



**USAID**  
FROM THE AMERICAN PEOPLE



VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

VNCCI Policy Paper # 13, Summary report

# THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2008

MEASURING ECONOMIC GOVERNANCE  
FOR PRIVATE SECTOR DEVELOPMENT



**VNCCI**  
Vietnam Competitiveness Initiative



VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

Founded in 1963, the Vietnam Chamber of Commerce and Industry (VCCI) is a national organization that assembles and represents the business community, employers, and business associations of all economic sectors in Vietnam. The mission of VCCI is to protect and assist business enterprises, to contribute to the socio-economic development of the country, and to promote economic, commercial, and technological cooperation between Vietnam and other countries in the world.

VCCI's two main functions are: (i) representing the Vietnamese business community through the promotion and protection of the lawful, legitimate interests of Vietnamese enterprises and employers in domestic and international relations; and (ii) promoting the development of business enterprises, facilitating cooperation among business entities, and offering assistance in trade and investment, economic and technical cooperation as well as other business activities of enterprises in Vietnam and abroad.

International Trade Centre  
9 Dao Duy Anh, Hanoi, Vietnam  
Tel: (84-4) 3574-2022  
Fax: (84-4) 3577-0632  
[www.vcci.com.vn](http://www.vcci.com.vn)



VNCCI is a USAID-funded project that provides technical assistance to improve the business enabling environment in top priority areas for government and business leaders. VNCCI's programs include: (i) policy advocacy using the PCI data and other policy activities that assist the government and business sector to improve decision-making and policy-making to achieve optimal economic performance and promote participation and transparency; (ii) regulatory reform responding to the Prime Minister-led Decision 30 Master Plan to Simplify Administrative Procedures, supporting the Office of the Government to design and implement reform strategies to clean up the existing stock of regulations, apply regulatory quality control, and develop an effective regulatory framework and policy coordination; (iii) infrastructure financing through revenue-backed bonds that leverage financial markets to support the financing of a wide range of infrastructure projects through an effective and transparent financing tool which takes the burden off the Government budget; (iv) TIGER (Transformation in Governance through Economic Reform) using performance-based management systems that enable provincial leaders to monitor and improve economic governance reforms; and (v) provincial reform activities that respond to specific requests from reform-minded provinces that aspire to improve economic governance.

Unit 02, 15th floor, Prime Centre Building  
53 Quang Trung street, Hanoi, Vietnam  
Tel: (84-4) 3943-8163  
Fax: (84-4) 3943-8160  
[www.vncci.org](http://www.vncci.org)

Visit [www.pcvietnam.org](http://www.pcvietnam.org) to download this report and the PCI data

# THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2008

MEASURING ECONOMIC GOVERNANCE  
FOR PRIVATE SECTOR DEVELOPMENT

**Primary Author and Lead Researcher:**

Dr. Edmund Malesky

**Research Team:**

Tran Huu Huynh

Dau Anh Tuan

Le Thanh Ha

Le Thu Hien

Nguyen Ngoc Lan

# FOREWORD

The Provincial Competitiveness Index (PCI) is designed to assess and rank the performance, capacity and willingness of provincial governments to develop business-friendly regulatory environments for private sector development. The fourth iteration, PCI 2008, once again validates that economic governance does matter. At each level of initial conditions, better-governed provinces are able to not only use their endowments more efficiently but also influence business performance and income in subsequent years.

Due to its widespread acceptance, there have been many practical applications of the PCI reports and analyses. Provincial governments find it a reflection of their respective provinces' strengths and weaknesses, a pressure for reforms and a source of best practices for replication. In the past year, over 40 provinces and state agencies have used the PCI to engage in public-private dialogue and diagnostic analysis with the local communities to better understand the competitive factors that drive economic growth. Investors use the index as reference for their investment decision-making and advocacy for local initiatives.

This PCI 2008 report also introduces a new provincial analysis of infrastructure which is a critical factor affecting access to markets, transaction costs, and economic growth and the overall competitiveness of the investment environment in Vietnam. Its policy implications offer for government planners, provincial and business leaders important insights and recommendations on how to tackle the major obstacles created by out-dated and inadequate infrastructure that affects all enterprises.

The next phase of the PCI initiative should focus on using this valuable tool to stimulate dialogue and focus priority actions on national and provincial strategies to create higher value-added industries and clusters of goods and services in different parts of the country based on their natural comparative advantages.

We hope this publication will serve as a useful resource for business associations, government and business leaders, academic and research institutes, donor agencies, and the media as they seek to improve the quality of economic governance throughout Vietnam's provinces. Vietnam Competitiveness Initiative and Vietnam Chamber of Commerce & Industry are ready to be your partners to improve the socio-economic development of Vietnam.

**James Packard Winkler, Ph.D**

Director  
Vietnam Competitiveness Initiative

**Vu Tien Loc, Ph.D**

Chairman  
Vietnam Chamber of Commerce & Industry



# ACKNOWLEDGEMENTS

The Provincial Competitiveness Index 2008 is the result of a major, ongoing collaborative effort between the Vietnam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International Development (USAID)-funded Vietnam Competitiveness Initiative (VNCI), managed by DAI, with a substantial contribution by VNCI partner The Asia Foundation (TAF).

Edmund Malesky of the University of California - San Diego led the development of the PCI's research methodology and authored the presentation of its analytical findings.

Professor Malesky was supported by a PCI research team that included Tran Huu Huynh, Deputy Secretary General and Director of the Legal Department at VCCI; Dau Anh Tuan, Le Thanh Ha and Nguyen Le Ha of VCCI; Le Thu Hien, Nguyen Ngoc Lan, and Trinh Thi Hang of VNCI; Nina Merchant and Nguyen Thu Hang of TAF; and Paul Schuler of the University of California - San Diego. David Brunell, Jr., and Anne Le provided valuable inputs to the PCI construction and analysis.

Do Hoang Anh, VNCI Deputy Project Director provided comments and Steve Parker of DAI served as the report's expert reviewer.

The PCI was developed under the overall leadership of Vu Tien Loc, Chairman of VCCI, James Packard Winkler, VNCI Project Director; and benefited from the assistance and input provided by David Brunell, Director of Economic Growth for USAID, and Kim Ngoc Bao Ninh, Vietnam Representative of The Asia Foundation.

*Suggested citation when referencing report or data: Malesky, Edmund. 2008. "The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development. 2008 Final Report." Vietnam Competitiveness Initiative Policy Paper #13. Vietnam Chamber of Commerce and Industry (VCCI) and United States Agency for International Development's Vietnam Competitiveness Initiative (VNCI): Ha Noi, Vietnam.*



**The Asia Foundation**



The PCI research team extends special thanks to our expert advisory panel, who provided valuable insights on methodology and indicator selection.

Mme. Pham Chi Lan	Member, Institute of Development Studies
Mr. Vu Quoc Tuan	President, Association of Vietnamese Trade Villages
Mr. Nguyen Dinh Cung	Director of Macroeconomics, Central Institute for Economic Management
Mr. Nguyen Minh Man	Director of State Administration and Civil Service Department, Office of the Government
Mr. Le Dang Doanh	Member, Institute of Development Studies
Mr. Vu Duy Thai	President, Ha Noi Union Association of Industry and Commerce
Mr. Cao Sy Kiem	President, Association of Vietnamese Small and Medium Sized Enterprises
Mr. Nguyen Van Thoi	National Assembly Member and Director of the Thai Nguyen Joint-Stock Export Company
Mr. Vu Thanh Tu Anh	Director of Research, Harvard Fulbright Economics Teaching Program, Ho Chi Minh City
Mr. Vo Hung Dung	Director, VCCI Can Tho
Mr. Nguyen Ngoc Phi	Chairman, People's Committee of Vinh Phuc
Mr. Nguyen Van Tu	Vice Director of Planning and Investment, Ha Tay (Ha Noi)
Mr. Pham Phuong Bac	Vice Director of Planning and Investment, Bac Ninh
Mr. Nguyen Thai Son	Senior Expert of the Government and Member of the Committee for Implementation of the Enterprise Law and Investment Law
Mr. Cao Ba Khoat	Economist, Director of the K & Associates Consulting
Mr. Phan Duc Hieu	Economist, Central Institute for Economic Management
Mr. Vu Quoc Huy	Economist, National Economics University and Support for Trade Acceleration Vietnam (STAR) Project
Mme. Pham Thi Thu Hang	Director, Center for Supporting Small and Medium Sized Enterprises, VCCI
Mr. Pham Duy Nghia	Legal Department, National University of Ha Noi
Mr. Le Duy Binh	Economist, German Technical Cooperation
Mr. Nguyen Van Lan	Economist, Mekong Private Sector Development Facility
Mr. Tran Du Lich	National Assembly Member and Director of Ho Chi Minh City Institute of Economics.
Mr. Vu Xuan Tien	Director, VFAM Consulting
Mr. Vu Quang Thinh	General Director, MCG Consulting

# PCI SUMMARY REPORT



# INTRODUCTION TO THE PCI

At its most basic level, the 2008 Provincial Competitiveness Index (PCI) is the collective voice of 7,820 domestic private firms. Private entrepreneurs' opinions regarding economic governance in their provinces are collected in a large-scale survey. Their responses are adjusted with published data to address perception biases, and these answers are aggregated into provincial-level scores. The final outcome is a composite index ranking Vietnam's 64 provinces according to their performance on 10 dimensions of governance that are critical for private sector development<sup>1</sup>. As a result, the PCI provides the most objective metric available for gauging the impact of economic and administrative reforms at provincial and national levels.

Four features of the PCI approach have enhanced its reception among Vietnamese policy makers and businesspersons since its initiation in 2005. First, by normalizing the scores around best economic governance practices already found in Vietnam and not against ideal and possibly unattainable standards of good governance, the PCI encourages subnational governments to improve their performance. For each indicator, a "star" or top-performing locality can be identified and any other province can conceivably attain a perfect score of 100 in future PCIs by emulating these Vietnamese best practices.

Second, by separating out the economic growth generated by initial conditions (that is, the fundamental underlying factors that contribute to economic growth in a province but that are virtually impossible to address in the short term, such as location, infrastructure, size of the domestic market,

and human resources), the PCI identifies good economic governance practices achieved at the provincial level.

Third, by comparing economic governance practices against actual economic performance, the PCI estimates how important governance practices are in attracting investment and generating growth. The research shows a strong association among: 1) business-friendly economic governance practices; 2) business operations in response to those practices; and 3) importantly, improvements in economic activity such as output, investment, profits, and income. This last connection is critical because it makes clear that business-friendly policies encourage firms to operate in ways that benefit not only the executives and workers in each firm but also society more broadly by creating jobs and raising incomes throughout the economy.

Fourth, the indicators that comprise the PCI are actionable in the sense that they are specific items that provincial officials can target and monitor improvement upon, and they are action-worthy because they represent policies that private firms have identified as critical to their business success and that previous research has shown to be influential for firm performance.

Much more detail is provided on specific indicators in Box 1 below and the Full Report, but a province that performs well on all 10 PCI sub-indices is one that has: 1) low entry costs for business start-up; 2) uncomplicated access to land and security of business premises; 3) transparent and equitable legal and business information; 4) minimal informal charges; 5) limited time wasted on bureaucratic procedures and inspections; 6) lack of bias toward particular types of firms, especially state-owned enterprises (SOEs); 7) a proactive and creative leadership; 8) special private sector development (PSD) initiatives to address market failures; 9) well-trained labor; and 10) fair and effective legal procedures for dispute resolution.

1. Ha Tay has now been merged with Ha Noi, but was a separate entity at the time of the survey. We assess it as a separate unit because firms would have been responding to questions with Ha Tay and not Ha Noi authorities in mind. A similar approach is used for the districts of Vinh Phuc and Hoa Binh provinces that have now been merged with Ha Noi.

