

**VIETNAM BUSINESS FORUM (VBF)**  
**DIỄN ĐÀN DOANH NGHIỆP VIỆT NAM**

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**Vietnam Business Forum - Hanoi, December 1<sup>st</sup>, 2009**

**REPORT TO THE CG MEETING**

*Hanoi, December 3<sup>rd</sup> 2009*

The Vietnam Business Forum met on December 1, 2009 in Hanoi. Discussion focused on how Vietnam can be better position itself for economic recovery, and suggestions for policies to support the country to regain previous remarkable economic growth rates and success in poverty reduction. The meeting drew approximately 500 representatives from the private sector, government, donor agencies, and the media.

Speaking on behalf of the government, Mr. Vo Hong Phuc, Minister of Planning and Investment called for the business community to work closely with the government to provide constructive suggestions in order to help Vietnam's economy recover quickly and to meet the objective of sustainable development and poverty alleviation as established recently by the National Assembly's 6<sup>th</sup> session.

Forum participants noted their appreciation for the government's rapid and decisive actions in response to the challenges resulting from the global economic crisis. The implemented measures have been effective in preventing a prolonged economic downturn and helped stabilize the country against global economic instability and thereby also ensured social protection.

While business representatives noted the success of the stabilization measures, they also stressed the urgency for Vietnam to transform the crisis into an opportunity to both accelerate economic reform, and remove existing competitiveness constraints in order to catch up with the world's middle income economies.

Furthermore, long-term structural issues, such as infrastructure development, financial market development, WTO integration, and human resource training must continue to be addressed if Vietnam is to enhance its productivity and maximize the nation's retention of its growth potential.

Alongside these issues, Forum participants continued to call for anti-corruption measures, SOE reform acceleration, industry relation improvement and the removal of unnecessary licenses and permits wherever possible.

The business community strongly supports the government's initiative to reform administrative procedures through Project 30. Businesses have been actively involved in the reform process by reviewing the first group of 261 high-priority administrative procedures.

The government's commitment to improving the business climate will be measured by its ability to streamline or abolish the identified procedures. And businesses are looking forward to see early results.

Forum speakers also highlighted specific areas where urgent government support of the private sector will enhance Vietnam's economic competitiveness. They included the following:

## **1. Infrastructure**

Poor infrastructure remains a major bottleneck for both domestic and foreign investors. The pace and breadth of infrastructure projects must improve to attract foreign investment and support Vietnam's export sector. Sub-sector investment forecasts are significant: Power demand is growing at more than 15% per year, with an estimated \$60 billion in investment needed by 2025. Telecoms, ports, airports, roads, railways and air transport will require a combined \$139 billion over the next 5 years. Greater involvement of the private sector through Public-Private Partnerships (PPPs) can help meet the investment needs of infrastructure in Vietnam.

In general, PPP development has been slow. To make PPPs more effective, establishment of clear policies and regulatory framework for PPP is needed in each infrastructure sub-sector. Development of a highly competitive PPP market will improve efficiencies and bring down costs to the public.

While the proper legal framework and appropriate institutional mechanisms are being put in place, model PPP projects should be developed to show the benefits and potential of PPPs. The government can develop bidding documents to ensure well-structured projects that attract competition from multiple bidders. Successful PPP models can then be incorporated in project developments where private sector participation is possible.

## **2. Financial markets**

### ***Banking***

The banking sector emphasized the need for the State Bank of Vietnam (SBV) to address issues impeding sector efficiency and stability. A forward-looking roadmap that harnesses market forces and overcomes administrative restrictions would require a robust and transparent Law on Credit Institutions, in line with international best practices and open for innovation. The SBV is asked to further review specific areas of the draft law - such as the scope of activities of credit institutions, and the lending limit for a single borrower in order to promote a sound and robust banking system.

For enhanced market efficiency and facilitation of consumer lending, the government needs to push through pending regulations in forex transactions, lift the interest rate cap on corporate lending, and establish the legal framework for the establishment of credit bureaus.

### ***Capital markets***

Proposals to invigorate the bond market include a roadmap for the creation of a benchmark bond through more liquid bond issues and the establishment of a credit rating agency to facilitate corporate bond issuance. The market would also benefit from the creation of pension funds and open-ended funds.

It was also proposed that the State Capital Investment Corporation (SCIC) acts as a financial investor and thus needs to comply with regulatory requirements as other market participants.

Other recommendations included the application of international accounting standards, which would enable 'mark-to-market' asset valuations, and consideration of market value of the Employee Stock Option Plan as a company expense, in order to improve transparency in profit and company expenditure.

### **3. Manufacturing and distribution**

Representatives from the Manufacturing and Distribution (M&D) sector asked for more flexibility and practicality in the drafting of the revised labor code in order for Vietnam to maintain its comparative labor advantage. Careful consideration should be taken before introducing any new financial costs to enterprises at this particular time, and progress in meeting WTO obligations in trading and distribution would be greatly served by the government removing long-standing red tape and administrative barriers.

It was also noted that Vietnam may miss a valuable opportunity to receive meaningful financial support from the Clean Development Mechanism (CDM) for developing environmentally friendly industries. Red tape and bureaucracy are identified as the main obstacles for effective deployment of the CDM, as up to 18 different ministries and government agencies must be consulted prior to obtaining approval to apply for CDM support, and no set time limit exists on any subsequent consultations. A One Stop Shop with clear project approval time limits would greatly improve the efficiency of the CDM program.

### **4. Other issues**

Mining sector businesses underlined the need for the draft amended law on Minerals to address core issues such as security of tenure to ensure transferability of licenses and reduce the risks associated with progressing from exploration into the development and operation of a major project. The draft law also needs a clearer licensing and administration framework. There should also be careful consideration of the fiscal regime, which renders the sector uncompetitive due to high tax rates.

In the tourism sector, in order to brand Vietnam as a viable leisure or business destination, improvements are recommended in the Visa on Arrival process, and the establishment of a dedicated, well-funded Tourism Advisory Board.

### **5. Conclusion**

The members of the VBF have a firm belief in the great potential of Vietnam, both as a regional leader and as a destination for investment. As the world economy passes through turbulent times, it is all the more critical that we increase our efforts to forge stronger, more productive partnerships that will re-invigorate the economy and equip the business environment with the international standards it requires to remain competitive. The VBF remains willing and committed to playing its role in this partnership, and is proud to assist Vietnam with its greater social and economic development targets.

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