

Le Ngoc Dang; Dinh Dung Nguyen; Taghizadeh-Hesary, Farhad

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State-owned enterprise reform in Viet Nam: Progress and challenges

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ADB Working Paper Series

**STATE-OWNED ENTERPRISE
REFORM IN VIET NAM: PROGRESS
AND CHALLENGES**

Le Ngoc Dang, Dinh Dung Nguyen,
and Farhad Taghizadeh-Hesary

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Le Ngoc Dang and Dinh Dung Nguyen are lecturers at the International Finance Faculty of the Academy of Finance in Ha Noi. Farhad Taghizadeh-Hesary is an assistant professor at the School of Political Science and Economics of Waseda University in Tokyo.

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Please contact the authors for information about this paper.

Email: ngoc.dangle@hvtc.edu.vn

Asian Development Bank Institute
Kasumigaseki Building, 8th Floor
3-2-5 Kasumigaseki, Chiyoda-ku
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500
Fax: +81-3-3593-5571
URL: www.adbi.org
E-mail: info@adbi.org

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Abstract

Being one of the former centrally planned economies, Viet Nam is still home to a substantial state-owned sector. From the implementation of the “Doi Moi” policy in the late 1980s, the restructuring of state-owned enterprises (SOEs) since 1990 is considered as one of three crucial pillars in the process of economic reform toward a market-oriented economy under deeper international economic integration. This paper examines existing challenges in the process of reforming the SOE sector in Viet Nam. The outcome of analysis indicates that SOE reform has made progress that has resulted in a significant reduction in the number of SOE, expansion in the production capacity, improvement of expertise and management ability, and enhancement of competitiveness. On the other hand, the reforming of SOEs has been confronted with a range of issues that require an overarching revised regulatory framework and legal enforcement to accelerate the speed of the privatization process combined with improving the accountability and transparency in evaluating SOE performance as well as applying formal and consistent measurement system to facilitate their reforming.

Keywords: state-owned-enterprise reform, Viet Nam economy, SOE performance

JEL Classification: E61, E62, G28, G3, H11

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1. INTRODUCTION

The state-owned-enterprise (SOE) sector is one of pillars in Vietnamese economy. It accounts for 28% of GDP, contributes nearly 30% of the state budget (General Statistics Office 2018), comprises 17% bank credit, and at the same time this sector is responsible for 60% of non-performing loans in the economy (Phang 2013). In order to achieve the goal of being a market-based economy with a socialist orientation, the Government of Viet Nam has encouraged the active participation from the private sector in coupling with SOE reform to enhance their effectiveness and efficiency since the 1980s. Over the past 30 years, SOEs have contributed noticeably to the achievements of the “Doi Moi”¹ which lifted the country out of socioeconomic crisis to move to the era of industrialization and modernization under the socialist orientation. However, this transition has posed enormous challenges to SOEs that adversely impact on the sustainability of economic development due to the low speed of their reforming and restructuring. Through the 30-year SOE privatization, the number of SOEs has declined significantly and they now tend to focus on crucial and core sectors of the economy, including electricity, minerals, petroleum, finance, food and telecommunications. There are successful cases of post-privatized SOEs, with improvement in enterprises’ profitability and competitiveness; expanded production capacity; raised expertise and management competency; and some new industries and enterprises have been gradually formed with modern technology and advanced management. At the same time, the privatization process has encountered a number of impediments from the complexity of enterprise valuation, a lack of stringent regulations in information dissemination, a defective and deficient performance evaluation system and a lack of enabling stock market. This paper evaluates the performance of SOE reform in Viet Nam, clarifying its hindrances and drawbacks, and then proposes possible solutions to foster the SOE privatization process, replace the ownership capital of government effectively, and to shift to a more efficient and diversified economic system.

2. SOE REFORMING PROGRESS IN VIET NAM

2.1 Current Status of SOE Performance

SOE reform in Viet Nam has been taking place since the 1980s with the amendment of the definition of SOE in regulation. There have been at least four significant changes, mainly focused on the state ownership criteria in order to be considered as a SOE, which partly resulted in the complexity of regulating the SOE equitization process (see more in Appendix).

Table 1 compares the contribution to the economy of SOEs and domestic private enterprises as well as foreign direct investment (FDI) firms in Viet Nam.

¹ “Doi Moi” is a comprehensive reform program that encompasses the economy and many other aspects of social life initiated by the Communist Party of Viet Nam since the 1980s.

Table 1: Share of SOEs' Contribution in Comparison with Others (2010–2017)
Unit: Percentage (%)

Categories	Number of Enterprises		Employees		Capital		Turnover		Profit Before Tax		State Budget Contribution	
	2010	2017	2010	2017	2010	2017	2010	2017	2010	2017	2010	2017
State-owned enterprises	1.2	0.4	16.5	8.3	33.1	28.8	27.2	15.1	32.3	22.9	36.3	29.4
Domestic private enterprises	96.2	96.7	61.4	60	51.2	53.1	54.3	56.8	32.5	33.3	40.4	42.7
Foreign direct investment enterprises	2.6	2.9	22.1	31.1	15.7	18.1	18.5	28.1	35.2	53.8	23.3	27.9

SOE = state-owned enterprise.

Source: General Statistics Office (2018).

Although the share of SOE performance has been experiencing a downward trend in both absolute number and percentage over all categories since 2010, it remains a considerable contribution among the three major types of enterprises. The number of SOEs versus all types of enterprises declined from 1.2% of the total number of all enterprises in 2010 to 0.4% in 2017. This decrease is a result of the privatization process coupling with a significant amendment of the definition of SOE in 2014.

It is worth noting that, although the number of SOEs only accounts for 0.4% of the total number of enterprises, they make up 28.8% of the whole country's capital, contributing 20% to the country's GDP. The average capital per SOE is VND3,821 billion, that is over 10 times and 100 times higher than FDI and non-SOE sectors, respectively. This implies that the average size of SOEs is significantly larger compared to others. If based on the number of employees, whereas most non-state enterprises have less than 10 employees, with 97% of them being micro and small enterprises, the majority of SOEs have more than 50 employees and most are identified as medium and large firms. In the Viet Nam Report Statistics on the 500 largest enterprises of Viet Nam in 2017 (VNR500 2017), SOEs are still contributing more than half of the total revenue, accounting for 52% of the VNR500 list and operating in almost all of the sectors those are the pillars of the economy including electricity, minerals, petroleum, finance, food, and telecommunications. The larger size of SOEs, along with other advantages, benefits them by enabling easier access to finance compared to micro and small-sized enterprises (Nguyen and Ramachandran 2006). SOEs comprise 17% of outstanding debt in the economy but they are responsible for 60% of non-performing loans. In the meantime, domestic private enterprises share roughly 96% of the total number of enterprises but only account for 21% of bank credit over the economy (Phang 2013).

