table 31: Bank loan success rate over the last 5 years		
Ha Tay	80.9	4 (27%)
Thanh Hoa	83.3	4 (40%)
Long An	50.0	7 (54%)
Nam Dinh	66.7	10 (56%)
High Performers	64.3	77 (57%)
Total Sample	65.9	123 (55%)

6.2.2. Why have firms had trouble receiving bank credit?

A number of theories have been raised about why firms have trouble receiving bank loans, or never apply for loans from banks. All have some validity, as is demonstrated in figure 19. Moreover, these reasons vary across the provinces.

- Not enough collateral: This was the primary reason cited by firms in every province. Two factors are often combined in this issue. First, firms may not have very much collateral at all, and their owners are unwilling to risk their own house. Second, firms may be willing to risk their private holdings, but feel that the banks undervalue their collateral by 30% or more.
- Low loan sizes: Undervalued collateral is compounded when banks offer only small loans, which do not cover business needs. This problem was considered to be of minor importance among the high performers and Hai Phong, but the second leading cause of low bank usage in 5 out of the 6 periphery provinces. Long An firms were most frustrated by the small size of their loans.
- High interest rates: This factor is related to the two above, as it lowers the risk tolerance of firms. Why take a chance when your loan will be minimal and your interest rate expenses will be high? Firms in Thanh Hoa and Hai Phong felt burdened by this factor.
- Red tape: Most periphery provinces did not consider this factor to be a major impediment, but firms in the high performing provinces and Hai Phong ranked it highly.
- Bias in favor of SOEs: Of the non-urban periphery provinces, only Nam Dinh firms cited this issue. Long An firms were extremely unlikely to cite a pro-state bias in financing, confirming interviews with IncomBank officials, who presented data demonstrating a significant decline in the gap between state and private firms. According to data presented by bank officials, state firms in Long An originally received 73% of all loans, with the total non-state sector receiving 27%. The present spread is 53% for the state, 45% for total non-state, and 2% for others. Firms in the high performers and Hai Phong, however, were concerned about bias here. Actually, this result is driven almost entirely by firms from Ha Noi (22%) and Da Nang (11%). In the northern southeast region, firms did not identify this as a major factor.
- Relationships (*quan he*): Firms in Long An, Hai Phong, and Ha Tay felt that they could not access bank loans because "they did not know anyone" connected to the bank who could help them. Interestingly, the high score of the high performing provinces is entirely driven by HCM City (23.5%). No other firm in a high performing province cited this factor.

Figure 19: Reasons why firms cannot access bank loans



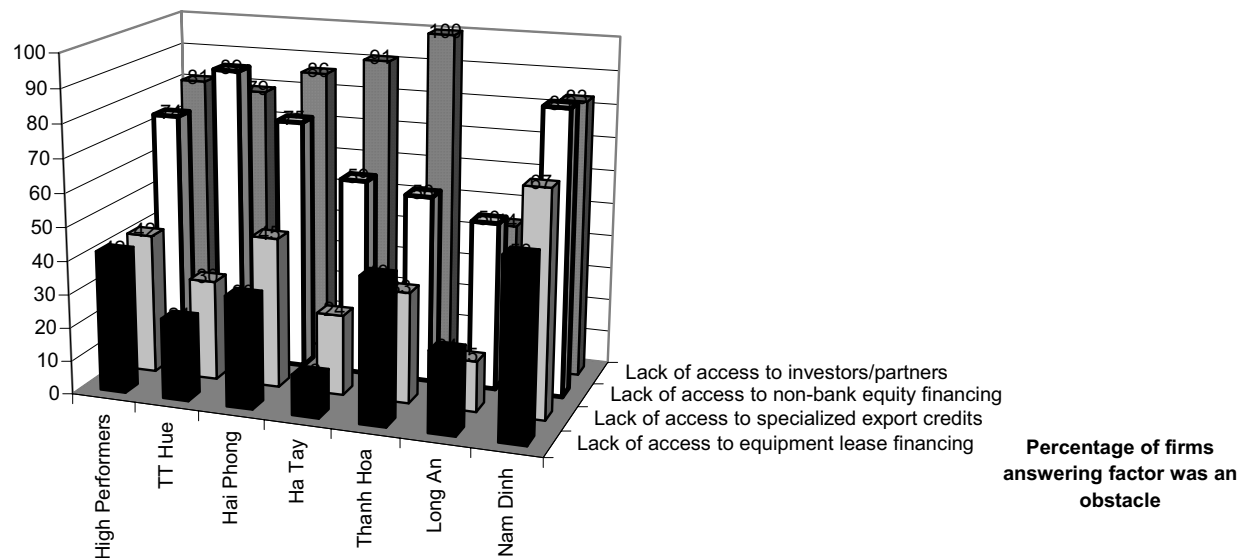
6.2.3. The constraints imposed by lack of capital access

Thus far we have discussed primarily bank loans, but not other sources of non-bank financing. Figure 20 indicates whether an inability to access non-bank capital causes special problems for firms on the periphery. Firms differed across provinces in what kinds of financing problems they deemed to be the major constraint on their growth and development. Firms in TT Hue and Nam Dinh felt that access to non-bank equity financing was a constraint, whereas firms in Thanh Hoa, Ha Tay, and Hai Phong fretted about the lack of investors and partners. This was also the major dilemma of firms in the high performers. Long An firms felt that the lack of non-bank equity financing was a constraint, but not to the same degree as its peers. On more specialized issues, access to export financing and equipment lease financing did not appear to impact the high performers and periphery provinces differently. Nam Dinh and Thanh Hoa firms felt they were most slowed in their growth by these issues. Long An firms, however, often felt access to most sources of non-bank financing was better than firms in the high performing provinces. This does not necessarily mean that there is better access in Long An, as the result could simply imply that firms in Long An have less need for these types of financing.

Interview Insights Box 19: Bank loans in Thanh Hoa

An LLC in Thanh Hoa illustrates that measuring success simply by application success may not be appropriate. This firm had tremendous success in loan applications, receiving loans on all five times that it applied. Four loans were short term, typically around six months, and totaling 50 million VND. A longer-term loan from a German development fund to help repatriates was for five years and was worth 700 million VND. This latter loan was the initial start-up capital for the business, but accessing this loan, where the money was guaranteed due to special circumstances, was very difficult for the small firm. The CEO considered the process to be overly complicated and risky, as he needed to put the land his house sat on as collateral. Despite the extraordinary success of this firm at receiving loans, the CEO considers access to capital to be his biggest challenge. He believes strongly that the loan processes are complex, under-valuation of collateral is common, and the payoff (usually 60% of the collateral) might not be worth the effort.

Figure 20: Severity of lack of access to non-bank capital on growth



Chapter 7: The role of friends and family in correcting market deficiencies

We have seen that family and friends are critical in firm financing, by playing the role private credit markets have been unable to play. As research continues on the best way to assist private development in the provinces, it is worth asking what other critical market deficiencies have been alleviated by turning to family and friends?

7.1. Market deficiencies corrected by friends and family

With regard to firm development, by looking at the mean importance attributed to family and friends in several different areas, table 32 shows the strong difference between high performing and periphery provinces. While all provinces turn to family for capital, periphery provinces seem to utilize family much more than the five high performers in their negotiations with government, banks, sales, and even service provision. Indeed, this is one of the more striking results of the survey.

Some of the major warning signs was the strong belief by firms in Thanh Hoa that family is very important in negotiating with government (leading to a mean of 2.27 out of a possible 3). Nam Dinh also scores quite high on this measure, and over 50% of Nam Dinh companies relied on family for promoting sales of their projects (for a mean of 2.45). Nam Dinh, Thanh Hoa, and TT Hue are also revealing for the high importance of friends overall; a figure arrived at by adding up the mean importance in every role played by friends and family.

There is little difference in the role played by family and friends across regions. Rather, high performing versus periphery is a much better distinguishing characteristic, especially with regard to sales assistance and business service provision. Sales assistance, however, was consistently high across both high performing and periphery provinces. By contrast, a clear divergence was found on business service provision. The high performing provinces (23% overall) and Long An (10%) were very unlikely to use family and friends for help, preferring to use commercial suppliers, though Dong Nai was an interesting exception. By contrast, TT Hue, Nam Dinh, and Thanh Hoa had quite high percentages of firms turning to family and friends. The crucial factor in determining whether firms chose family and friends does not seem to be "the proximity to market" from our initial conditions. Long An and Ha Tay—both within a motorbike ride of large cities—are the least likely to be reliant on family.

