Viet Nam

A. Medium-term economic outlook (forecast, 2013-17 average)
GDP growth (percentage change): 5.6
Current account balance (% of GDP): -1.5
Fiscal balance (% of GDP): -2.5

B. Medium-term plan
Period: 2011-15
Theme: Strong and sustainable growth by improving the quality and competitiveness of the economy.

C. Basic data (in 2011)
Total population: 89 million*
Population of Hanoi: 6.7 million
GDP per capita at PPP: 3 359 (current USD)

Source: *Total population data for 2011 are an estimate. Sources: OECD Development Centre, MPF-2013, national sources and IMF.

Source: IMF and national sources.

Viet Nam will need to meet several challenges in the medium term to sustain rapid growth and realise its development potential. As in several other countries in the region, the supply of skilled labour needs to be increased and better adapted to the needs of industry through reforms to the vocational training and education systems, including further encouragement of workplace training.

Reforms to the financial system and to state-owned enterprises (SOEs) need to be broadened and accelerated. The bad loans of the commercial banking sector need to be addressed in the medium term but reforms to improve their governance and strengthen regulatory oversight are crucial to ensure that they function effectively and prudently in the future. Ownership diversification of SOEs needs to be broadened and governance and oversight improved. Reforms to allow all businesses to compete on equal terms will be especially critical to ensuring that SOEs can compete as fully market-based enterprises.
Viet Nam's medium-term policy challenges and responses

- Reform training and education to better meet demand for skilled labour
- Strengthen the banking system by establishing effective supervision
- Strengthen market-based reforms and monitoring of SOEs

POLICY FOCUS
Reform training and education to better meet demand for skilled labour

During the period 2000-11, thanks to high economic growth, Viet Nam has achieved large improvements in human capital development: life expectancy increased by 3.2 years; the average number of years of education received over a lifetime by people aged 25 and older increased by 1 year; gross national income (GNI), measured in constant (2005) USD at the purchasing power parity (PPP) exchange rate, increased 1.77 times. The overall Human Development Index (HDI) for Viet Nam published by the United Nations Development Programme (UNDP) increased by 12.3%.

The education and training systems have not adequately met needs for skilled labour

Viet Nam's human capital has developed rather well during 2001-11. The portion of the labour force in “elementary occupations” (the unskilled) dropped by 10 percentage points; while the portion of “legislators, senior officials and managers” (the occupations with the highest skills) nearly tripled, the greatest proportional increase of any of the occupational groups (Table 2.7.1). The occupation of “professionals”, which also requires labour with high skills, also grew rapidly, with an average growth rate of 9.37%. Other occupations requiring a medium level of skills, notably “technicians and associate professionals”, “clerks”, and “plant and machine operators and assemblers” expanded considerably as well. However, it should be noted that the portion of the labour force in the high and medium-skilled groups was initially quite low, so that the groups accounted for only a small portion of the overall growth in the labour force during 2001-11.

The education and training system in Viet Nam has not functioned well to meet the economy's demands for skilled labour. As shown in Figure 2.7.1, most workers in Viet Nam lack formal training at one of the official institutions. In 2001 only 11.8% of total employed labour was officially trained and 11 years later this ratio had increased by only 4.6 percentage points to 16.4%.
Table 2.7.1. Occupational structure of the labour force in Viet Nam, 2001-11  
(percentage of total labour force)

