State-Owned Enterprise Reform in Viet Nam: Lessons Learnt and Future Directions

Background paper prepared for the Viet Nam Public Finance Partnership Group High Level Meeting[1]

July 2015

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[1]This background paper has been prepared by the ADB as an informal background document to the Public Finance Partnership Group High Level Meeting to be held 23rd July 2015. The paper draws synthesizes many of the key lessons and experiences of development partners in supporting the Government of Viet Nam's state owned enterprise reform agenda, highlighting a number of key issues for future reform efforts. While all due care has been taken in preparing the paper any errors or omissions remain the responsibility of the author. Views expressed do not represent the official views of ADB or other development partners. ADB is grateful to comments on an earlier draft by Ministry of Finance, World Bank and JICA colleagues. Any questions or comments can be emailed to Aaron Batten, ADB Country Economist, (abatten@adb.org).

1. Context

Viet Nam has achieved impressive growth since the launch of economic reforms in the late 1980s. An average growth rate of over 7% between 1991 and 2013 has enabled the country to transform itself from among the poorest in Asia to lower middle-income status. Viet Nam's strong growth performance has been propelled by major structural transformations that have unlocked its comparative advantages. Closer integration with the global economy has occurred in parallel to fundamental shifts in the market orientation and liberalization of the domestic economy. Labor has moved out of traditional low productivity activities such as agriculture to more sophisticated and higher-productivity activities such as manufacturing and services.

Viet Nam however now finds itself at an economic crossroad. Having reached lower-middle income status many of its past drivers of growth are waning. Previously rapid growth in the working age population is starting to fall and the early benefits of urbanization and shifting labor from unproductive farms to greater value-add creating factory's is dissipating (McKinsey, 2012). The economy is now also constrained by a fragile financial sector, saddled with an unknown level of non-performing loans from a 2011 credit crisis.[2]

While the medium-term growth outlook remains relatively sound, Viet Nam must now grapple with the technically and politically challenging structural reforms that are needed to boost labor productivity and to shift the economy to a new growth model. These efforts will require the implementation of complex and interrelated reforms that span across the economy, enhancing Viet Nam's competitiveness and its ability to integrate into global value chains (ADB, 2015).

The reform of State Owned Enterprises (SOEs) is a crucial pillar of the Government's structural reform and productivity agenda. International experience has shown that unless all firms are able to compete on an equal footing then productivity and economic competitiveness will suffer (ADB 2012).

The government's socioeconomic development strategy (SEDS), 2011-2020 recognizes the importance of SOE reform, prioritizing faster rates of equitization and privatization. However, as outlined in the following discussion achieving this goal will be challenging. The sale of SOE's is hampered by complex ownership structures, weak management and unclear financial and debt obligations. Further, many SOE's deliver essential public services and operate in sectors that are prone to natural monopolies or oligopolies. In these cases enhanced performance will rely not just on equitization but on overhauling regulatory and corporate governance standards to lift their accountability for results.

While challenging, the task that lies ahead in successfully reforming SOE's to unleash the private sectors potential to drive growth and to create employment will be vital to the next phase of Viet Nam's economic development.

2. Viet Nam's evolving SOE reform agenda

Early on in its 'Doi Moi' reform process, the Government of Viet Nam recognized the importance of transforming the role of SOEs as critical to reducing the dominance of inefficient state production, promoting private sector development, job creation and economic growth (ADB

[2] Indeed NPLs, along with the risk profile of some bank balance sheets, particularly those with exposure to unprofitable and overstretched SOEs, has raised questions about the capital adequacy of the banking system.

2015). The focus of initial reform efforts was placed on SOE equitization–converting SOEs into joint stock companies with limited liability. This process was launched as early as 1992. However most of the SOEs equitized through this process were small unprofitable enterprises, with the larger SOEs occupying the majority of economic activity and employment remaining intact (CIEM 2010).

In the mid-1990s, the Government sought to deepen reform by reorganizing many of its larger SOEs into 17 general corporations (or conglomerates) reporting to the Prime Minister (GC91s) along with 77 special general corporations under the control of line ministries and provincial people's committees (GC90s). By 2002, the Government had established 94 general corporations that included 1,605 member SOEs. While in numerical terms this represented just 28% of all SOEs, this group of entities captured 65% of all SOE capital.

Having conglomerated SOE's into these general corporations (GC's) the Government then laid out an ambitious plan for replicating the perceived success of Japan's Keiretsus and Korea's Chaebols. To further increase their size and market share, Decree No. 101/2009/ND-CP of November 2009, took conglomeration one step further by creating State Economic Groups (SEGs). The SEG concept sought to assemble large SOEs and GCs into strong, strategically linked corporations that would have a dominant market presence and have the capital and expertise necessary to drive domestic innovation and compete with international companies in the global arena.

Over time, the weakness of SEGs was highlighted by their inability to create more value together than they did separately. Further, their complicated management structures combined with unclear mandates led to an expansion of activities into a wide variety of non-core business activities that further drove down their commercial viability and highlighted the poor oversight they held of their many subsidiaries and affiliated entities (World Bank 2012).

