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Assessing the Provincial Competitiveness Index through the Informal Cost Index

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Abstract

The informal cost index measures the level of unofficial costs that businesses have to pay as well as the obstacles these costs cause to businesses' business activities. The existence of the unofficial cost index is a major barrier in administrative reform activities, as well as an obstacle in attracting investment and economic development, creating inequity in business activities. Through assessing the informal cost index of Thanh Hoa province in the period

from 2015 - 2022, consider the reasons leading to this situation of Thanh Hoa province's always low costs compared to provinces in the Central Coastal Delta of Vietnam. For Thanh Hoa province, assessing the informal cost index is the basis for units to review the level of completion of their work, the limitations that need to be overcome, towards creating a favorable business investment environment for businesses.

Keywords: PCI, Provincial Competitiveness Index, Informal Cost Index, Thanh Hoa

1. Introduction

To help improve the business environment in Vietnam, the Provincial Competitiveness Index (PCI) measures economic governance efficiency and helps promote socio-economic development in 63 provinces and cities across the country. PCI evaluates the favorable level of business environment for the private sector including: market entry costs for new businesses; access to land; transparency; Time costs to implement State regulations; unofficial costs; business support services; labor training; and legal institutions. The publication of the annual PCI index has driven an unprecedented number of reforms at the local level, helping to strengthen Vietnam's overall competitiveness in the global economy. For Thanh Hoa province, the provincial competitiveness index in general and the informal cost index in particular are the basis for units to review the level of completion of their work and the limitations that need to be overcome. Recovery, aiming at the key to creating a favorable business and investment environment for businesses. Currently, Thanh Hoa has been forming and welcoming large projects, businesses and corporations. The fact that the province has drastic plans to improve the investment and business environment will be an opportunity for businesses to grow strongly in the coming time.

Therefore, the goal of this article is to evaluate the informal cost index of Thanh Hoa province in the period from 2015 - 2022, thereby examining the causes leading to this cost situation in Thanh Hoa province always low compared to provinces in the Central Coastal Delta of Vietnam.

2. Theoretical basis

The Provincial Competitiveness Index on Vietnam's business environment is the result of research cooperation between the Vietnam Competitiveness Enhancement Project (VNCI) and the Vietnam Chamber of Commerce and Industry (VCCI). The Provincial Competitiveness Index or PCI is an index that evaluates and ranks the governments of Vietnam's provinces and cities on the quality of economic management and building a business environment favorable for the development of private enterprises. To build PCI, VCCI conducted a survey of businesses in provinces and cities using the clustered random sampling method. Each year, nearly 10,000 private enterprises respond to the PCI survey. To build this set of indicators, in addition to survey data, VCCI's PCI research team also uses other information published by ministries and branches.

The Informal Cost Index (weighted at 10%), measures the level of unofficial costs that businesses have to pay as well as the obstacles these costs cause to the business's business activities. "Unofficial costs" is a sensitive index in the component index constituting the provincial competitiveness index. The existence of this index is a major barrier in administrative reform

activities, also an obstacle in attracting investment and economic development, creating unfairness in business activities. Unofficial expenses are understood as expenses that are not prescribed by law and are paid by businesses to officials and state agencies to handle administrative procedures in order to resolve work faster. That's like a "lubrication" payment to avoid trouble, harassment, delay... Measure the unofficial costs that businesses have to pay and the obstacles these unofficial costs cause to the business activities of the business, whether paying unofficial costs brings expected results or "services" and whether State officials use local regulations for personal gain. This index includes the following indicators: Businesses in the same industry often have to pay additional unofficial costs (% Agree); The work achieves the expected results after paying informal costs (% always/mostly); Harassment when handling administrative procedures for businesses is common (% Agree); Informal expenses are at an acceptable level (% Agree); Percentage of enterprises paying unofficial fees to inspection and inspection officers (%); Percentage of businesses having to spend more than 10% of revenue on unofficial costs (%); Percentage of enterprises paying unofficial costs in carrying out land-related administrative procedures (%); Payment of unofficial costs is mandatory to ensure winning the bid (% Agree); Businesses are concerned that the situation of 'running away' is common (%).