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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislators, senior officials and managers</td>
<td>0.4</td>
<td>3.2</td>
<td>0.6</td>
<td>0.9</td>
<td>1.1</td>
<td>13.53</td>
</tr>
<tr>
<td>Professionals</td>
<td>2.8</td>
<td>3.9</td>
<td>4.5</td>
<td>5.1</td>
<td>5.3</td>
<td>9.37</td>
</tr>
<tr>
<td>Technicians and associate professionals</td>
<td>2.7</td>
<td>2.7</td>
<td>2.9</td>
<td>3.7</td>
<td>3.6</td>
<td>5.60</td>
</tr>
<tr>
<td>Clerks</td>
<td>0.9</td>
<td>1.0</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>7.99</td>
</tr>
<tr>
<td>Service workers and shop and market sales workers</td>
<td>8.4</td>
<td>6.4</td>
<td>7.3</td>
<td>14.6</td>
<td>14.9</td>
<td>8.66</td>
</tr>
<tr>
<td>Skilled agricultural and fishery workers</td>
<td>11.4</td>
<td>4.6</td>
<td>5.7</td>
<td>15.5</td>
<td>13.9</td>
<td>4.66</td>
</tr>
<tr>
<td>Craft and related trade workers</td>
<td>10.5</td>
<td>12.1</td>
<td>12.5</td>
<td>12.6</td>
<td>12.1</td>
<td>4.08</td>
</tr>
<tr>
<td>Plant and machine operators and assemblers</td>
<td>3.3</td>
<td>3.6</td>
<td>3.3</td>
<td>7.1</td>
<td>7.0</td>
<td>10.62</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>58.5</td>
<td>62.5</td>
<td>61.7</td>
<td>39.1</td>
<td>40.4</td>
<td>-1.12</td>
</tr>
</tbody>
</table>


Figure 2.7.1. Structure of human capital in Viet Nam

Overall, the education and training systems have been subject to serious weaknesses that have given rise to shortages of skills in the economy. According to employer surveys, the majority of surveyed firms have had problems in recruiting new workers. While the situation differs among groups, the problem of “applicants lacked required skills” is commonly reported for all occupations. This demonstrates that skill gaps are major challenges to firms. This problem was consistently highlighted in a series of surveys by JETRO from 2003 to 2007. In 2003, 37.2% and 53.8% of the total of firms questioned reported difficulty in recruiting “middle managers” and “engineers or technicians” respectively. These numbers increased to 63% and 70.4% respectively in 2007. In 2010 and 2011, 52.8%
and 48.7% of surveyed firms, respectively, expressed concerns about the capabilities of Vietnamese workers. The CIEM-World Bank employer survey 2012 also indicates that surveyed employers appreciate their employees’ soft skills, including team-work skills, communication skills and time management skills. However, soft skills have not been a focus of the training and education programmes.

The authorities have made improvement in labour skills a major development priority

In response to the rising demand for a more highly skilled workforce, Viet Nam’s political leadership at all levels is highly committed to enhancing the skills of the labour force. The Strategy for Socio-economic Development places human resource development as one of the three main breakthroughs needed for Viet Nam’s economic growth. It envisions an ambitious agenda for human capital development that includes strengthening foundational skills and formal pre-employment training, expanding training for vulnerable populations, and responding effectively to specific priorities for economic growth. However, clarifying the specific areas for focus to achieve a breakthrough in human capital development remains a challenge.

The top political institutions such as the Central Communist Party, the government and political leaders all provide sustained leadership (Figure 2.7.2). September 2008 marked the establishment of the “National Steering Committee on Training towards Society’s Demand” (NSCTSD), which is headed by the deputy prime minister. Members of the committee are deputy ministers from various ministries and two vice presidents of the people’s committees from Hanoi and Ho Chi Minh City. The mandates of the NSCTSD are to consult the prime minister in making and implementing policies for training to meet society’s demand. Although broad-based consultation within the government is commonplace, industry and business have not played a significant role in identifying and implementing human capital development policies.

In the past two years, Viet Nam has promulgated a number of policies to narrow the gap between skills supply and demand. These policies are contained in three key documents: i) the Strategy for Human Resources Development in Vietnam issued by the 11th National Congress of the Communist Party; ii) Strategy for Education Development in Viet Nam 2011-2020; iii) and the Master Plan for Vocational Training 2011-2020.

Figure 2.7.2 The education and training policy process in Viet Nam

Source: OECD Development Centre’s compilation based on national sources.
These strategies set an overall target to meet the requirements of the labour market, in both quality and quantity, to improve Viet Nam’s competitiveness, increase workers’ incomes and ensure sustainable poverty reduction and social welfare. The initial focus was on two priorities: improving both the soft and hard infrastructure, namely the qualifications of teachers and lecturers and the physical facilities of TVET institutions and other educational schools; and facilitating communication and interaction among all human capital development stakeholders.