Evidence also grew that while SOEs tended to absorb a very large share of aggregate investment, their contribution to real GDP and aggregate employment was disappointing, and low relative to private enterprise (see Box 1 and ADB 2015). When SOEs compete with private sector companies, they also often doing so on a favored basis—making it difficult for private sector competitors to invest and grow (ADB 2012). In addition to receiving preferential access to capital, land and public procurement opportunities, SOEs were able to use their political connections to navigate Viet Nam's complex regulatory environment to gain advantage. In many cases this has come at the disadvantage of small and medium enterprises (SMEs) that make up over 95% of the enterprise population and generate 80% of employment (GoV 2011a, World Bank 2012).

Ultimately, this scenario resulted in a growing domestic criticism of the way SOEs were being managed and operated. In response the Economic Forum of the National Assembly in 2011 recommended that a significant change in approach to SOE reform and management was required.[3] Their recommendation highlighted was that it is no longer appropriate for SOEs to be considered the foundation for industrial and economic development and that restructuring of the SOE sector was to be a top priority of the Government in the Socio Economic Development Strategy (SEDS) for 2011 to 2020.

The SEDS 2011-20 and the accompanying Socio Economic Development Plan (SEDP) (2011-15) thus sought to guide policy makers on a new approach to reducing the economic distortions

[3] Captured in the National Assembly's Resolution No.10/2011/QH13.

and fiscal costs created by SOEs. These strategies have continued to emphasize the importance of reducing the number and state capital invested in SOE's via equitization. They also began to highlight the importance of improving SOE corporate governance and the need for a revised legal framework to enhance the transparency and quality of public investment through SOE's engaged in the delivery of essential public services.

In support of these strategies the Government has issued a range of specific policy measures.[4] In particular, Prime Minister's Decision 929 compels GCs and SEGs to prepare detailed restructuring plans, based on the need to have more reasonable production and business structures concentrated on their core business lines and limiting themselves to providing essential public services and products for society, national defense and security. At the same time, SOEs are expected to prepare detailed plans for lifting their rates of return on equity by lifting their competitiveness and streamlining cost inefficiencies.[5] By 2014, the Prime Minister had approved the restructuring and equitization plans of 17 economic groups while around 50 restructuring plans of general corporations have been approved by the Line Ministries.

These efforts have led to a significant reduction in the number of SOE's in the Viet Nam economy. Between 1999 and 2013 3,759 SOE's were either fully or partially equitized. At the same time, many un-equitized SOE's have made progress in divesting themselves of risky noncore operations, while enhancing disclosure of some financial information (ADB 2014).
The Government is currently pursuing plans to equitize a further 289 enterprises, of which by June, 44 had been completed (including 5 state corporations and 56 enterprises) while 127 were in the process of determining business valuations. If current reform targets are achieved approximately 511 fully government owned SOEs will remain by end-2016, down from 806 at the beginning of 2015.[6]

3. Challenges faced when reforming Viet Nam's SOE's

While progress has been made and ambitious new targets have been set, a number of barriers still exist for unleashing the full benefits of SOE reform. Firstly, the pace of SOE equitization has slowed considerably. Between 2003 and 2008 Government equitized 2,389 SOEs. In contrast, between 2009 and 2013 this number had fallen to just 69. This reduced momentum is partly explained by the 'low hanging fruit' of earlier reform efforts, which saw the comparatively uncomplicated sale, or closure, of small loss-making enterprises. In contrast, many remaining SOE's are much larger with equitization made more challenging by limited progress on resolving their complex ownership and management structures, and unclear financial and debt obligations. These challenges, as well as those related to SOE transparency and corporate

[4] The Prime Minister's follow on Decision of 19 February 2013, further emphasized the importance SOE reform, placing it as one of three main focuses of overall economic restructuring for the period 2013–2020.
[5] Under the new regulation, the Prime Minister will classify wholly state-owned enterprises into three categories: (i) those in which the State holds 100% of charter capital and which operate in the sectors subject to state monopoly, national defense and security; publication; transport safety assurance; lottery; large-scale electricity generation and distribution important to socio-economic development, national defense and security; management and operation of national railway infrastructure; airports; first-grade seaports; and money printing; (ii) equitized enterprises, in which the State holds over 50% of charter capital and which operate in the sectors specified in the Prime Minister's Decision No. 141/2011/QD-TTg of March 4, 2011; and (iii) those operating inefficiently and suffering from accumulated losses.
[6] In 2000, SOEs accounted for nearly 68% of all capital in the economy, 55% of fixed assets (such as land), 45% of bank credit, and 59% of formal sector jobs. By 2010, private sector growth meant the share of SOEs in capital, fixed assets, bank credit, and the employment in the enterprise sector had fallen to about 39, 45, 27, and 19%, respectively.

governance more generally have also made it more difficult to find strategic investors willing to participate in initial public offerings (IPOs) of SOE's.

Secondly, while thousands of equitizations have taken place, reform plans have continued to target the sale of minority non-controlling stakes in these companies, with Government remaining as the largest shareholder. As such, by the end of 2011, in spite of more than 20 years of reform and the equitization of thousands of SOEs, an estimated 30% of state ownership in corporate entities had been transferred from the government to private sector ownership (IMF 2012), with government retaining an average ownership stake of 57% in these firms. By only partially divesting its ownership, and retaining majority control and decision making authority, private sector strategic partners have had a limited ability to reshape these companies into globally competitive enterprises.