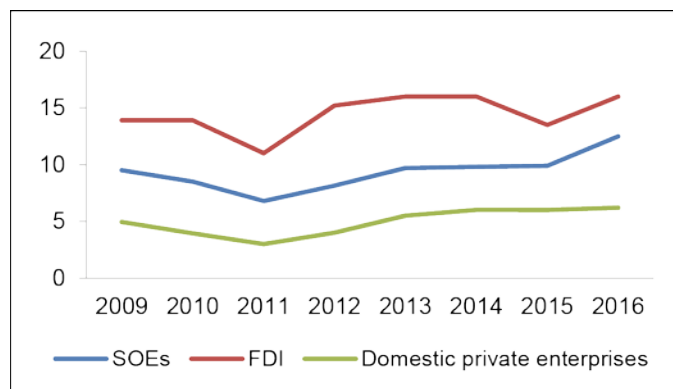
This situation is the same as in the People's Republic of China (PRC); when SOEs account for less than 5% of the total number of enterprises in the country, they control a third of total enterprise assets based on their massive sizes, that is why on average, Chinese SOEs are about 14 times larger than their non-SOE peers in terms of asset size (World Bank 2010).

Along with the reduction in the number of SOEs, several indicators witnessed the same pattern. The number of employees working for SOEs decreased from 16.5% to 8.3% of total employment in the economy; revenue declined from 27.2% to 15.1%; pre-tax profit from 32.3% to 22.9% leading to a decrease in the contribution to the state budget from 36.3% to 29.4%.

It is widely accepted that the performance of SOEs regarding profitability is highly likely to be lower than in the private sector due to their missions for non-profitable activities, except for several specific industries, in Viet Nam where many SOEs are doing in profitable industries such as banking, food and beverage, or carriage service (General Statistics Office 2018). Furthermore, they receive a large number of incentives in access to land, credit and information that are not eligible to private-owned enterprises (POEs), namely preferential financing treatment, loan guarantees, public procurement advantage, and better informational access. Therefore, poor performance in SOEs is not always rational or understandable.

When it comes to interest rate coverage ratio (earnings before tax and interest divided by interest expenses), it is not surprising when this statistic is also proportional to enterprise size. This is partly because the ease of credit accessibility is different from enterprise to enterprise in as much as SOEs and FDIs have the opportunity to access preferential loans (SOEs) and low interest-rate borrowing (FDIs). However, many domestic private enterprises, which are small scale and have a weak credit profile, are marginal players and often pay higher for credit (Figure 1). Moreover, advantages in land use and land acquisition enable SOEs to become strong collateral-backed customers while at the same time they make micro, small and medium-sized enterprises (MSMEs) less favorable in the domestic banking system where collateral is the fundamental assessment and consideration for securing a loan. It is estimated that the value of collateral, on average, is equal to 216% of the value of the loan (World Bank 2015).

Figure 1: Interest Rate Coverage Ratio

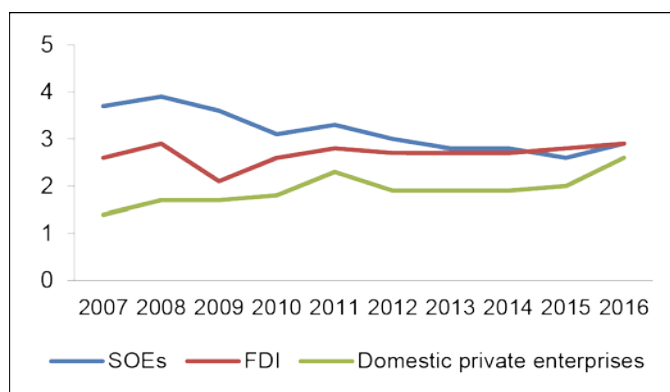


SOE = state-owned enterprise, FDI = foreign direct investment.

Source: Viet Nam Chamber of Commerce and Industry (2019).

Over the period 2011–2016, the FDI sector had the highest figure for interest rate coverage ratio, ranging from 14 to 16, whereas, SOEs ranked middle with 9.5–12.5. Both those types of enterprises have more competitive advantage in accessing credit with concessional loans (SOEs) or external borrowing sources (FDIs), whereas with their limitation and difficulty in accessing loans with high interest required, MSMEs hold the lowest ratio, with only about 5%–7%.

Figure 2: Debt-to-Equity Ratio



SOE = state-owned enterprise, FDI = foreign direct investment.

Source: Viet Nam Chamber of Commerce and Industry (2019).

Turning to the debt-to-equity ratio (Figure 2), SOEs are the most debt intensive among the three types of enterprises during the period of 2007 to 2016. In 2016, in spite of significant reductions in the number of SOEs resulting in equitization implementation, the debt ratio still stood at 2.9—previously, it was once 4.1 in 2007. At the same time, FDI ranked second, with roughly 3 and the domestic private sector was approximately 2.6. The data from the domestic private sector also indicate that they are less loan-dependent than their counterparts and most of the assets are financed by owners’ capital. However, the private sector has been experiencing an increase trend over the period, which is opposite to the SOEs’ trend.

Table 2: Return-on-Asset and Return-on-Equity Ratio

	2011	2012	2013	2014	2015	2016
Return-on-Asset Ratio						
State-owned enterprises	2.86	3.47	2.78	4.33	3.07	4.49
Private-owned enterprises	1.11	0.87	0.98	1.11	1.19	1.41
Foreign direct investment firms	4.52	4.55	5.54	5.47	5.88	7.08
Return-on-Equity Ratio						
State-owned enterprises	10.08	10.20	8.82	9.4	6.34	7.9
Private-owned enterprises	3.08	2.71	2.88	3.22	3.26	2.64
Foreign direct investment firms	10.40	10.37	14.06	13.10	13.96	16.14

FDI = foreign direct investment, POE = private-owned enterprise, SOE = state-owned enterprise.

Source: Viet Nam Chamber of Commerce and Industry (2019).

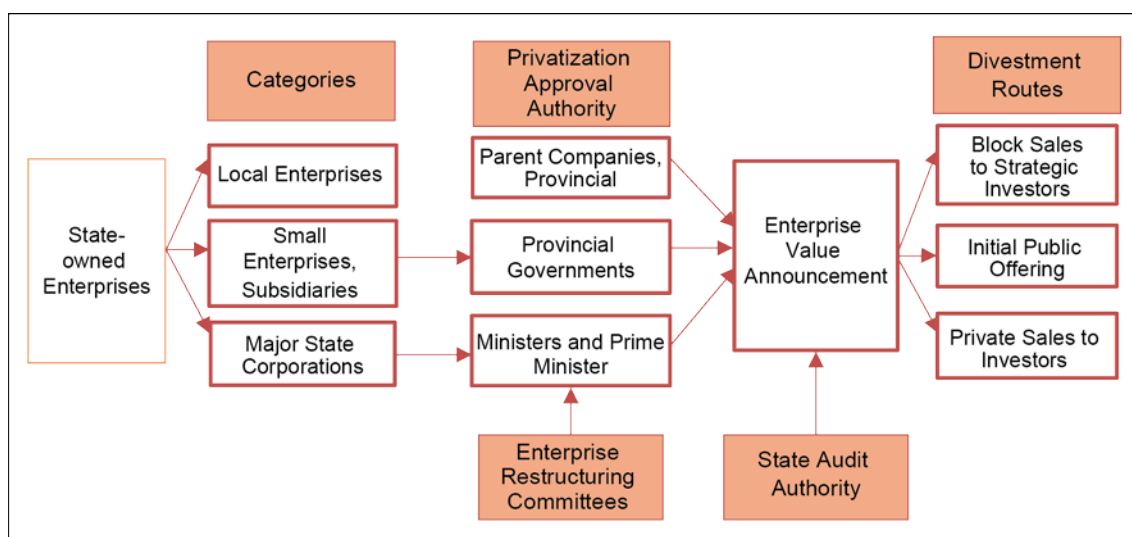
Coming to the ROA and ROE ratio, except for the domestic private sector, both these ratios from SOEs are roughly a half of their FDI counterparts but they are still much higher than that of POEs. Globally, the profitability of SOEs is lower compared to that of POEs that are more productive than SOE counterparts (Phi et al. 2019). However, the profitability of Vietnamese POEs is the lowest among three enterprise types. This is partly because of the small scale of POEs with almost three-quarters (75%) of them are micro-sized firms and disadvantages in accessing finance, productivity and technology innovation, and entrepreneurial education (OECD 2018).