Table 32: Importance of family and friends in solving various problems
Mean score ranging from (0- Not Important to 3- Very Important)

Regions	Province	Infrastruc- ture problems	Bargaining with government officials	Sources of capital	Dealing with company's internal problems	Bargaining with banks	Sales assistance	Business service provision	Sum
North	Ha Noi	1.90	1.94	2.35	2.01	1.77	2.03	1.80	13.80
	Hai Phong	2.18	1.81	2.32	2.09	1.67	2.22	2.00	14.28
	Ha Tay	1.96	1.55	2.66	2.00	1.41	2.24	2.06	13.87
	Nam Dinh	2.03	2.06	3.28	2.19	1.79	2.45	2.17	15.96
	<i>Total</i>	<i>1.96</i>	<i>1.86</i>	<i>2.55</i>	<i>2.04</i>	<i>1.68</i>	<i>2.15</i>	<i>1.93</i>	<i>14.18</i>
Central	TT Hue	1.97	1.90	2.45	2.14	1.91	2.26	2.26	14.90
	Thanh Hoa	1.82	2.27	2.18	2.40	1.91	2.00	2.00	14.58
	Da Nang	1.50	1.58	2.10	1.69	1.61	2.10	1.88	12.45
	<i>Total</i>	<i>1.70</i>	<i>1.77</i>	<i>2.24</i>	<i>1.93</i>	<i>1.75</i>	<i>2.14</i>	<i>2.03</i>	<i>13.57</i>
South	HCM City	1.76	1.86	2.17	1.94	1.68	2.05	1.80	13.26
	Dong Nai	2.29	2.11	2.44	2.21	1.88	2.41	2.11	15.46
	Long An Binh	1.88	1.62	2.44	1.83	1.61	2.03	1.69	13.09
	Duong	1.70	1.73	2.35	1.95	1.58	2.07	1.73	13.10
	<i>Total</i>	<i>1.81</i>	<i>1.81</i>	<i>2.28</i>	<i>1.95</i>	<i>1.66</i>	<i>2.08</i>	<i>1.79</i>	<i>13.40</i>
High Performers		1.79	1.84	2.26	1.94	1.70	2.07	1.82	13.42
Total	Total Population	1.86	1.83	2.39	1.98	1.69	2.12	1.90	13.77

Figure 21: Market deficiencies corrected by friends and family (by region)

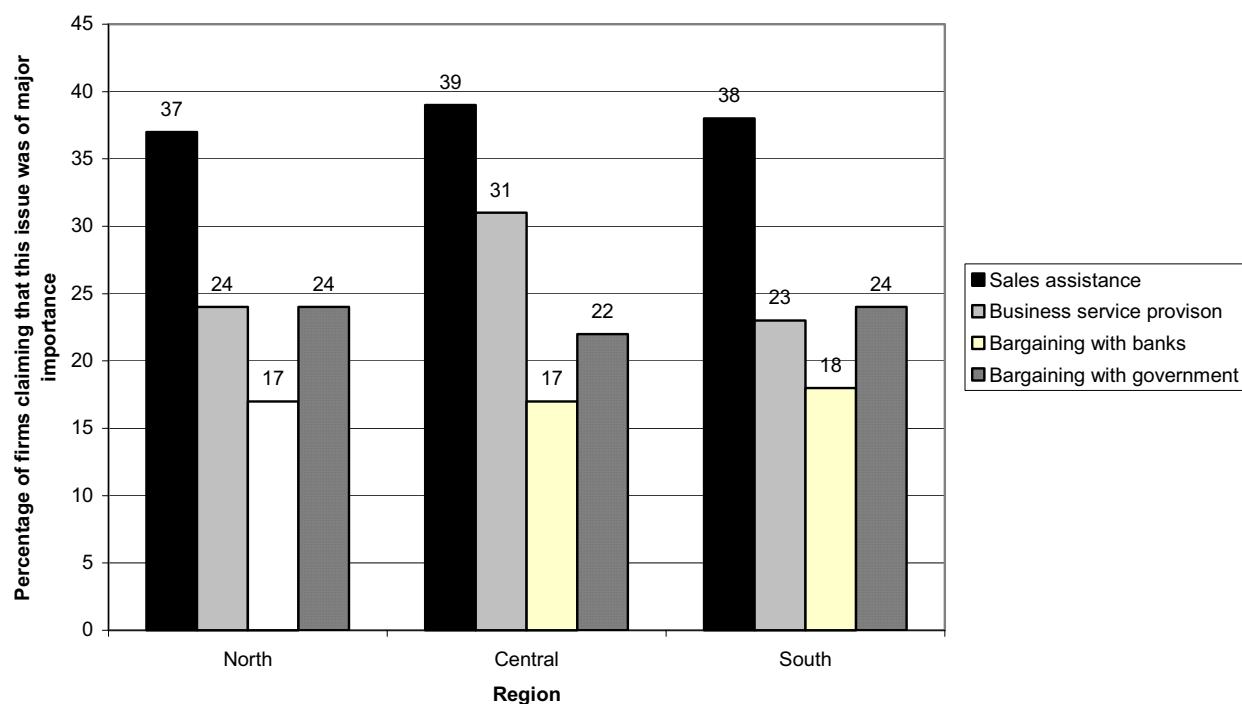
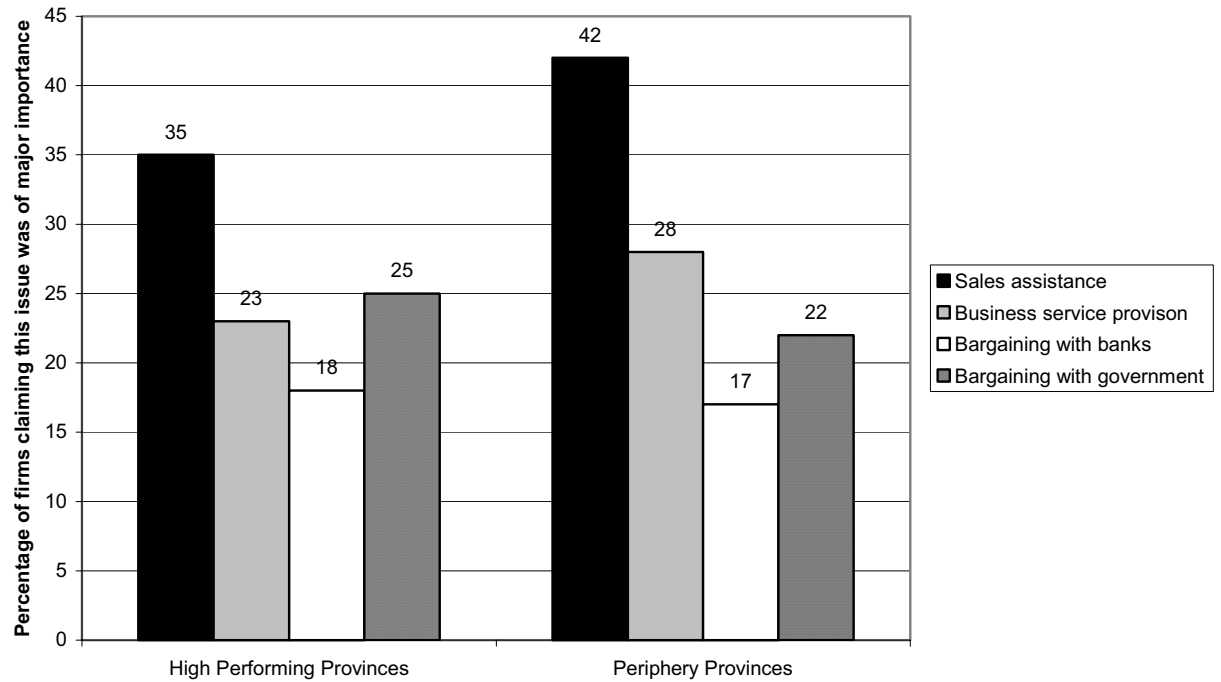


Figure 22: Market deficiencies corrected by friends and family (by provincial group)



7.2 What types of services are friends and family supplying for firms?

The assistance of close relations is widespread in local business. The only service not selected in high numbers was computer services, but in Nam Dinh and Hai Phong family was even turned to for some computer assistance. Provision of information on market opportunities and partnership possibilities was the most important service across the board, with financing and accounting following closely behind. Nevertheless, patterns are difficult to discern. The only statistically significant dichotomy is between northern and southern provinces on the use of family and friends for training and computer services.