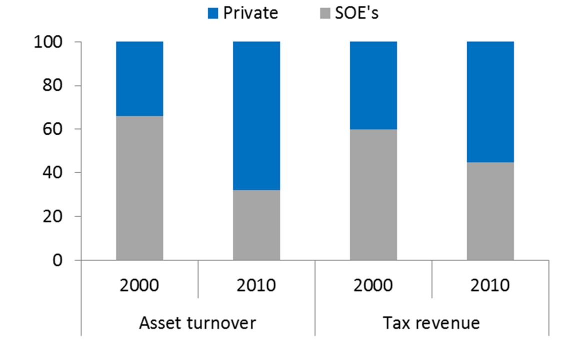
Thirdly, while state ownership has shrunk in commercial sectors of the economy, government plans have continued to emphasize the importance of retaining control over many 'strategic sectors' particularly those sectors related to public infrastructure and service delivery (i.e. electricity, water supply, telecommunications, postal, ports, and airports). These sectors are prone to natural monopolies and oligopolies, so in many cases a continued government role may be necessary. However, while some of these SOEs have been partially equitized, few operate on strict commercial terms with management independence, profit orientation, hard budget constraints, and accountability for results. These characteristics are essential for improved SOE performance as it forces SOEs to meet their costs of capital and divest any activities that are not commercially viable (ADB 2012). Improving SOE performance in these sectors will rely not just on partial equitization but on overhauling the government's competition policies, regulatory oversight and corporate governance standards to lift accountability for results. Unfortunately, progress on this front has been slow. Based on a study on the quality and competitiveness of infrastructure conducted by the World Economic Forum in 2013, Viet Nam ranked 82 out of 148 countries, well behind regional competitors Malaysia (29^{th}), Thailand (47), People's Republic of China (48^{th}), and Indonesia (61^{st}). The poor quality infrastructure services provided by Viet Nam SOE's drive up the cost of doing business, lower private sector investment, and divert government funds away from more productive activities.

Complicating the task of reforming service delivery SOE's is the difficulty in judging their performance, given their competing often complex mandates. For example, some infrastructure SOE's make substantial profits while providing reasonably priced services. But often, outside of public view, this occurs at the cost of absorbing large amounts of scarce capital stock on which they provide very low returns, acting as a drag on economic growth. Similarly, profitability within some service providers comes at the expense of limited coverage, with service delivery focused on high density, low cost regions. The profitability of other SOE's is often eroded by a requirement to deliver services into non-commercially viable regions. These activities, often referred to as public service obligations (PSOs), include delivering services at below cost recovery levels or to remote populations where commercial services are often not commercially viable. If properly identified, contracted and funded, delivering these PSOs should not reduce SOEs' profitability. The reality, however, is that PSOs in Viet Nam continue to be haphazardly imposed, rarely costed, and unfunded. As a result, infrastructure SOE's are forced to operate with conflicting mandates, making it very difficult for SOE management and directors to exercise their responsibilities in a fiscally responsible, efficiency promoting, manner.

Box 1: Viet Nam's SOE Reform: Current status

Unleashing the full job creating potential of private enterprise will require continued reduction in the distorting impact of SOE's…

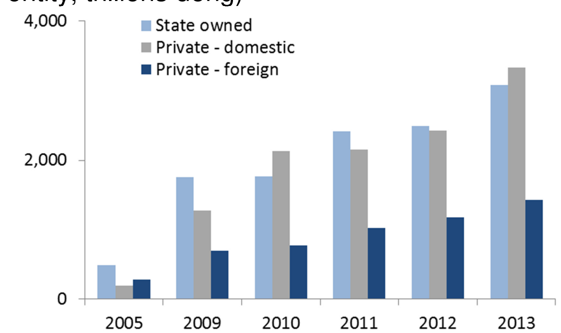
(Asset turnover and tax revenue by source, %)



Source: General Statistics Office, Yearbook (various)

…although their numbers are decreasing slightly, SOE's are soaking up an increasing amount of scarce capital in the Viet Nam economy.

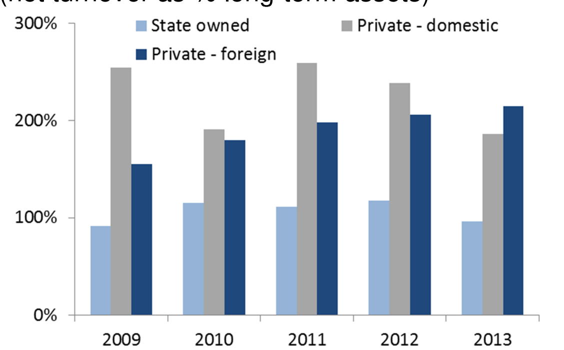
(Value fixed capital and long-term investment by entity, trillions dong)



Source: General Statistics Office, Yearbook (various)

Yet, SOE's produce lower levels of output than private sector competitors, acting as a drag on economic growth…

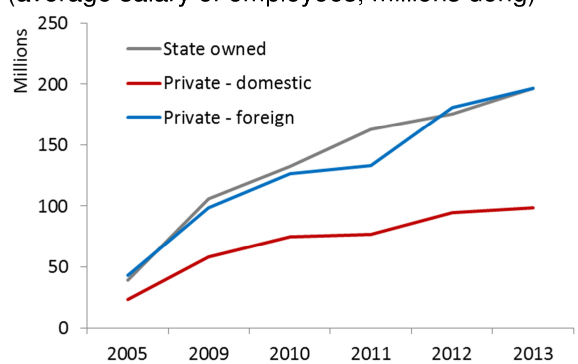
(net turnover as % long-term assets)



Source: General Statistics Office, Yearbook (various)

…and by paying higher wages, attract much needed skilled labor away from domestic business.

