

## Running a Business in Vietnam

New data from Enterprise Surveys indicate that Vietnamese firms have several comparative advantages over firms in other similarly populated countries and countries in the same income group (table 1). Senior managers report spending only 5 percent of their time dealing with the requirements of government regulation—much lower than Vietnam’s peer countries. In addition, firms experience few power outages, fewer losses due to crime, and firms rank corruption as a relatively minor obstacle. However, one-fourth of Vietnamese firms ranked access to finance as the biggest business environment obstacle when presented with a list of 15 obstacles. Specifically, firms report high collateral requirements—218 percent relative to the loan amount. Among similarly populated countries, only firms in the Philippines report a higher percentage. The Vietnamese economy is well integrated in global trade. Relative to similar economies, a high proportion of firms in Vietnam are exporters, and Vietnamese firms use a comparatively high proportion of foreign inputs as well. Compared to its peer countries, Vietnamese firms are younger, especially in the retail sector. Vietnamese firms are on average larger (figure 1), and also employ proportionally more women and have more female top managers compared to similarly populated countries in the same income group.

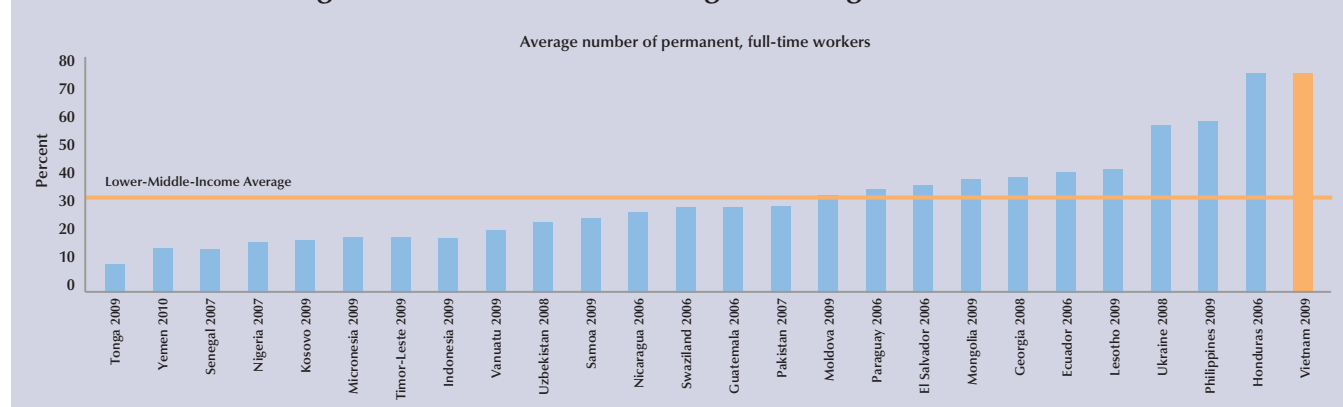
The Enterprise Surveys use standard survey instruments to collect firm-level data on a country’s business environment from business owners and top managers. The surveys cover a broad range of topics including access to finance, corruption, infrastructure, crime, competition, labor, obstacles to growth and performance measures. The survey is designed to be representative of a country’s private non-agricultural economy, and firms sampled are stratified by size, location,<sup>1</sup> and sector (figure 2)<sup>2</sup> to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. In Vietnam,

1,053 firms were surveyed from June 2009 to January 2010. The information collected refers to the characteristics of the firm at the moment of the survey or to fiscal year 2008.