## 1 A Picture of the PCI Respondents

The claim that the PCI represents the collective voice of the private sector is somewhat presumptuous. Who are these entrepreneurs who purport to speak for the entire business community? After all, any bias in the selection of operations affects the value of the information that can be gleaned from the survey. By delineating the PCI sample according to key factors of interest to readers, Table 1 shows that firms answering the PCI survey look much like the business community as whole, representing all

sizes and flavors of entrepreneurial activity in Vietnam. This, of course, is by design. Respondents are randomly selected from a list of registered private firms that is supplied by the National Tax Authority and precautions are put in place to ensure the representativeness of the sample<sup>2</sup>.

2. Results are based on a stratified random sample and mail-out survey in each province, yielding a national response rate of 26 percent, up from 21 percent in 2007. Response rates are similar throughout the country, so non-response bias is likely systematic across jurisdictions. This year we followed up with non-responders in our survey, finding that 21 percent of our mail-out went to firms that were no longer in existence or had moved their operations, or where the Tax Authority had incorrect contact information. Taking these into account, our true response rate is 30.2 percent.

**Table 1: Who Answers the PCI Survey?**  
(Composition of the 7820 Total Respondents)

	Provincial Sample		National Sample	
Legal Form	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Sole Proprietorship	41.1%	43.8%	26.3%	25.9%
Limited Liability	42.7%	44.3%	50.1%	56.8%
Joint Stock	15.4%	10.4%	21.6%	17.3%
Joint Stock with Share Listed on Stock Exchange	0.3%	NA	1.8%	NA
Partnership/Other	0.2%	1.5%	0.0%	NA
Sector w/Majority Output	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Manufacturing/Construction	43.9%	44.1%	43.6%	42.6%
Service/Commerce	50.6%	53.3%	55.4%	52.8%
Agriculture/Aquaculture/Natural Resources	1.2%	2.6%	0.4%	3.6%
Equal Output in Two Sectors	4.2%	NA	0.6%	NA
Age of Firm	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Registered before Enterprise Law	12.2%	7.2%	15.9%	10.40%
Registered After Enterprise Law	87.8%	92.7%	84.1%	89.60%

Size of Operations (Total Assets, Billion VND)	Provincial Sample		National Sample	
	PCI	Median GSO	Weighted PCI	GSO Census
Under 0.5	14.5%	16.7%	8.6%	13.5%
From 0.5 to under 1	17.8%	18.7%	16.5%	18.5%
From 1 to under 5	42.7%	44.7%	44.3%	54.0%
From 5 to under 10	13.3%	8.4%	18.1%	9.9%
From 10 to under 50	9.3%	8.4%	8.2%	7.5%
Over 50	2.4%	3.1%	4.2%	2.0%
History of Company	PCI		Weighted PCI	
Greenfield Private Company	36.5%		34.8%	
Began Operation as Household Enterprise	57.7%		54.9%	
Former Local State Owned Enterprise	4.8%		6.4%	
Former Central State Owned Enterprise	1.0%		3.9%	
Primary Customers	PCI		Weighted PCI	
Vietnamese Individuals and Companies	64.7%		58.2%	
State Owned Companies	25.2%		21.0%	
Export Directly or Indirectly	5.2%		11.4%	
Foreign Individuals or Companies in Vietnam	3.5%		9.4%	

PCI is the PCI survey sample, stratified at the provincial level.

Weighted PCI is the PCI survey sample, but weighted by provincial share of enterprises to create a nationally representative sample.

Median Tax Authority provides the values in the median province.

Total Tax Authority shows the national level aggregate scores.

GSO Census is the 2007 Enterprise Census of the General Statistical Office.

([http://www.gso.gov.vn/default\\_en.aspx?tabid=479&idmid=4&ItemID=7184](http://www.gso.gov.vn/default_en.aspx?tabid=479&idmid=4&ItemID=7184))

Forty-one percent of respondent firms are sole proprietorships, 43 percent are limited liability companies, and 16 percent of firms are registered as joint-stock companies. By design, these proportions reflect the average provincial patterns; the PCI uses a stratified random sampling strategy at the provincial level. According to the Tax Authority (Column 2), the median province possesses 44 percent sole proprietorships, 44 percent limited liability companies, 10 percent joint-stock companies, and 2 percent other. Thus, our sample is perfectly adjusted to each province, but varies slightly from national scores as a whole, where limited liability companies are better represented, because Ha Noi and Ho Chi Minh City (HCMC) account for a smaller share of the PCI sample than they do private sector activity in the country. Table 1 (Column 3 and 4) also presents a national PCI sample (re-weighted by the proportion of total firms in each province) and aggregate data from the Tax Authority to facilitate national-level comparisons.

Eighty-eight percent of PCI respondents registered after the 2000 Enterprise Law; 12 percent predate that law and, therefore, registered under older, less efficient procedures.

Forty-three percent of firms have between VND 1 billion (US\$56,000) to VND 5 billion (\$282,500) in total assets. Thirty-two percent of firms have less than VND 1 billion in assets and 25 percent have over VND 5 billion. Two percent of firms have over VND 50 billion (\$2.8 million) in assets. This not a dramatic share of large firms, but it does reflect GSO Enterprise Census data. Over 40 percent of firms have between 10 and 50 employees. Six percent of respondents have more than 200

employees and 49 companies have more than 1,000.

More than half of PCI respondents began operations as household firms before they decided to formalize their activities by registering at provincial Departments of Planning and Investment. This is a critical finding because it demonstrates that Vietnamese institutions are conducive to formalization<sup>3</sup>.

Finally, and quite importantly for the purposes of the PCI, all of Vietnam's 64 provinces are well represented in the Index. The average number of responses per province was 122, with only one province (Lai Chau) receiving fewer than 75. Nevertheless, the 52 firms that did answer in Lai Chau account for about one-third of all operations in the rural, Northwestern jurisdiction.

## 2 The Final 2008 Provincial Competitiveness Ranking

The weighted 2008 PCI ranking is shown in Figure 1. Three differences between this year and last year are immediately apparent. First, for the first time in four years, we have a new top-performing province—Da Nang (72.18) moved slightly past Binh Duong (71.76) province. The margin between the two top provinces, however, is so small that it is statistically negligible. Both remain within the Excellent performance tier:

---

3. For a more detailed discussion of the formalization in Vietnam, see Malesky, Edmund, and Markus Taussig. 2008. "Out of the Gray: The Impact of Institutions on Business Formalization." Presented at the Annual Meeting of the American Political Science Association, Boston, Massachusetts, August 28.

**Figure 1: Weighted Provincial Competitiveness Index 2008**

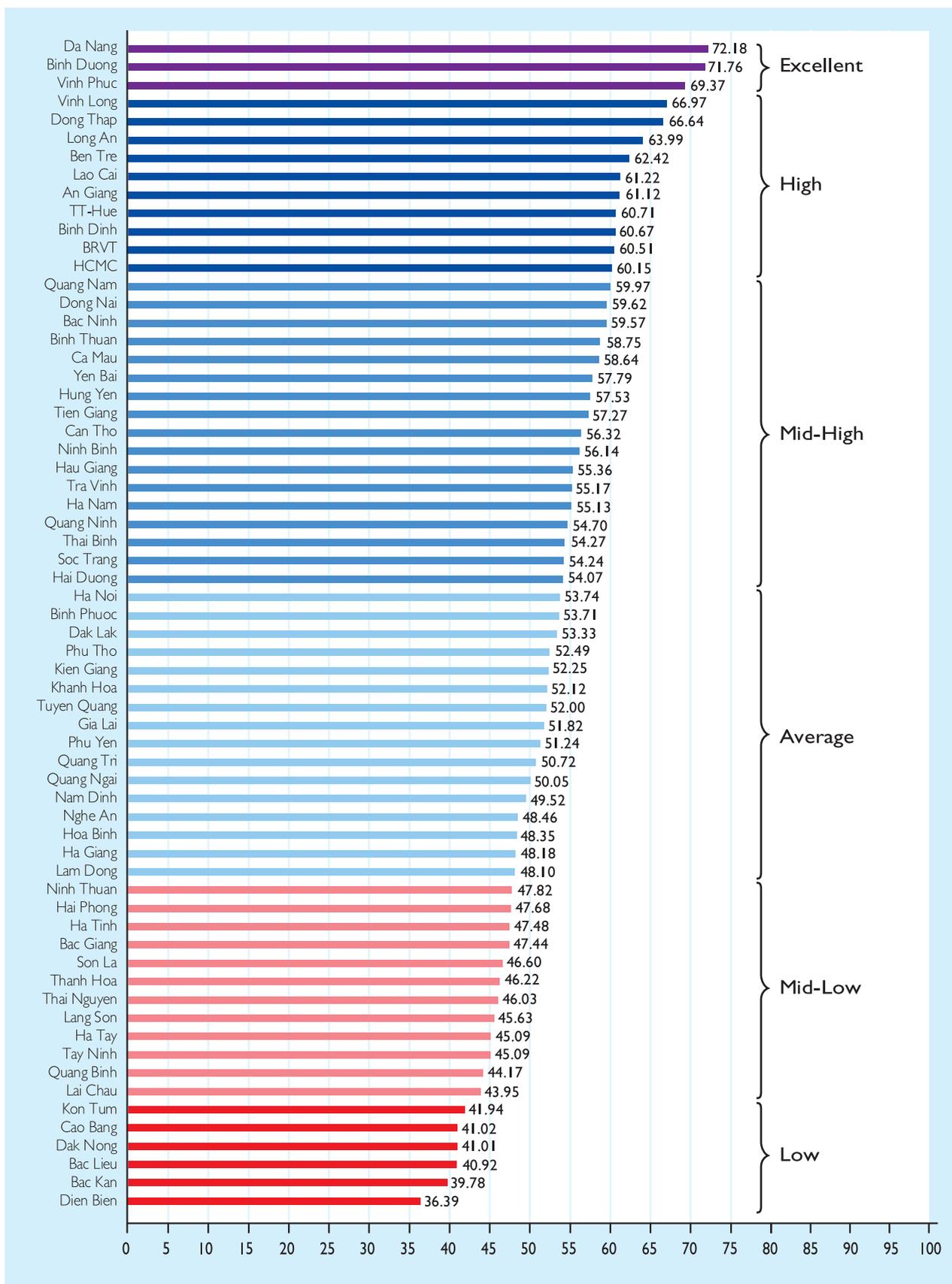
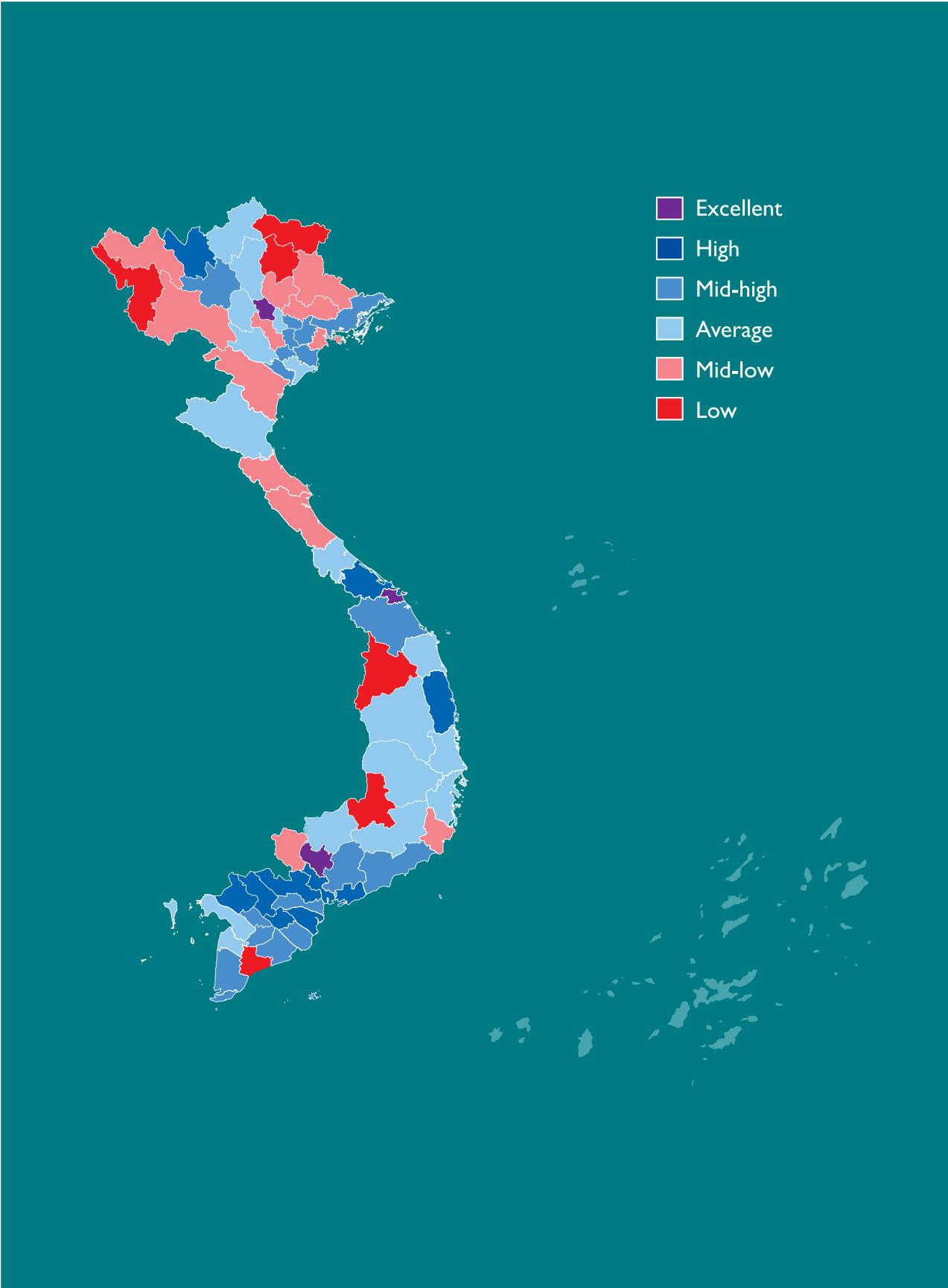