Table 33: Business services provided by friends and family									
(Percentage of total mail-out firms receiving service from friends or family)									
Region	Province	Info provision	Finance & accounting	Consulting services	Training	Marketing assistance	Technical assistance	Computer MIS services	Legal advice
North	Ha Noi	60.3	37.4	33.6	8.4	26.7	22.1	16.0	16.0
	Hai Phong	62.1	41.4	48.3	20.7	27.6	34.5	20.7	17.2
	Ha Tay								
	Nam Dinh	45.8	35.4	27.1	14.6	10.4	20.8	14.6	18.8
	<i>Total</i>	<i>44.6</i>	<i>29.2</i>	<i>26.6</i>	<i>9.0</i>	<i>18.0</i>	<i>18.4</i>	<i>12.7</i>	<i>13.1</i>
Central	TT Hue	53.7	31.5	35.2	14.8	25.9	9.3	9.3	18.5
	Thanh Hoa	56.3	50.0	37.5	25.0	31.3	37.5	12.5	37.5
	Da Nang	46.2	15.4	21.2	3.8	13.5	26.9	3.8	17.3
	<i>Total</i>	<i>50.8</i>	<i>27.0</i>	<i>29.5</i>	<i>11.5</i>	<i>21.3</i>	<i>20.5</i>	<i>7.4</i>	<i>20.5</i>
South	HCM City	53.6	30.4	22.3	8.9	28.6	20.5	8.9	17.0
	Dong Nai	54.2	29.2	37.5	12.5	8.3	45.8		29.2
	Long An Binh	44.4	42.2	15.6		13.3	15.6	4.4	6.7
	Duong	44.1	28.8	20.3	5.1	16.9	16.9	10.2	25.4
	<i>Total</i>	<i>49.6</i>	<i>32.1</i>	<i>22.1</i>	<i>6.7</i>	<i>20.8</i>	<i>21.3</i>	<i>7.5</i>	<i>18.3</i>
High Performers		53.4	30.42	26.72	7.67	22.75	23.02	10.32	18.78
	Total Population	47.69	29.89	25.44	8.58	19.72	19.87	9.7	16.53
Total									

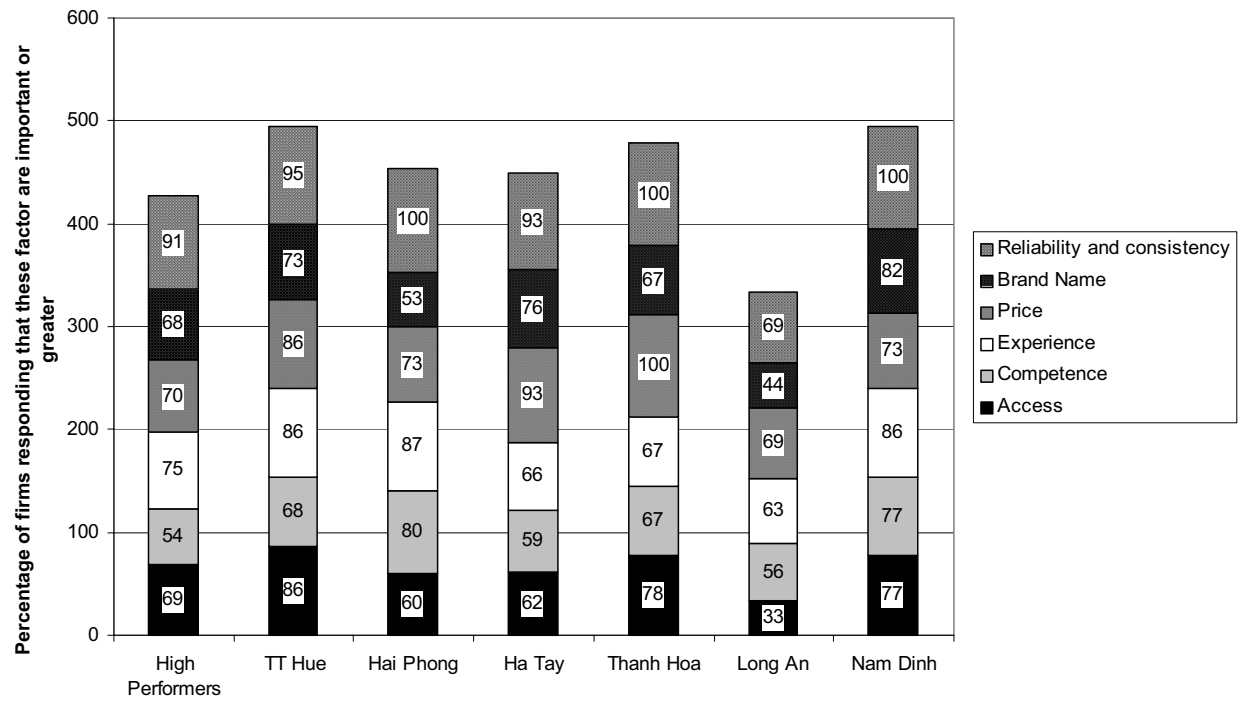
7.3 Comparing family to the commercial market for business services

Very few firms in the periphery provinces seem willing to pay for business services. The percentage of firms doing so was about half of that in the high performing provinces. Regarding computer services, where family is likely to lack the requisite skills, there appears to be some convergence. On the whole, periphery firms are more willing to pay for finance and accounting help, while in the high performing provinces, information-provision is more highly valued. Distinctions between the two groups are even more stark when one omits Long An, which accounted for about a quarter of the firms paying for assistance across the sample. An interesting note is that despite the low number of firms using services in the periphery, those users are very likely to be repeat clients. Median usage for information provision in the high performing provinces was four times, while every other service was about two times. Contrast this with Hai Phong, where three firms had used training assistance 6.5 times, information service provision 10 times, and marketing assistance 10.5 times. Long An (consulting 4.5 times), Ha Tay (marketing 4.5 times), and Nam Dinh (information provision 6.5 times) were also high repeat users.

7.4 Factors distinguishing business service provision

Among both high performing and periphery provinces, the biggest determinant of service provider selection is reliability and consistency. The choices made by periphery firms tend to be slightly more determined by the price of the service, though periphery firms in some provinces (eg. Hai Phong and Nam Dinh) were more sensitive to the competence of the providers than the high performers (see figure 23 below). In Thanh Hoa and Ha Tay, price was the strongest determinant of selection. Long An firms were not inspired to select any of the factors in high numbers. One policy conclusion that can be drawn from these results is that if donors want to promote business services among periphery firms, their appeal should be based on realistic costs and reasonable pricing.

Figure 23: Factors in choosing a business service provider



Chapter 8: Summary analysis of the periphery provinces

This chapter reviews the lessons that can be drawn from the previous chapters, by looking at each periphery province in turn. Also please refer to appendices 5 and 6, which provide a 'score card' matrix representation of the periphery and high performing provinces.

8.1. Hai Phong:

This second tier city is the lowest performing provincial city, but still has many of the advantages of urbanization and infrastructure. It began its development trajectory with more favorable initial conditions than any of the other periphery provinces. Hai Phong's developmental legacy was the important role of the state sector in its industry prior to 1997. Firms in this city tend to be of larger size, and predominantly limited liability companies. These firms are more internationally oriented than their peers, both in terms of the destination of their sales and the origin of their inputs. Performance scores of Hai Phong firms were not spectacular, demonstrating very little profit, despite sales growth. Part of the problem is that Hai Phong firms are right at the limit of their capacity; a problem compounded by the difficulty they face in accessing land. The crucial issues for Hai Phong seem to be governance factors, which were immediately evident by the unwillingness of firms to respond to sensitive questions, such as the frequency of inspections. Hai Phong firms ranked the province near the bottom in levels of transparency and the transaction costs imposed on firms due to waiting periods and customs procedures. Finally, dynamism in Hai Phong was only mid-range.