### What is the average firm in Vietnam?

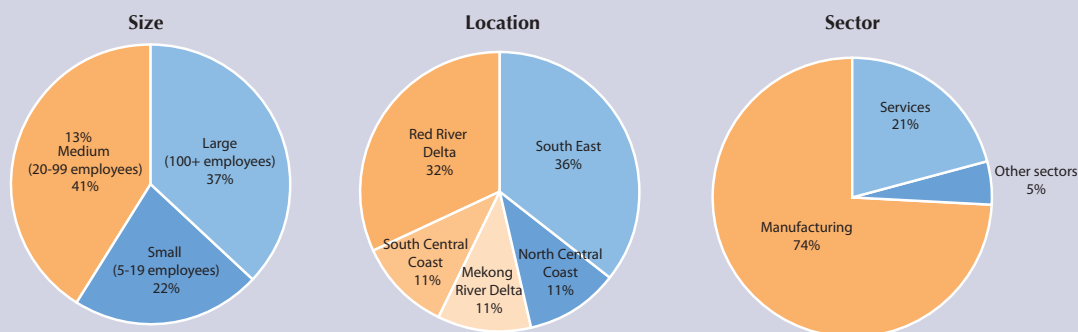
The average firm<sup>3</sup> in Vietnam is larger, in terms of the number of employees, than the typical firm in other lower-middle-income countries. On average, firms in Vietnam employ 75 full-time employees (figure 1), though the majority of firms in Vietnam have less than 20 workers on their payrolls. Perhaps not surprisingly, Vietnamese firms

**Figure 1** The average firm in Vietnam is the largest among similar income-level countries



Source: Enterprise Surveys.

**Figure 2** Characteristics of the firms interviewed



Source: Enterprise Surveys.

also employ more temporary workers, on average nearly 36, compared with only 8 in other lower-middle-income economies.

Though the typical firm in Vietnam has been in operation for ten years (table 2), 40 percent of firms have been in existence for five years or less. The average manufacturing firm in Vietnam has been in existence longer than firms in other sectors. On average, retail firms are the youngest in Vietnam—the average retail firm has been in operation

for three years less than firms in the other services sector and seven years less than the average manufacturing firm. Moreover, the age of firms in Vietnam differs by the size of the firm. The typical small firm is younger than both medium and large firms—by four years and thirteen years, respectively.

The most common ownership structure is a limited partnership; just over two fifths of Vietnamese firms are held this way, followed by sole proprietorships (26 percent) and

**Table 1**

**How does Vietnam 2009 compare with other countries in the same income or population group?**

	Lower-middle-income economies (26 countries†)	Similarly populated countries (13 countries ‡)
<b>Ranking 1 assigned to the largest value</b>		
Percent of firms formally registered when started operations in the country	17	9
Private domestic ownership (%)*	15	11
Private foreign ownership (%)*	13	3
Government/state ownership (%)*	1	1
Percent of firms with female participation in ownership	5	3
Bank finance for investment (%)	13	7
Percent of exporter firms	2	4
Domestic sales (percent of sales)	26	12
Percent of firms with internationally recognized quality certification	7	6
Percent of firms with annual financial statement reviewed by external auditor	14	7
Capacity utilization (%)	4	6
Percent of firms using their own Web site	3	7
Percent of firms using e-mail to communicate with clients/suppliers	5	6
<b>Ranking 1 assigned to the smallest value</b>		
Value of collateral needed for a loan (percent of the loan amount)	21	9
Number of power outages in a typical month	3	2
Senior management time spent in dealing with requirements of government regulation (%)	8	10
Average number of visits or required meetings with tax officials	7	4
Incidence of graft index**	15	10
Losses due to theft, robbery, vandalism, and arson against the firm (percent of sales)	1	4

Source: Enterprise Surveys.

Note: This table presents a ranking out of different groups of economies for each of the listed indicators. The lower-middle-income group includes 26 countries and the similarly populated group consists of 13 countries. The numbers are ranks as opposed to the actual value of the indicator.