The ROA of SOEs in 2016 is 4.49 compared to 7.08 of FDI enterprises. Reflecting the effectiveness in utilizing owners' capital, the FDI sector also witnessed an impressive increase in ROE, with only 10.04 (equals SOEs) in 2011, but then peaking at 16.14 in 2016. However, SOEs' ROE declined constantly and stood at only 7.9 in 2016. This is an alarming message and indicates a poor performance of SOEs in equity management, despite the fact that various types of preference may only be eligible to them, particularly the financial advantages through being able to access concessional interest rate via (i) borrows backed by the government for investment, (ii) on-lending from government borrowing, (iii) government-guaranteed SOE loans, and (iv) direct/indirect local authorities' loans (Economic Committee of the National Assembly and UNDP in Viet Nam 2013).

2.2 SOE Privatization in Viet Nam

The process of SOE reform in Viet Nam is divided into three main stages: the period of 1980–1986; the period of 1986–2001; and from 2001 to present. The period from 1980 to 1986 is considered a pilot period for Viet Nam's Doi Moi period when SOEs as well as other forms of business have undergone fundamental changes to serve the goal of shifting the Vietnamese economy from a central to a market economy that is socialist-oriented.

Figure 3: SOE Privatization and Divestment Process (Simplified)



SOE = state-owned enterprise.

Source: Government of Viet Nam (2011).

Figure 3 summarizes the steps in restructuring SOEs in Viet Nam. If an SOE passes through valuation for its book value, it will start with one of three options for restructuring ownership including private sale for investors, IPO or wholesale for strategic investors.

Enterprise valuation is considered one of the most complicated, costly and lengthy steps. This is also a bottleneck in the whole process that prevents a large number of SOEs from successful equitization. State assets would be lost during this process if there has not been implemented with a robust monitoring system in asset valuation that is also currently a pressing impediment toward effective SOEs equitization (Box 1).

Box 1: Problems in Enterprise Valuation within Equitization Process in Viet Nam

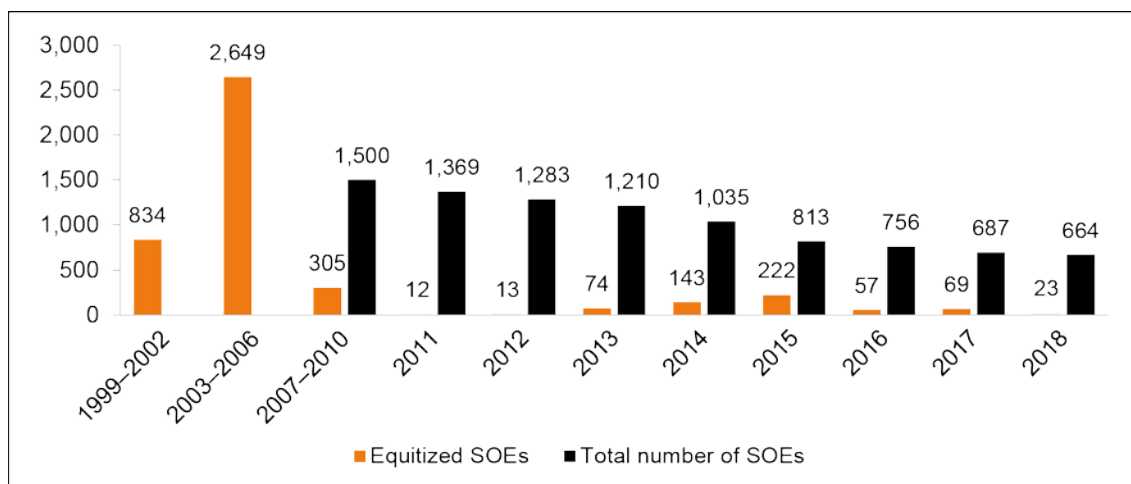
In the case of the equitization of Quy Nhon Port, the conclusions of the Government Inspectorate stated that two valuation consultants, namely the ATC Company and the Vietnam Auditing Partnership Company (CPA), both firms had many shortcomings and errors that violated government regulations regarding SOEs' valuation. With 20,960 m² of warehouse, 48,000 m² of container yard, located in the seaport system to implement "Vietnam Sea Strategy" to 2020, nearly VND180 billion of cash to bank before equitization, Port Quy Nhon is only valued at over VND400 billion, which is much lower by 2 to 3 times than the market-based price of this port after being audited.

ATC Auditing and Tax Consulting Co., Ltd (ATC) was assigned to appraise the price to transfer 26.01% of the shares while Vietnam Auditing Partnership Company (CPA) was assigned to appraise the price to transfer 49% of the shares. Both firms applied the comparative method to evaluate the price by adopting formulas including comparing price/earnings index (p/e) and price/book value index (p/bv). However, the firms only determine the price valuation based solely on industry average index that is why they were failure in analyzing and determining current value of the port's assets. Both firms did not make proper comparison of similarities and differences, advantages and disadvantages of the property valuation to comparable properties to adjust effectively the price of the port. The implementation of the comparative method above is not in compliance with the provisions of Section 9, Section 10 in Criteria for valuation in 28/2015/TT-BTC (Government of Viet Nam 2015b).

Source: State Audit Office (2017).

Valuation is a fundamental part of the privatization process when facilitating price negotiation between the government and strategic investors. There are prescriptive rules that must be adhered to in conducting a valuation for privatization purposes. Civil and criminal consequences may arise if these rules are not complied with. In practice, there may be differences in price expectations due to the range of results that different valuation methodologies can employ. The complexity of the process and conflict of interest may make the government suffer huge losses after SOE equitization.

Figure 4: Number of Equitized SOEs in Viet Nam



SOE = state-owned enterprise.

Source: Ministry of Finance (2018).