Figure 2: PCI 2008 Map of Vietnam



The final 2008 PCI represents the weighted sum of the scores of the 10 sub-indices, based on the weights shown in Table 2. In 2006, weights were calculated using a three-step statistical procedure<sup>4</sup>. The ultimate goal of weighting is to ensure that PCI scores are calibrated to private sector performance and, therefore, that the PCI relates the most relevant information to provincial officials regarding the impact of their policies on private sector activity. Sub-indices that were shown to have the largest association with private sector growth, investment, and profitability received the highest weight class of 15 percent. Correspondingly, those that are not strongly correlated with private sector development outcomes received the lowest weight class of 5 percent. Medium weights of 10 percent were reserved for average correlations across the three outcome variables or a large substantive effect on one outcome (e.g., profitability), but a minimal relationship with the other two. The 2008 PCI employs the 2006 weights to allow for longitudinal comparison. In future versions of the PCI, however, weights will be re-calibrated to capture the dynamic nature of the Vietnamese economic reform agenda.

The second difference between this year's PCI and last year's is that the median weighted PCI score (53.2) is lower than the 2007 median (55.6), yet it remains above the 52.4 median recorded in 2006. Significant drops in scores were limited to two specific areas: Private Sector Development Services

4. See Malesky, Edmund. 2008. A Peek under the Engine Hood: The Methodology of The Asia Foundation's Subnational Economic Governance Indices. San Francisco: The Asia Foundation, p. 16. <http://asiafoundation.org/publications/index.php?q=&searchType=country&country=3>.

(PSD) and Labor Policy. Because these are two of the four most heavily weighted sub-indices, their impact on the overall outcomes was quite substantial. Low scores on PSD and especially Labor Policy are not anomalies; they are recorded among most provinces and represent what appears to be a growing disappointment among the private sector regarding the effectiveness of the contribution by both local and national officials to economic development. In some cases, the disappointment emanates from tangible declines in public service delivery. In other cases, negative firm perceptions are the result of increasing expectations brought about by a strong history of improvement in legal and regulatory reform in Vietnam. Constant improvement in government performance over the past decade may have raised firm expectations to the point where no improvement or marginal declines may generate negative perceptions from respondents. We explore both of these hypotheses directly in detail in the Full Report.

As a result of declines in scoring, another overall difference can be seen between the 2007 and 2008 ratings—shifts in the tiers of provincial performance. A smaller number of provinces are now ranked in the Excellent and High tiers in Figure 1. Once again, to facilitate comparisons with previous years, we pegged the six performance tiers (Excellent, High, Mid-High, Average, Mid-Low, and Low) to the break-points set in the 2006 analysis. For instance, this year both Binh Dinh and Vinh Long dropped below the break-point at 69, which differentiates Excellent (shaded in purple) and High performers (shaded in dark blue), while Vinh Phuc rose above the threshold. At the bottom of the rankings, two new provinces slipped below 42 and into the realm of low-performers.

**Table 2: Sub-Index Weightings**

Sub-Index	Rounded Weights	Weight Class
PSD services	15%	High
Transparency	15%	High
Labor training	15%	High
Proactivity	15%	High
Time costs of regulatory compliance	10%	Medium
Legal institutions	10%	Medium
SOE bias (competition environment)	5%	Low
Informal charges	5%	Low
Land access and security	5%	Low
Entry costs	5%	Low

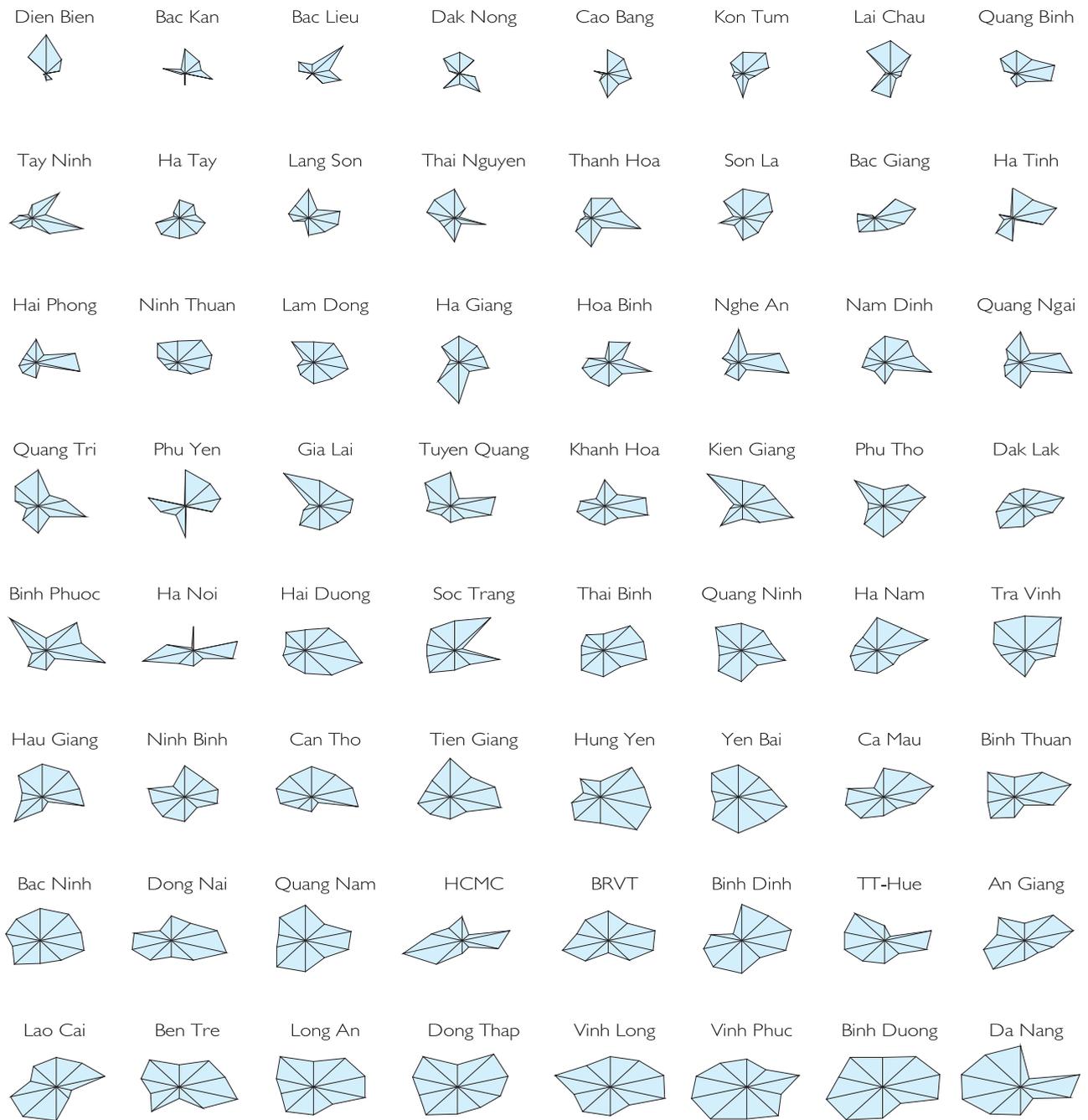
Weights are derived from regression analysis using three dependent variables (number of private firms, investment per capita, and profit per firm). See Appendix 2 for full regression results.

## Box 1: The 10 Sub-Indices of the PCI

As in early reports, the PCI 2008 uses a range of indicators that are grouped together into 10 composite sub-indices. These 10 sub-indices, illustrated in Figure 3, are:

1. *Entry Costs*: A measure of: i) the time it takes a firm to register and acquire land; ii) the time to receive all the necessary licenses needed to start a business; iii) the number of licenses required to operate a business; and iv) the perceived degree of difficulty to obtain all licenses/permits.
2. *Land Access and Security of Tenure*: A measure combining two dimensions of the land problems confronting entrepreneurs: how easy it is to access land and the security of tenure once land is acquired.
3. *Transparency and Access to Information*: A measure of whether firms have access to the proper planning and legal documents necessary to run their businesses, whether those documents are equitably available, whether new policies and laws are communicated to firms and predictably implemented, and the business utility of the provincial webpage.
4. *Time Costs and Regulatory Compliance*: A measure of how much time firms waste on bureaucratic compliance, as well as how often and for how long firms must shut their operations down for inspections by local regulatory agencies.
5. *Informal Charges*: A measure of how much firms pay in informal charges, how much of an obstacle those extra fees pose for their business operations, whether payment of those extra fees results in expected results or "services," and whether provincial officials use compliance with local regulations to extract rents.
6. *SOE Bias and Competition Environment*: A measure focusing on the perceived bias of provincial governments toward state-owned enterprises, equitized firms, and other provincial champions in terms of incentives, policy, and access to capital.
7. *Proactivity of Provincial Leadership*: A measure of the creativity and cleverness of provinces in implementing central policy, designing their own initiatives for private sector development, and working within sometimes unclear national regulatory frameworks to assist and interpret in favor of local private firms.
8. *Private Sector Development Services*: A measure of provincial services for private sector trade promotion, provision of regulatory information to firms, business partner matchmaking, provision of industrial zones or industrial clusters, and technological services for firms.
9. *Labor and Training*: A measure of the efforts by provincial authorities to promote vocational training and skills development for local industries and to assist in the placement of local labor.
10. *Legal Institutions*: A measure of the private sector's confidence in provincial legal institutions; whether firms regard provincial legal institutions as an effective vehicle for dispute resolution, or as an avenue for lodging appeals against corrupt official behavior.

