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Using the PCI Index to Improve the Provincial Business Environment

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Abstract

The PCI index can provide information to provincial and city leaders about the business community's assessment of the quality of economic management in their localities, helping them to identify more clearly the strengths and weaknesses of the locality. Provinces and cities can improve the performance of the private economic sector and develop the economy through initiatives to improve scores on the weakest component indicators, or by adopting good practices that have been successful in other provinces and cities. Reforms aimed at removing barriers to market entry,

reducing the time taken to complete administrative procedures, increasing transparency, and encouraging government leaders to be proactive and flexible in responding to investor needs will be particularly important. These efforts to improve the business environment need to be sustained and substantive in order to yield positive results in terms of increased investment, job creation, and positive assessments from the business community. The PCI can be used as a policy tool for monitoring and diagnosing the economic management performance of each province.

Keywords: Provincial Competitiveness Index, Business Environment, Enterprises

1. Overview of the PCI Index

The PCI survey, which has been conducted since 2005, has encouraged governments at all levels to focus on creating a favorable business environment for enterprises. Vietnam has always identified improving the business environment and enhancing national competitiveness as one of the key economic policy priorities. The Government issued Resolution No. 02-2022/NQ-CP on January 10, 2022, on the main tasks and solutions to improve the business environment and enhance national competitiveness in 2022, setting out the goals, tasks, and key solutions for 2022 and the vision for 2025.

The PCI index is conducted by the Vietnam Chamber of Commerce and Industry (VCCI) with the support of the United States Agency for International Development (USAID). The PCI index is implemented in collaboration by a group of domestic and international experts from VCCI. The PCI index is the acronym for the Provincial Competitiveness Index - an index that measures and evaluates the quality of economic management, the level of convenience, and friendliness of the business environment, and the administrative reform efforts of provincial and city governments in Vietnam, thereby promoting the development of the private economic sector. Developed from the data of the largest and most elaborate annual business survey currently conducted in Vietnam, the PCI Index is a "collection of voices" from the private business community about the business environment in provinces and cities in Vietnam.

A province or city with good PCI results when: (1) Market entry costs are low; (2) Access to land is easy and land use is stable; (3) The business environment is transparent and business-related information is publicly available; (4) The time costs of administrative procedures and inspections are low; (5) Informal costs are low; (6) The business environment is equal among economic sectors; (7) The government is proactive and innovative in creating a favorable business environment; (8) Business development support services are of high quality; (9) Labor training policies and services are good; and (10) Dispute resolution for businesses is fair, efficient, and ensures business safety during production and business operations.

Table 1: Weights of Component Indicators in PCI

S. No	Component Indicator	Weight (%)
1	Market entry costs	5
2	Access to land	5
3	Transparency	20
4	Time costs	5
5	Informal costs	10
6	Equal competition	5
7	Dynamism and pioneering of provincial government	5
8	Business support services	20
9	Labor training	20
10	Legal institutions and public order and safety	5

2. Role of PCI

PCI is a useful tool for provincial leaders in economic management

The PCI index is a useful tool for provincial leaders to reform and improve the quality of economic management, in order to create a favorable business environment in the locality. First of all, the results of the PCI survey, with detailed scores for 10 component indicators, help provincial and city leaders to identify more clearly the strengths and weaknesses of their province. On that basis, provincial and city governments can develop appropriate reform measures that meet the needs of the business community and investors in the localities. The PCI index, through many years of research and publication, has confirmed that good economic management leads to improved socio-economic development in the localities. PCI results show that when provinces make efforts to create a favorable business environment, the private economy will develop more and thereby improve socio-economic development.

Improving the business environment (PCI) helps reduce risks for businesses

The results of the PCI research over many years have shown that improving the business environment is of great importance for promoting the development of the private economic sector. More specifically, these are efforts to reform administration, improve the quality of public services, and promptly and thoroughly grasp and resolve difficulties and obstacles in policies and laws that businesses are facing. This is an effective way to support the development of private enterprises in Vietnam, which can then participate in competition in the international market. It is essential for provincial and city leaders, when striving to improve the business environment, to understand the mindset of businesses and investors. When businesses and investors consider using their savings to expand their business or create new products, they must calculate the costs and risks of the government's economic management for their business plan. Therefore, policymakers and drafters at all levels need to apply this cost-benefit analysis approach in reviewing current regulations and developing new ones.