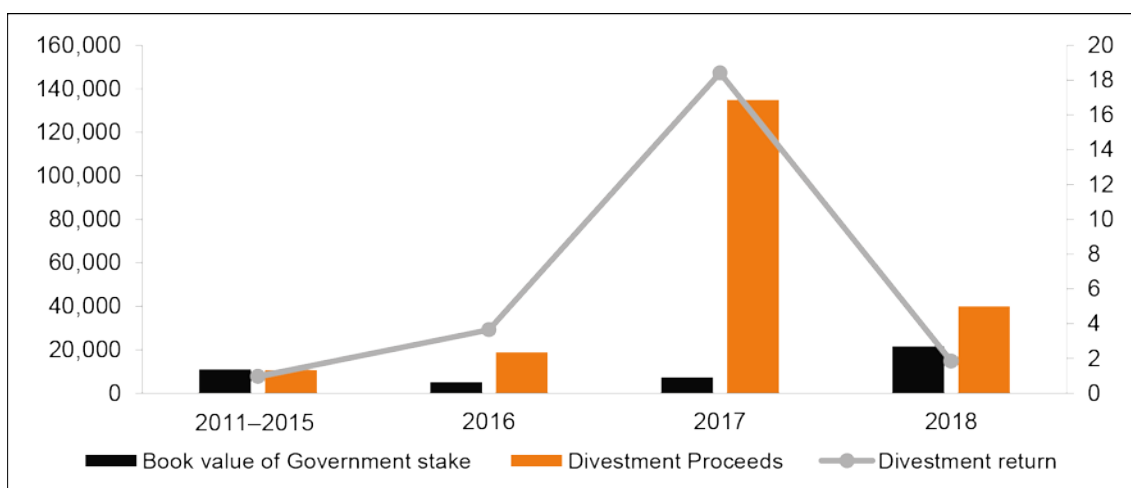
While SOE restructuring has been making some progress, the final target appears to be difficult to achieve due to existing barriers that impact significantly on the pace of SOE equitization, which has slowed considerably.

Between 2003 and 2006, the total number of equitized SOEs was 2,649. However, during 2009–2013 this number fell to just 69. There are a variety of reasons for the slowing down of the equitization speed. First, while at the beginning of the SOE reform the “low-hanging fruit” of reform efforts was witnessed because of comparatively uncomplicated sales or closure of loss-making enterprises after the 2007–2008 global financial crisis, the decline of Viet Nam’s stock market prevented SOEs from conducting initial public offerings (IPOs). Second, most of the remaining SOEs expecting to be equitized during this period were large enterprises with their complicated ownership, management system and heavy debt obligations, making their equitization more challenging and requiring longer time in preparation. Furthermore, the government retains a majority stake in most equitized SOEs and many equitized SOEs do not list stocks on the stock market quickly and in a timely manner, causing investors, especially foreign ones, to lose confidence in the government’s equitization program.

Those impediments as well as those related to SOE transparency and corporate governance have prevented strategic investors from becoming involved in initial public offerings (IPOs) of SOEs. Until 2017, the number of SOEs privatized was only 24 compared to the target of 44, and in 2018, only 23 SOEs had undergone equitization versus the targeted 64 (Figure 4).

Although the number of SOEs equitized has declined significantly recently, the value of divestment return has been achieving noticeable results (Figure 5). Accumulated from 2011 to 2015, total value of divested value in SOEs is VND11,036 billion, with total divestment proceeds is VND10,742 billion. In 2016, this proceeds from 5,149 billion of charter capital is VND18,832 thousand billion. Specifically, the figure of 2017 hit a peak at VND134,856 billion of proceedings value from 7,324 billion of book value due to the equitization from large-scale SOEs such as Habeco and Sabeco (in which, Sabeco’s accounts VND110 thousand billion). In 2018, the state’s stake value is withdrawn of 21.6 thousand billion with proceedings return at 40 thousand billion.

Figure 5: Equitized Value and Proceeds



Source: Ministry of Finance (2018).

However, the government’s stake privatized is still negligible compared to remaining value of existing SOEs. During 2011–2016, 426 enterprises completed their initial public

offerings (IPOs). After their initial public offerings (IPOs) of 426 SOEs during 2011–2016, 81.1% of the total charter capital of these companies was still held by the government. Other stakeholders include strategic investors (7.3%), employees (1.6%), trade unions (0.6%), and other types of investors (9.4%) (Ministry of Finance 2018).

Breaking down the figures of SOEs in which 81.1% of the stake was held by the government, 70 enterprises had a state holding of over 90% of charter capital, containing 15 large groups and corporations – such as Petrolimex (95%), VnSteel (93.6%), Viet Nam Airlines (95.5%), Airports Corporation of Viet Nam (92.5%), Lilama (98%), and Viglacera (93%) (Ministry of Finance 2018).

Moreover, 82 enterprises had over 65% of their stake held by the government, including the Ha Tinh Trade and Mineral Corporation (83%), Binh Dinh Export–Import Service, Investment, Production Corporation and Investment (86.8%), Cienco 8 (78.4%), and Viet Nam Livestock Corporation (78%).

Because of negligible ownership divested with decision-making authority retained, private sector strategic partners have had limited room in which to reshape these companies into a more competitive environment. In fact, for equitized and divested SOEs, if equitization plans determine that the government maintains the dominant share, they will be highly likely to be of less interest to investors; SOEs that divested a large proportion of state capital are more favored by external and private investors.

Up to now, the largest proportion held by a private company after equitization is the Sabeco deal in 2017 with ThaiBev (Thailand corporation) holding 53.58% of total shares, followed by the 2013 deal involving Japan’s Bank of Tokyo-Mitsubishi UFJ, acquiring 20% of VietinBank’s stake for \$743 million. The remaining deals have had only minor stakes sold to private investors, such as Carlsberg’s 17.08% stake (\$115 million) in Habeco, Mizuho’s 15% stake (\$550 million) in Vietcombank, ANA’s 8.77% stake (\$109 million) in Viet Nam Airlines, HSBC’s 18% (\$350 million) in Bao Viet Insurance, JX Nippon and Energy’s 8% stake (\$117 million) in Petrolimex, and Itochu’s 5% in Vinatex. During the previous period of 2005–2011, the government stake was also privatized insignificantly (Table 3).

Table 3: Equitization of 10 Large Corporations during 2005–2011

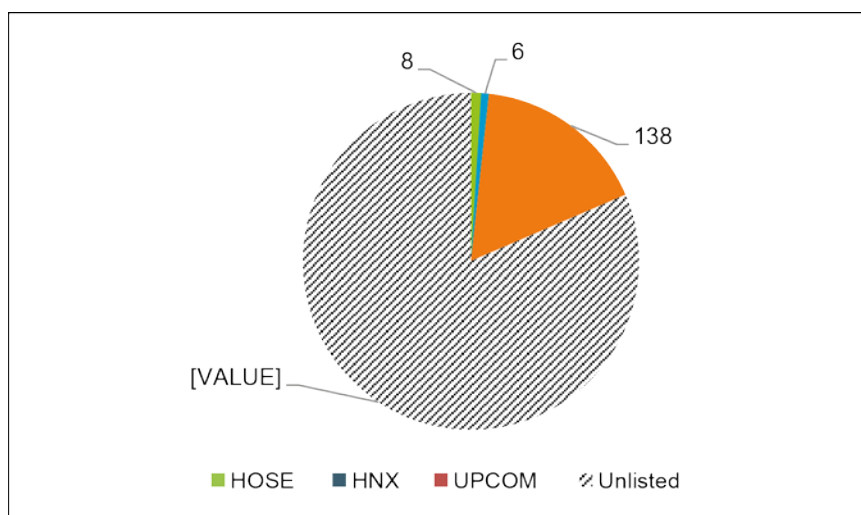
Enterprises	Industry	Year of Equitization	Share was Privatized
Vietcombank	Banking	2007	6.5%
Sabeco	Food and beverage	2008	10.41%
Bao Viet	Insurance	2007	7.97%
BIDV	Banking	2011	3%
Vietinbank	Banking	2009	4%
Viet Nam steel Corporation	Steel	2011	5.77%
Cosevco	Construction	2011	53.28%
Habeco	Food and Beverage	2008	1.89%
MHB bank	Banking	2011	3.95%
Song Hong Corporation	Construction	2009	22.62%

Source: Ministry of Finance (2018).