**Figure 3: Province Performance by Sub-index**



Entry Costs

Time Costs of Reg. Compliance

Proactivity

Land Access & Tenure

Informal Charges

PSD Services

Transparency

SOE Bias

Labor Policy

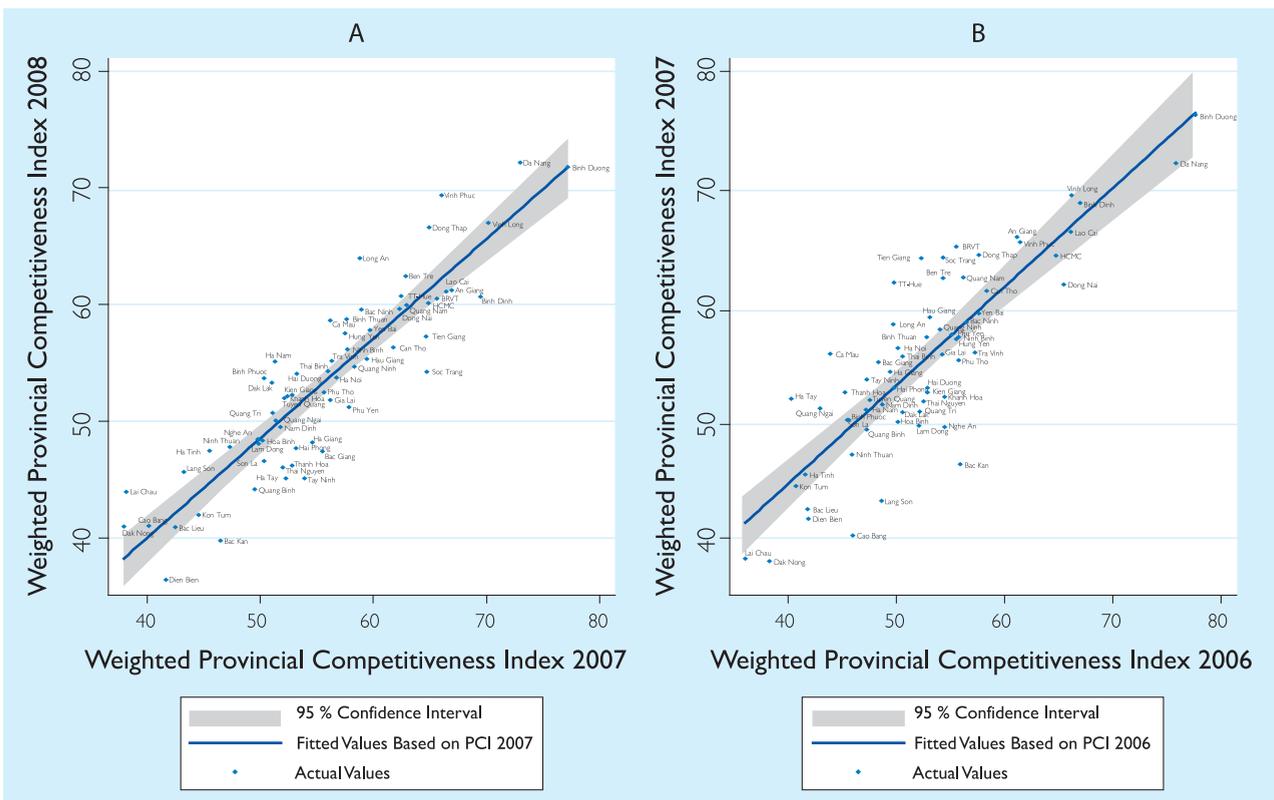
Legal Institutions

## Robustness of the Rankings

The decline in the rankings cited above is systematic across the country. No region or particular group of provinces was impacted disproportionately. As a result, the 2008 rankings look remarkably similar to those from previous years. Da Nang, Binh Duong, Vinh Phuc, Lao Cai, Dong Thap, and An Giang remain among the very best performers in the country. Furthermore, the bivariate correlation

between 2008 and 2007 final scores is 0.9 (see Figure 4). In Panel B, we see that 2006 PCI scores are also strongly correlated with 2007 scores. Together, the plots show convincingly that historical governance is an excellent predictor of future governance. This makes sense; governance practices cannot change overnight. It takes time to plan and implement new initiatives, and there is even a longer lag between implementation and firms experiencing their effects.

**Figure 4: Stability of PCI ranking over time**



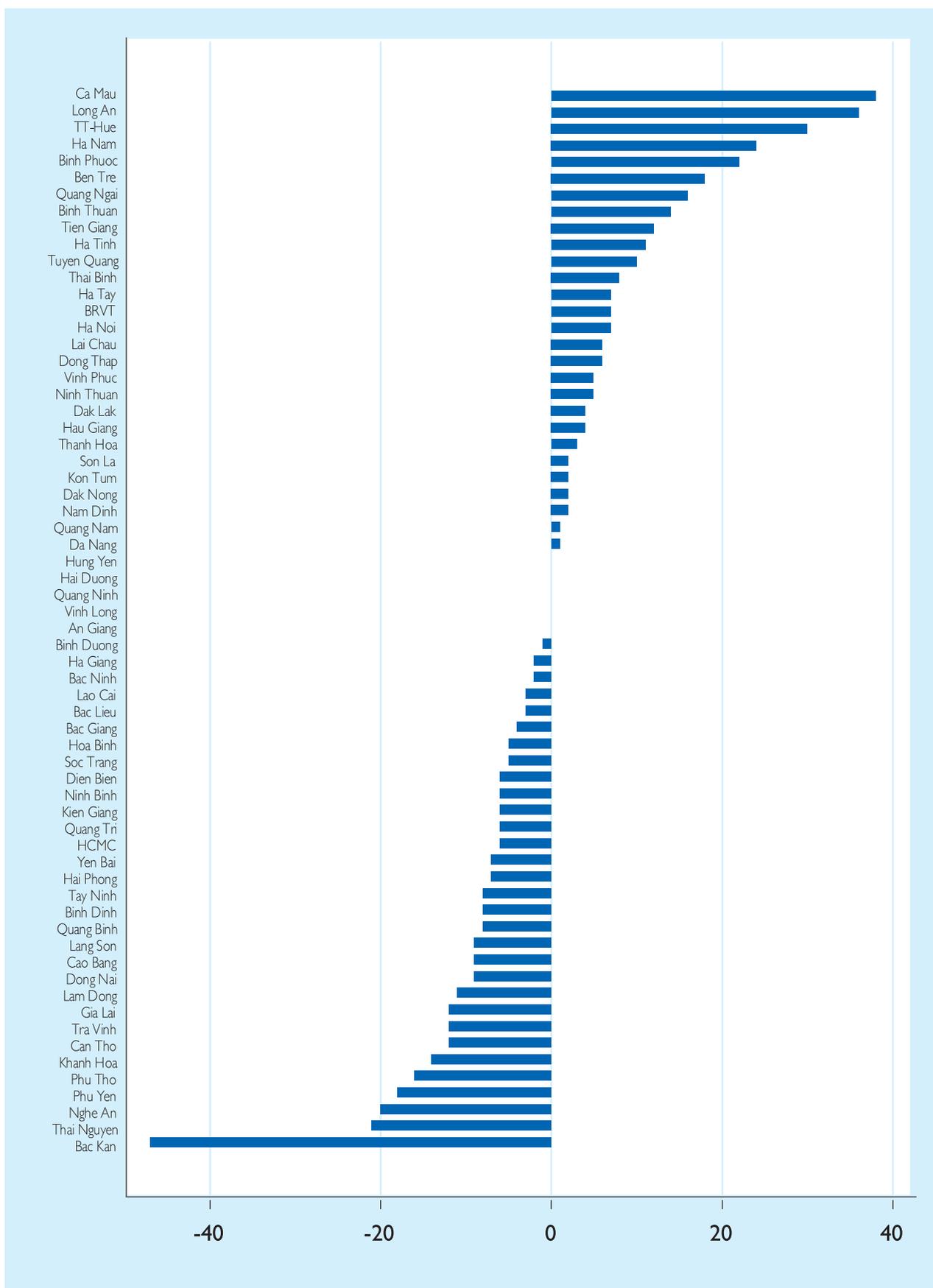
This consistency in the provincial rankings has important methodological and policy implications. Policy-wise, the stability of the rankings, despite the decline in scores, indicates that the negativity that the PCI is picking up this year results from national-level factors that are being experienced across the country.

Methodologically, the strong correlation over time indicates that the indexing approach works quite well. The index can consistently identify top performers, while allowing room for other provinces to improve and receive higher scores in subsequent years. Such stability is confirmation that the PCI approach offers a consistent and accurate measure of provincial economic governance over time.

"Stability" is not synonymous with "fixed." Over the

past two years, a number of provinces have gradually climbed up the PCI ladder: Figure 5 shows the cumulative changes experienced by all provinces over the past two-years, while Table 3 highlights the provinces that have recorded the greatest two-year and single-year improvements. There are several interesting things to note in Table 3. First, 4 of the top 10 improvements were achieved by provinces in the Mekong Delta, including the 2 provinces with the greatest improvements—Ca Mau and Long An. Long An now ranks among the top-performing provinces in the country. Second, whereas last year the key drivers of improvement were the Transparency and Transactions Costs sub-indices, this year, improvements have been led by less Bias toward SOEs and greater Proactivity of Provincial Leadership.

**Figure 5: Improvement in PCI Ranking Between 2006 and 2008**



**Table 3: Provinces with Greatest Improvement in Weighted PCI Rankings**

Province	Two-Year Improvement 2006-2008				Sub-Indices Most Important for Improvement	One-Year Improvement 2007-2008		One-Year Improvement 2006-2007	
	Improvement in Ranking	2008 PCI Rank	2008 PCI Score	2008 PCI Score		Province	Improvement in Ranking	Province	Improvement in Ranking
Ca Mau	38	18	58.64	58.64	Proactivity/Land	Ca Mau	20	Ca Mau	27
Long An	36	6	63.99	63.99	Labor/SOE	Long An	17	TT-Hue	25
TT-Hue	30	10	60.71	60.71	Legal	TT-Hue	15	Tien Giang	21
Ha Nam	24	26	55.13	55.13	Proactivity	Ha Nam	15	Ha Tay	21
Binh Phuoc	22	32	53.71	53.71	SOE Bias	Binh Phuoc	11	Long An	21
Ben Tre	18	7	62.42	62.42	Proactivity/SOE	Ben Tre	10	Thanh Hoa	17
Quang Ngai	16	41	50.05	50.05	Entry/Informal	Quang Ngai	8	Bac Giang	13
Binh Thuan	14	17	58.75	58.75	SOE Bias	Binh Thuan	8	Soc Trang	13
Tien Giang	12	21	57.27	57.27	Transparency	Tien Giang	8	Tay Ninh	13
Ha Tinh	11	49	47.48	47.48	SOE/Entry	Ha Tinh	7	Quang Ngai	12
<b>Median Province</b>	<b>0</b>	<b>32</b>	<b>53.51</b>	<b>53.51</b>		<b>Median Province</b>	<b>1</b>	<b>Median Province</b>	<b>0</b>

Finally, and most important, more than half of the greatest leaps were experienced in provinces that made legal commitments to improve their PCI scores through official resolutions of the Party Secretary and People's Committee or through action plans sanctioned by the top leadership (TT-Hue, Tien Giang, Ca Mau, Long An, Quang Ngai). These documents go beyond noncommittal statements that call for general improvements to specifically identify key provincial weaknesses in economic governance, assign responsibility to individual actors, provide clear targets for measuring success, and identify local initiatives to help achieve those results.

In essence, the provinces that have shown improvement are the ones where local leaders openly committed themselves to the task, formally announcing commitments to their subordinates and, in many cases, to the public at large. While the PCI research team has collected and assembled a library of such documents, these reports do not have a direct impact on scoring. Our scoring is based only on the opinions of independent firms. Thus, the rise in scores in the provinces that committed overtly to change is the result of entrepreneurs in those areas having experienced the new environment first-hand and having recorded their improved perceptions in their survey responses. Rises in scores are a credit to the work and openness of local officials in these locations.