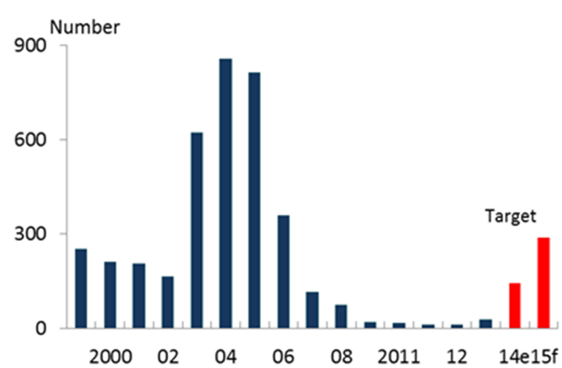
(average salary of employees, millions dong)



Source: General Statistics Office, Yearbook (various)

Achieving planned equitization targets of commercial SOE's will be an important step in reversing these trends…

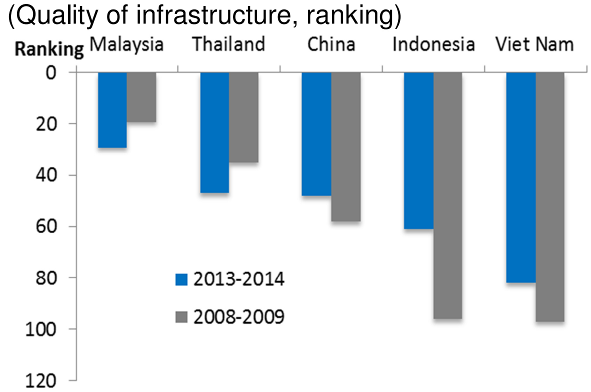
(SOE equitization, number)



Source: Ministry of Finance

…but so will be lifting the performance of infrastructure SOE's who are likely to remain under government ownership.

(Quality of infrastructure, ranking)



Source: Global Competitiveness Report, 2014.

4. Lessons and recommendations from past SOE reform efforts

The experiences of Viet Nam over the last three decades have shown that SOE reform is often a contentious, complex task; the process entails multiple reforms to laws, institutions of government, fiscal and regulatory policies, and also case-by-case enterprise restructuring. The experiences of both government and development partners in supporting SOE reform over this period highlight a number of important lessons for making faster progress. Broadly speaking these lessons can be grouped into two broad priorities.

Priority 1: Increasing the pace, and depth of equitization of SOE's engaged in commercial activities.

There remain a significant number of SOE's, or partially equitized SOE's, who deliver no essential public services and operate in sectors of the economy where private sector competition would lead to more efficient production. These enterprises create serious distortions to the Viet Nam economy acting as a drag on economic growth and employment creation. Reducing Government ownership and allowing fully commercial, market driven companies to emerge should the central priority of SOE reform efforts. While transition costs (such as labor retrenchment) need to be carefully managed, removing all government ownership and control of these entities would lead to significant productivity, employment and growth gains for the Viet Nam economy. A renewed focus therefore needs to be placed not on the number of equitizations achieved but on removing state control and influence over their operations and allowing private sector enterprises to flourish unimpeded by unfair competition. In addition to current Government reform plans, the attainment of this goal could be supported by:

i) **Streamlining and simplifying the legal framework**. Strengthening the legal environment for SOE's has been a major focus of Viet Nam's reform program, with an array of legislative reforms being implemented over the last two decades. Individually, these reforms have sought to address specific legal inadequacies. Yet, the frequency and diversity of legal revisions have contributed to a proliferation of new laws, decrees and guidelines. As a result, adherence to SOE regulations has become increasingly complex and there is a perception that this may be hindering SOE's efforts to reform themselves as well as the private sectors ability to understand, and participate in, potential SOE equitization. As a result, there needs to be a consolidation of the various laws, decrees, decisions, and resolutions that currently regulate enterprises and SOEs.

ii) **Strengthening institutional coordination**. At present, the Government has established an SOE Reform and Development Steering Committee under the Office of Government OOG chaired by Deputy Prime Minister and participated in senior officials from relevant ministries and agencies. However in some cases this committee has not been able to full resolve the fragmentation of responsibility that currently exists in SOE reform. In some cases, different ministries and agencies have drafted their own SOE-related regulations independently, with limited inputs from other relevant ministries and agencies. Strengthening the role of the SOE Reform steering committee to ensure effective oversight of the preparation and implementation of SOE-related regulations will be vital for improved interministerial coordination is vital during the law-making and implementation process. Achieving this will require high-level political support. A particularly important priority for the committee to address is reducing the time consuming SOE reform decision making process, estimated as requiring 12 steps and taking an average 17 months in 2014 (World Bank 2014b).

iii) **Strengthening the rights of strategic investors.** While government has moved recently to ease restrictions on foreign ownership of domestic corporations, many investors continued to be deterred by perceived weaknesses in the rights of minority shareholders. Strengthening shareholder rights could act as an important step in attracting more high quality investors into SOE IPOs and to encourage greater private investment in SOEs more generally. One practical measure which could be taken would be to amend the corporate charter of equitized SOEs to allow strategic investors to hold a veto right on a predetermined set of special issues, regardless of shareholding ratio.