Box 2.7.1. Strengthen vocational education through workplace training: Examples from OECD countries

Workplace training has many advantages compared to formal technical and vocational education training (TVET): It provides real on-the-job experience to enable students to acquire up-to-date hard skills related to the latest technologies as well as soft skills, such as dealing with customers and conflict management. TVET also facilitates a two-way flow of information between potential employers and employees, making later recruitment much more effective and less costly, and ensures that apprentice skills match labour market needs. Finally, TVET trainees in the workplace benefit employers by improving productivity.

Thus, although workplace training should be encouraged, it still needs to be supplemented with more formal classroom education and the quality of the training must be ensured.

Although the benefits and costs to employers resulting from workplace training may be hard to estimate, experiences with apprentices in other countries provide encouraging evidence that the economic returns can be substantial. According to a survey conducted in Switzerland in 2004, apprenticeship training was a good investment overall even without accounting for the recruitment benefits. The benefits to companies resulting from the productive output of apprentices (CHF 5.2 billion [Swiss francs]), calculated from the cost of employing someone else to generate the same output, outperformed the gross costs of apprenticeship training (CHF 4.7 billion), including the wages of apprentices and in-company trainers, the cost of related administrative tasks, installation and material costs, and other related costs. OECD evidence on the effectiveness of government-provided financial incentives for workplace training, such as subsidies to employers for workplace training places or training levies, is rather mixed. However, good design of government support for the apprenticeship system can strengthen workplace training. In Ireland, apprentices receive a stipend from the government during their off-the-job training phases, reducing the cost to employers of employing the apprentices. In Switzerland, apprentice wages are set relatively low but balanced by strong requirements on training companies. Some OECD countries have established special bodies supported by the government that are involved in apprenticeship training. For example, in Australia, group training organisations (GTOs), which are non-profit organisations sanctioned by the government, employ apprentices and hire them out to host employers. GTOs not only select apprentices adapted to the needs of employers, they also arrange and monitor training both on- and off-the job and take care of administrative duties. In Switzerland, groups of firms participating in vocational training associations share apprentices in order to reduce the financial and administrative burdens. These associations are subsidised by the government during the first three years.

Source: OECD (2010f).
The Viet Nam government is encouraging private and foreign investors to participate in the TVET sector through tax and other preferences (for example, firms that establish a vocational school or university are granted land, tax reductions and other fiscal benefits). Moreover, the government has established national targeted programmes that are granted ear-marked budgets to achieve their objectives.

The current mechanisms for communication and interaction among all human capital development stakeholders remain informal and somewhat sparse. At present, among the various stakeholders, only representatives of industry have access to policy makers through a formal mechanism. Communication among the stakeholders occurs through mostly hierarchical mechanisms. Thus, training providers communicate their concerns and input through provincial people's committees and the relevant ministries, which in turn consolidate and pass on these concerns and input to the Ministry of Planning and Investment and the Office of the government. Communication between business, industry and employees and the relevant government agencies occurs mainly through informal channels, including ad-hoc research, seminars and surveys.

Viet Nam needs to create a formal mechanism to give education and training institutions, entrepreneurs and employees a voice in making and implementing policies on human capital development. Furthermore, employers need to continue to be encouraged to provide training to their workers as well as to work with education and training institutions in establishing specific programmes to meet employer needs.

**POLICY FOCUS**

**Strengthen the banking system by establishing effective supervision**

Macroeconomic instability has led to a marked deterioration in banks’ financial positions ...

Macroeconomic instability resulting from the surge in inflation and asset prices has led to sharp deterioration in the financial conditions of banks and highlighted their underlying weaknesses. Following Viet Nam’s accession to membership in the World Trade Organization in 2007, booming foreign capital inflows helped spur a surge in domestic credit growth, from 25.3% in 2006 to 54.0% in 2007. The result was a sharp rise in inflation and boom in real estate and stock markets (Figure 2.7.4). By the end of 2010, Viet Nam faced severe macroeconomic instability, with continued high inflation, high interest rates, a large trade deficit and rising public debt. Economic growth continued to be below potential (although somewhat recovered from 2008-09). Confidence in the country’s stability was severely depressed, as indicated by the depreciating exchange rate and declining foreign exchange reserves.