**Table 2** The average firm in Vietnam 2009

	Vietnam	Lower-middle-income economies (26 countries †)	Similarly populated countries (13 countries ‡)
Age (years)	10.3	14.6	16.7
Percent of firms formally registered when started operations in the country	87.5	88	87.9
Most common legal form	Limited Partnership	Sole Proprietorship	Closed Shareholding Co.
Private domestic ownership (%)*	89.9	87.9	93.4
Private foreign ownership (%)*	7.4	9.8	4.6
Government/state ownership (%)*	2.7	0.5	0.6
Percent of firms with female participation in ownership	59.2	41.3	41.6
Percent of firms with female in top management position	26.4	20.8	24.2
Experience of the top manager (years)	15.0	16.0	17.7
Average number of temporary workers	35.8	7.8	9.0
Average number of permanent, full-time workers	74.7	31.9	58.1
Percent of full-time female workers	36.0	31.0	32.9

Source: Enterprise Surveys.

shareholding companies that are privately traded (21 percent). Companies with publicly traded shares represent the smallest proportion of firm ownership in Vietnam at just over 2 percent. Compared to economies of similar income levels and with similar populations, Vietnam ranks the highest in terms of the proportion of a firm's ownership that is held by the state. The average firm in Vietnam has a level of government ownership of 3 percent, although 93 percent of private firms in Vietnam have no government share at all in ownership.

In roughly 30 percent of firms in Vietnam, a least half of the workforce is female. Among similar-income economies, Vietnam ranks fifth out of 26 in terms of the percentage of firms with female ownership. Vietnamese firms rank third in this measure when compared to countries with similar populations. The gender composition of Vietnamese firms

also differs by firm characteristics—exporters employ 10 percent more full-time permanent female workers, on average, than non-exporters, while foreign-owned firms<sup>4</sup> employ a workforce with 10 percent more female workers than domestically owned firms. A greater proportion of large firms in Vietnam, on average, have a top manager who is female—18 percent more large firms have a female top manager compared to small firms, and 15 percent more large firms compared to medium firms feature a female in the top managerial role.

### How do businesses operate in Vietnam?

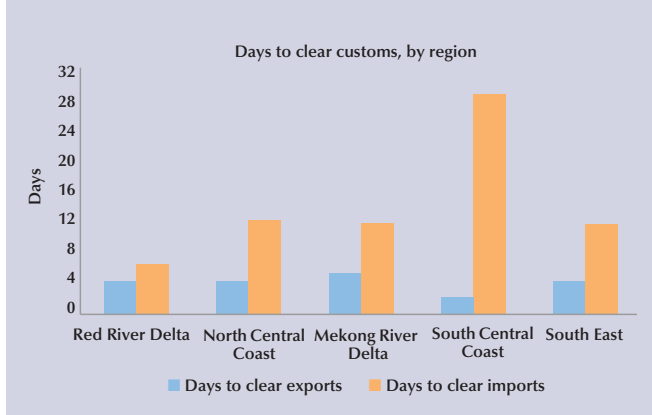
Relative to other lower-middle-income economies and similarly populated countries, Vietnam presents a mixed picture regarding access to finance. Vietnamese firms rank third (after El Salvador and Samoa) among other lower-

**Table 3** Choices by the average firm in Vietnam 2009

	Vietnam	Lower-middle-income economies (26 countries †)	Similarly populated countries (13 countries ‡)
Internal finance for investment (%)	82.3	71.1	67.1
Bank finance for investment (%)	12.7	15.2	18.1
Value of collateral needed for a loan (percent of the loan amount)	217.7	151.6	126.8
Loans requiring collateral (%)	90.8	79.5	68.8
Percent of firms with a checking or savings account	89.4	85.2	85.4
Percent of exporter firms	20.5	11.1	16.8
Domestic sales (percent of sales)	88.2	94.9	93.7
Sales exported directly (% sales)	8.6	3.5	4.4
Sales exported indirectly (% sales)	3.2	1.6	1.9
Sales that are pre-paid (%)	15.5	20.4	15.5
Sales sold on credit (%)	66.3	37.4	52.7
Percent of firms with internationally recognized quality certification	16.7	12.6	15.8
Percent of firms with annual financial statement reviewed by external auditor	30.1	41.1	38.9
Capacity utilization (%)	76.7	70.2	75.3
Percent of firms using their own Web site	40.0	25.8	43.1
Percent of firms using e-mail to communicate with clients/suppliers	83.2	54.6	67.2

Source: Enterprise Surveys.