iv) **Increase provisioning for the cost of SOE restructuring**. Uncertainty in the size of SOE liabilities means the Government needs to adequately provision for the cost of restructuring SOEs. There is however a lack of provisioning in the budget. ADB's State-Owned Enterprise Reform and Corporate Governance Facilitation Program (SRCGFP) (See Appendix 1) has shown, that as equitization plans are developed, initial cost estimates typically rise due to opaque accounting practices and a lack of transparency that initially hide the true extent of liabilities accumulated by SOEs. Allocating resources to identify SOE liabilities and then providing adequate Budget provisioning to cover whatever portion cannot be transferred with the SOE sale, will be an essential step in allowing equitization plans to be carried out more smoothly.

v) **Identify reform losers and develop mitigation plans**. As the SOE reform process deepens, and uncompetitive SOE's are faced with closure, it is possible that opposition to reform will intensify. This situation can be mitigated if extensive and genuine consultations and discussions are undertaken between all stakeholders so that everyone understands the objectives of the reforms and the underlying rationale for policy change. Reform implementation may also be slowed by various political and social risks that will need to be mitigated. For example, support for SOE restructuring will be difficult to muster until programs are put in place to support and retrain workers displaced during the shakeup of state firms.

Priority 2: Strengthening the accountability and performance of SOE's engaged in the delivery of public services.

Many infrastructure SOE's operate in sectors that are prone to natural monopolies or oligopolies. In these cases equitization alone is unlikely to lead to improved outcomes, unless it is accompanied with a comprehensive regulatory, competition policy, corporate governance and financial transparency agenda. Further, even when equitization is not possible, reform efforts can still seek opportunities for imposing on these firms higher levels of commercial discipline and performance accountability. In addition to current Government reform plans, the attainment of this goal could be supported by:

i) Reducing the complexity and conflicting mandates of service delivery SOE's. To generate improved service delivery outcomes, infrastructure SOE's need to have the same commercial discipline imposed on them as private corporations. To achieve this they will need to have clear commercial objectives that can drive incentives for enhanced efficiency and performance. Any public service obligation (PSO) which they are required to deliver but which cannot be done on a fully commercial basis should be clearly mandated and publicly disclosed. Over time, the related costs of delivering these PSO should be covered by the Budget in a fully transparent manner. Having done this, service delivery SOEs can be made fully accountable for their financial performance, with an independent Board of Directors pursuing a commercial mandate. This will be an essential to placing service delivery SOEs on a stronger commercial footing, while improving transparency, accountability, and ultimately the quality of service delivery.

ii) **Enforcing existing financial transparency and governance requirements**. The Government has articulated a clear policy vision on improving the governance of SOEs. The Enterprise Law (2014), Investment Law (2014) and the Law on Management and Use of State Capital Invested in Production and Business (2014) all strengthen the corporate governance and reporting requirements of SOEs. However, while the legal framework for SOE governance has improved, implementation of these new laws has been uneven – particularly in regards to increased transparency and disclosure of enterprise finances and operations. For instance, new laws require the public disclosure of information related to SOE corporate performance, including on enterprise websites. However while internal reporting by SOEs to parent ministries and the Ministry of Finance may have improved public disclosure has been limited (World Bank 2014b).[7] Further, although many SOE restructuring plans have been approved, there is little information on the process in which these plans were developed and their content for the public.[8] This lack of information raises uncertainties for the private sector and civil society. Improved information disclosure would significantly improve investor confidence and public perceptions. To address this situation the MOF will need to enhance its capacity to analyze and report on SOEs performance. Penalties for non-compliance also need to be enforced more consistently.

i) **Introducing a transparent, fully skills based, Director appointment process.** Even though government is likely to retain ownership of many service delivery SOEs for the foreseeable future, they should still be managed by skilled directors who make decisions in the best commercial interests of the SOE, its owners, and key stakeholders. When SOE directors are selected on the basis of their political influence and length of public service, government's ability to hold them accountable for performance is also diminished. The introduction of a strict set of guidelines on skills based Director appointments would help to strengthen the ability of SOE's to enhance their management capacity.

ii) **Develop a system for publishing infrastructure SOE performance benchmarks.** A high-level performance measurement system for the quality of service delivery achieved by Viet Nam's infrastructure SOEs is needed. Policy debate over the efficiency of SOE service delivery is blurred by a lack of information and evidence-

[7] As described in World Bank (2014b:27) "the government continues to pursue implementation of several newly adopted legal documents, including Decree 61/2013, Decree 69/2014 and Prime Minister's Decision 36/2014. Decree 61 requires more detailed reporting by SOEs to their parent ministries or departments twice a year (four times for larger SOEs), and MOF has to report to the National Assembly every year on the overall operational and financial performance of all SOEs. Enterprises with state capital investment are also required to disclose financial, business and corporate governance performance information. ..All mentioned regulations require public disclosure of information, including on the enterprise websites. Preliminary indications are that there is progress in terms of internal reporting by SOEs to parent ministries and the Ministry of Finance. However, progress on public disclosure requirements has been more limited."