### **3 Changes over Time**

As discussed above, there is little evidence of general improvement in economic governance this year. Most of the sub-indices show small improvements, but none that are as dramatic as the leaps taken between 2006 and 2007. Nevertheless,

trends on a few critical indicators are worthy of note. Detailed chronological tables and descriptions of indicators are available in Chapter Six of the Full Report. This section provides only a few highlights.

#### **Positive Signs**

As a result of one-stop shop (OSS) implementation, which we discuss in more in the Full Report, waiting periods for business registration and procedures for start-up have declined significantly this year. Security of property rights also continues to improve. This year, 81 percent of PCI respondents have formal Land Use Rights Certificates, up from 75 percent in 2007 and 55 percent in 2006. This solid increase is supported by official data from the Ministry of Natural Resources and Environment.

Importantly, as a result of a proliferation of Provincial Legal Gazettes (also analyzed in the Full Report), access to legal documents also continues to improve dramatically (See Table 4 below). The percentage of firms negotiating their tax payments with local officials—another important indicator of transparency—improved in 2008 as it has in previous years. Only 36 percent of firms admit to this activity in 2008, down from 41 percent last year and 61 percent in 2006.

Finally, SOE bias is at a historical low: only 39 percent report explicit bias on behalf of SOEs. More than 50 percent of firms believe that their province has a positive attitude toward private entrepreneurs, and the number of SOEs operating in provinces has declined by 60 percent since 2000. In fact, SOE Bias is now so low that we will likely drop it in future iterations of the PCI. Although firms still worry about central conglomerates, they are much less concerned about favoritism toward local SOEs.

**Table 4: Access to Business Documentation**

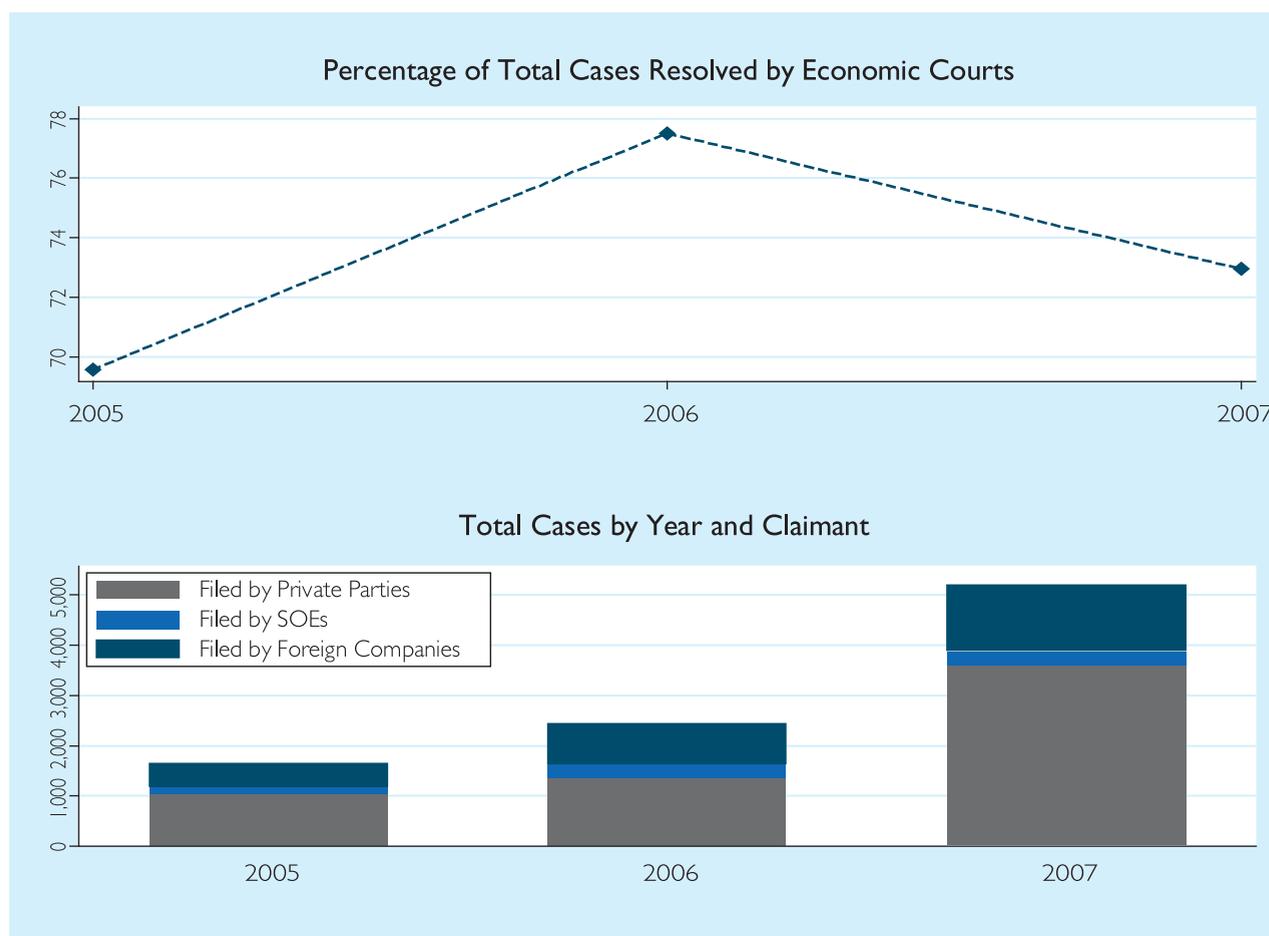
(Percentage of the 2,500 PCI Panel Respondents who believe access to documentation is possible)

Document	2008	2007	2006
<b>Legal Normative Document</b>	65.46	61.19	62.86
Central Laws and Decrees	65.19	60.31	60.56
Implementing Documents of Ministries	65.19	58.26	60.90
People's Committee Decisions	67.49	62.61	67.38
Incentive Policies	48.34	47.70	49.74
Changes in Tax Law	81.11	77.09	75.72
Official Legal Gazette	63.15		
<b>Planning Document</b>	47.59	43.85	48.66
Provincial Budget	35.15	31.09	35.09
10-Year Master Plan	54.47	50.77	57.84
Annual Plan	57.79	53.07	59.97
Private Sector Development Plan	53.11	49.74	54.68
New Infrastructure Plans	42.81	40.54	46.93
Central Investment Plan	30.30	27.68	31.18
Access to Land Use Plan and Maps	38.64	36.12	41.82
Business Registration and Land Use Applications	62.47	61.75	61.75
Address and Phone of Local Agencies	52.60		
Data on Registered Enterprises	48.60		
Relationship Necessary to Get Documents (% Agree)	49.28	56.3	61.88
Central Changes in Laws are Predictable (% Usually)	13.12	13.99	16.62
Provincial Implementation is Predictable (% Usually)	6.46	8.42	11.38

Another important development in this year's PCI is the large increase in the usage of provincial economic courts this year, as reported by the People's Supreme Court of Vietnam. The number of total cases filed more than doubled between 2006 and 2007, from 2,445 to 5,198. The number of cases filed by private entrepreneurs grew by 130 percent in 2007 compared with 2006 (see Figure 6). Higher usage of courts by private actors is generally considered to be a positive development

because it indicates that entrepreneurs have greater faith in legal institutions and are more willing to move beyond social relations as a mechanism for enforcing contracts. It also may reflect the considerable improvement in contract and other commercial laws in Vietnam over the past six years since the Bilateral Trade Agreement with the US, which has made the law clearer in many regards and, thus, provides firms with a greater confidence in their business rights and responsibilities.

**Figure 6: Changes in Usage of Court System Over Time**



As Vietnam's private firms expand and start to do business with actors in other provinces and countries-outside of their immediate social circle-they must rely more on formal, arms-length legal processes, which must be perceived to be fair and independent. Further analysis of the disaggregated People's Supreme Court data by case type reveals that the vast majority of legal cases filed (roughly 70 percent) involve some form of contract enforcement on the purchase or sale of goods. Much smaller percentages have to do with finance and banking (8 percent) and problems related to construction (6 percent). Thus, on its face, the greater usage of courts in Vietnam by private firms appears to be an excellent indicator of successful legal reform.

### Worries

A disconcerting deterioration in performance is observable in the Time Costs of Regulatory Compliance sub-index. The decline in the median score from 6.2 to 5.8 is not nearly as dramatic as the

precipitous falls in PSD and Labor; nor is it a statistically significant change. Nevertheless, individual indicators within the sub-index demonstrate clear declines. The percentage of time spent on bureaucratic procedures continues to increase annually. Currently, 23 percent of firms spend more than 10 percent of their time on bureaucratic procedures, with few firms detecting any improvements in the burden caused by administrative barriers. While entry costs have improved dramatically, it appears there is still much work to do on addressing the cumbersome post-registration costs of regulatory compliance. Most policy efforts on post-registration regulation have focused on inspections. Consequently, these have now been reduced to minimal levels and do not appear to be an important obstacle faced by entrepreneurs. On the other hand, firms still complain of cumbersome paperwork and other procedures in day-to-day interactions with provincial bureaucrats. Clear guidelines involving the distribution of value-added tax (red) receipt books and renewals of

environment, health, and safety certificates top the lists of firms' priorities for policy makers. As always in Vietnam, interpretation and implementation of administrative procedures varies heavily by province.

The Prime Minister's Master Plan on Administrative Procedures Simplification (Project 30) implemented by the Office of the Government and supported by VNCI goes a long way toward resolving these issues by inventorying and reviewing all of the administrative procedures affecting firms at both the national and provincial levels in a transparent, accessible, and comprehensive database. First the inventory phase will allow for a quick and thorough assessment of the current post-registration regulatory burden faced by firms in each economic sector and province. Firms will clearly know their rights and obligations. The inventory will allow for standardization of all nationally issued administrative procedures and ready comparison of provincial regulatory initiatives, so local leaders can follow national initiatives and identify the standards that best suit their needs. The second phase of Project 30 to review, simplify, or abolish unnecessary, illegal, and cumbersome procedures will reduce the huge burden of paperwork and compliance costs affecting firms in their daily operations, easing the interpretation and implementation of administrative procedures nationwide.

Other indicators do not demonstrate significant year-on-year changes. Though not declines, these trends are worrying because they have been identified as key policy initiatives by the leadership and, therefore, stagnation is disquieting. Indicators of Informal Charges, for instance, have shown no discernable improvements. Frequency of, size of, and obstacles posed by bribery have remained the same for the past three years, despite the government's highly public efforts to reign in such activity<sup>5</sup>. One of the cornerstones of public administration reform was to increase the salaries and improve the quality of civil servants so that bribes would become a less important part of public service delivery. These ambitious goals do not appear to have been achieved at the local level.

Currently, two new initiatives are underway that are planned to help address the deficiencies of previous corruption efforts. The National Strategy on Combating and Preventing Corruption by 2020, currently being drafted, is planning to integrate efforts across a number of line ministries and local agencies.

In addition, the newly passed Law on Public Officials and Civil Servants is expected to upgrade and create a clean, motivated, and effective civil service through merit-based performance incentives, including performance evaluations, competitive recruitment for contract positions, and clearly defined job descriptions. PCI data will certainly help gauge the effectiveness of these efforts and their implementation at the provincial level.

In sum, tremendous improvements have been recorded, but more work remains. The continuing burden of cumbersome regulatory procedures unnecessarily raises firms' costs and cuts into their bottom lines, while the lack of real progress on informal charges substantially raises the risks of entrepreneurial activity.