**Figure 3** The average time to clear customs varies by region



Source: Enterprise Surveys.

middle-income countries on the percentage of private firms relying on bank financing for working capital; however, Vietnamese firms are just below average when relying on bank financing for investment purposes. High collateral requirements as a percentage of the loan may be the cause for this variance. Among other similarly populated countries, Vietnam ranks 9th out of 13 countries at 218 percent of the loan amount and also ranks highest in terms of loans requiring collateral (table 3). However, government-owned firms<sup>5</sup> require significantly less collateral—130 percent of the loan amount, compared with 225 percent for firms with no government participation in ownership.

Survey data yield other important differences among Vietnamese firms regarding their use of external financing. Manufacturers are significantly more likely, compared to retail and other services firms, to use banks to finance working capital—63 percent versus 33 percent and 38 percent, respectively. Similarly, large firms are more likely to use external financing compared to small or medium firms—75 percent versus 31 percent and 53 percent; and foreign-owned firms are less likely to have a bank loan or line of credit than domestic firms—30 percent versus 52 percent.

Vietnam is much more integrated into global trade than its peers, ranking the highest among lower-middle-income economies in the percentage of sales that are exported directly (9 percent). Vietnamese firms rank third-highest in the percentage of sales exported indirectly (3 percent); only Samoa and Micronesia have higher percentages of indirectly exported sales. Among economies with similar

population levels, only Turkey has a larger proportion of both sales that are direct exports (10 percent) and indirect exports (7 percent). Not surprisingly, Vietnamese firms sell the lowest proportion of goods and services domestically (88 percent) compared to other lower-income-countries. Again, among countries with a similar population size, only Turkish firms make a lower proportion of sales that end up in domestic markets (83 percent). The percentage of exporter firms (combining direct and indirect exporters) in Vietnam is almost twice the average compared to its lower-middle-income peers and higher compared to the average of its comparator countries for population size (table 3). Compared to similarly populated countries, Vietnam also ranks highest for the percentage of inputs of foreign origin (40 percent). It is interesting to note the regional differences in customs processing times for the five regions surveyed. Firms in the South Central Coast (figure 3) report significantly lower time to clear exports through customs (2 days vs. 4 to 5 days for the other regions); however, they also report significantly more time to clear imports through customs (29 days vs. 6 to 13 days for the other regions). Note that among the five regions, firms

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**The percentage of exporter firms (combining direct and indirect exporters) in Vietnam is almost twice the average compared to its lower-middle-income peers**

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in the South Central Coast report the smallest import intensity (percentage of inputs of foreign origin) at 17 percent—significantly smaller than Red River Delta and South East regions, each reporting 43 percent. Efforts to improve the efficiency of custom clearances for imports may help firms, especially in the South Central Coast.

In a comparison of innovation and technology measures (table 3), Vietnam appears to be doing well compared to similar lower-middle-income countries, but not as well as similarly populated countries. For example, 40 percent of Vietnamese firms use their own Web site compared to an average of 26 percent for comparative lower-middle-income countries but to an average of 43 percent for similarly populated countries. Comparing within-country subgroups in Vietnam, exporters, government-owned firms, foreign-owned firms, and large firms are all significantly more likely to have their annual financial statements reviewed by external auditors, are more likely to use their own Web site, and are more likely to use e-mail to communicate with clients and/or suppliers. Non-exporters, entirely privately owned, purely domestically owned, and small firms, on the other hand, use less Web technology and internationally recognized best practices regarding annual financial statements than their counterparts in Vietnam’s peer economies.