8 Similar views were expressed in a Joint World Bank, ADB and JICA letter to H.E. Prime Minister Dung 2013 titled 'Strengthening Inter-Ministerial Coordination and Information Disclosure of SOE Restructuring' on the 8th of May 2013.

based analysis on the performance of current entities compared to alternative service delivery models. There is general consensus that reform is needed and that corporatization and competition can play an important role in improving the efficiency and effectiveness of infrastructure service delivery. However equally, there is a lack of information and evidence-based analysis to assess past and on-going reforms, and to inform future policy actions. An independent and objective assessment of the performance of service delivery providers could potentially become an instrument of advocacy for policy-makers. This could be undertaken on a regional basis, for instance by benchmarking the corporate performance, price and service coverage of Viet Nam's infrastructure SOE's against ASEAN members. Such a cross-country benchmarking exercise would create evidence based competition between ASEAN countries without, being biased towards any particular service delivery model. Successful SOE reform and infrastructure service delivery models could be championed and lessons shared across ASEAN economies. Such a report would also begin to unravel the hidden costs of inefficient infrastructure service delivery models – exploring trade-offs between profitability, service prices, fiscal transfers, service coverage, and returns to capital.

5. What are the priority 'next steps' for SOE reform?

The reform objectives listed above cover a range of high-level issues that will take time, resources and political commitment to address. Below is a sequenced list of high priority 'next steps' identified by development partners that would provide a solid foundation for boosting the credibility and impact of the Government's SOE reform program based on the lessons highlighted above.

i. Undertake a detailed review of SOE's organizational structures to assess the degree to which firms, or components of their business activities, are providing either commercial or public infrastructure services.

ii. Having categorized SOE's, enterprises focused on commercial activities in competitive sectors of the economy should be identified for priority equitization and/or closure. A renewed emphasis should be placed on full equitization or if that is not possible, minimizing state control and influence over their operations. Importantly, the success of equitization should not be judged by numbers of partial sales, or assets sold, but rather by the number of enterprises which have been able to remove state control over their operations and improve their corporate governance.

iii. SOE's providing public infrastructure services in sectors of the economy that are prone to natural monopolies or oligopolies should also be identified. As part of this process, the role of public service obligations in infrastructure SOE's should be explored with the objective of identifying and then costing their impact on SOE operations. Reform efforts towards these enterprises should be tailored not just at equitization but rather on enhancing the regulatory, competition policy, corporate governance and financial transparency environment in which they operate. Initial efforts could include continued adaptation of the Organization for Economic Co-operation and Development (OECD) Guidelines on Corporate Governance of State-Owned Enterprises (2014-15 Revision) – currently led by the State Securities Commission. In particular, Viet Nam would benefit from a thorough investigation of these guidelines as they provide useful codes of practice that incorporate conflict of interest guidelines, skills-based board selection and appointment requirements for SOE boards, and rules limiting the ability of politicians to direct SOEs. To further support these efforts, Government may also usefully support the inclusion of Viet Nam into ASEAN service delivery benchmarking exercises currently underway. This would provide Viet Nam with an international benchmark with which the judge the performance of its infrastructure SOEs.

6. Conclusion

The reform and restructure of SOEs in Vietnam is a challenging and on-going process. It can neither be done quickly nor easily due to the complexity of corporate structures and the varied interests involved. Thus the need for concerted effort in key priority areas and for a mechanism to monitor and manage overall reform, while appreciating that individual SOEs (under the guidance of the respective oversight agencies and line ministries) may proceed at different speeds and in a variety of different manners. Development partners are grateful for the opportunity to provide inputs into the development of Government's future SOE reform strategies and look forward to working together to strengthen SOE reform and promote more inclusive economic growth in Viet Nam.

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Appendix 1: Development partner support for SOE reform in Viet Nam

Development partners have played an important role in the government's SOE reform efforts. Given the complexity of these reforms government and development partners have both adopted a step-by-step approach seeking to identify and address the most pressing high level issues, followed by support for more in-depth SOE restructuring and corporate governance issues. While the list is not exhaustive, Table 1 provides a summary of major ongoing development partner projects and programs supporting the governments SOE reform efforts.

	Project name	**Description**	**Partner agency, funding, implementation period**
ADB	State-Owned Enterprise Reform and Corporate Governance Facilitation Program (SRCGFP)	The SRCGFP supports equitizing and transforming general corporations. Participating general corporations are being restructured under a comprehensive package of corporate and financial restructuring and enhanced operational efficiency and corporate governance on a pilot basis. Financial restructuring will strengthen general corporation balance sheets through improved cash flows and debt-servicing capacity, generating additional resources for productive activities. Corporate restructuring will enable participating general corporations to exploit economies of both scale and scope by merging several small joint stock subsidiaries in each general corporation into larger entities organized along lines of business, combined with the divestiture of disparate non-core business units. Additionally, management restructuring will enhance operational efficiency by strengthening corporate management processes and improving governance.	MOF/Selected SOEs $600 million (Tranche 1: $130m) (Tranche 2: $320m) (Tranche 3: $150m) Dec 2009-Dec 2015
ADB	CDTA 8016 - Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program	The TA supported (i) establishment of a monitoring system for assessing progress of participating SOE's reform and restructuring; (ii) and (iii) development of knowledge products and related capacity to update the institutional and policy framework for SOE reform. In addition, also supported the government in the identification and preparation of SOE candidates for subsequent restructurings.	MOF $1.2 million Feb 2012 - Jan 2014
ADB	CDTA 8387 - Strengthening Support for State-Owned Enterprise Reform and Corporate Governance Facilitation Program	The TA is supporting MOF in (i) conducting due diligence of selected SOEs for participating in tranche 3 of the MFF, together with finalizing the restructuring and implementation plans of selected SOEs, and and providing policy advice on key areas of SOE reform. Reform. In addition, the TA supports institutional strengthening and capacity development of MOF in initiating, adopting, and implementing measures in core areas of SOE reforms, as it is the leading agency for SOE reform in Viet Nam.	MOF $0.8 million Aug 2013 - Dec 2014
WB/ADB/ JICA	Economic Management and Competitiveness Credit (EMCC)	The EMCC program aims to enhance competitiveness through reform efforts in six policy areas: (i) banking sector, (ii) fiscal policy, (iii) public sector administration and accountability, (iv) state enterprise management, (v) public investment management, and (vi) business environment. For (iv), strengthened SOE management requires successful restructuring of large SOEs, better corporate governance, and improved regulatory environment for SOEs. The program	SBV/MPI/MOF $550 million August 2013 – July