Foreign investors can participate in the privatization process as an ordinary investor at the public sale of shares or as a strategic investor in direct negotiations with the target SOEs. Foreign investment is expected to become strategic investors of equitized firms, who are willing to commit to the minimum five-year term of investment required by law and can support the improvement in the management and operations of the SOEs through the transfer of technology and industry knowledge. A crucial information requirement from potential investors is relating the proportion of the SOE that will be privatized. The laws on equitization no longer regulate that the specific percentage of shares sold to strategic investors should be capped at 50% of the total shares to be sold to external investors. The ratio now only applies to large SOEs operating in special areas, such as banking, telecommunications and mining, which are subject to the prime minister’s specific decision. In practice, the ratio of shares to be sold to one or more strategic investors usually ranges from 10% to 35%.

One issue is whether the level of shares sold to strategic investors will be appropriate to enable them to have a considerable degree of control in the management of the company following its equitization. There will be no controlling right via voting if the foreign strategic investor’s ownership is limited to 10% to 20% of the total shares, as was the case in the equitization of the leading Vietnamese insurer-Bao Viet in 2007.

Figure 6: Listing Status of Equitized SOEs on the Stock Exchange SOE until March 2018



HOSE = Ho Chi Minh stock exchange, HNX = Ha Noi stock exchange, UPCOM = Unlisted Public Company Market.
 Source: Ministry of Finance (2018).

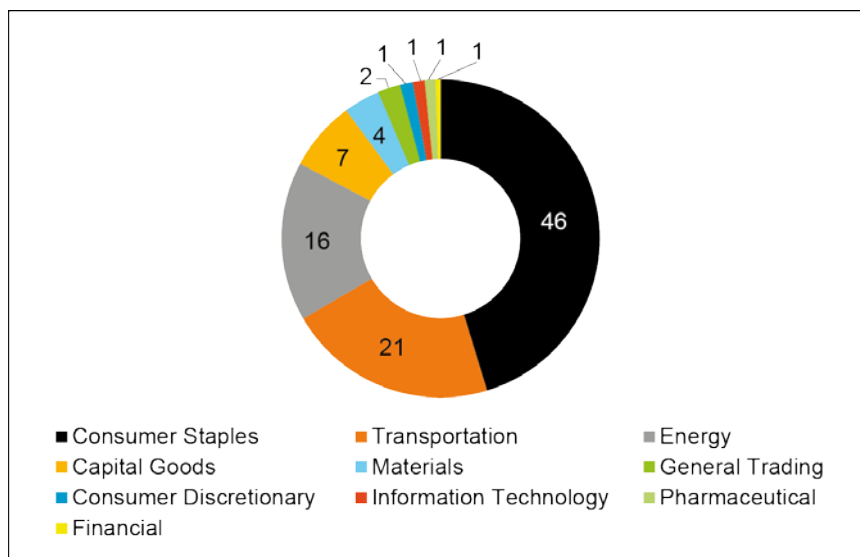
In terms of listing on stock market status, the number of state-owned equitized enterprises listed on the stock market is currently limited (Figure 6).

The Ministry of Finance announced that as of 12 September 2018, only 231 enterprises were registered as public companies with the State Securities Commission, including 152 enterprises that had listed and registered transactions, 56 enterprises had not listed/registered transactions and 23 businesses had canceled public companies’ registration. Thus, the rate of listing registration / transaction registration of state-owned enterprises after equitization is not high—only 152/747 enterprises, accounting for 20.3%. Overall, a majority of equitized SOEs remain unlisted.

According to the Ministry of Finance’s report on IPO results of 426 equitized SOEs: (i) 254 SOEs (60%) sold out their total shares and 172 SOEs (40%) could not sell all shares under the equitization plan approved. Based on the report of the State Securities Commission, in 2015, there were 128 SOEs going to IPO, 36% of the total number of shares offered sold on average; (ii) after equitization, 63% of enterprises in which the Government of Viet Nam still holds over 50% of the charter capital, and 16% of enterprises in which the government holds over 90% of charter capital (Phan 2017).

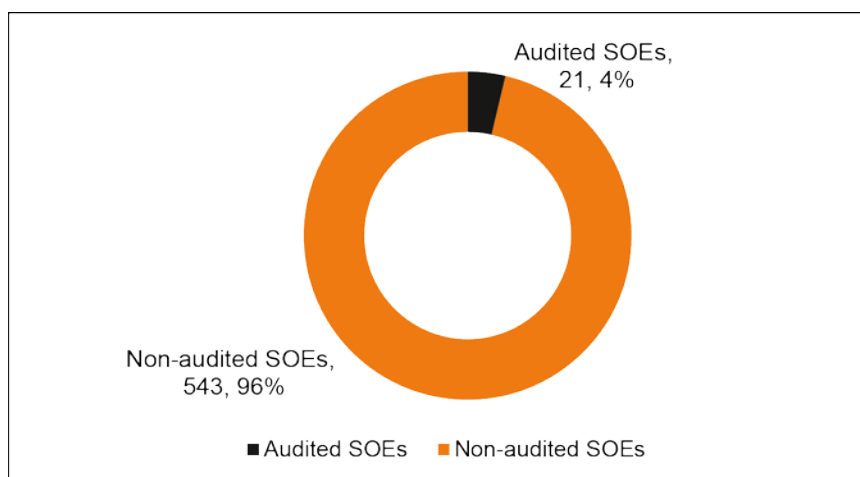
Until 2017, most equitized SOEs were in the consumer staples services (45.3%), followed by transportation (21.3%), and energy (16.2%). While state ownership has shrunk in the commercial sectors of the economy, the government plans have continued to retain controlling right over many ‘strategic sectors’, particularly those related to public infrastructure and core-service delivery (i.e., electricity, water supply, telecommunications, post, ports, and airports). Those strategic sectors are prone to natural monopolies and oligopolies, so in many cases a continued public role may be necessary. However, while some of these SOEs have been partially privatized, few enterprises operate on strict commercial terms with management effectiveness, profit orientation, hard budget constraints, and accountability for performance. These conditions are fundamental for improved SOE performance as they pave the way for better firm discipline to meet their costs of capital and to divest any activities that are not commercially viable (ADB 2012). Enhancing SOE performance will depend not just on partial equitization but on overhauling the government’s competition policies, regulatory oversight, and corporate governance standards to lift accountability for results.

Figure 7: Divestment Plan until 2020 Based on Sector Type (%)



Source: Ministry of Finance (2016).

One of the most pressing issues is auditing before equalization. The process of enterprise auditing before equitization is still very modest compared to the number of equitized enterprises, which may cause the deviation of the value of the enterprise before equitization and the loss of state capital of the enterprises. Over the period 2011–2016, only 21 out of 543 equitized SOEs were audited (Figure 8).

Figure 8: Auditing Process in Equitized SOEs (2011–2016)

SOE = state-owned enterprise.

Source: State Audit Office (2017).