Table 4

Constraints on the average firm in Vietnam 2009

	Vietnam	Lower-middle-income economies (26 countries †)	Similarly populated countries (13 countries ‡)
Number of power outages in a typical month	2.0	9.8	4.8
Senior management time spent in dealing with requirements of government regulation (%)	4.6	7.8	12.4
Average number of visits or required meetings with tax officials	0.9	1.7	1.6
Percent of firms expected to pay informal payment to public officials (to get things done)	52.5	29.5	29.5
Incidence of graft index**	13.4	17.1	15.7
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	0.2	1.4	1.0
Percent of firms paying for security	58.2	56.9	57.3

Source: Enterprise Surveys.

## What constrains firms in Vietnam?

When asked which of 15 presented obstacles was the greatest, nearly a quarter of Vietnamese firms identified access to finance. The practices of the informal sector (19 percent) and transportation infrastructure (13 percent), respectively, were identified by firms as the second and third highest obstacles facing businesses. On the opposite end of the spectrum, the three least-constraining obstacles for Vietnamese firms were labor regulations (.9 percent), political instability (.4 percent) and the procedures of the courts and judicial system (.2 percent).

Access to finance is identified by the highest proportion of firms as the greatest constraint faced by Vietnamese businesses, but there is some disparity based on firm characteristics. For example, 11 percent more non-exporting firms than exporters identify access to finance as a major constraint, 14 percent more firms without a female top manager versus those with top female management identify access to finance as a major constraint, and 14 percent more private firms than those with government participation in ownership identify access to finance as a major obstacle.

The practices of the informal sector were identified as the greatest obstacle by one out of every five firms interviewed in Vietnam. The proportion of firms identifying these practices as a major constraint did not vary significantly across firm characteristics, however—with the exception of domestic versus foreign ownership and exporters versus non-exporters. Over 40 percent more foreign-owned firms than domestically owned firms in Vietnam identified practices within the informal sector as the greatest obstacle they face in their operations. The proportion of non-exporting Vietnamese firms identifying practices in the informal sector as their greatest obstacle

was 9 percent greater than exporters.

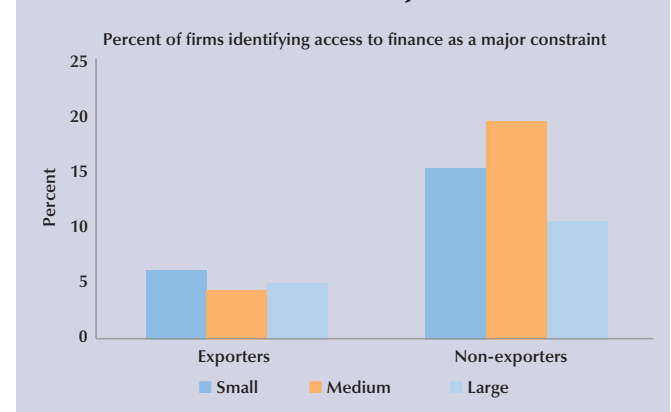
A number of the factors constraining firms in Vietnam were additionally noteworthy in relation to economies with similar income levels as well as countries with comparable population levels. The regulatory burden on Vietnamese firms is comparatively lower than that on firms in both cohorts—senior managers of firms in Vietnam spend 5 percent of their time dealing with government regulation, compared to an average of 8 percent in other lower-middle-income countries and 12 percent in countries with population levels similar to Vietnam. The average number of visits with tax officials each year is one, i.e., one fewer than reported in both comparator groups (table 4).

The constraints identified by firms differ according to whether a business is an exporter or not. As noted above, significantly fewer exporters identify access to finance as the greatest obstacle they face, and this difference does not

appear to be due to variations in firm size (figure 4). Slightly over 20 percent more exporters believe that the

**Corruption in Vietnam is identified by relatively few firms (3 percent) as the largest constraint and ranks as the tenth (out of 15) most-identified major constraint on firms' business activity.**

**Figure 4** Few exporters identify access to finance as a major constraint



Source: Enterprise Surveys.



court system in Vietnam is fair, impartial and uncorrupted compared to non-exporters.