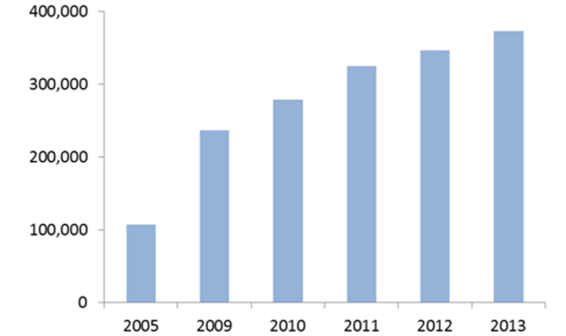
		supports implementation of the government's SOE reform agenda that contains three broad elements: regulatory environment for SOE restructuring (e.g. divestiture of state shareholding); the adoption and implementation of plans and targets for actual restructuring of SOEs; and corporate governance reforms of state economic groups (SEGs) and general corporations.	2015
JICA	Project for Enhancing Corporate finance management capacity to Implement SOE restructuring in the SRV	The TA aims at strengthening capacity of MOF in corporate finance management with focus on the development of SOEs' debts disposal mechanism for accelerating SOE restructuring. The goal of SOE restructuring, rather than equitization, is to improve business productivity and profitability via competition with private sector. There are two components in the project: (i) Improving institutional framework related to the sale, purchase and disposal of debts of SOEs including the establishment of procedures for "out-of-court workout", and (ii) Strengthening capacity for implementing SOE restructuring of DATC, SCIC, CFD and concerned departments of MOF in a concerted manner.	MOF (CFD/SCIC/DATC) ¥757.7 million (~US$6.37 million) March 2014 - March 2017
WB	Support to Improved Disclosure of Information by State Owned Enterprises in Vietnam	The overall objective of this technical assistance is to support improvements to the disclosure of information by SOEs. The support focused on disclosure of information within Government and to the public (as opposed to disclosure within an SOE) and took stock of the current situation and provided recommendations for reform. Recommendations were drawn from regional and international good practice. The SOE reform agenda is closely linked to the design of the Economic Management and Competitiveness Credit (EMCC). Key triggers for EMCC tranches until 2016 are focused on SOE reform and the EMCC's overall success -in terms of improve economic management and competitiveness- moves in tandem with further progress in reforming SOEs.	SBV/MPI/MOF $100,000 (completed)
WB	Technical assistance on the revision of regulation for SOE classification	The objective of this TA is to provide support to the Government to revise the Decision on SOE classification. SOEs are classified into four different groups depending on the sectors they are in: 100%; 65%-75%; 50%-65%; less than 50% of state ownership. Those that do not belong to the four groups or have state share greater than the threshold need to be equitized. The Bank helped to organize in-depth interviews with a number of SOEs and bring in international experience (Indonesia) on SOEs equitization and provided recommendation to the revised regulation.	MPI $120,000 (completed)
WB	Support to take stock of the SOEs reform progress since 2012 when the Government adopted the SOE restructuring plan (Decision 929)	There has been little consolidated reporting to date on the details of the government's SOE restructuring efforts. It is difficult to obtain information in the public domain on plans for SOE restructuring and actual steps taken, including on equitization, divestiture from non-core business areas and transparency of SOE financial disclosure. Therefore, the objective of this TA is to compile regular progress report, working with relevant government agencies and SOEs, on concrete actions taken to implement the SOE restructuring agenda. The report will inform the Bank and Development Partners' dialogue under EMCC.	MPI/MOF $80,000

WB/UK/DFAT/SECO/Canada(EMCC-AAA)	TA to support implementation of Decree 61	The objective of this technical assistance is to provide support to the MOF for effective implementation of the Decree 61. The support focused on: (i) assessment of the implementation of the Decree 61 by selected Economic Groups and General Corporations, (ii) advising on necessary modifications to the Financial Supervision Manual based on the results of the assessment, and (iii) providing hand-on training on implementation of Decree 61 to selected line ministries and EGs. The TA has been fully implemented and all outputs delivered, most notably the Manual for Financial Supervision has been updated and issued.	MOF $130,000 (completed)
WB/UK/DFAT/SECO/Canada(EMCC-AAA)	TA to support the development of the Law on Management and Use of State Capital Invested in Business Activities in Enterprises	The objective of this TA was to support the MOF in drafting the Law. The focus of the support is to (i) provide an assessment of the current situation and possible legal improvements; (ii) provide recommendations to the outline and content of the Law and guiding legislations; and (iii) support consultation and consensus building activities and assess the opinions provided during the process. The TA has been fully implemented. A policy note was timely shared with the Government and the National Assembly. The assessment and recommendations presented in the Policy Note have been discussed at various seminars and workshops with representatives from the National Assembly, the Government of Vietnam, State Owned Enterprises, and Development Partners. This TA built on the work initiated by ADB under its Capacity Development Technical Assistance (CDTA). The CDTA has so far financed the following activities: (i) the review of the current legal system; (ii) comparative report on international experience of managing state capital; and (iii) SOE reform roadmap to 2015. The World Bank and ADB teams exchanged closely with each other on this during the process.	MOF $80,000 (completed)