3. Current status of informal cost index in Thanh Hoa province

Results of announcing the 2022 provincial competitiveness index of the Vietnam Federation of Commerce and Industry, the PCI index of Thanh Hoa province reached 63.67 points, ranked 47/63 provinces and cities (down 4 places) compared to year 2021; Ranked 12/13 compared to provinces in the Central Coastal Delta region. In particular, the component index of "Unofficial costs" reached 6.5 points (up 0.2 points compared to 2021) ranking 56/63 provinces. The above results show that Thanh Hoa's Informal Cost index is very low. In terms of the composition of the informal cost index, the results are shown in Figure 1. Specifically: Businesses in the same industry often have to pay additional unofficial costs (74%); The work achieved the expected results after paying unofficial costs (77%); The phenomenon of harassment when handling procedures for businesses is common (78%); Unofficial expenses are at an acceptable level (86%); Percentage of businesses paying unofficial costs to inspection and inspection officers (10%); Percentage of businesses paying unofficial fees when carrying out registration/amendment procedures for business registration (5%); Percentage of businesses paying unofficial costs when carrying out procedures for applying for a conditional business license (21%); Percentage of businesses paying unofficial costs to officials inspecting and inspecting fire prevention and fighting (28%); Percentage of businesses paying unofficial costs to environmental inspection officers (50%); Percentage of businesses paying unofficial fees to market managers (31%); Percentage of businesses paying unofficial fees to tax audit officials (59%); Percentage of businesses paying unofficial costs to construction inspection and inspection officers (73%); Businesses have to spend more than 10% of revenue on unofficial costs (4%); Percentage of businesses paying unofficial costs to speed up the implementation of land procedures (55%); Payment of "commission" is necessary to

have a chance of winning the bid (33%); There is a dispute but the Court is not chosen to resolve it due to concerns that the situation of "running the case" is common (29%).

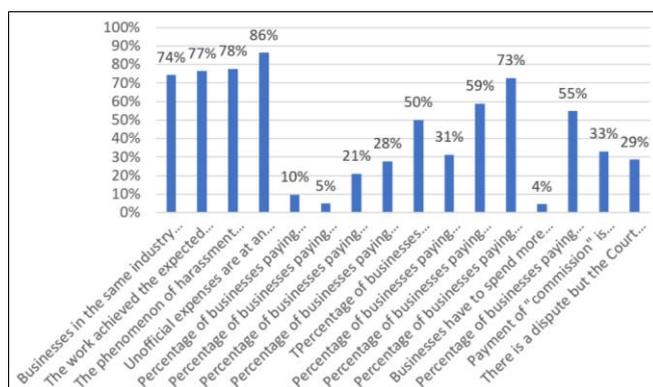


Fig 1: Informal cost index components of Thanh Hoa

Comparing the informal cost index of Thanh Hoa province in the period 2015 - 2022, it is found that this index has a significant increase from 4.74 in 2015 to 6.5 in 2022. This is one of three indicators of Thanh Hoa province's PCI that improved significantly compared to 2021.

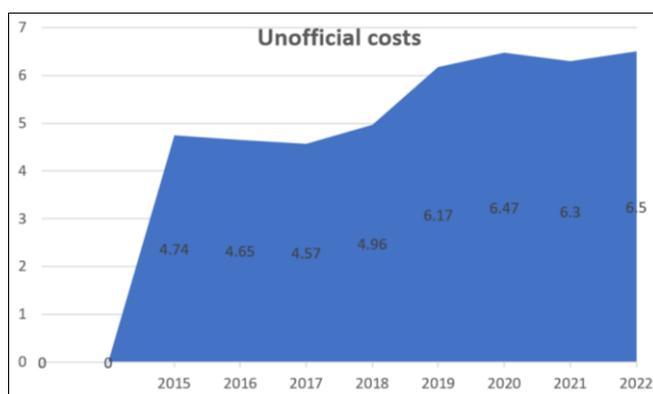


Fig 2: Informal cost index of Thanh Hoa in the period 2015 - 2022

Comparing the 2022 informal cost index between Thanh Hoa and the Central Coast provinces, the results show that Thanh Hoa's informal cost index is low, only higher than the informal cost index of Quang Binh province. In 2022, Thanh Hoa's informal cost index will only reach 6.5 while Khanh Hoa's informal cost index will reach 7.87.

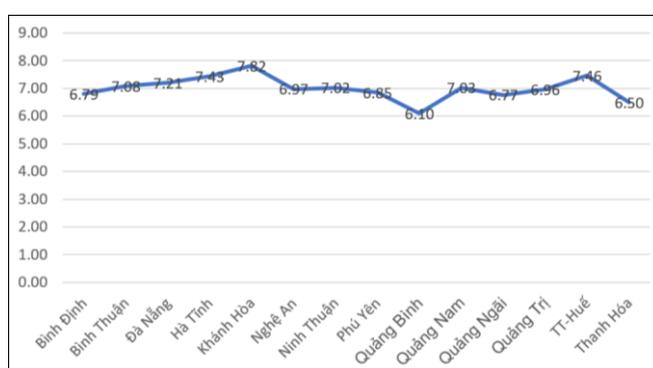


Fig 3: Informal cost index in 2022 of some coastal provinces in Central Vietnam

Table 1 shows detailed data of the 2022 unofficial index of Thanh Hoa province compared to the Central Coast

provinces of Vietnam. The proportion of businesses saying they have to pay additional unofficial costs is 78%, while in Thua Thien Hue this proportion is only 22%, in Khanh Hoa 23%. The rate of businesses not choosing to resolve disputes

in court is high at 29%, while in Quang Tri it is 0%. As for the target "rate of enterprises paying unofficial fees when carrying out business registration procedures" is 5%, this is a low rate compared to the Central Coastal Delta provinces.