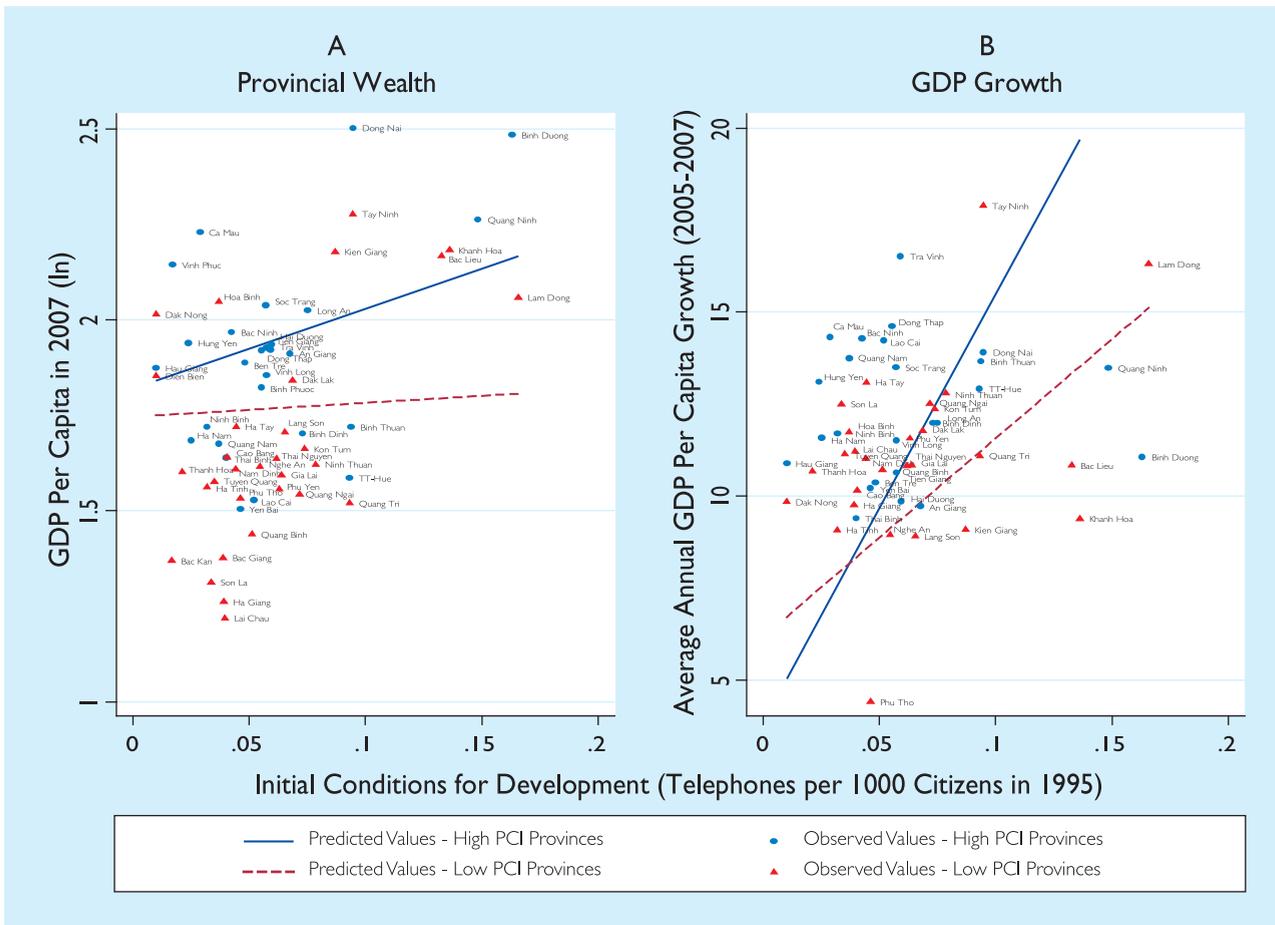
#### **4 Impact of Governance Improvements on Private Sector Growth and Welfare**

Each year, the PCI research team provides regression results that establish a strong association between the unweighted PCI results and key private sector performance outcomes.

We consistently show that provinces with better governance make more productive use of initial endowments. Initial conditions certainly matter; more well-endowed provinces have much higher incomes (measured by gross domestic product (GDP) per capita) than their less well-endowed peers. However, at every level of initial endowments, better-governed provinces (i.e., those with PCI scores above the 2006 median) outperform less well-governed localities. This is true whether we use overall level of GDP per capita (see Figure 7, Panel A) or focus on the average change in GDP per capita over the past two years (see Panel B). The gap between the solid blue line (the predicted values for high PCI provinces) and the dashed red line (predictions for low PCI provinces) is what we term the "economic governance premium." It indicates that at each level of initial conditions, better-governed provinces are able to use their endowments more efficiently and achieve higher levels of economic welfare. (See Appendices of Full Report for detailed regression results.)

5. Vasavakul, Thaveeporn. 2008. "Recrafting State Identity: Corruption and Anti-Corruption in Doi Moi Vietnam from a Comparative Perspective." Presented at the Conference on Re-Making the Vietnamese State, Hong Kong, August 21

**Figure 7: Governance Premium**  
 (The Impact of Good Governance on Provincial Wealth and GDP Growth)



Note for display purpose, this graph drops national-level cities and Ba Ria - Vung Tau, because they are outliers that are difficult to display in a single figure.

While these regressions control for a range of factors—notably infrastructure, human capital, and proximity to major markets—we were never wholly satisfied with them. Because we did not have sufficient data on economic governance over time, we were only able to establish that there was an association between good governance and outcomes among provinces within a given year. This is the relationship demonstrated in Panel A. That is, we could show that private sector performance in well-governed provinces was better than that in poorer provinces. In this case, the governance premium in the figure is the relative difference in GDP per capita, within a single year, between well- and poorly governed provinces. Although this cross-sectional (across geographic space) correlation is

important, it is static and limited because it cannot effectively track the influence of changes over time.

From a policy perspective, it is more useful to allow for more dynamic analysis of whether governance improvements within a single province influence that specific province's business performance and income in future years. In other words, it would be helpful to show that over-time improvements on PCI indicators lead to improvements in economic outcomes. After all, this is the calculation that a provincial leader must make, asking: "Will this initiative that I am considering today improve the economy in my province tomorrow?"

Now that comparable data on both the PCI scores and economic outcomes going back three years are

available, time-series analysis can be performed within each province (sometimes referred to as longitudinal or panel analysis). Here is what we learned. All else being equal, a one-point improvement in the 100-point PCI score in a given year within a particular province is associated with a 6.9 percent increase in active private companies, a 2.6 percent increase in average investment per capita, and a 1.6 percent increase in GDP per capita in the subsequent year. This is this relationship illustrated in Figure 7, Panel B. These effects are strongly statistically significant and the findings are robust relative to changes in control variables and different regression specifications. These results show that while governance is not the only driver of improvements in economic conditions in a province, it does matter a great deal.

There is one important qualification for this finding. There is no statistically significant relationship between improvements in governance and changes in profitability. Although there is a strong cross-sectional association (well-governed provinces have higher profits), there is no clear evidence that a single-year improvement in PCI scores influences firms' bottom lines in subsequent years. Improvements in governance seem to be more clearly associated with the willingness of firms to take risks through entry or expanded investments. The bottom line is that firms in better governed provinces have higher profitability, but profit margins have not expanded along with governance improvements. Other factors are more influential in explaining changes in profitability over time.

As in previous reports, we studied the differential association of individual sub-index scores with key outcome variables. Once again, transparency of business information, proactivity of the leadership, and labor policies have the most consistent and robust impact on private sector development. Simply enhancing access to legal and planning documents through a one-point improvement in transparency is associated with a 3.7 percent rise in the number of firms per 10,000 citizens in the province. Some sub-indices that have been only marginally important in past years proved to have significant effects on individual-outcome variables this year. Key among these was the Entry Costs sub-

index, which, because of the differential impact in OSS implementation across the country, was significantly related to new enterprises established in a province. Interestingly, lowering entry costs was also negatively associated with profits per firms. This can be explained because lower barriers to entry increase competition for existing entrepreneurs, cutting into their profit margins. On the other hand, Land Access and Security of Tenure had a large impact on firm profitability. A single-point improvement on this proxy for property rights is correlated with almost VND 9 million per firm in annual profits.

The formal details of the regression specifications are in the Appendices of the Full Report, but there are three technical details that general readers should understand.

First, we use the unweighted PCI score because the weighted PCI is calibrated to private sector outcomes.

Second, the panel analysis includes provincial-level fixed effects; that is, we only compare each province to itself over time and not to other provinces in the country. As a result, we do not need to worry about historical or cultural factors that are specific to a locality. The fixed effects absorb this variation, allowing us to isolate the impact of policy/institutional change independent of a province's initial conditions.

Third, there are a number of factors that affect provincial economies but are out of control of the provincial authorities in the short run, including infrastructure, human capital, population growth, and national economic trends such as macroeconomic conditions, foreign investment, and commodity price increases. Our model controls for these factors so that we can calculate the marginal improvement of changes in governance. Clearly these factors are important, but the purpose of our analysis is to assess the singular impact of governance on private business activity, holding constant the other drivers of economic performance.

## 5 Infrastructure Index

This year's report adds a new feature to the analysis of competitiveness—the Infrastructure Index.

A series of recent, high-profile reports have demonstrated that Vietnam's infrastructure is harming its competitive advantage internationally. At the same time, increased fiscal decentralization has, in theory, increased the opportunities for provinces to raise their own resources for infrastructure improvements. Consequently, a number of our key stakeholders requested that we bring PCI data to bear on the subject.

In providing this analysis, we are conscious that provincial authorities do not have complete control over infrastructure within their provinces, and that they have even less control over the perceptions of entrepreneurs regarding local infrastructure. Many of the indicators measured are out of the direct control of provincial authorities. First, much of the current infrastructure was completed long before the tenure of today's current provincial leaders. Second, firms in distant and rural areas have higher transport costs that are inherently more difficult to overcome. Third, many infrastructure decisions are made by central government planners. Provinces can supplement infrastructure spending out of their own budgets to some extent, but poorer provinces do not have this option and must depend on central transfers. Fourth linkages of infrastructure across provincial borders affect firm perceptions in ways that are difficult to disentangle using provincial-level survey data. It would be unfair to rank province A below its neighbor, province B, simply because central authorities selected B as the sight of the national highway. Alternatively, a province that has done a good job of marshalling local resources for new roads and maintenance may be

downgraded by firms that are forced to ship products outside those provincial borders over the roads of neighbors that may not have been so diligent about infrastructure development and upkeep. It is not at all clear that entrepreneurs have a perfect understanding of where provincial borders are situated, and which authorities deserve praise or complaint for poor infrastructure.

Consequently, the Infrastructure Index is simply an assessment of total infrastructure quality; it is not a definitive evaluation of the quality of local leadership like the PCI. We make no assumptions about credit or culpability, and present it simply as a tool to inform the investment decisions of local entrepreneurs and the policy priorities of central and local officials. We present these results as a baseline measure, which will facilitate tracking future developments. Longer time series of annual data will be necessary for more rigorous analysis of the influence of changes in infrastructure. Nevertheless, the PCI Infrastructure Index represents a baseline that can be used to track and analyze future developments.

The Infrastructure Index ranks the relative levels of infrastructure across the country along four dimensions: 1) industrial zone quality and capacity; 2) transportation costs; 3) telecommunications and energy costs and stability; and 4) major infrastructure (ports/airports). We find that Da Nang, Binh Dinh, Ho Chi Minh City (HCMC), Hai Phong, Binh Duong, and Dong Nai have the best infrastructure in the country, while the rural Northwestern Uplands have the worst.