The government responded at the beginning of 2011 by tightening monetary and fiscal policy. Credit growth and money (M2) expansion were limited to no more than 20% and 16% respectively. In reality, the tightening has been even greater than the official targets imply: the growth rate of credit and M2 declined sharply from 27.65% and 25.3%, respectively, in 2010, to 10.9% and 9.27%, respectively, in 2011.

The tightening of monetary policy and resulting curtailment of bank lending on easy terms precipitated sharp reversals in the prior booms in domestic asset markets in 2011 and the first eight months of 2012. The real estate and stock markets were hit first, with
property and securities prices down sharply and market activity virtually frozen. Many real estate projects were unable to be sold, leading to defaults on real estate loans and rising non-performing loans at the banks.

The collapse of the real estate market further harmed banks by lowering the value of the real estate used to collateralise most loans in Viet Nam and making it nearly impossible to sell that collateral to offset losses from loans that became non-performing. Rising non-performing loans and sharply reduced credit availability from the central bank pushed some of the banks into a severe liquidity shortage and led them to sharply raise their lending rates. The result was a vicious circle, in which rising interest rates led to declining activity and rising non-performing loans, putting further upward pressure on lending rates.

With the mobilising interest rate reaching a peak of 17.5% in May, 2011, the government came under heavy pressure to cut lending rates to help the real sector. Since January 2012, interest rates in the interbank market have steadily and sharply declined. Beginning in May 2012, signs of some relief in the bank liquidity shortage began to emerge. The shortage has largely abated over the following months.

The boom and subsequent contraction in the economy and asset markets has led to a severe rise in bank non-performing loans (NPLs). By 31 March 2012, the bad debt in the commercial banking sector in Viet Nam that is officially reported by the State Bank of Vietnam (SBV) reached 8.6% of total outstanding loans. (However, in March 2012, the governor of the SBV announced in the National Assembly that bad debt in the banking system was estimated to be 10%.) The NPLs estimated by the SBV are considerably higher than the figures reported by the banks in their reports to the SBV. Notably, bank reports of June 2012 put the bad debt at 4.47% of total loans at the end of May 2012, about half the figure estimated by central bank authorities. On 12 July, SBV reported that its supervisory agency had verified the original 31 March ratio of 8.6%. The differences between the official and bank-reported bad debt figures indicate that banks are not complying with reporting rules specified by the bank’s supervisory authorities.
Furthermore, bad debt seems concentrated in the largest banks, especially in the state-owned commercial banks (SOCBs). According to bank reports, the 14 biggest banks account for 69% of total bad debt in the banking system, with SOCBs accounting for 50.5%. Two SOCBs, namely Vietinbank and Vietcombank, account for 69.29% of the bad debt of the eight listed banks. The building-up of bad debt in the banking sector has widened the interest rate spread and reduced lending opportunities.

The financial performance of Viet Nam’s banking sector declined sharply over the first eight months of 2012. The return on equity (ROE) of the industry decreased from 12.5% in 2011 to 4.14%. The performance of the joint stock commercial banks (JSCBs) seems to have suffered the most; the ROE of this group is lowest of three groups, at only 2.89%. Total assets of this group also declined by 1.6% even though the owner’s capital and registered capital increased. These banks also are least effective in utilising mobilised capital; their loan-to-deposits rate (LDR) is only 73.66, which is far lower than those of the SOCBs and joint venture and fully foreign-owned commercial banks (JVs and FFOBs) (see Table 2.7.3). The build-up of bad debt has undermined the profitability of the banking sector, especially for the JSCBs.

... and has highlighted broader weaknesses in the banking and supervisory systems

The deterioration in financial conditions has highlighted broader weaknesses in the banking sector’s structure, governance and supervisory oversight. In general, commercial banks in Viet Nam are still small. By the end of July 2012, only 13 banks had registered capital of more than VND 6 000 billion (Vietnamese dong) (around USD 287.4 million) (Table 2.7.2). These banks together accounted for 27.1% of total commercial bank assets. The registered capital and total assets of Viet Nam’s biggest bank, Agribank (Bank for agriculture and rural development), were around USD 1.0 billion and USD 26.9 billion respectively. The total assets of listed commercial banks in Viet Nam range from USD 1 billion (Nam Viet Bank) to USD 21 billion (Vietinbank). The mean of registered capital of the ten biggest banks is approximately VND 16 439.6 billion or around USD 787.4 million; and the mean of total assets of these ten banks is VND 285 640 billion or around USD 13.7 billion. These numbers are small in comparison with those in other Asian countries.4
Table 2.7.2. Size of the ten biggest banks in Viet Nam (USD million)