Corruption in Vietnam is identified by relatively few firms (3 percent) as the largest constraint and ranks as the tenth (out of 15) most-identified major constraint on firms' business activity. Nonetheless, over half of firms interviewed (52 percent) expect to make informal payments to public officials in order to get things done, a proportion that is significantly higher than the proportion of firms in other lower-middle-income economies or similarly-populated countries (both averages are 30 percent).

Firms in Vietnam experience a notably low amount of losses due to theft, robbery, vandalism and arson—on average, firms in Vietnam lose 0.2 percent of sales (in terms of monetary value)—the lowest compared to both economies with similar incomes and countries with similar population levels.

Although Vietnam performs well in several business environment measures compared to countries with similar income levels and population sizes, Vietnamese firms still lag their peers regarding access to finance, use of technology and standard business practices regarding the auditing of financial statements. Firms also report the practices of the informal sector as an obstacle to their competitiveness. Reforms aimed at lowering collateral values required by banks, streamlining the regulatory requirements for business entry/exit, and encouraging firms to adopt international best practices regarding technology use and accounting standards could help the Vietnamese private sector.

## Notes

- 1 The major cities in each of the five Vietnamese regions are: Red River Delta—Hanoi, Hai Phong; North Central Coast—Thanh Hoa, Vinh; Mekong River Delta—Can Tho; South Central Coast—Da Nang, Nha Trang; and South East—Ho Chi Minh City, Bien Hoa.
- 2 This figure presents the unweighted distributions by size, sector and location of the firms interviewed without any inferences to the whole economy.
- 3 The term “average firm” is meant to convey the average firm characteristics from the Vietnam 2009 Enterprise Survey.
- 4 Firms with  $\geq 10$  percent of foreign ownership are defined as foreign-owned.
- 5 Firms with  $\geq 5$  percent and  $< 100$  percent of government/state ownership are defined as having government ownership.
- \* The ownership variables represent the average ownership composition within a firm. The variables do not represent the ownership composition across firms.
- \*\* The Incidence of Graft Index is the percentage of instances in which a firm was either expected or requested to provide a gift or informal payment during solicitations for public services, licenses or permits. This Index uses data from 6 survey questions for each firm. For purposes of Index computation, a refusal to answer a particular survey question is considered an affirmative answer. This Index is a modified version of the Graft Index defined in A. Gonzalez et al. 2007. World Bank Policy Research Working Paper #4394.
- † Lower-middle-income economies are: Ecuador 2006, El Salvador 2006, Georgia 2008, Guatemala 2006, Honduras 2006, Indonesia 2009, Republic of Kosovo 2009, Lesotho 2009, Micronesia, Fed Sts. 2009, Moldova 2009, Mongolia 2009, Nicaragua 2006, Nigeria 2007, Pakistan 2007, Paraguay 2006, Philippines 2009, Samoa 2009, Senegal 2007, Swaziland 2006, Timor-Leste 2009, Tonga 2009, Ukraine 2008, Uzbekistan 2008, Vanuatu 2009, Vietnam 2009, Yemen 2010.
- ‡ Similarly populated countries are: Argentina 2006, Brazil 2009, Colombia 2006, Indonesia 2009, Kenya 2007, Mexico 2006, Pakistan 2007, Philippines 2007, Poland 2009, Russian Federation 2009, Turkey 2008, Vietnam 2009, Ukraine 2008.

The Enterprise Surveys measure the business environment in over 100 countries in the world. A standardized questionnaire, universe under study, and implementation methodology is used to make sure information is comparable across countries and time. The full data and documentation explaining the methodology are available at [www.enterprisesurveys.org](http://www.enterprisesurveys.org).

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