As stipulated in Law 69/2014 / QH1 (Government of Viet Nam 2014a), SOEs only have to perform an audit of their annual financial statements. Up to 2016, there were no regulations requiring SOEs to use independent audits unless the state owner organized a petition. Auditing against SOEs is in fact based on internal auditing and, in some cases, state audit. However, there is still a situation of not strictly observing the recommendations of the state audit and announcing auditing information and recommendations. The number of SOEs audited by the state audit on the valuation and handling of financial issues before equitization was not significant. From 2011 to 2016, the state audit conducted 21 audits of valuation results before officially announcing the value of equitized enterprises. This is a highly limited number, accounting for only 3.7% of the total number of state-owned enterprises equitized in the same period. Moreover, results from auditing at SOEs show that the handling of financial problems before equitization and valuation of enterprises still has many shortcomings and limitations, especially the selection of valuation methods, determining brand costs, business advantages, value of financial investments, value of land use rights, fixed assets. If an audit of all equitized SOEs is conducted, violations and limitations will almost certainly increase.

For instance, in 2017, the results of the state audit implemented audit work on the valuation and financial issues of 07 enterprises before equitizing. The inspection and auditing revealed many shortcomings, limitations affecting the interests of the government, especially errors that focused much on intangible assets (brand value), business advantages, the value of financial investments, land use rights, inventories, fixed assets, long-term prepaid expenses; the valuation was lower than their real value. Through auditing, the state audit officials determined to increase the actual value of state capital by applying the asset method to VND9,638.7 billion, which is nearly equal to nearly \$430 million.

In order to address the regulation gap in evaluating and determining the right value of SOEs' assets particularly on land use rights evaluation, article 31 of Decree 59/2011/ND-CP (Government of Viet Nam 2011) on converting a 100% state-owned SOE into a joint-stock company regulates special circumstances where there is a discrepancy between the promulgated price and the actual market price of the land in the privatized enterprise cases. More specifically, the provincial-level (People's Committee) has the right to make

adjustments to ensure the most appropriate market price. This appears to be one of the most essential improvements of the Vietnamese government in the equitization of SOEs.

In fact, a fundamental constraint that leads to a slow-paced equitizing process is the conflict of interests happens during the SOE reform implementation. Land access is always considered the greatest privilege of SOEs compared to the private sector. At the same time, land management has long time been identified as one of the most corruption-prone areas in Viet Nam. Access to land is not equal for all organizations and individuals. Among economic players, SOEs generally enjoy greater access to land. Many of them have been able to lease large plots of land at preferential rates. During their restructuring, such SOEs, especially those located in major cities, find that their prime-location land plots are a potential asset that can generate considerable rents for not only the company but also their management. There are a few potential ways for SOE managers to illegally benefit from their company's land. For example, during the privatization of these SOEs, the majority stake in the company can be sold to private investors, sometimes at undervalued prices and at a non-market price. Gaining control over the SOEs will enable the new investors to control the land. This situation easily arises when the SOE's land is transferred directly to a preferred buyer without being put to public and transparent auction. Alternatively, an SOE can enter into a joint venture with a private investor, who is normally a real estate developer. The SOE contributes the land to the joint venture while the developer covers other development costs, and the profit is split between the two partners. However, the land price is normally undervalued, and the difference between the agreed value and the market value will be shared illegally between the partners. In order to put a stop to these tricks, the SOEs and the investors will need to be under tight control and have the approval of relevant government officials who oversee the SOE operation and reform for land valuation.

It can be seen that a large number of equitized SOEs that can be identified as having carried out illegal implementation during the equitization process relate to land management problems. This happens in cities and provinces where local SOEs or central-SOEs located at Ha Noi, Da Nang, Ho Chi Minh City, Hai Phong, and Can Tho.

Currently, one of the initial steps in the equitization process is that land use plan before and after equitization must be approved and submitted by the local government. However, the delay in this stage is a bottleneck that postpones the entire process. Local government corruption concern is also a pressing issue during SOE reform in Viet Nam. This matter is also indicated in a study from Nguyen and Dijk (2012). The authors examined data from a survey of 741 private firms and 133 SOEs and concluded that in Viet Nam local public governance structures play a determining role in the severity of corruption. The local governance factors that have a strong relation with corruption severity are entry costs, land access, the implementation and consistency of policies, and policies for private sector development. Therefore, enhancement in local governance quality will pave the way for the equitization process, thus alleviating its adverse effects on firm growth and development before and after SOE equitization.

Lack of information transparency is a barrier of SOE equitization process. Currently, reports on SOE performance are carried out by many authorities. However, because of the fragmentation of the focal points, the compilation of a national assessment of SOE performance has not yet been implemented fully and professionally and is not adhered to seriously. The best synthesis reports are the reports from the Ministry of Finance and the Ministry of Planning and Investment; however, they do not adequately list all of the SOEs. Important messages are missing and excluded, such as the comparison of SOE efficiency with similar enterprises in the same industry, statistics on the SOE debt situation related to state budget deficit and government debt.

Regarding online information disclosure, most SOEs have not strictly implemented the regulations on information disclosure, and have not yet built their own information disclosure section; inspection activity and the handling of violations from SOEs' information disclosure are also not stringently regulated. Point a, Clause 2, Article 22 of Decree No. 81/2015 / ND-CP (Government of Viet Nam 2015a) stipulates that the "Portal or electronic information page of the state ownership representative must have a separate section on information disclosure of enterprises. The state owner representative agency is responsible for posting information of the enterprise on time, ensures that the published information is easily and conveniently accessed". However, as of 31 December 2017, there are only 6/15 ministries and ministerial-level agencies (only units with state-owned enterprises are counted), 8/63 provinces and cities under the central government and 6/6 large SOEs subject to the disclosure of information that have their own section on information disclosure in accordance with this provision. Thus, only 20/84 owner agencies (accounting for 23.81%) strictly comply with the regulations on organizing the disclosure of the above information.

Regarding publicity and transparency, the Government of Viet Nam has issued Decree No. 81/2015 / ND-CP (Government of Viet Nam 2015), on information disclosure of SOEs effective from 5 November 2015. However, based on the results of the implementation of Decree No. 811, almost all corporations did not publish or publish inadequately information on the production and business situation. As of 31 December 2017, there were 275/584 SOEs nationwide implementing information disclosure according to Decree No. 81/2015 / ND-CP, Among the remaining 309 enterprises, information disclosure has not yet been made; these are mainly businesses in the fields of irrigation, agricultural and forestry companies and local lotteries. In particular, a number of large enterprises, such as Viet Nam Shipbuilding Industry Corporation, Viet Nam Highway Development Corporation, Northern Food Corporation, Agriculture and Rural Development Bank, Enterprises under the Ministry of Culture, Sports and Tourism, have not yet sent reports to the Ministry of Planning and Investment to provide information disclosure in accordance with the Decree No. 81/2015 / ND-CP.