Improving the business environment (PCI) contributes effectiveness and efficiency of state management

Business environment reforms are not only important for businesses in making strategic decisions, but also contribute significantly to improving the effectiveness and efficiency of state management by government agencies. With more carefully developed regulations and more transparent implementation of procedures, the development of

transparent mechanisms for the responsibilities and obligations of civil servants and government agencies will be promoted. As a result, civil servants perform their duties better, and courts and other state agencies handle business complaints about administrative decisions more effectively.

3. The following are the achievements and shortcomings of the Business Environment in Vietnam as assessed by the PCI Index

Local governments continue to promote a dynamic spirit and support for the private economic sector, businesses are always seeking innovation, are dynamic, responsible, and contribute greatly to improving the effectiveness of local economic development.

Informal costs continue to decline in areas of procedures related to businesses, such as business registration, access to production and business premises, or informal costs that businesses have to pay in procedures or operations such as market management, environmental inspection, taxes, fire safety inspection, and land.

Administrative procedures have improved significantly in recent years, paperwork has been simplified, the time taken to complete administrative procedures is faster than legal regulations, businesses do not have to go back and forth many times to complete procedures, and officials handle work more efficiently.

Conditional business procedures still cause difficulties for businesses. Business conditions are always improved and changed over the years through Government policies. Although progress has been made, there are still many businesses who are not satisfied when implementing these administrative procedures. Approximately 38.9% of businesses did not encounter any difficulty in carrying out administrative procedures for granting conditional business licenses and 43.4% of businesses said the procedure processing time did not take longer. Compared to regulations. Difficulties in granting conditional business licenses are the reason why 21.7% of businesses have to delay or cancel their business plans.

There are still difficulties and obstacles in accessing land, currently most businesses do not encounter difficulties with land administrative procedures, but businesses' perception of the risk of land being revoked has also increased again in recent years. Many businesses face difficulties in accessing and expanding production and business premises due to the complexity of administrative procedures for leasing and transferring land. In addition, local land use planning does not meet the development needs of businesses. Other issues such as land prices set by the State are high, land prices set by the State are increasing too rapidly, land clearance is slow, the provision of land data information is not convenient, and land records are processed longer than prescribed. All of these factors have caused more than 50% of businesses to postpone or cancel their business plans.

Small and medium-sized enterprises have not received much support, the number of enterprises supported by programs within the framework of the Law on Support for Small and Medium-sized Enterprises (2018) is still very small, less than 8%. The support programs with the highest rate of business access are credit guarantees at the Credit Guarantee Fund for Small and Medium-sized Enterprises, the program with the lowest rate of business beneficiaries is support for reducing rental rates in industrial parks, high-tech parks, and industrial clusters with about 5% of businesses.

It is necessary to disseminate and guide businesses in the context of international integration, Vietnam has signed and implemented 17 FTAs with many important partners, including the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), EVFTA (Free Trade Agreement between Vietnam and the European Union)... According to the 2021 PCI survey, the level of awareness of Vietnamese businesses about free trade agreements is quite modest. Exporting businesses tend to be more interested in these agreements than domestic businesses. The dissemination of information and commitments in FTAs greatly affects the ability to take advantage of the incentives from free trade agreements. Currently, about 49% of businesses encounter difficulties in implementing legal documents related to the implementation of FTAs. Therefore, the Government needs to develop policies along with support for businesses to improve the effectiveness of taking advantage of the opportunities brought about by FTAs.

4. Conclusion

Overall, the business environment in Vietnam has improved in recent years. However, more reforms are needed from the Government and efforts from businesses in their operations. In addition, local authorities need to continue their efforts to maintain and improve the business environment, and enhance its quality through annual PCI reflection and analysis. The PCI index shows that the positive change trend in Vietnam's business environment is also consistent with the trend of improving the business environment in localities. The change and improvement of the business environment have also had an impact on improving the PCI index of localities in recent years and in the coming years.

5. References

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