**Table 5: Indicators Used In Infrastructure Index**

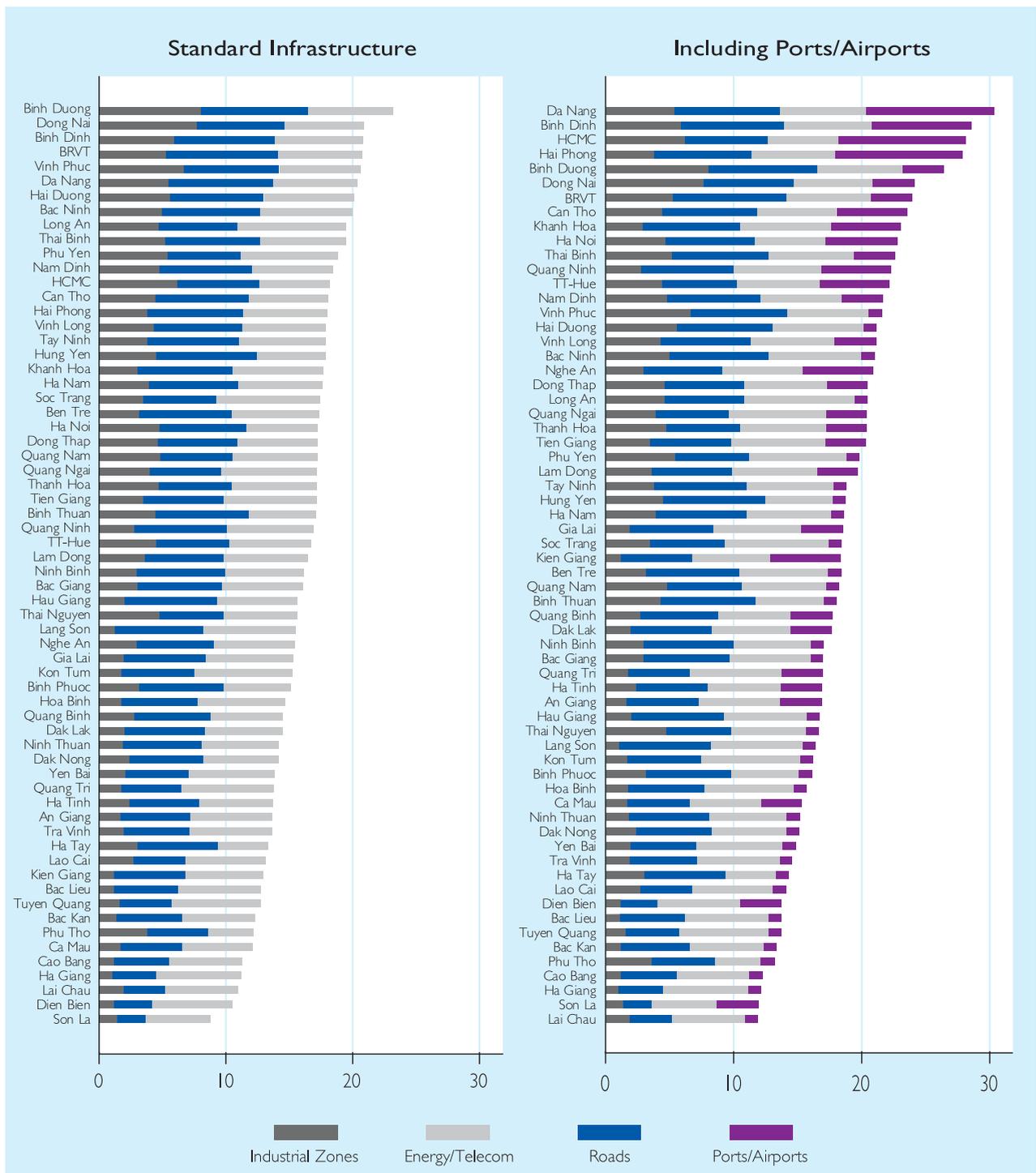
Sub-Index	Indicator	Source	2008 Measures	
1) Industrial Zone Quality and Coverage	Number of Industrial Zones and Concentrations in Province	Ministry of Planning and Investment (August 2007)	Min	0
			Median	1
			Max	23
	Percentage of total IZ surface area that currently has occupants.	Ministry of Planning and Investment (August 2007)	Min	0.00
			Median	30.13
			Max	93.55
	Firm Rating of Provincial Industrial Zone Quality (% Very Good or Good).	PCI Survey Question: E1.14	Min	3.07
			Median	23.87
			Max	72.89
2) Road Quality and Transport Costs	Number of days annually that roads are impassable due to rainfall.*	PCI Survey Question E2	Min	3
			Median	7
			Max	19
	Monetary loss annually from spoiled and damaged products in the past year (Millions of VND)*	PCI Survey Question: E3	Min	14.6
		Median	31.9	
		Max	83.1	
	Transport costs of a 40-foot container from provincial capital to nearest major ports (HP, HCMC, DN) in Millions of VND*	Average estimates by three local transport companies	Min	2.1
			Median	6.5
			Max	16.0
	Percentage of roads in province (national, provincial, or district) that are paved with asphalt	General Statistics Office	Min	1.98
			Median	51.28
			Max	100
3) Utilities (Energy and Telecommunications)	Hours of Telecommunications outages in province per month*	PCI Survey Question E5	Min	7
			Median	13
			Max	50
	Assessment of telecommunications quality (% Good or Very Good)	PCI Survey Question E1.2	Min	75.00
			Median	94.18
			Max	100
	Telephones (Land and Cellular) per 100,000 Citizens in 2007	Ministry of Information and Telecommunications	Min	1.2
			Median	11.7
			Max	113.1

Sub-Index	Indicator	Source	2008 Measures	
	Average cost per kilowatt of energy in province (VND)	Electricity Vietnam (EVN)	Min	595.51
			Median	776.17
			Max	
	Hours of electricity outages in the last month*	PCI Survey Question E4	Min	27
			Median	44
			Max	101
4) Major Infrastructure (Ports/Airports)	National Seaport (Container Cargo > 34,000 TEU)	APL Logistics	Provinces with	5
			Provinces w/o	59
	Local Seaport (Container Cargo > 2,000 TEU)	APL Logistics	Provinces with	25
			Provinces w/o	39
International Airport	APL Logistics	Provinces with	4	
		Provinces w/o	60	
	Domestic Airport	APL Logistics	Provinces with	15
			Provinces w/o	49

Looking at the ranking, it is immediately obvious that the absolute levels of infrastructure are associated with economic development, but it is not clear which way the causal arrow points. Many of these provinces inherited stocks of infrastructure

going back several generations or more. At the same time, their ability to attract early investment has bolstered their revenue, allowing them to spend more on subsequent infrastructure improvements.

**Figure 8: PCI Infrastructure Index**



Despite their absolute advantage, we find that the infrastructure in the high-performing provinces is not keeping up with demands on its usage. Table 6 shows that provinces in the North Southeast industrial hub have the fastest population growth and the largest share of private enterprises and economic output, yet they lag behind other regions

in the percentage of road covered with asphalt and improvements in road quality, and they pay the highest average energy prices in the country. In essence, infrastructure does appear to be placing constraints on development in high-growth regions, while policy makers have used infrastructure spending as a tool for redistribution.

**Table 6: Infrastructure Growth Versus Demand for Usage**

	Population Growth (2002-2006)	Share of GDP (2007)	Share of Active Private Firms (2007)	Growth in Asphalted Kilometers of Road (2002-2006)	Percentage of Total Kilometers of Road Covered by Asphalt (2006)	Average Price of Energy (VND/KW)
Entire Country	1.4%	100%	100%	15.2%	42.0%	777.0
Red River Delta	1.1%	20.9%	27.5%	8.7%	83.5%	734.0
Northern Uplands	0.1%	8.3%	6.0%	17.1%	38.1%	766.3
North Central Coast	0.8%	6.1%	5.0%	52.7%	55.8%	687.6
South Central Coast	1.1%	7.0%	8.5%	18.7%	60.6%	789.9
Central Highlands	1.6%	4.2%	2.9%	10.3%	49.4%	779.8
North Southeast	2.3%	36.4%	39.0%	9.7%	52.0%	865.8
Mekong Delta	0.2%	17.2%	11.0%	19.9%	40.7%	791.7
Ba Ria - Vung Tau	2.0%	7.7%	1.1%	-5.6%	82.5%	860.7
Binh Duong	6.0%	1.7%	2.3%	10.0%	64.5%	871.9
Dong Nai	2.0%	4.0%	2.4%	-3.0%	52.2%	865.1
HCMC	3.0%	18.3%	29.7%	1.9%	55.9%	1068.1
Long An	1.0%	1.5%	1.3%	18.7%	28.5%	813.9

It is critical that policy makers find the right balance between redistribution and growth-inducing infrastructure investments. After all, slower national growth reduces the pool of monies available for redistribution. Fiscal decentralization and the corresponding powers of finance it has brought to provincial authorities may be a first step in allowing high-growth areas to raise the capital necessary to meet their changing economic needs. The draft Laws on Debt Management and State Budget that are under discussion in the current session of the National Assembly should facilitate fiscal decentralization but maintain centralized oversight to ward off irresponsible spending.

## 6 Information and Communication Technology Index

In addition to the traditional types of infrastructure highlighted above, more and more firms in Vietnam recognize the utility of information technology for facilitating interactions with business partners and acquiring market and technology information. In

fact, 27 percent of respondents recorded active email addresses on their PCI survey forms. In Ha Noi and HCMC, over 60 percent of firms used email addresses for their contact information. Annual growth in information and communication technology (ICT) penetration in all of Vietnam is estimated at 8 percent.

The ICT Index borrows from an excellent dataset assembled by Office of the Steering Committee for National Information Technology Readiness of the Ministry of Information and Communications to build on five sub-indices: 1) hardware, or the physical infrastructure for internet usage; 2) human resources, including the training, skill sets, and personnel necessary for technology acquisition; 3) ICT applications, measuring the scope, scale, and efficiency of current use on existing ICT hardware; 4) availability of private ICT providers as a substitute for government provision; and 5) the conduciveness of the provincial regulatory framework for ICT development, including whether provinces have local ICT committees and development policies.