Table 1: Details of the 2022 informal cost index of some coastal provinces in Central Vietnam

	Thanh Hóa	T.T-Huế	Quảng Trị	Quảng Ngãi	Quảng Nam	Quảng Bình	Phú Yên	Ninh Thuận	Nghệ An	Khánh Hòa
Businesses in the same industry often have to pay additional unofficial costs	74%	22%	42%	66%	57%	34%	30%	50%	33%	23%
The work achieved the expected results after paying unofficial costs	77%	46%	63%	73%	65%	51%	49%	62%	52%	56%
The phenomenon of harassment when handling procedures for businesses is common	78%	59%	61%	82%	81%	71%	59%	73%	72%	61%
Unofficial expenses are at an acceptable level	86%	96%	86%	90%	89%	83%	90%	91%	86%	89%
Percentage of businesses paying unofficial costs to inspection and inspection officers	10%	8%	26%	11%	6%	18%	13%	8%	19%	8%
Percentage of businesses paying unofficial fees when carrying out registration/amendment procedures for business registration	5%	4%	29%	4%	9%	14%	19%	0%	32%	12%
Percentage of businesses paying unofficial costs when carrying out procedures for applying for a conditional business license	21%	9%	0%	26%	22%	29%	19%	6%	26%	0%
Percentage of businesses paying unofficial costs to officials inspecting and inspecting fire prevention and fighting	28%	23%	41%	27%	40%	44%	37%	33%	48%	14%
Percentage of businesses paying unofficial costs to environmental inspection officers	50%	75%	60%	0%	25%	20%	8%	50%	33%	22%
Percentage of businesses paying unofficial fees to market managers	31%	58%	33%	44%	50%	45%	50%	42%	0%	25%
Percentage of businesses paying unofficial fees to tax audit officials	59%	39%	50%	66%	67%	44%	35%	75%	33%	8%
Percentage of businesses paying unofficial costs to construction inspection and inspection officers	73%	60%	86%	82%	83%	91%	86%	77%	80%	100%
Businesses have to spend more than 10% of revenue on unofficial costs	4%	4%	5%	6%	4%	12%	8%	3%	8%	4%
Percentage of businesses paying unofficial costs to speed up the implementation of land procedures	55%	43%	55%	43%	43%	58%	54%	53%	22%	27%
Payment of "commission" is necessary to have a chance of winning the bid	33%	36%	47%	42%	44%	31%	31%	50%	20%	33%
There is a dispute but the Court is not chosen to resolve it due to concerns that the situation of "running the case" is common	29%	16%	0%	18%	7%	21%	17%	13%	18%	13%

4. Conclusion

Thanh Hoa's provincial competitiveness index in 2013 reached 61.59 points and ranked 8th out of 63 provinces and cities nationwide. However, in the 2022 PCI index report published by the Vietnam Federation of Commerce and Industry, Thanh Hoa has dropped to 47th place on the ranking of 63 provinces. From VCCI's survey data, it has been shown that the general PCI index and the informal cost index of Thanh Hoa province in 2022 reached a low level compared to the whole country. Unofficial costs that businesses in Thanh Hoa have to pay are still high, leading to low index rankings. The low unofficial cost index is a major barrier in administrative reform activities, as well as an obstacle in attracting investment and economic development, creating inequity in business activities.

To improve the informal cost index in particular and the provincial competitiveness index in general, one of the key and decisive tasks is: Strengthen building and rectifying the Party and the political system in a clean, strong and comprehensive way, attaching responsibility to the leader; building a government of integrity, creation, action, serving effective and efficient operations, meeting the requirements of promoting industrialization and modernization; promote

the combined strength of all people, join forces and unanimously improve the province's PCI Index in the coming time. Firstly, continue to promote propaganda and dissemination of the Party's views and policies and the state's legal policies on inspection, prevention and combat of corruption and negativity. Second, strengthen inspection and guidance on receiving and handling complaints, denunciations, recommendations, and reports on violations of the law, negative actions, corruption, and waste in state agencies. Third, promote the implementation of solutions to prevent corruption; Strengthen inspection and examination at the grassroots level, focusing on sensitive areas of public concern. Carry out inspections and tests no more than once a year for businesses; reduce working time in inspection and examination at businesses. Fourth, strengthen inspection and evaluation of the organizational and operational situation of the Receiving and Returning Results Department at agencies and units to promptly correct and improve the quality of operations. Fifth, assign competent, responsible and ethical people to work positions in fields directly related to the business. Minimize direct contact between state officials and civil servants with people and businesses in handling administrative procedures. Sixth, promote reform of

administrative procedures, simplify and make public and transparent administrative procedures related to the establishment and operation of enterprises. Develop a transparent, clear, and public application processing process to create an equal communication corridor between businesses and state agencies.

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