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Streamlining the business startup process: Further improvements to the Government Circular still needed

The 2006-2010 SME Development Action Plan shows a strong commitment from the government to further streamline business startup procedures and to encourage more enterprises to be formally established. As a first step in several reforms in this area, the government is introducing a new inter-ministerial Circular to enable more effective coordination among the three agencies responsible for the startup process, with an aim to reduce the time and costs of starting a business for entrepreneurs.¹ The Circular serves as a basis for continuing reforms, including a planned online company registration system and national enterprise information database by 2009.²

In many provinces, authorities responsible for business startup are anticipating the Circular in order to help them make immediate reforms to their own procedures. Now in its sixth draft, the Circular still has a number of weaknesses that need to be addressed in order to make the startup process as simple as possible for entrepreneurs. This bulletin discusses some of the main weaknesses and suggests ways to address them.

Entrepreneurs still have to visit the different administrative offices many times

The most significant improvement in the draft Circular is its call for better customer service from administrative departments. The document also attempts to simplify market entry by creating a single access point for all three business startup procedures (company, stamp and tax registration). According to the latest version of the Circular, instead of having to make several visits to the three different departments, entrepreneurs will be able to accomplish most of the process through the business registration office, housed in the Department of Planning and Investment (DPI).

However, two key problems still remain. First, while the draft Circular specifies the time limits within which administrative agencies must process applications, these begin only after the agencies have received a complete and fully accurate set of application forms. Though

the Circular refers to the need for better customer service, it does not introduce measures to save entrepreneurs from having to repeatedly visit the agencies. For example, the Circular should require civil servants to inform applicants of basic mistakes (e.g. spelling errors, capitalization errors) as early as possible and within a certain timeframe, rather than one at a time, and often just before the deadline.

Second, with respect to the stamp (or chop), the draft Circular covers only the process to receive the permit to make the stamp; it does not extend through to the point at which the stamp has been made and is ready for use (this occurs only after it has been registered and certified by the Department of Public Security).³ This means that even after completing the process outlined in the Circular, an entrepreneur cannot yet legally start operating a business, as company documents are not official and legally binding unless they are stamped with the official company chop.⁴

(1) In Vietnam, to start up a business an entrepreneur needs to undertake three main business startup procedures: company, chop, and tax registration. At the provincial level, these steps are carried out respectively by the Department of Planning and Investment, the Department of Public Security, and the Department of Taxation.

(2) SME Development Action Plan under Decision 236/2006/QD-TTg dated October 23, 2006.

(3) In order to complete the official startup process, an entrepreneur must have a stamp made and then register that stamp. This typically entails the entrepreneur applying for permit from the Department of Public Security to have a stamp carved. After he receives this permit on paper, he must take the permit to a licensed carving workshop to have the stamp made. He then must take the stamp back to the Department of Public Security to register it, and then receives official certification of the chop.

(4) It is worth mentioning that Vietnam is one of only a handful of countries in the world where this is the case: in most countries, a company chop is optional and a formal permit from the government is not required in order to have one made.

The forms required by the administrative offices are for the most part redundant

The draft Circular streamlines the startup application process by stipulating that all three sets of forms can be submitted at one place - the business registration office at DPI. However, the process would be even simpler if the three sets of forms were consolidated into one, as most of the information requested is the same. This would reduce the time burden on entrepreneurs, reduce the workload for public servants, and lay the groundwork for both an online registration system and a single identification number for each enterprise, as is planned under the government's reform program.

Accountability of the different government departments is still unclear

The Circular's success in achieving reform will depend on the coordination and information-sharing among, the three Ministries and their Departments. The draft Circular designates the business registration office of DPI as being responsible for accepting applications, forwarding relevant information to the public security and tax departments, and notifying entrepreneurs of their application results. For this reason, the staff of the registration office needs to be sufficiently experienced and competent to check the

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Viewpoints of relevant administrative departments



● The draft Circular designates DPI as the primary office responsible for the business startup process, including issuing the company registration certificate and returning the tax registration certificate and the stamp carving permit. After receiving all of the above documents, enterprises can then have their stamp made, register their stamp, pay the fee and receive a stamp registration certificate. This means that the tax registration certificate, or tax code, would normally be issued before the company stamp is made. According to Circular 10/2006/TT-BTC, however, entrepreneurs are allowed to apply for the tax registration certificate at the same time they are getting the stamp made. This is contradictory, because the circular also requires that the application for tax registration must be stamped with the company chop. The new Circular should clarify this issue.