<table>
<thead>
<tr>
<th>Ten biggest</th>
<th>The biggest</th>
<th>The smallest of top ten</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean of assets</td>
<td>13 680</td>
<td>26 880</td>
</tr>
<tr>
<td>Mean of registered capital</td>
<td>787.4</td>
<td>1 013</td>
</tr>
</tbody>
</table>

Source: StoxPlus

The bad debt problem of the banks has been aggravated by governance weaknesses of the JSCBs. A number of JSCBs have reportedly been required by some of their major stockholders to lend to very high-risk projects in which the stockholders have interests. These projects are of a speculative nature and almost all have failed recently owing to the tightening monetary policy and slowing of economic growth. Defaults on lending to these projects have contributed to the build up of bad debt in the JSCBs and the banks’ shortage of liquidity.5

The vulnerability of the commercial banking sector in Viet Nam also results from low capital adequacy ratios (CAR). The State Bank of Viet Nam requires all commercial banks to maintain CAR above 9% (State Bank of Viet Nam, 2010). Almost all commercial banks met this requirement by the end of 2011. However, excluding the foreign joint venture and foreign funded banks, who maintain the highest ratios, the CAR in the SOCBs and JSCBs, on average, are 10.82% and 13.48% respectively. These ratios are far below those of leading banks in Asia-Pacific region but roughly at the same level with those in the People’s Republic of China and India.6 Furthermore, big banks in Viet Nam tend to have lower CAR than smaller banks: the CAR of the SOCBs are all lower than 12%. Overall, the Viet Nam commercial banks just meet the country’s legally required minimum of CAR, but this requirement is far below the level that their peers in other countries in the Asian region maintain.

Table 2.7.3. Viet Nam’s commercial banks’ financial conditions (as of 31 July 2012) (USD billion)

<table>
<thead>
<tr>
<th></th>
<th>Total assets</th>
<th>Owner’s capital</th>
<th>Registered capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Capital</td>
<td>Capital</td>
</tr>
<tr>
<td>SOCB</td>
<td>97 839</td>
<td>6 377</td>
<td>5 334</td>
</tr>
<tr>
<td>JSCB</td>
<td>106 602</td>
<td>8 423</td>
<td>8 243</td>
</tr>
<tr>
<td>JV and FFOB</td>
<td>25 545</td>
<td>4 335</td>
<td>3 558</td>
</tr>
<tr>
<td>Total</td>
<td>239 417</td>
<td>19 939</td>
<td>18 435</td>
</tr>
</tbody>
</table>

Notes:  
SDMLL = short-term deposit for medium-/long-term loans.  
LDR = loan to deposit ratio.  
The exchange rate used for conversion: USD/VND=20 880.  
Source: State Bank of Viet Nam.

The building-up of bad debt remains a crucial problem that prevents banks from functioning as the key lender to the economy. The magnitude of bad debt is around USD 10 billion, too big for any individual institution to resolve.

Resolution of the bad debt problem and prevention of future bad debts is severely hampered by present limits on weaknesses in supervision and oversight of the banks by
the SBV. SBV’s reporting rules and mechanism seem not to be seriously complied with by banks. SBV has not yet been able to acquire timely necessary and true information about the banking system. As a result, SBV’s responses usually take time and are costly.

In the near term, SBV’s first priority is to clean up bad debt in the system and then improve banking governance and supervision. This will require a number of related steps. Voluntary bank mergers should be encouraged and impaired banks that cannot find partners or be acquired should be taken over by the government for a limited time and then sold once they have been consolidated into viable entities. Non-performing loans that are collateralised should be sold to the Debt and Assets Trading Corporation (DATC) belonging to the Ministry of Finance; and collateral should be sold where possible to help defray the loan losses. Efforts should be made to encourage non-public investors to purchase problem loans at a discount. Public funds might also be used in some circumstances to purchase real estate facilities that were used as collateral for impaired loans; these facilities could then be put to public use.