8.2. Long An:

Long An is a difficult province to understand at first glance. Its initial conditions were inauspicious but not disastrous, and over time the situation has improved drastically, as neighboring Binh Duong and Dong Nai have become more expensive locations. Long An out-performs its peers on governance scores, with accessible land, high transparency, and low transaction costs on both inspections and waiting. Long An also demonstrates a highly pro-active provincial government that is committed to assisting development. Long An firms have even been able to break through to the private commercial banking market in order to get loans. Firms in this province are the least likely to depend on family and friends to correct for market deficiencies. And yet, Long An firms did not perform at the top of the sample over the past year. Profit per employee was very high, but employment and sales growth over the previous year had been limited. There is some speculation concerning tough competition from foreign investors, but while 9% of Long An firms cite their main competition as foreign invested firms, their competitors are not numerous enough to account for such poor results.

8.3. Ha Tay:

Like Long An, Ha Tay began with difficult but not overwhelmingly poor initial conditions. It is close to the Ha Noi market and has reasonably good infrastructure. Ha Tay's major disadvantages seem to have been the difficult transition from agriculture, and low levels of education in the available labor force. Since the implementation of the Enterprise Law, Ha Tay has seen rapid growth in the size of its active private sector, spurred to some extent by domestic and foreign investment seeking close access to Ha Noi. Further growth of Ha Tay's firms is constrained by limited land and financing. Over 53% of firms are "in the process of applying" for formal recognition of their land. This problem is compounded by the fact that over 50% of the output from Ha Tay firms is sold to its struggling SOE sector.

Firms in Ha Tay also feel disadvantaged by two profit cutters: competition from cheap smuggled goods, and the need for expensive inputs from overseas. Ha Tay firms complain about competition from the state sector and firms with close relations to local officials, which Ha Tay entrepreneurs feel unfairly benefit from government assistance in financing and contracting. Governance scores are relatively good in this province, though several questions with no responses should signal that entrepreneurs were reluctant to speak freely on these issues. Nevertheless, Ha Tay firms only seemed to be disadvantaged by the low dynamism of their government, which may stem from being too close to Ha Noi. Ha Tay government officials are likely to have close connections to the central government, and are consequently constrained from lobbying strongly for any change. A final important factor to consider in designing a program to assist private sector development in Ha Tay is the large number of firms who rely on relatives for business service provision, especially sales promotion.

8.4. Thua Thien Hue:

TT Hue is an especially interesting province to study because of the dominance of small-scale individual private enterprises among its respondents. In fact, TT Hue has seen a boom in post-Enterprise Law registration and activity in exactly this area. Though the seat of imperial power, Hue was the most hindered by initial problems with infrastructure and distance from markets. Its business activity was primarily concentrated locally, with little emphasis on international sales or competition. The one exception was the importance of the customs laws to Hue firms, due to the tourist industry. In fact, Hue's relative isolation may have contributed to particularly healthy competition among private enterprises. Implementation of the Enterprise Law has been exceptional in TT Hue, and availability of land does not seem to be a development obstacle. We cannot be entirely confident of TT Hue's land policy results, however, as 45% of Hue firms chose not to answer whether they held land use rights certificates. The Hue government does impose high transaction costs on its firms, through extra long waiting periods. Unofficial payments to government officers are 7% of sales—the highest in the sample. The TT Hue local government is only a mid-level dynamic actor, though there is some evidence indicating this is changing. TT Hue firms rely heavily on family and friends for capital, and are unlikely to apply for bank loans because they are deterred by the high collateral requirements. In addition, family and friends in TT Hue are heavily involved in sales promotion and business service provision.

8.5. Thanh Hoa:

CEOs in Thanh Hoa had the most negative responses in the sample on general business environment and governance, despite the fact that they had the best return on their investments of the whole population. Like TT Hue, Thanh Hoa had very difficult initial conditions, but has seen their negative impact decline over time, primarily due to national road and port improvement projects. Thanh Hoa firms, though small in number, tended to be of a slightly larger scale than the average firm. Employment growth in these firms has been positive and sales growth was the best in the sample. One cause of concern for Thanh Hoa firms is that they are highly leveraged. This may result from three factors: 1) high returns in previous periods have made Thanh Hoa a good place to invest; 2) the largest per-firm use of informal money lenders; or 3) the fact that 67% of Thanh Hoa firms gave credit to customers. (In fact, median credit has grown 183% since 1998.) The generosity in credit provision is the result of a high dependence on SOEs and local government as customers for their products. Competition in Thanh Hoa is predominantly in the private sector, but government assistance in financing is a critical determinant of success. Problems with SOEs are also rife in Thanh Hoa; 80% of firms competing against SOEs believe the government is aiding their adversary. Land is cheap and available in Thanh Hoa, but the

other elements of governance in that province are clearly threatening. Transparency poses a major problem for firms, as does transaction costs from inspections. Clearly, the most pernicious problem is that 74% of firms in Thanh Hoa believe the government uses compliance with regulations to extract unofficial payments from them, which impedes their business activities.

8.6. Nam Dinh:

As close observers of Nam Dinh might have guessed prior to the survey, the major developmental issue is the legacy of the state sector, which used to be the pride of the province and the country. Interviews with local officials confirmed what shows up in the survey data; that the fortunes of the private sector are highly entangled with the fortunes of the SOE sector in terms of sales, inputs, and competition. Nam Dinh firms even have the highest percentage of joint ventures with the state sector. It is this fact, more than Nam Dinh's other mediocre (but not terrible) initial conditions, that have slowed down the development of private entrepreneurs. Nam Dinh firms are struggling; they have low returns on investment and low sales, but are highly leveraged (also due to their outstanding credits to customers, mainly SOEs). They have seen rapid growth in capacity utilization, but cannot expand capacity due to limited land and finances. SOEs are the major customers of private firms in Nam Dinh and suppliers of inputs. SOEs also are the biggest competitor to the Nam Dinh private sector, and according to 72% of Nam Dinh firms, they receive assistance in contracting and financing, which further tilts the playing field in their favour. If this was not enough, Nam Dinh's government consistently ranks low on the various indicators of performance. It is especially non-transparent, and costs its firms dearly with over-zealous inspections, though its dynamism does place it at the top of third tier provinces. Interestingly, Nam Dinh CEOs report the lowest percentage of their sales to the tax authority of any province – a clear indication that they fear giving too much information. Nam Dinh firms are unlikely to apply for bank loans because of excessive collateral requirements and the small size of the loans available, preferring to turn to family and friends in higher numbers than in any other province. Firms in this province were most likely to cite the various constraints of limited finance. The positive note for development is that entrepreneurs in Nam Dinh are large users of business services from close relations, though they are highly conscious of price when purchasing them.

Chapter 9: Conclusions

9.1. General Conclusions

This study has provided a profile of the business environment in the periphery provinces, from which it is now possible to highlight some general trends and patterns. Firms in the periphery provinces began with less favorable initial conditions for development. As they commenced their development process, they were burdened by being farther from markets, possessing inferior infrastructure, and being dependent on agriculture and state-owned production. While these conditions were important, they did not necessarily determine outcomes. For instance, a province like Binh Duong began with challenging conditions, but incorporated improvements into its development strategy. Conversely, provinces like Hai Phong, and Ha Tay had decent initial conditions, but still have not seen their private sector grow and prosper at the rate of the high performing provinces.

Over time, despite initial negative conditions, periphery provinces have begun to seem more attractive to investors, partly because of higher costs and diminishing marginal returns in the high performing provinces. The implementation of the Enterprise Law has also aided development in periphery provinces. Due to these critical changes, domestic as well as foreign investors have been attracted away from the provinces that have been the main engines of Vietnam's growth. Improvements in the legal rights of private business have led to some impressive gains in periphery provinces since 2000. While still slightly behind their high performing counterparts, periphery firms have shown impressive profit, employment and sales growth. Such expansion, however, has pushed firms in Hai Phong, Thanh Hoa, and Ha Tay to the limits of their capacity. The only province where firms are in poor financial health is Thanh Hoa, but high liabilities there may be the result of the impressive return on investment in that province during the previous year. Expecting high returns, firms may have been motivated to borrow heavily in order to expand.