To reduce the time and number of administrative visits that are involved with starting a business, the drafting team should consider: i) specifying each related department's responsibilities; ii) outlining how officials should resolve situations where they receive incomplete or incorrect application documents in a more business-friendly, customer-oriented manner towards entrepreneurs. The Circular should stipulate that entrepreneurs will receive the company registration certificate, tax registration certificate, stamp sample certificate, and the stamp within fifteen days at most. This target can be achieved if, after receiving a copy of the company registration certificate and issuing the stamp carving permit, the Department of Public Security proactively works with the stamp carver to have the stamp made quickly. The DPI could also collect the fees related to the stamp carving permit charge and making the stamp when the entrepreneur first submits his application to the business registration office. This way, when the stamp is ready, the entrepreneur can go to the Department of Public Security just once to pick up both the stamp registration certificate and the chop itself (eliminating the need for a stamp

carving permit altogether). Then he simply has to go to the DPI to pick up the company and tax registration certificates.

*Mr. Pham Dinh Tong,
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Department of Planning and Investment, Binh Dinh province*

● The Circular tries to fulfill the Prime Minister's requirements related to business startup: streamlining unnecessary steps, abolishing unneeded paperwork and minimizing the time and costs for entrepreneurs. According to the latest draft of the Circular, DPI will be the single access point at which entrepreneurs submit business startup applications and pick up the relevant registration certificates and permits. The draft Circular also simplifies application forms and reduces the limits on processing time taken by the three relevant departments. In order to cut down business startup processing time even further, the Circular could focus on reducing the periods associated with company and tax code registration. It can offer entrepreneurs the option of either using the company registration certificate to proceed with the stamp and tax registration on their own or of doing so through the business registration office. In those provinces that have the appropriate information and communications technology to connect the registration offices with the tax and stamp registration offices, startup procedures could be designed as follows: after receiving the company registration information, i) the Taxation Department processes the tax code application and send it back to the registration office; ii) simultaneously, the Department of Public Security issues the stamp carving permit and send it directly to the stamp carver as specified by the entrepreneur in his application. Within three days, the entrepreneur (or a legitimate proxy) would be able to: i) submit a copy of the company registration certificate and pay related fees; and ii) pick up both the chop itself and the stamp registration certificate from the Department of Public Security.

*Mr. Vu Ba Dac, Deputy Director
Department for Public Administration and Social Security,
Ministry of Public Security*

Viewpoints of central government officials

● This inter-ministerial Circular is indeed necessary for the three relevant agencies (business registration offices within DPI, Department of Public Security and the Department of Taxation) to be accountable to and communicate regularly with each other as an initial step, and also to develop a more proactive and effective information-sharing mechanism for the future. However, it is worth considering a more compressive reform: moving to a single identification code (or number) for enterprises, that would be used by all relevant administrative departments. The fact that each department currently issues its own code makes the system for monitoring companies after registration more challenging and also confuses businesses. Another consequence of these multiple codes is that the registration office, the tax department and the statistics office maintain three separate databases containing inconsistent information on enterprises. Introducing a system based on a single identification code is not particularly complicated in a technical sense, but it would have significant impact. Down the road, we hope develop an electronic verification system for enterprises, which does require longer term investment in information technology and infrastructure.

For statistical purposes, an enterprise information database that is professionally designed and maintained would be ideal. "Professional" means that it would streamline all relevant national statistics and enable the retrieval of enterprise-related information anytime. The Statistics Office is best placed to coordinate this data; administrative agencies such as the registration offices, tax departments, Departments of Public Security, Departments of Customs and banks would contribute to and share the information. The current legal framework for statistics is quite helpful in this regard, as it requires enterprises to provide and update their information for statistical purposes. However, it is not effective enough, as it does not include strong punitive measures for those who do not fulfill their reporting obligations. Enterprises should not be worried about confidentiality, as the Law on Statistics (clause 27) includes the principles of the confidentiality and security of private information, and also clearly forbids the dissemination of specific data on enterprises (such as information on names and addresses) without the consent of those concerned. More importantly, the law forbids administrative agencies from using enterprise information for any purposes other than those included in their mandates.