**POLICY FOCUS**

*Strengthen market-based reforms and monitoring of SOEs*

The SOEs sector of Viet Nam has undergone a long development process and has been a vital pillar in Viet Nam’s economy. Annually, the SOE sector contributes more than one-third to GDP, about 50% to exports, 28% of total domestic government revenue (excluding revenue from crude oil and the import-export tax) and 39.5% of the value of industrial production (Figure 2.7.5). SOEs create about 1.2 million jobs annually. SOEs play an important role in macroeconomic policy, social security, poverty reduction as well as in providing essential products and services. SOEs control key industries of the economy, including electricity, petroleum and gas, mining and quarrying, and the water supply, and they invest in industries, sectors and areas that other types of businesses are not allowed or do not want to invest in.

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**Figure 2.7.5. Contribution to GDP in Viet Nam, by types of ownership**

<table>
<thead>
<tr>
<th>Year</th>
<th>SOE</th>
<th>Non-SOE</th>
<th>FDI sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
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<td>2009</td>
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<td></td>
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<tr>
<td>2010</td>
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<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
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</tbody>
</table>

Source: General Statistics Office (GSO).

StatLink: [http://dx.doi.org/10.1787/888932774775](http://dx.doi.org/10.1787/888932774775)
**The institutional framework for SOE reform has been established**

The legal institutions and framework for the restructuring, renovation and development of SOEs as well as mechanisms for state oversight and management of SOEs have been established and gradually improved. The SOE Law enacted in 1995 and amended in 2003 significantly improved the definition of SOEs’ rights, obligations, operating mechanisms, financial management and other key features. The Enterprise Law approved in 2005 (and amended in 2009) created a common legal framework for all enterprises in Viet Nam, regardless of type of ownership and economic sector.

The Enterprise Law requires all SOEs to be transformed into joint stock companies or into one-owner limited liability companies with 100% capital from the state by 1 July 2010. The legally permitted forms of SOEs have been diversified to encompass state companies (transformed to one-member limited liability company since 1 July 2010), joint stock companies, limited liability companies, economic groups and state corporations. Each SOE is now managed in compliance with the company’s charter, and subsidisation of SOEs largely has been eliminated. SOEs are allowed to mobilise capital from different sources other than state capital, and have independence in allocating profits or setting up legal funds. SOEs participate in public good provision by tendering for supplying services.

Allowing private interests partial ownership in certain SOEs (equitisation) has been considered one of the most important measures in Viet Nam’s SOE reforms. Small-scale or unprofitable SOEs were merged or dissolved. Large numbers of fully state-owned SOEs were transferred, sold or rented. Since 1992, nearly 4 000 SOEs have been converted to partial or complete private ownership. The number of SOEs with 100% state ownership has been significantly reduced, from more than 12 000 in 1996 to 6 000 in 2000 and about 1 309 in 2011. Among the 1 309 remaining fully state owned companies, 37% are industrial, construction or transport enterprises, 36% are operating in trading, services or tourism, and the remaining 26% are agricultural, forestry or irrigation enterprises. Through equitisation, more than VND 55 000 billion has been mobilised for the SOE Reform and Equitisation Support Fund, which mainly originated from revenue from the sale of state capital (65%) and dividends (22%).

The other form of SOE reform has been to establish “State Corporation 90”,9 “State Corporation 91”10 and economic groups which operate as parent-subsidiary companies. Currently, Viet Nam has 13 economic groups, 10 “state corporations 91”, 80 “state corporations 90”, and 2 commercial banks that are fully owned by the government. In addition, there have been 16 corporations and commercial banks that have completed equitisation in which the state has retained the majority share of the capital.

The establishment of the State Capital Investment Corporation (SCIC) to represent the state's ownership in equitised SOEs is an important step to improve the management of the government’s ownership in SOEs while gradually eliminating government administrative intervention in SOEs’ operations. Similarly, the DATC has fostered the process of restructuring, innovation and development of SOEs.