The market environment among periphery provinces is far more constrained than high performing provinces. Except in Hai Phong, firms sell very little internationally, and buy even less from overseas. One cause of concern in a few northern periphery provinces is the heavy dependence many private firms have on both purchases and sales to SOEs. This may be one of the reasons why firms in these provinces are more likely to grant credit to customers. The news on competition in the periphery was mixed. The major source of competition was other small private firms, which signals a robust and healthy competitive environment that should benefit consumers through innovation and reasonable prices. On the other hand, firms in periphery provinces were more likely to feel disadvantaged due to the perception that government favors their competitors. The most likely forms of government support to competitors were in the areas of financial assistance and in the awarding of contracts. When the study focused on competition with SOEs, the legacy of initial conditions appeared to be quite strong.

Issues of governance drew a visible dividing line between high performers and the periphery, but not in the sense that is usually discussed by analysts of Vietnam. Implementation of components of the Enterprise Law has been very good across the provinces. In fact, problems with licensing are more likely to be found in the high performing provinces. Moreover, delays in development have given a number of the periphery provinces advantages in their ability to allocate land to the private sector, although they must be more diligent in formalizing unofficial ownership by obtaining land use rights certificates. A cause of future concern may be the tendency of some companies in northern

periphery provinces to rent land from SOEs, rather than seek land of their own. Using a variety of ways to seek information about transparency proved more reliable than directly asking about this, and the results demonstrate the lack of transparency in provincial decision-making has a negative impact in the periphery provinces. On this question, differences were greater from one peripheral region to another than was the case between the high performing and peripheral provinces. Speculation regarding these differences varies from attributing them to differences in culture, to the fact that southern provinces have a longer history of free enterprise and are therefore better able to understand the mechanisms of a market economy.

Analysis of transaction costs yielded three different types: 1) customs regulations faced solely by the high performers and Hai Phong; 2) inspections that were a source of trouble in Nam Dinh and TT Hue; and 3) the waiting period, which held up progress in Hue and Hai Phong. It appeared that some provinces may have tacitly adopted a local compromise – that of inspecting more diligently (and collecting more fees in the process) in order to make up for the shorter waiting periods, as required by the Enterprise Law. Governance problems in the form of direct requests for payments and the need to pay for "wheel greasing" were evident, but did not yield an observable pattern among provinces. This may result from the hesitancy of firms to report such costs, and the impact that FDI has on this element of governance. When firms did get into contract disputes, settlement mechanisms to resolve them were still in their infancy. Very few firms felt comfortable turning to government institutions for assistance. Only firms in the region near HCM City felt comfortable using the court system. When probed about why there was fear of using the courts, firms cited damaged business relations and the time likely to be lost.

Dynamism and pro-activity on the part of local officials, proved to be an important factor in predicting the size of the active private sector, especially when size of the provincial market is taken into consideration.

Surveying financial status showed that personal funds and money borrowed from friends and family (with an obligation to return the funds or without) are the primary sources of capital for periphery firms, as well as firms in the high performing provinces. Hai Phong firms were able to obtain capital from input suppliers, and Thanh Hoa firms were likely to turn to informal moneylenders, but these numbers were still relatively small. Bank financing played only a small role in the total capital structure, despite the fact that the actual success rate of applications for loans in the periphery provinces was a staggering 60%. Such a high percentage was probably the result of a number of large firms receiving bank loans, and the selection effect of smaller firms not applying at all for loans, because they felt they had little chance of success. Applications were also low because many periphery firms feared that their collateral was too low to compensate for the small loans they would receive and the high interest rates they would have to pay. Some provinces had firms fretting over red tape, biases toward SOEs and a feeling that they lacked the relationships necessary to help them obtain bank financing.

This led to a brief study of the role of friends and family in periphery business development. This role was quite substantial in a number of areas, including bargaining with banks, relations with government and sales promotion. The main difference between high performing and periphery provinces on this front seemed to be the special role that the family played in supplying business services. As a consequence of the impressive role played by relations, very few firms sought commercial assistance with business services, except when related to computers. When periphery firms did venture into the private market for business services, they tended to be highly price sensitive. Differences in the willingness

of firms in periphery and in the high performing provinces to pay for business services may be the greatest difference in the entire study. It also provides the most potential for corrective efforts on the part of international donors.

9.2. Suggestions for further research:

This report has been drawn primarily from surveys of enterprise directors and interviews with local officials. These are useful techniques, but they have arguably raised more questions than answers about comparative provincial business environments. A few questions raised over the course of this study, and which deserve further in-depth analysis, include the following:

- The topics discussed in this report are only the proximate cause for provincial private sector development. More research is necessary to understand the ultimate causes underlying the private sector environment. In essence, what cultural, historical, geographical, and economic forces have led to the different economic environments we see today?
- More thorough case study work is necessary to understand the subtle differences in provincial governance and provincial relations with the central government, especially as they apply to dynamism. We have little understanding of the difference in capacity of provincial governments. More importantly, we have little knowledge of why some provincial governments have the policy space to be innovative, while others feel more constrained.³²
- A new GSO survey is needed to account for active enterprises. First, it will help researchers understand whether the components discussed in this report have any impact on growth in the private sector over time. Second, it will allow for a thorough test of the relationship between registration and firm activity over time. How much of the present boom in registrations is sustainable, and what accounts for that sustainability?
- A smaller study would be useful to better understanding the reasons for variance in post-Enterprise Law registrations. What accounts for the boom in Hai Phong and Ha Noi? Conversely, why has growth in Long An, Dong Nai, and Da Nang been more limited? Are these registrations due to proactive work on the part of economic officials, or can they be explained by changing conditions in the business environment?
- The World Bank and IFC/MPDF survey should be expanded to other provinces. Vietnam has over 60 provinces and cities, creating a wealth of variation for hypothesis testing. The results of this report can only be considered conjectural, because there was a limited number of provinces, and too few respondents in each province. Expanding the survey, and creating a more scientific PSE index for the new sample, that integrates subjective survey measures with objective economic and political indicators from the provinces, would be an interesting research tool. Ideally, the study should also be repeated over time, in a bid to capture dynamic

³² Presently, The Asia Foundation and the Vietnam Chamber of Commerce and Industry are conducting research that involves a review of provincial planning documents and situational case studies, in a bid to better understand provincial dynamic behavior.

improvements. A study five years after the Enterprise Law would be a great opportunity to record changes among the provinces.

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Appendices

Appendix 1: Detailed methodology

A1.1. The Mail-Out Survey

The list of businesses for the mail-out survey was compiled by CIEM, who worked with the provincial DPIs to create lists of registered private enterprises and then removed firms that were registered but had not yet begun operations—so-called "ghost firms." After the final list was compiled, an attempt was made to create a stratified sample from the total population, reflecting the structure of the private sector in terms of: size, economic sector, legal forms and rural/urban partition.

The questionnaire was prepared by APSEM, with the collaboration of CIEM and MPDF research staff. It consisted of 44 questions, querying businesses about basic information, scope of business activities, sources of funding, as well as their perceptions on their business environment. Business environment included a range of questions from macro-economic stability to infrastructure to laws and regulations and government institutions.

After some initial field-testing on a separate population of firms in Ha Noi, questionnaires were sent to 3,900 private firms. Firms were requested to return the survey to the CIEM address listed on the enclosed envelope. A total of 629 questionnaires were returned for a response rate of 16 %. The table below records response rates for every province. As can be seen, Ha Noi and Hue had very large return rates, while Hai Phong, Dong Nai, and Thanh Hoa had extremely low rates. This led to the strange situation where CEO interviews covered nearly 100% of the firms that responded to the survey in their provinces.

Provinces	No. of questionnaires sent	No. of received questionnaires	Return Rate	CEO Interviews	CEO interviews as a percentage mail-out
Hanoi	500	131	25.20	36	27.48
HCMC	600	112	18.67	35	31.25
Binh Duong	400	59	14.75	20	33.90
Dong Nai	250	24	9.60	21	87.50
Hue	250	54	21.60	21	38.89
Da Nang	250	52	20.80	20	38.46
Hai Phong	250	29	11.60	26	89.66
Ha Tay	466	59	12.66	15	25.42
Nam Dinh	255	48	18.82	18	37.50
Thanh Hoa	259	16	6.18	10	62.50
Long An	420	45	10.71	13	28.89
High Performers	2,000	378	18	132	43.72
Total	3,900	629	15.60	235	45.59

A.1.2 Focused CEO Interviews.