It is worthwhile to learn from business registration reforms in other countries and look for suitable ways to further simplify this process in Vietnam. For example, Australia's business startup system used to require that entrepreneurs visit multiple agencies, provide them each separately with the same information (company name, address, business sector, etc.), and get different codes. But now all agencies use a system containing a single identification number (the Australian Business Number, or ABN); this has helped save entrepreneurs time and has definitely minimizes data errors. In other countries, business registration is designed as a public service and is delivered by an independent entity and supervised by an administrative agency.

*Mr. Nguyen Gia Luyen,
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● One of the most important objectives of public administrative reform is to switch civil servants from the mindset of "state control" to "public service." The fact that business registration offices within DPI, the tax department and the Department of Public Security have staff sitting together in the same office [in some provinces] does not necessarily mean that the business startup process will be simpler. More important is whether the staff of these Departments changes their attitude towards entrepreneurs and whether the Departments are willing to improve communication across offices to process applications as fast as possible. Of course it would be ideal if in every province there was, for example, a public administrative center in which staff from the three Departments could sit together and serve businesses. But even then, some fundamental issues would need to be resolved. Would such a center have sufficient facilities for staff to do back office work onsite, or would they sit there just to collect applications and take them back to their Departments for further processing? Would this be efficient in provinces that have only a

few enterprises registering each day?

With respect to improving the government officials' attitudes towards businesses, on one hand, it is critical to review the compensation policy and packages for public servants (especially those who interact with businesses on a daily basis). The fact that there is a correlation between the compensation package of, and the services delivered by, public servants cannot be ignored. If salaries do not allow officials to earn a livable income, it will simply be too challenging for them to devote 100% of their time and energy to serving the public! On the other hand, strict discipline and strong penalties should be imposed on public servants who do not properly do their jobs. In the last few months, there have been some cases of unethical public servants who have made doing business difficult for entrepreneurs in Hanoi.

One of the most significant impacts of the public administration reform program's implementation of the one-stop mechanism at the district level during the last ten years is that coordination and communication across units within the same departments have improved. However, the quality of coordination and communication across the departments is still poor, and as a result, these "one-stop shops" in many cases are "one-more-stop shops." If this pilot initiative connecting the three agencies responsible for business startup is implemented effectively; its success will definitely provide an impetus for reforming other, more complex public administrative procedures. The success of Binh Duong province in creating an investment-friendly environment through effective coordination among agencies such as the Department of Planning and Investment, Department of Land Administration, Department of Construction, etc. needs to be studied thoroughly and institutionalized so that similar reforms can be implemented nationwide. In any public administrative reform, the interests of individuals or specific groups with vested interests may need to be sacrificed to for country's interest. But the fact is that public agencies at the same level avoid "fighting" too strongly with each other. As a result, the country has seen few very effective public administrative reform initiatives.

*Mr. Vu Hoe,
Deputy Head of Public Administrative Reform,
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Viewpoints from experts



● Conducting reforms to facilitate market entry for enterprises is not a new idea. In July 2006, Hai Phong was the first municipality in the country to pioneer an inter-departmental "one-stop shop" (OSS) for the company, stamp, and tax registration. After four months of operation, the business community remains highly supportive of and appreciates having to visit only one location to complete all three procedures.

As the setup is still in pilot phase, Hai Phong may have to do some fine-tuning to make the OSS live up to the business community's expectations. Some lessons from Hai Phong as a forerunner in simplifying business startup procedures, as well as good practices from some southern provinces, should help refine the OSS model.

The inter-departmental OSS should be a true single access point for enterprises. The OSS mechanism requires the three departments to improve coordination and build the capacity of front office staff so that they have adequate knowledge and skills to serve enterprises and customers. Moreover, each of the three

departments should streamline its back office procedures so that they are more compatible with the inter-departmental OSS.

Enterprises should receive their application results at the inter-departmental OSS. It would be highly beneficial for entrepreneurs if they were able to submit the stamp carving and tax registration applications simultaneously so that they can receive the stamp together with the tax code. On behalf of entrepreneurs, Department of Public Security officials should work with and submit the stamp carving permit to stamp carvers; this would reduce enterprises' waiting time for the stamp to the number of stipulated days, or even less than that.

Also, the inter-departmental OSS should be a place where the government clearly and transparently discloses all relevant procedures to entrepreneurs. In several provinces where we have worked, before they undertook business registration reform, many enterprises said they were hesitant to contact administrative departments for information and to submit applications. Instead, they preferred to interact with the government through intermediary service providers. However, now many newly established enterprises no longer feel that they are "begging" the authorities for information and to process their applications. ►

- Entrepreneurs say that when procedures are transparent and convenient, they are able to better understand their rights and obligations, and consequently are not as afraid to interact with public agencies.