Despite important progress, SOE reform in Viet Nam is still coping with many limitations. Though the number of SOEs has been reduced and SOEs' scale of operations has been increased, many SOEs remain in industries and sectors where the state does not need to hold complete or majority ownership share, such as wholesale and retail trade, services and tourism. SOEs operating in these sectors account for 32% of total SOEs in Viet Nam.
Changes in the SOE’s ownership structure have been much less than originally expected. By 2011, only about an estimated 30% of state ownership in SOEs was equitised, and the government retained an average ownership stake of 57% in these firms (Figure 2.7.6). Thus, in the 20 years since the equitisation process began, less than 15% of state ownership has been transferred from the government to employees or other shareholders.

Figure 2.7.6. Ownership structure of equitised SOEs in Viet Nam

SOEs need to become market-based and less dependent on government preferences

SOEs, including both individual corporations and economic groups, are still receiving relatively favourable treatment in comparison with other business segments, notably in their access to financing. Currently, SOEs obtain financing mostly through the SCIC, the Viet Nam Development Bank (VDB) and other commercial banks. In the meantime, financing from the stock market, strategic investors or investment funds is still limited. The explanation for this pattern is that SOEs have been able to borrow from commercial banks on very easy terms that require little disclosure by the borrower and which are largely unsupervised by the prudential authorities. SOEs seem to have been reluctant to raise funds through initial public offering (IPO) on the stock exchange since this requires greater transparency, such as the requirement to publish annual balance sheet information and to be accountable to shareholders. In 2009, most of the financing provided by the VDB went to SOEs as preferential loans, which account for about 75-80% of the VDB’s assets. Total loans to SOEs from the VDB which were indirectly guaranteed by the government are estimated to total about VND 130-150 thousand billion (about USD 6.5 – 7.5 billion). In total, loans to SOEs that were directly or indirectly guaranteed by the government constituted about 20-25% of SOEs’ debts.

The government also usually gives preferential support for SOEs by providing supplementary capital, debt rescheduling, or even debt forgiveness in critical cases. In addition, in special cases, the government has paid SOEs’ loan obligations to foreign commercial banks. For instance, loans of the Construction Machinery Corporation (COMA) and the Machines and Industrial Equipment Corporation (MIE) from ANZ Bank
were guaranteed by the Ministry of Finance when those projects became insolvent. By 2011, foreign loans to SOEs and credit institutions guaranteed by the government amounted to 12.8% of Viet Nam’s foreign medium to long-term borrowings (slightly above the 12.5% recorded in 2010). As these figures show, SOEs inefficiencies and inability to repay their loans can create substantial burdens on the state budget.

After 20 years of SOE reform, most equitised SOEs remain under the management of local authorities or central government ministries (Table 2.7.4). The number of state corporations and economic groups that are not supervised by central or local government authorities is very limited. In the 1992-2000 period, equitised state corporations and economic groups only accounted for 5.27% of all equitised SOEs (588), and this figure only increased to 10.42% (of 3388) in the 2001-11 period.

Table 2.7.4. Supervision of equitised SOE in Viet Nam, by governing body (percentage)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Central government ministry</td>
<td>31.29</td>
<td>31.79</td>
</tr>
<tr>
<td>Local authority</td>
<td>63.44</td>
<td>57.79</td>
</tr>
<tr>
<td>State corporation/economic group</td>
<td>5.27</td>
<td>10.42</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
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Source: Ministry of Finance, Viet Nam.

As mentioned above, state corporations and economic groups have key positions in the SOE sector and the overall economy. Legally as well as in practice, state corporations and economic groups in Viet Nam are mostly free from supervision and management by outside bodies, even the State Audit. According to Decree No. 101/2009/NĐ-CP, economic groups are established by the government and only have to report to the government and the prime minister on such important issues as current business activities; investment plans and the investment structure of their core and non-core business; capital mobilisation and bank, real estate, and stock market activities; the form and level of co-operation among enterprises within each economic group and certain other matters. There are cases when the management of economic groups refused to meet working groups from ministries or ignored their requests for information.