The initial goal of the project was for CEO interviews to not take place until after all mail surveys had been completed. This was to ensure that CEO interviews could follow up on a subset of the sample firms. However, due to the tardiness of returns and the low response rate overall, this was impossible. Therefore, a new random sampling needed to take place using the original list of firms, so that CEOs who had not sent back their replies were chosen. Interviewees were asked to complete the questionnaires on the same day as their CEO interviews. Before the start of the official interviews of business directors, APSEM representatives led off a training session on the interpretation of questions and how to obtain needed and accurate information. A pre-test of the interview format was performed on three Hanoi firms so that flaws could be ironed out before proceeding to the wider swathe of firms.

The second questionnaire was also prepared by APSEM with the participation of CIEM and MPDF staff. It consisted of 152 questions and probes the entire gamut of performance questions as well as further queries into fairness issues, finance, markets and competition, laws and regulations, corporate governance, and business development service. For the first stage, interviews were performed by CIEM researchers and experienced staff from the GSO, State Bank of Vietnam, APSEM and MPDF. For the second stage, it involved some staff from the Hanoi Institute of Economics.

A.1.3. Interviews with Officials.

For this stage of the project, provincial DPIs were asked to arrange interviews for APSEM and MPDF interviewers. A standard sample of officials was chosen and the same schedule requested in every province. Interviewers met with representatives of the provincial People's Committee (PCOM), DPI, Department of Industry (DOI), the Land Authority (Cadastral Department), Department of Finance, Tax Authority, and the Industrial and Commercial Bank in every province. The purpose of the interviews was to ascertain provincial policies and interpretation of the Enterprise Law to see if it conformed to the views of firms within their province. In addition, an effort was made to collect relevant provincial planning documents, lists of firms, and copies of important provincial implementing laws. As only representatives of provinces were requested, the status of the official chosen varied by province.

Appendix 2: Factor loadings and variance explained for transparency components

Component Matrix^a

	Component	
	1	2
do you negotiate with tax authorities	.429	.514
local gov. difficult to deal with during party conferences	.476	-.561
information and updates on tax	.645	-.425
importance of friends in negotiations with government	.417	.495
intensity of gov't support for competitor	.542	.211

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.294	25.882	25.882	1.294	25.882	25.882
2	1.050	21.002	46.884	1.050	21.002	46.884
3	.976	19.517	66.401			
4	.921	18.419	84.820			
5	.759	15.180	100.000			

Extraction Method: Principal Component Analysis.

Appendix 3: Factor loadings and variance explained for transaction costs components

Component 1: Inspections and Senior Management Days

Component 2: Waiting Periods

Rotated Component Matrix^a

	Component	
	1	2
total inspection hours	.903	-7.96E-02
total inspection time	.900	-1.25E-02
land wait sum of all agencies	-7.56E-02	.658
how many days wait to get bank loan	2.991E-02	.746
length of time to get licenses and permits	-3.87E-02	.480

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.672	33.430	33.430	1.672	33.430	33.430
2	1.188	23.769	57.200	1.188	23.769	57.200
3	.973	19.465	76.664			
4	.830	16.590	93.254			
5	.337	6.746	100.000			

Extraction Method: Principal Component Analysis.

Appendix 4: Factor loadings and variance explained for customs components

Component Matrix^a

	Component
	1
days senior management deals with government requirements	.548
days to get imported goods from port of entry	.731
number of days it took exported goods to clear customs	.748

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.394	46.462	46.462	1.394	46.462	46.462
2	.893	29.769	76.231			
3	.713	23.769	100.000			

Extraction Method: Principal Component Analysis.

Appendix 5: Summary report cards for the periphery provinces

Province	Initial Conditions	Firm Performance	Market Environment	Local Governance	Access to Financing	Business service provision BSP	Corporate governance
Hai Phong	Very good infrastructure and good human capital resources	Low profits, mediocre capacity utilization, good sales and employment growth.	Most internationally oriented periphery province, high dependence on SOEs for sales and inputs, robust private sector competition, and high government support to main competitor.	Minor problems with Enterprise Law, low transparency, high rent-seeking and low response rate of firms to governance questions. Low-medium dynamism levels.	Medium access to private commercial banks and formal lenders, many firms complain a lack of access restrains their activity.	High reliance on family and friends for BSP and market information for sales. Firms are somewhat sensitive to price of service.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Mixed scores on non-institutional measures.
Ha Tay	Very good infrastructure and close proximity to market. Low human capital resources.	High profits, high capacity utilization, very low liabilities per firm, very good employment growth, and good sales growth.	Very high SOE dependence for sales and inputs, high competition from state sector and smuggled goods, high government support to main competitors.	Good Enterprise Law implementation, some land issues, good transparency, high number of non-responses, and low dynamism levels.	High success rate for loan applicants, but bank loans a very small portion of total financing, high reliance on friends and family, problematic collateral requirements.	High reliance on family and friends for BSP and market information for sales. Firms are highly sensitive to price and quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has medium scores. Good scores on non-institutional measures.
Nam Dinh	Decent infrastructure and low human capital resources	Low profits and return on investment, mediocre capacity utilization, good financial positioning, good employment and sales growth.	Very high SOE dependence for sales and inputs, high competition from state sector, and very high government assistance to main competitors.	Good Enterprise Law implementation, problems with land acquisition, low transparency, high inspections, and low dynamism levels.	Very low access to banks and formal lenders, yet good loan success rate, but few firms applying and biased toward large firms, many firms believe activities restrained by lack of financing.	Very high reliance on family and friends for BSP and high reliance for sales. Firms are somewhat sensitive to price, and very sensitive to quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has fair scores. Medium scores on non-institutional measures.
Thanh Hoa	Mediocre infrastructure and low human capital resources	Low profit per employee, but high return on investment, high capacity utilization, high firm liabilities, very good employment and sales growth from a low base.	High dependence on SOE sector and local government for sales, medium dependence on state sector for inputs, robust private sector competition, and very high government support to main competitors.	Very low response rate on governance questions, low transparency, high inspection rates, high rent seeking, and low dynamism levels.	Medium level of bank loans in capital structure, high success rate of loan access, low loan size considered problematic and thereby creating some constraints on activities.	Very high reliance on family and friends for BSP market information for sales, and legal advice. Firms are very sensitive to price and very sensitive to quality of providers.	Very low scores on institutional measures and very high scores on non-institutional measures. Thanh Hoa is a corporate governance puzzle.
TT Hue	Mediocre infrastructure and human capital resources	Mediocre profits and return on investment, mediocre capacity utilization, strong finances, good employment growth, and low sales growth.	Low SOE dependence for sales, but high dependence on local government, very robust private sector competition, and medium government support to competition.	Good Enterprise Law implementation, many firms without formal land rights, low transparency, high transaction costs, and medium dynamism levels.	Medium rate of bank loans in capital structure at start-up and at present, high loan success rate, collateral requirements considered a constraint on activities.	High reliance on friends and families for BSP and sales assistance. Firms are sensitive to experience, price and quality.	Institutional indicators of corporate governance related to type and size of firm, so province has lower scores. Low scores on non-institutional measures.
Long An	Mediocre infrastructure and low human capital resources, but close proximity to markets.	High profit per employee and mediocre return on investment, good capacity utilization, low liabilities, very low employment and sales growth.	Very low SOE dependence for sales or inputs, very robust private sector competition, very low government support to competition.	Good Enterprise Law implementation, high percentage of firms with formal land rights, very high transparency, low transaction costs, and very high dynamism levels.	Medium rate of banks loans in capital structure and as a percentage of loans, low loan success rate and many non-applicants, high bias in favor of large firms, small loan size problematic, but does not constrain activities.	Medium reliance on friends and family for sales assistance and low reliance for, BSP. High number of firms paying for BSP, and only moderately sensitive to price and quality.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Low scores on non-institutional measures.