The simplification of business startup procedures is regarded as a breakthrough in recent efforts to achieve administrative reform. The presence of an inter-departmental OSS for business startup procedures in a few provinces attests to the initiatives of sub-national governments. If these governments make further improvements based on the draft Circular and their own political commitment to reform, the success of such efforts will help to improve the image and competitiveness of their localities.

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- Since August, Hai Phong has been experimenting with a "one-door" facility for business registration with officials from the Department of Planning and Investment, the Security Department and the tax office brought together into one room. This has some benefits in that the customer has only to go to the one office, but it is still likely that he or she will have to make several visits. Both Hai

Phong and Da Nang are now considering a 'one-window' approach, where the customer deals with a single person and documentation is passed directly from the one-stop shop to relevant departments.

This approach is in keeping with the latest draft of a joint circular from the Ministry of Planning and Investment, the Ministry of Finance and the Ministry of Public Security. Unfortunately, the current draft of the circular still implies a requirement for the customer to deal separately with the stamp-maker and the Security Department (for registration of the seal), but there is scope for provincial authorities to overcome these shortcomings and implement a true 'single window' one-stop shop which will meet the needs of their customers.

Several people have asked me whether there is a single 'best practice' model of a one-stop shop used for business registration in

another country which could be adopted in Vietnam. I do not believe that there is. In any case, a one-stop shop alone will not result in the dramatic improvements expected if not accompanied by other reforms and these will need to take account of the particular circumstances of the country. In the case of Vietnam this will include the provincial structure, the level of awareness and use of electronic services and the law regarding corporate seals.

Few, if any, countries have the requirements for both prior approval and subsequent registration of seals as part of the business start-up process. In many countries the use of seals is optional, with contracts and other documents being authenticated by the signatures of company officers. Even where a seal is mandatory, a seal-maker rarely requires any documentation other than a business registration certificate as authority to make the seal.

Current best practice requires, first, that internal procedures be simplified and, second, that there is integration across departments. It should be a specific aim to reduce the number of contacts with the customer to a minimum. Ideally, in a paper-based system such as is currently operating in most of Vietnam, there should be one visit to deliver simplified application documents and a second to collect the registration certificate, tax code and seal. The next stage of development is a 'single portal', allowing the customer to complete the process without visiting the office at all.

In improving procedures, the aim should be to provide i) easy access to a names index via a web site; ii) simple and standardized documentation, with structured forms rather than wordy legal deeds, and including on-line forms; iii) sharing of information between government bodies, so avoiding the need to register in more than one place; iv) procedures for ensuring that information held regarding companies is up-to-date and readily accessible to anyone who needs it; and v) publication of both service standards and performance against those standards.

A one-stop shop service which meets these standards should simplify and encourage the formation of new businesses and also provide those businesses with the range of services to which they are entitled under the law.

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completeness and accuracy of applications before forwarding them on. The draft Circular does not have specific provisions on inter-departmental communication, nor does it address each department's accountability for responding to entrepreneurs and/or notifying them of inaccuracies or incompleteness after the information has been forwarded to the Public Security or Tax Department. There needs to be clarity as to which agency is ultimately responsible for answering entrepreneurs' questions and for notifying them of processing delays.

The Circular should encourage local governments to adopt innovative practices

During the past few years, in order to attract more investment, a number of provincial governments have been proactive and innovative in improving coordination and developing customer orientation among their local departments. In Binh Dinh province,

for example, enterprises recently surveyed have been particularly satisfied with the province's business startup procedures, citing the fact that the Public Security Department works proactively with stamp carvers to ensure that entrepreneurs can receive both their stamps and stamp registration certificates in one visit. In Ho Chi Minh City, which has the largest number of newly-established enterprises in the country, an online registration system has been set up. The system makes it easy for entrepreneurs to seek help with the registration process and get answers to their questions, as well as monitor their application progress, saving them time and visits to administrative authorities.

The Circular should allow for provinces that wish to make registration even easier than the law stipulates to do so, as long as the appropriate controls are in place so that the system is not abused. Domestic enterprises looking to expand their businesses in the country and foreign enterprises looking for places to invest tend to seek out provinces that make it easy.