3. POLICY RECOMMENDATIONS

The process of SOE privatization in Viet Nam has been experienced over the last three decades but is still a contentious and challenging task. This entails overarching reforms to laws, institutions of government, fiscal and regulatory policies, and also case-by-case enterprise restructuring. The following recommendations are proposed:

3.1 Applying Diversified and Comprehensive Methods for Performance Valuation of SOEs

From the central government perspective, in order to increase the productivity of the budget, it is very important to evaluate the performance of SOEs in an accurate and timely manner. Meanwhile, it is important to be note that not all SOEs need to have profit maximization objectives and not all SOEs need to be privatized. SOEs that are active in the sectors that the private sector does not show a willingness to enter because of higher risks or lower returns, or those SOEs that are providing public services or public goods (for example water and utility) belong to these groups. However, for the central government it is crucial to assess their performance, even if they are not profit-oriented entities. In this regard, Taghizadeh-Hesary et al. (2019) used data of 1,148 European SOEs to develop a comprehensive framework for assessing SOE performance that includes various factors. They selected five factors: profitability, per

capita productivity, per capita costs, debt due days, and solvency. The results of their empirical study show that solvency, per capita costs, and per employee productivity have more deterministic power over the success or failure of SOEs, compared to profitability. While profit making of SOEs is important, focusing on profitability as the sole assessment criterion will mislead policymakers, bearing in mind also that the nature of many SOEs is to generate social welfare and not profit.

3.2 Improve Transparency of SOEs' Information Disclosure

Information disclosure of SOEs is a part of an agenda to promote greater public sector transparency in Viet Nam. In fact, compliance with legal requirements for information disclosure remains a challenge across a wide range of public sector governance areas in Viet Nam since the benefits of increased transparency are highly significant. Timely availability of credible economic data that facilitates the communication of policy changes from enterprises to investors and the public, can help reduce market uncertainty and perceived risks, and therefore improve the effectiveness of SOE reform. In a survey conducted for the Viet Nam Development Report (World Bank 2012), improving transparency was cited by respondents as the top reform solution for SOEs in Viet Nam, together with accelerating equitization.

As mentioned before, a majority of equitized SOEs remain unlisted on the stock market, with limited information of their business operation available to the public. The low level of transparency in SOE management is considered one of the biggest constraints to an effective SOE's privatization process in Viet Nam. The lack of transparency in information disclosure during privatization process does not enable the investors to determine potential risks and value of SOEs when making investment decisions.

Currently, only 40% of SOEs publish these reports on time (Ministry of Finance 2018). If compared to Association of Southeast Asian Nations (ASEAN) countries, such as the Philippines, Thailand or Malaysia, the availability of the business operation is more accessible by the public and this paves the way for improving the effectiveness of SOEs when conducting their missions regarding financial or non-financial aspects (OECD 2016).

Given the fact that internal reporting by Vietnamese SOEs to parent ministries and the Ministry of Finance may have improved, public disclosure has been limited (World Bank 2014). 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. Those new laws require the public disclosure of information related to SOE corporate performance, including on enterprise websites. However, while the legal framework for SOE governance has improved, implementation of these new laws has been uneven – particularly with regard to increased transparency and disclosure of enterprise finances and operations.

Regarding the privatization process, although many SOE restructuring plans have been approved, there is negligible information on the process in which these plans were developed and their content for the public. This lack of information raises uncertainties for the private sector and civil society. Improved information disclosure would considerably improve investor confidence and public perceptions. To address this situation, the Ministry of Finance will need to enhance its capacity to evaluate and report on SOE performance. Penalties for non-compliance also needs to be enforced more consistently and stringently.

3.3 Auditing and Monitoring System should be Improved and Applied Comprehensively over SOEs Particularly prior to the Ones Planned for Equitization

The system of monitoring and evaluating the effectiveness and risk management of SOEs has been gradually improved, especially since 2014 when the Government of Viet Nam actively issued many legal documents to improve institutions management and the use of state capital and assets at SOEs. In general, the regulations on management and supervision and assessing the efficiency of SOEs are now quite adequate and progressive compared to the previous period. However, as analyzed above, the monitoring system and assessing the fairness in enterprise valuation in SOEs still has some limitations, both in terms of institutional and implementation organizations.

Firm value determination is one of the most complicated and lengthy procedures in the equitization process. The experience from over 20 years of reforming SOEs in Viet Nam is that this is a sensitive point that may lead to a profound loss of state capital in equitization, which happened in a large number of equitization cases, such as the Quy Nhon Port company. The problems in evaluating firm values are often due to complex processing procedures; confusion in selecting the appropriate model for valuation to accurately determine assets' price; and conflict of interest, particularly at local government level.

In order to address those issues, solutions should be applied: First, the Ministry of Finance should carry out a comprehensive evaluation of firm value appraisal and complete the law provisions on that activity; resolutely withdraw the practice license; strictly handle, according to the provisions of law, acts of collusion, profiteering, causing loss of public assets. Second, the regulation for firm valuation should be revised to ensure all SOEs are audited before equitization. Third, allowing and encouraging independent and high level of expertise to be involved in the SOE valuating process.

Regarding monitoring, many regulations are overlapping, which makes it difficult to implement. Moreover, the responsibility for supervision is divided into many focal point agencies that do not have adequate coordination and information sharing, leading to ineffective monitoring and cost burdens for SOEs. The steps in the monitoring process have yet to fully implement the OECD's good practices of governance. In addition, the monitoring contents have not focused on the requirements for SOE sustainable development and innovation. Regarding the performance evaluation, the outstanding issue is the absence of a periodic, regular performance evaluation system to update owners of the actual situation of SOEs. Performance evaluation is mainly based on subjective reports, established by the enterprise, in half-year and one-year cycles. In order to improve the effectiveness of assessing and evaluating SOE performance, the following key recommendations and solutions are provided: (1) reduce the number of overlapping functions by focusing and professionalizing specialized agencies. The reality in Viet Nam has demonstrated, the Achilles' heel of the monitoring system, assessing

the current SOEs effectiveness comes primarily from the dispersion of the function of monitoring and evaluating the effectiveness of state owners. To overcome this disadvantage, it is necessary to reduce the focal points required to perform the function of monitoring and evaluating the effectiveness of SOEs. In the future, the State Capital Management Committee should officially come into operation and become the official and unified body responsible for SOEs' equitization, contributing to reducing the dispersion in performing the function of monitoring, evaluating and inspecting SOEs. The government needs to support institutional and institutional development to ensure that the Commission is professional and competent, and must exercise due diligence to Congress on the performance of SOEs. (2) State owners need to standardize the process of monitoring and evaluating the effectiveness of state capital investment in accordance with good OECD practices. The steps to set goals should be focused on clearly defining business and non-business goals, adding sustainable goals and technological innovations. The step of monitoring and evaluating effectiveness needs to be strengthened and regular monitoring should take place to update and warn of risks for SOEs. Periodic monitoring can be performed through online administration information systems or quarterly meetings with the SOE board. The owner agency also needs to make a report that summarizes the situation of SOEs more fully, including the comparison of the effectiveness of SOEs with other components as well as the incurred debt obligations. SOEs and representations that have not fulfilled their publicity and disclosure of information obligations should result in sanctions being imposed. In addition, monitoring of SOEs is not possible without the supervision of media and public opinion. Therefore, all important information about the operational status of SOEs needs to be declassified and publicized.

3.4 Scaling up the Level of Privatization to Attract Strategic Investors

It is suggested that the Government of Viet Nam should re-assess types of industries that SOEs should focus on and the rationale for the level of ownership privatized. Approaches and methods of privatization therefore are different and in case by case basis.