Appendix 6: Summary report cards for the high performing provinces

Province	Initial Conditions	Firm Performance	Market Environment	Local Governance	Access to Financing	Business service provision (BSP)	Corporate governance
Binh Duong	Small state sector presence in economy. Had very good infrastructure and good human capital at the time of measurement, but early on in the decade these score would have been much worse.	Medium profits, high return on investment, high capacity utilization, relatively high liabilities, good sales and employment growth.	High international sales, low dependence on SOEs, some credit to customers, medium competition with private sector but high competition with foreign investors, medium government support to main competitors primarily in contracting and finance, low SOE support.	Good Enterprise Law implementation, excellent distribution of land use rights certificates, good transparency level, low transaction costs on waiting periods with pretty high inspections, very high dynamism	Good access to private commercial banks and formal lenders, high loan success rate, many firms complaining about high collateral requirements.	High reliance on family and friends for sales assistance and service provision. Firms are not very sensitive to price of service.	Institutional indicators of corporate governance related to type and size of firm, so province has medium scores. Very few firms have control boards or shareholder meetings. Mixed scores on non-institutional measures.
Dong Nai	Very good infrastructure, proximity to markets, and human capital resources.	Medium profits, highest return on investment in sample, low capacity utilization, low firm liabilities, profit, decrease in employment, satisfactory sales growth.	Medium international sales, low dependence on SOEs, some credit to customers, robust private sector competition, very low support to main competitors and low assistance to SOEs.	Good Enterprise Law implementation, problems with land and foreign exchange acquisition, good distribution of land use rights, extremely transparent, high inspections but low waiting periods, very high dynamism.	Low access to private commercial banks and formal lenders, high reliance on family for capital, many firms complain of high collateral requirements and red tape.	High reliance on family and friends for everything, but especially BSP, sales and market information, firms willing to pay for BSP and primarily worried about reliability.	Institutional indicators of corporate governance related to type and size of firm, so province has low scores. Low scores also on non-institutional measures.
Da Nang	Large state presence in the economy, very good infrastructure, poor proximity to Ha Noi or HCMC, but has its own international port. Among best human capital resources in the sample.	Low profits, mediocre return on investment, strong financial position, low capacity utilization, high employment growth, highest sales growth in sample.	Medium international sales, medium dependence on SOEs, high competition within private sector and with SOEs, medium government assistance to main competitors, but not SOEs.	Good Enterprise Law implementation, big problems with land acquisition and poor distribution of land use rights, good transparency, low inspections and low waiting periods, medium dynamism	Good access to private commercial banks and formal lenders, high loan success rate, many firms complain of high collateral requirements and red tape.	Medium reliance on family and friends for BSP and sales. Firms are somewhat sensitive to price and very sensitive to quality of providers.	Institutional indicators of corporate governance related to type and size of firm, so province has very good scores. Medium scores on non-institutional measures.
Ha Noi	Very good infrastructure, proximity to market, and best human capital resources in the survey.	Medium profits, high returns on investment, strong financial position, high capacity utilization, good employment and sales growth relatively high.	Medium international sales, high dependence on SOEs, high percentage of firms giving credit to customers, robust private sector competition, high government support to main competitors including SOEs.	Problematic implementation of Enterprise Law, problems with land acquisition and only medium distribution of rights, very low transparency, high inspection hours, mixed waiting periods, low dynamism.	Good access to private commercial banks and formal lenders, high success rate at receiving loans, very high use of friends and family, many firms complain of high collateral requirements and bias in favor of SOEs, and red tape.	Very high reliance on family and friends for market information, sales, and accounting advice. Many firms paying for services, but highly interested in reliability.	Institutional indicators of corporate governance related to type and size of firm, so province has mixed scores. There are very few control boards. Good scores on non-institutional measures.
HCM City	Very good infrastructure, proximity to market, but only decent human capital resources relative to high performing peers.	Very high profit per employee, mediocre return on investment, medium capacity utilization, strong financial position, very good employment growth and sales growth.	High international sales, medium dependence on SOEs, some credit to customers, robust competition with private sector and foreign sector, low government support to competition, but some support to SOEs.	Average Enterprise Law implementation, due to problems with land and foreign exchange, high percentage of firms with formal land rights, very good transparency, high inspection hours, mixed waiting periods, medium-high dynamism.	Best access to private commercial banks and formal lenders, low loan success rate, many firms complain of high collateral requirements.	Medium reliance on friends and family for sales assistance, and low reliance on BSP. High number of firms paying for BSP, especially information provision. They are generally not very price sensitive.	Institutional indicators of corporate governance related to type and size of firm, so province has good scores. Medium-low scores on non-institutional measures.

Appendix 7: General Statistical Office (GSO) Survey of Active Private Firms (1995-2000)

Province	1995	1997	1998	1999	2000
An Giang	542	698	721	802	920
Ba Ria-Vung Tau	147	335	395	389	420
Bac Giang	98	48	51	36	64
Bac Kan	n.a.	n.a.	1	22	30
Bac Lieu	368	340	359	340	336
Bac Ninh	n.a.	70	64	82	134
Ben Tre	276	912	912	718	462
Binh Dinh	173	152	168	268	326
Binh Duong	n.a.	527	534	634	744
Binh Phuoc	518	157	161	179	206
Binh Thuan	194	2491	2532	365	409
Ca Mau	n.a.	523	574	523	582
Can Tho	438	491	497	565	699
Cao Bang	40	23	22	13	53
Da Nang	406	358	393	496	704
Dac Lac	46	n.a.	24	275	404
Dong Nai	629	733	780	870	996
Dong Thap	492	617	733	1062	782
Gia Lai	173	177	177	181	247
Ha Giang	25	41	41	40	63
Ha Nam	80	26	29	34	56
Ha Noi	1329	2040	2062	2141	3666
Ha Tay	132	178	237	229	338
Ha Tinh	56	83	101	82	129
Hai Duong	160	156	175	168	220
Hai Phong	225	413	480	444	573
Ho Chi Minh Cit	3836	6304	6279	6838	9089
Hoa Binh	23	n.a.	31	42	63
Hung Yen	n.a.	43	63	55	90
Khanh Hoa	274	416	468	505	618
Kien Giang	543	990	1039	663	714
Kon Tum	31	30	49	53	70
Lai Chau	12	19	20	23	46
Lam Dong	215	300	334	448	527
Lang Son	20	28	31	54	84
Lao Cai	88	108	105	101	114
Long An	386	527	545	496	507
Nam Dinh	n.a.	98	112	114	180
Nghe An	129	154	204	225	318
Ninh Binh	66	94	91	117	162
Ninh Thuan	81	n.a.	21	101	107
Phu Tho	129	129	157	118	190
Phu Yen	223	220	225	234	285
Quang Binh	42	66	65	85	167
Quang Nam	0	212	230	233	261
Quang Ngai	93	76	84	140	189
Quang Ninh	110	162	161	221	281
Quang Tri	39	67	62	81	149
Soc Trang	260	339	348	410	497
Son La	15	23	23	34	37
Tay Ninh	315	382	156	324	325
Thai Binh	140	163	180	201	181
Thai Nguyen	98	118	112	98	130
Thanh Hoa	93	100	104	136	212
Thua Thien-Hue	175	183	188	208	361
Tien Giang	629	1027	1050	1022	883
Tra Vinh	211	348	394	355	355
Tuyen Quang	13	28	29	20	44
Vinh Long	399	480	483	564	601
Vinh Phuc	n.a.	106	109	94	132
Yen Bai	41	41	42	40	61

Appendix 8: Number and capital size of firms registered after the Enterprise Law (2000-2003), by province and firm type.
(Capital in Millions of VND).