**Table 7: Indicators Used in ICT Index**

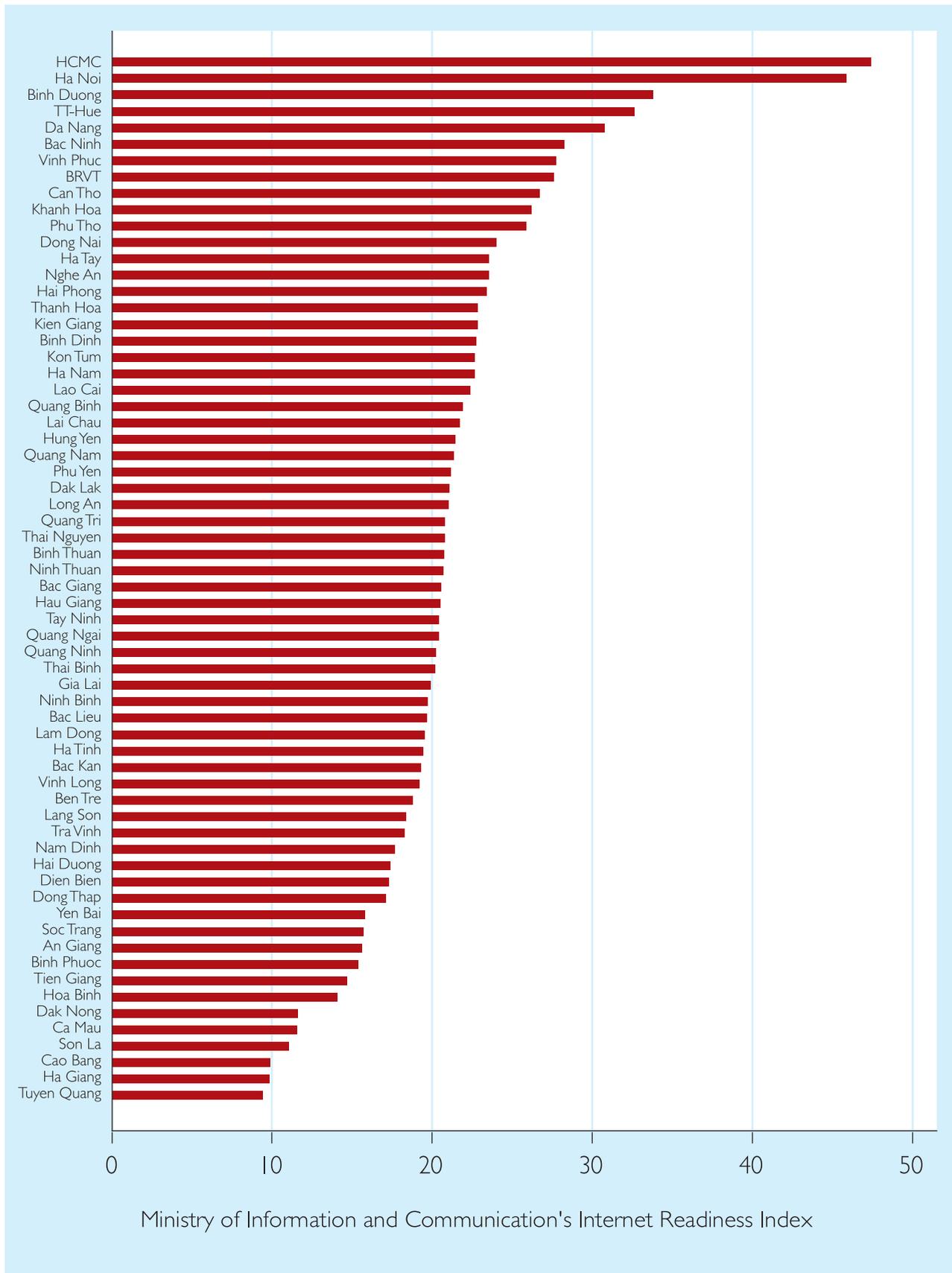
Sub-Index	Sub-Index	2008 Measures	
1) ICT Infrastructure (Level of hardware and physical equipment for technology usage)	a. Land line telephones/100 people b. Mobile telephones/100 people c. Dial-up internet accounts/100 people d. Broadband internet subscriptions/1000 people e. Domestic bandwidth (traffic on Vietnamese websites)/per capita	Min	0.04
	f. International bandwidth (traffic on international websites)/per capita g. Households with a computer h. Households with broadband internet	Median	0.21
	i. Computers/per capita in state offices j. Computers with internet in state offices k. Computers with broadband internet in state offices l. Businesses with broadband internet	Max	0.7
2) ICT Human Resources (Schooling, training, and personnel required for technology skill acquisition)	a. Primary schools with information technology (IT) courses b. Middle schools with IT courses c. High schools with IT courses d. State workers with computer skills	Min	0.14
	e. Educational institutes (higher than high school) with IT courses/100000 people f. Graduates from above institutes/1000 people	Median	0.31
	g. Official training centers with IT courses/100000 people h. Graduates from above centers/1000 people	Max	0.65
3) ICT Applications (Scope, scale, and efficiency of uses of information technology on existing infrastructure).	a. Total time of domestic phone calls/per capita b. Total time of international and long distance calls/per capita c. State budget for ICT/per capita d. Small administrations and districts with websites. e. Businesses with websites	Min	0
	f. Provinces with websites or information portal and basic information available (including: a general introduction, administration structure, news and events, activities of the local administration, instructions for individuals and businesses to complete administrative procedures, legal documents, development plans and policies, business information, questions and answers on ICT policies, search function, visitor comments, frequently asked questions (FAQ), and discussion).	Median	0.17
	g. Public services offered on the internet (including: business registration, investment licensing, construction permission, payment methods for utility bills, private registration for pharmaceuticals, job advertisements, public transport services, queries and status of administration procedures).	Max	0.67

Sub-Index	Sub-Index	2008 Measures	
4) Resources of Private ICT Providers	a. Number of ICT businesses/1000 people b. Total revenue of ICT businesses/per capita	Min	0
		Median	0.09
		Max	0.89
5) Organization and Regulation of ICT (Local policies, administrative structure, and official regulations governing internet usage)	a. Number of ICT steering committees and number of meetings of these committees b. ICT policies for development: strategy and plans, encouragement, human resources development c. Interest of local state leader/officals in ICT development and application: no interest, little interest, some interest, interested, very interested	Min	0.11
		Median	0.705
		Max	1

HCMC, Ha Noi, Binh Duong, TT-Hue, Da Nang, Bac Ninh, and Vinh Phuc received the top overall scores on the ICT Index. As with infrastructure, a number

of mountainous provinces in the Northwest rank near the bottom.

**Figure 9: Final ICT Readiness Index**



## 7 Conclusions

This short report is meant to simply provide a taste of the detailed analysis that exists in the 2008 Full PCI Report. The summary report documents the PCI's philosophy of aggregating the viewpoints of thousands of private investors, so that their voice can be heard and included in policy discussions at both national and provincial levels. This voice is presented in such a way as to provide actionable and action worthy information to decision makers, allowing for precise calibration of policy interventions for the largest impact on private sector development. Moreover, the data from the PCI can be used to track the impact of policy interventions over time.

The report also demonstrates that scores are slightly lower this year across the country, a decline that can be traced to real evidence of disappointment among entrepreneurs in the way provincial leaders have responded to both their rising expectations and current macroeconomic instability.

In addition to these macro-findings, detailed analysis finds statistical evidence of improvements in entry costs, property rights, transparency of legal normative documents, and confidence in provincial economic courts. Both national and local leaders should be justifiably proud of these accomplishments.

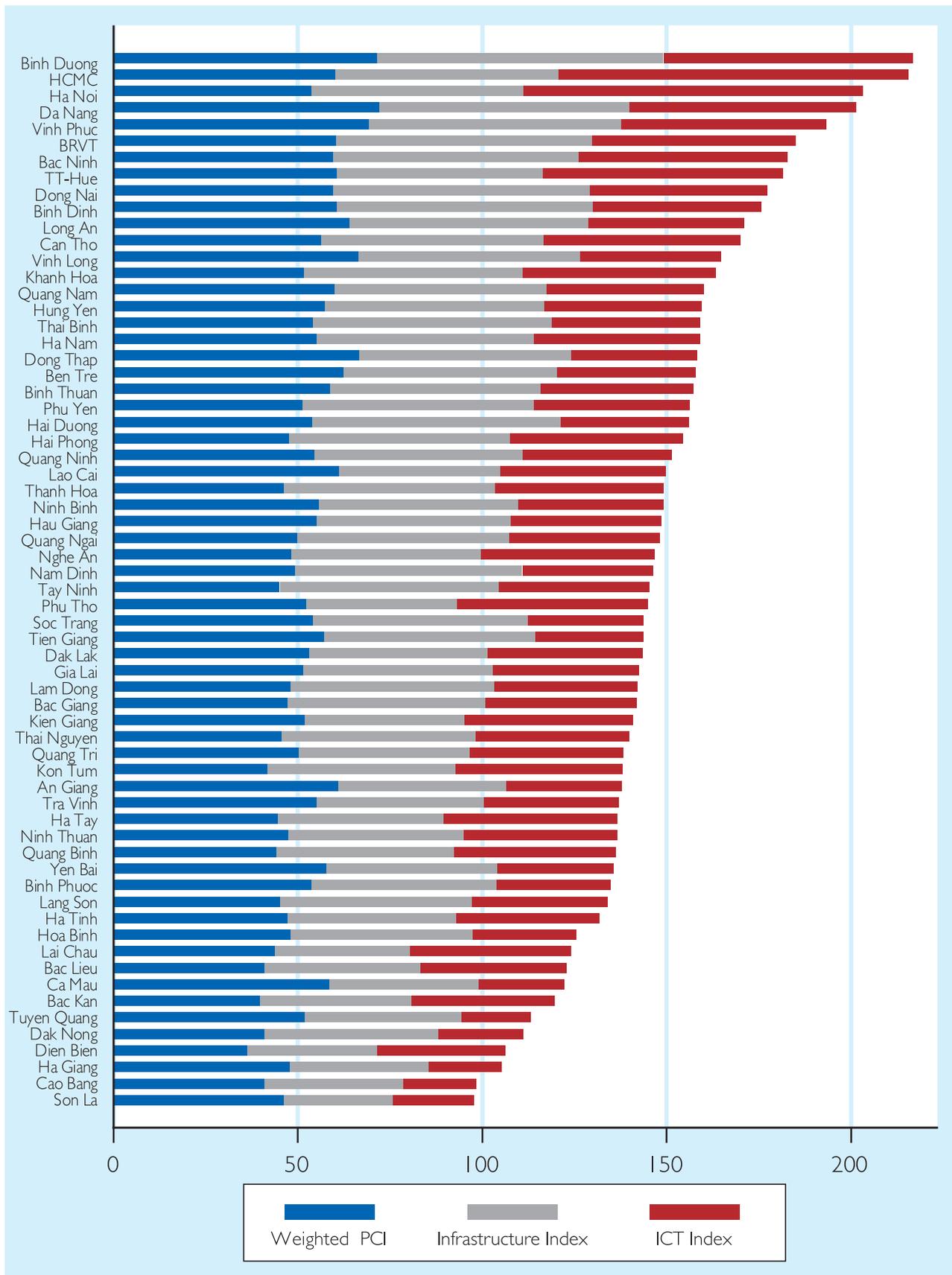
On the other hand, there is still hard much work to do in lowering the post-registration transaction costs faced by private entrepreneurs. These include both the de facto taxes imposed by cumbersome regulatory procedures and informal charges assessed by local officials during a variety of normal business activities. Such de facto taxes are detrimental, as they raise the cost of doing business, while their lack of predictability substantially raises the risks of entrepreneurial activity.

As indicated in last year's report, there is evidence that increasing inequality is beginning to appear across the country. Top performing provinces excel at all aspects of economic development, as shown in this report in terms of economic governance, infrastructure, and ICT capability. This group is pulling away from the rest of the country. At the same time, another group that must struggle with weak initial conditions and poor infrastructure has not been able to develop the good governance practices to compensate for their handicap. These are steadily falling behind the performance of their peers. The extent of this divergence can be seen in Figure 10, a total investment environment index, created by standardizing the PCI, infrastructure, and ICT indices to a common 100-point scale and adding them up. More than 100-points separate the urban and industrial centers at the top of the index from the rural mountainous regions at the bottom.

To some extent, this inequality is a natural result of Vietnam's rapid economic development. But for businesses in the laggard areas, poor governance and infrastructure place severe constraints on the success of their business, and consequently on their ability to create jobs and revenue in poor areas. Good economic governance should be the great equalizer, allowing poor provinces to attract new investment and turn a vicious circle into a virtuous one by using the revenue provided by new investment to subsidize infrastructural improvements.

Transfers can only help mollify the short-term welfare effects of structural inequality. Eventually, policy-makers must identify ways incentivize good governance, so that the same provinces do not fall farther and farther behind their high-performing peers. It is our hope that the PCI can play a role in stimulating these changes.

**Figure 10: Total Investment Environment**







Development Alternatives, Inc. (DAI) is a global consulting firm providing social and economic development solutions to governments, communities and companies with projects in developing and transitioning countries. Founded in 1970 and headquartered in the Washington, DC area, DAI now includes companies in Brazil, South Africa, Palestine and the United Kingdom. DAI's 1,600 employees work in 75 countries. Clients include global development agencies, international lending institutions, global corporations and host country governments.



## The Asia Foundation

The Asia Foundation is a non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just and open Asia-Pacific region. The Foundation supports programs in Asia that help improve governance, law and civil society; women's empowerment; economic reform and development; and international relations. Drawing on more than 50 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges and policy research.



### **U.S Agency for International Development USAID/Vietnam**

Tung Shing Square Tower Building, 15th Floor, 2 Ngo Quyen Street  
Hanoi, Vietnam

Tel : (84-4) 3935-1260

Fax : (84-4) 3935-1176

[www.usaid.gov](http://www.usaid.gov)