By assigning SOEs against their respective objective functions, they can be grouped into full privatization or they can be partly privatized based on complementarities and spillovers between SOEs and private firms. In fact, this clarification will tackle the root of the overwhelming task of SOE equitization in Viet Nam now. Particularly in protected sectors such as finance and banking. The attractiveness of SOEs not only depends on the rate of state ownership remaining after equitization, but also the potential of the industry in which the firm is operating. In a closed-door economy, there will be more sectors that will be "protected" and prevented from calling private sector's participants, and those industries may be called "sensitive."

Protection often offers SOEs (the infant industries) the opportunity to ready themselves for freer trade and competition by becoming more productive as they gain experience by serving the domestic market. However, despite such protection over prolonged periods, most Vietnamese SOEs did not achieve the best-practice productivity that the protection was intended to facilitate, and even if they become sufficiently productive and competitive, perverse political and economic incentives continued to offer opportunities for political lobbying for continued protection. Furthermore, when SOEs in a protected sector expanded, aggregate national welfare might still have suffered—especially if the resources could have been used more efficiently in another (less protected or unprotected) sector.

The banking system in Viet Nam can be used as an example when it has been overly controlled by the government. Currently, almost all state-owned banks were equitized (only Viet Nam Bank for Social Policies and Viet Nam Bank for Agriculture and Rural Development remain unequitized); however, the state still holds up to 90% of the total capital of those banks. All those “public” banks account for over 50% of the lending and borrowing value of the overall banking system. For a very long time, state-owned banks have had a mission to act as vehicles for lending to projects that meet the social and political objectives, at the same time most of them have suffered huge losses in operation. Lending to SOEs leads large state-owned banks in Viet Nam now to have to confront with a non-performing loan issue from large SOEs. Retaining a dominant shareholding also limits leadership restructuring or reforming that is one of the fundamental purposes of post-privatized process. This is also the case if the holding rate of the state after equitization is still significant, that is higher than 80%, which will make investors reluctant to invest money due to the lack of firm managing rights. Therefore, depending on the firm’s orientation and sector strategic plan from the government, the level of privatization should be higher than it is currently.

Diversified equitization methods should be considered carefully during equitization preparation, particularly to attract strategic investors. There are several ways to privatize including: transfer concurrently to potential strategic shareholders, current employees and IPO, or IPO first and then sell to strategic investors and then employees. In particular, the sale to potential strategic shareholders before the IPO is often employed to draw special attention from both investors and the government in an equitization deal.

Priority should be given to private strategic shareholders, operating in the same industry and having appropriate standards to conduct the sale of shares before they are widely publicized. The agreement to sell to strategic shareholders with the commitment to support businesses before conducting IPO will increase the value of enterprises, providing benefits to both strategic shareholders and the state.

3.5 Develop Domestic Stock Market to Create an Enabling Environment for SOEs’ Equitization

The development of the domestic capital market plays an important role in supporting economic reforms, including SOE privatization.

In fact, the stock market and SOEs’ equitization are organically related. One affects and benefits the others. A developed and functional stock market with comprehensive and stringent regulation provides a rich source of interested investor base that facilitates and allows SOEs’ IPO a greater chance to succeed by increasing confidence of investors in purchasing shares. For example, currently in Viet Nam, foreign investors who wish to participate in the auction of equitized SOEs, or to sell state capital after equitization through auction on the stock exchange, will have to transfer deposits to the auction agent, which is a securities company. Due to counterparty risk concerns in this process and lack of creditworthiness from the third party, many foreign investors are reluctant to conduct their deal and limit their participation in the equitization process of SOEs in the country.

Being an emerging market and a transition economy, Viet Nam's stock market does not yet have sufficient depth to provide a ready exit strategy for many SOEs or to provide a way to raise funds for private companies with high growth potential. This has prompted many large emerging market companies (including SOEs) to raise capital from the global platform that requires the higher standards of reporting and disclosure (compared with those of domestic capital markets) to meet the needs of large and sophisticated institutional investors.

4. CONCLUSION

State-owned enterprise (SOE) reform is one of the three priority pillars in restructuring Vietnamese economy in order to foster and sustain economic development during regional and global economic integration. SOE reform is also one important part of the national strategy for strengthening SOEs to become spearheads of domestic enterprises and to be able to compete in international markets. Although certain progress has been achieved, SOE reform is still regarded as a sensitive and defective area and thus requires a huge effort from the government. Government ownership is still present in various sectors in which it does not necessarily maintain a position of dominance, such as shipbuilding, maritime transportation, tobacco production and petroleum product distribution and production. The process of SOE reform in Viet Nam is struggling when the limited number of SOEs equitized recently with state-divestment return is negligible compared to what was planned. The difficulty in the valuation process, with only a small portion of auditing implementation, and the lack of information transparency in SOE performance reduce the confidence of and attractiveness to strategic investors in IPOs. In order to foster the SOE privatization process, overarching and comprehensive regulatory-related solutions should be considered. Rather than only measuring SOE performance based on profitability, diversified criteria including per capita productivity, per capita costs, debt due days, and solvency, should be taken into consideration. Furthermore, enhancing firm valuation by a transparent and functional auditing process with a functional information disclosure management will pave the way for more effective SOE reforming. Government commitment in only retaining the large portion of state ownership in the core industries and significantly divesting ownership in others will attract more strategic investments. Moreover, developing domestic stock market creates an enabling environment for SOE reform will facilitate SOE acquisition, restructuring as well as the privatization process, since fostering SOEs—especially large ones—to list on the stock market will benefit their transparency standards and business performance robustness through stringent regulation adherence.

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APPENDIX

Summary of Evolution of Law regulating SOEs in Viet Nam

Year of Issuance	Name of Law	Main Content	Definition Remarks
1995	Law 1995 39_Law on State-owned Enterprises	SOEs were defined as an economic organization, which is capitalized, set up, organized and managed by the State. The law also classified SOEs into two types: (i) state business enterprises, which operate on a profit basis and without subsidies; and (ii) state public service enterprises, which operate in accordance with social and security policies of the government and are eligible for subsidies.	No mention of the share of state-owned capital in total of enterprise capital
2003	Law 14/2003/ QH11 on State-owned Enterprises	SOEs are not only enterprises with 100% state capital, but joint-stock and limited liability companies with a dominant state share (higher than 50%) are also classified as SOEs. However, the Law on SOEs only applied to enterprises with 100% state capital. Other kinds of SOEs that are joint-stock or limited liability companies have been regulated by the 1999 Law on Enterprises	Clearer in determining the share of state-owned capital in total of enterprise capital. However, there is a separation among which type of SOEs (exact 100% or less than 100%) is regulated in which law.
2005	Law on Enterprises 60/2005/QH11	SOEs were defined as enterprises of which the State owns over 50% of charter capital. The corporate forms of SOEs included: one member limited liability company (i.e., an SOE of which its capital is 100% owned by the State); joint-stock company and limited liability company with more than one member.	
2014	Law on Enterprises 68/2014/QH13	State-owned enterprises are defined as those "fully owned by the State", instead of "more than 50%" as prescribed previously. In addition, the 2014 Law on Enterprises also imposes stricter corporate governance requirements on SOEs. According to the Law, SOEs must conduct periodical and extraordinary disclosure of various information.	This law regulates that only 100%-state-owned is a SOE, which profoundly affects the number of SOEs in the country.

Source: Government of Viet Nam (1995, 2003, 2005, 2014b).