Box 2: Viet Nam's SOE Reform: Enterprise and job creation

The number of business enterprises in Viet Nam is growly rapidly, increasing by an average 12% p.a. since 2009…

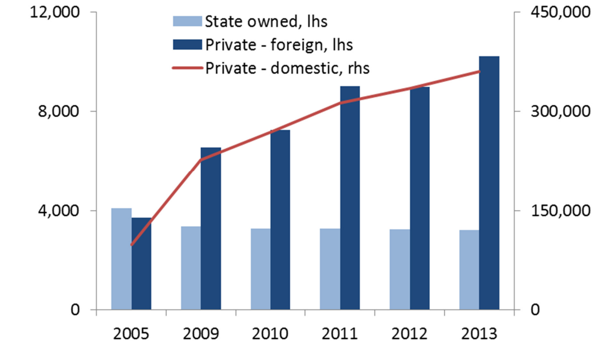
(Registered enterprises, number)



Source: General Statistics Office, Yearbook (various)

…led by a proliferation of domestic private enterprises as well as a growing number of foreign owned entities…

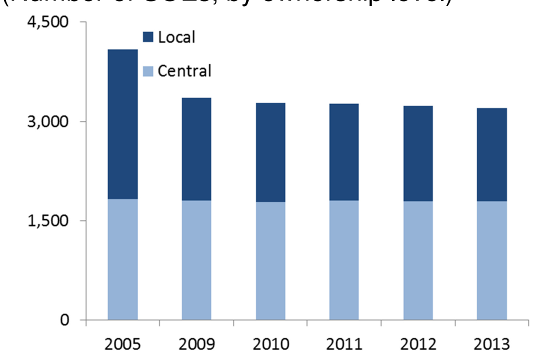
(Number of enterprises by ownership, number)



Source: General Statistics Office, Yearbook (various)

…while the number of SOE's declines slowly, particularly at the local level.

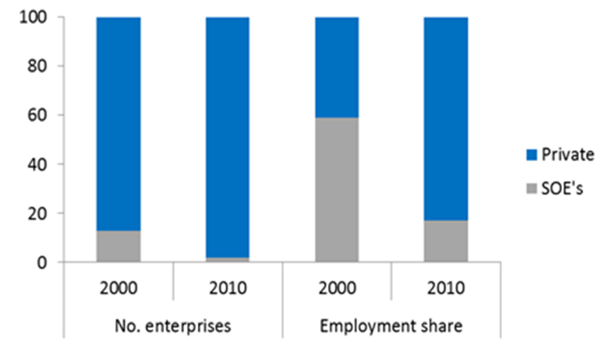
(Number of SOEs, by ownership level)



Source: General Statistics Office, Yearbook (various)

This scenario has dramatically reduced Viet Nam's reliance on SOEs for formal employment.

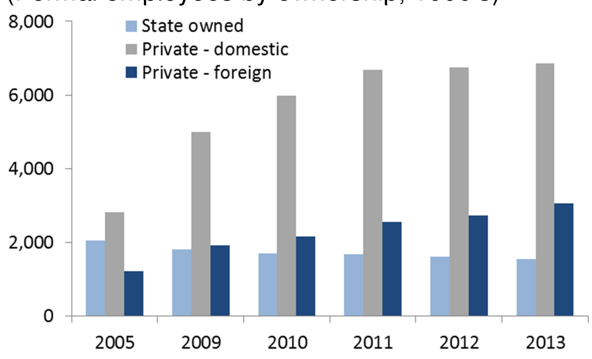
(Enterprise and employment shares, % total)



Source: General Statistics Office, Yearbook (various)

Nevertheless, overall formal sector employment growth remains well below potential…

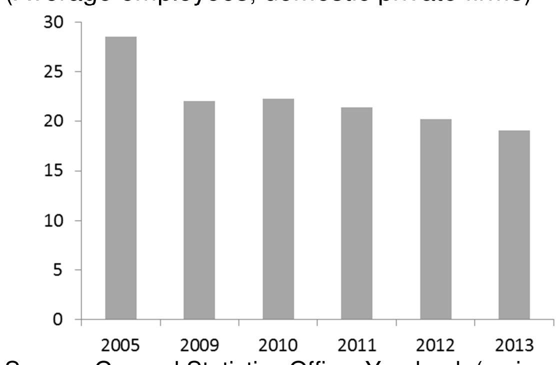
(Formal employees by ownership, 1000's)



Source: General Statistics Office, Yearbook (various)

…with the majority of new registered domestic enterprises being small.

(Average employees, domestic private firms)



Source: General Statistics Office, Yearbook (various)