Province	Sole Proprietorship		Limited Liability		Shareholding		Partnerships		Ltd. (1 member)		State		Total	
	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital
An Giang	394	279,018	172	287,484	9	58,371	0	0	0	0	0	0	575	624,873
B.R.V. Tau	440	251,913	420	643,524	43	358,675	0	0	0	0	0	0	903	1,254,112
Bac Giang	33	21,535	173	199,238	26	86,740	0	0	0	0	0	0	232	307,513
Bac Lieu	113	77,109	20	56,470	3	26,517	0	0	0	0	0	0	136	160,096
Bac Ninh	135	130,244	242	666,707	18	74,584	0	0	0	0	0	0	395	871,535
Bak Kan	53	34,360	45	70,469	1	10,000	0	0	0	0	0	0	99	114,829
Ben Tre	446	180,764	49	211,332	3	14,812	0	0	0	0	0	0	498	406,908
Binh Dinh	293	162,325	211	290,825	22	73,294	0	0	0	0	0	0	526	526,444
Binh Duong	516	391,895	556	1,462,667	52	867,525	0	0	0	0	2	9,712	1,126	2,731,799
Binh Phuoc	228	82,890	136	207,972	12	65,260	0	0	0	0	0	0	376	356,122
Binh Thuan	404	351,043	162	380,302	10	46,863	0	0	0	0	0	0	576	778,208
Ca Mau	543	289,419	66	113,656	15	54,630	0	0	0	0	0	0	624	457,705
Can Tho	298	107,609	141	177,269	16	107,907	0	0	1	9,421	2	11,738	458	413,944
Cao Bang	109	126,365	26	98,490	12	28,618	0	0	0	0	0	0	147	253,473
Da Nang	323	115,201	417	591,991	26	180,108	0	0	0	0	2	9,883	768	897,183
Dak Lak	312	141,031	182	203,392	18	58,168	0	0	0	0	1	0	513	402,591
Dong Nai	600	370,696	468	834,311	31	411,845	0	0	0	0	0	0	1,099	1,616,852
Dong Thap	353	175,183	86	81,269	8	102,184	0	0	0	0	0	0	447	358,636
Gia Lai	237	183,793	60	121,772	13	22,621	0	0	0	0	2	3,449	312	331,635
Ha Giang	84	59,195	110	158,672	2	30,500	0	0	0	0	0	0	196	248,367
Ha Nam	19	11,060	173	226,077	19	31,481	0	0	0	0	0	0	211	268,618
Ha Noi	806	260,009	7,142	6,936,199	1,629	5,500,840	0	0	28	126,560	0	0	9,605	12,823,608
Ha Tay	138	72,974	387	591,056	60	291,780	0	0	3	18,200	0	0	588	974,010
Ha Tinh	205	99,526	67	72,221	33	113,694	2	210	0	0	0	0	307	285,651
Hai Duong	148	53,738	197	193,026	30	125,521	0	0	0	0	0	0	375	372,285
Hai Phong	337	230,652	971	1,414,331	304	3,995,757	1	600	3	25,300	5	71,539	1,621	5,738,179
Hoa Binh	61	24,914	126	114,784	8	41,600	0	0	0	0	2	0	197	181,298
Hung Yen	91	82,035	135	476,308	14	201,071	0	0	0	0	0	0	240	759,414
Khanh Hoa	557	296,895	369	441,913	39	149,835	0	0	0	0	0	0	965	888,643
Kien Giang	547	414,132	108	136,412	9	31,200	0	0	0	0	0	0	664	581,744
Kon Tum	76	74,541	40	62,855	0	0	0	0	0	0	6	23,698	122	161,094
Lai Chau	76	69,574	13	11,065	0	0	0	0	0	0	1	1,092	90	81,731
Lam Dong	315	174,814	138	161,185	23	137,988	0	0	0	0	6	14,996	482	488,983
Lang Son	70	56,158	109	120,666	17	57,020	0	0	0	0	2	17,705	198	251,549
Lao Cai	83	48,748	193	285,264	5	10,460	0	0	0	0	1	0	282	344,472
Long An	298	195,746	126	288,083	17	77,117	0	0	0	0	0	0	441	560,946
Nam Dinh	84	22,576	214	134,767	35	52,200	0	0	0	0	0	0	333	209,543
Nghe An	337	122,002	446	484,560	71	180,876	0	0	0	0	0	0	854	787,438
Ninh Binh	240	120,375	63	104,868	15	55,926	0	0	0	0	0	0	318	281,169
Ninh Thuan	85	41,942	33	64,920	4	13,903	0	0	0	0	1	0	123	120,765

Province	Sole Proprietorship		Limited Liability		Shareholding		Partnerships		Ltd. (1 member)		State		Total	
	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital	Firms	Legal Capital
Phu Tho	125	69,725	217	279,240	53	148,970	0	0	0	0	5	18,148	400	516,083
Phu Yen	180	79,454	74	60,818	9	377,399	0	0	0	0	0	0	263	517,671
Quang Binh	89	35,228	90	103,419	3	4,780	0	0	0	0	0	0	182	143,427
Quang Nam	25	6,639	19	11,733	3	1,474	0	0	0	0	0	0	47	19,846
Quang Ngai	155	139,976	109	172,335	5	17,334	0	0	0	0	3	77,213	272	406,858
Quang Ninh	289	243,472	326	965,378	85	1,548,991	0	0	3	13,000	1	2,848	704	2,773,689
Quang Tri	142	60,396	160	189,775	12	29,982	0	0	0	0	0	0	314	280,153
Soc Trang	308	176,317	59	147,558	9	29,300	0	0	0	0	1	3,000	377	356,175
Son La	49	35,947	23	33,629	5	17,499	0	0	0	0	0	0	77	87,075
Tay Ninh	302	155,056	125	247,153	10	51,430	0	0	0	0	1	3,207	438	456,846
Thai Binh	153	41,769	296	223,299	63	89,886	0	0	0	0	0	0	512	354,954
Thai Nguyen	212	122,474	76	77,156	22	60,961	0	0	0	0	7	17,851	317	278,442
Thanh Hoa	60	23,352	133	130,135	23	41,325	1	100	0	0	1	0	218	194,912
Thua Thien Hue	461	187,397	144	267,394	33	120,564	0	0	0	0	0	0	638	575,355
Tien Giang	600	238,873	50	133,114	9	49,451	0	0	0	0	0	0	659	421,438
TP.HCM	5,319	2,464,291	12,810	16,583,391	1,309	7,402,133	1	500	13	24,480	0	0	19,452	26,474,795
Tra Vinh	99	60,726	27	51,324	3	34,248	0	0	0	0	1	7,481	130	153,779
Tuyen Quang	107	48,963	109	132,021	16	123,903	0	0	0	0	0	0	232	304,887
Vinh Long	231	167,886	93	263,910	5	18,200	0	0	0	0	1	30,847	330	480,843
Vinh Phuc	65	35,325	217	251,601	9	44,119	0	0	0	0	0	0	291	331,045
Yen Bai	46	33,228	35	34,844	14	57,772	0	0	0	0	0	0	95	125,844
Total	19,504	10,430,493	29,984	39,537,599	4,372	24,017,212	5	1,410	51	216,961	54	324,407	53,970	74,528,082

Source: Enterprises Information Center, Ministry of Planning and Investment.

**Table 28 : Capital structure at time of establishment
(Mean % by Province)**

Province		Personal Savings	Private Savings from Friends and Family	Institutional Investors	Borrowed from Friends and Family	Informal Money Lender	Bank	Government Loan Program	Borrowed from Suppliers	Borrowed from Clients	Other	Total
Hai Phong	Average contribution	66%	9%	4%	3%	7%	2%	0%	2%	0%	5%	98%
Ha Tay	Average contribution	85%	5%	2%	1%	0%	5%	0%	1%	2%	1%	102%
Nam Dinh	Average contribution	77%	7%	6%	3%	3%	1%	0%	0%	0%	4%	101%
TT Hue	Average contribution	71%	5%	4%	3%	4%	10%	0%	3%	0%	0%	100%
Thanh Hoa	Average contribution	59%	11%	0%	11%	8%	7%	0%	0%	4%	1%	101%
Long An	Average contribution	41%	6%	3%	4%	1%	2%	0%	0%	0%	5%	62%
High Performers	Average contribution	76%	9%	4%	4%	1%	4%	0%	1%	0%	1%	100%
Total	Average contribution	68%	7%	3%	4%	3%	4%	0%	1%	1%	2%	95%

**Table 29: Capital structure at present
(Mean % by Province)**

Province		Personal Savings	Private Savings from Friends and Family	Institutional Investors	Borrowed from Friends and Family	Informal Money Lender	Bank	Government Loan Program	Borrowed from Suppliers	Borrowed from Clients	Other	Total
Hai Phong	Average contribution	56%	4%	5%	8%	9%	6%	1%	3%	3%	7%	102%
Ha Tay	Average contribution	76%	5%	1%	3%	2%	9%	0%	1%	1%	1%	99%
Nam Dinh	Average contribution	69%	3%	4%	8%	6%	4%	1%	0%	2%	3%	100%
TT Hue	Average contribution	68%	5%	2%	7%	3%	11%	0%	3%	0%	0%	99%
Thanh Hoa	Average contribution	54%	7%	0%	11%	5%	12%	0%	2%	6%	2%	99%
Long An	Average contribution	73%	2%	3%	7%	0%	11%	0%	1%	0%	3%	100%
High Performers	Average contribution	71%	6%	4%	4%	2%	9%	0%	2%	1%	1%	100%
Total	Average contribution	67%	5%	3%	7%	4%	9%	0%	2%	2%	2%	100%