Moreover, some state corporations and economic groups have overly expanded their scope of operation to non-core business activities where they lack competitive advantages and which are mostly speculative and rent-seeking in nature, namely in banking, the stock exchange, insurance and real estate. Statistics show that the business activity of economic groups in Viet Nam is much more diversified than in other countries. On average, each economic group in Viet Nam operates in 6.4 two-digit industries, while comparable groups in Thailand, China, Indonesia and Korea operate in only 3.5, 2.3, 2.1 and 1.7 two-digit industries, respectively. Viet Nam’s state corporations and economic groups also have a comparatively large number of subsidiaries – four times higher than in China and even much higher in comparison with Korean chaebol in their most prosperous period.
A number of recent examples, notably with Vinashin and Vinalines, have provided further warnings about the lack of transparency and inadequate state management and supervision of SOEs, especially state corporations and economic groups. The monopoly of SOEs in some key industries (including electricity, water, gas supply, coal and cement) has made these firms reluctant to innovate and to strengthen their competitiveness, resulting in low efficiency in at least some cases.

Overall, comprehensive SOE reform is not only important to SOEs themselves, but also essential to Viet Nam’s further development. SOE reform needs to be pursued steadily and flexibly.

Over the medium term, state corporations and economic groups need to be a main focus of SOE reforms in Viet Nam. Many measures have already been initiated, in compliance with the mandates of the Communist Party and the government. To comply with Decision No. 929 on the 2015 period, each ministry, line-ministry, province, state corporation and economic group is required to submit its own reform project to the Prime Minister for approval by the third quarter of 2012. According to current plans, nearly 900 SOEs will be restructured and equitised in the 2012-15 period (93 in 2012).

In order to achieve more efficient SOE reform, Viet Nam needs to focus on strengthening the governance of SOEs and the mechanisms for the state to exercise its ownership and oversee the SOEs performance. In particular, the state ownership function needs to be clearly separated from the governance and management of the SOEs and their business activities. To this end, the responsibilities and powers of the SOE boards of directors and those of the relevant ministries and other government authorities need to be clearly defined and differentiated. Government oversight of the SOEs needs to be strengthened through the creation of well-defined reporting systems and improved mechanisms for evaluating performance, including provision for independent audits. SOEs need to implement the same accounting standards that are required of listed companies.

The process of equitisation also needs to be continued and ownership further diversified, focusing particularly on state corporations and economic groups. SOEs need to withdraw from activities unrelated to their core competencies and where they lack competitiveness.

Equally important, reforms need to focus on levelling the playing field between SOEs and other businesses. Social, welfare and other mandates now imposed on SOEs but which are unrelated to their commercial function need to be transferred to the government as far as possible. Preferences for SOEs, such as priority in access to financing and land and to certain economic sectors, should be eliminated except where they are clearly necessary to national security or other key priorities. Accelerated development of the domestic financial system, including capital markets, and relaxation of barriers to participation of domestic and foreign strategic investors would also help greatly to allow all businesses to contribute on equal terms to the economy.
Box 2.7.2. Equitable treatment of shareholders in state-owned enterprises: Examples from OECD countries

In OECD countries, the state is a majority shareholder in approximately a half of SOEs that involve other shareholders. Some OECD experiences show that assuring equal treatment of shareholders is one of the most important elements to improve efficiency of SOEs. While the state, as a significant shareholder, may have considerable influence on the company’s decision-making process, respecting minority shareholders is a key for introducing market pressure and monitoring the management of SOEs. Because of these roles, minority shareholders play a key role in enhancing the value of the company’s shares and the future capacity of the company to raise funds from the market.

Several OECD countries provide examples of how policies that recognise, and in some cases protect, minority shareholders’ rights in SOEs can be effectively recognised and protected. In Denmark, minority shareholders in SOEs are granted board representation, and the state encourages provisions allowing for additional minority rights in the individual SOE by-laws as well. In Italy, disproportional voting rights are assigned to the minority shareholders of all listed SOEs through a cumulative voting-type system, “voto di lista”. Through this election system, only those shareholders who, alone or together with other shareholders, represent at least 1% of the shares with voting rights at ordinary shareholders’ meetings are entitled to present lists of candidates for the board of directors, and all those entitled to vote can vote for only one list. In the Slovak Republic, the state has a contract granting minority non-state shareholders majority representation on the board of directors in SOEs which are owned more than 51% by the state. In addition, fundamental matters are required to be approved by two-thirds of the shareholders and this requirement can be extended further. In Israel and Slovenia, SOEs also provide for voting by letter and via Internet in order to promote participation of minority shareholders in shareholder meetings.

Notes

1. "Japanese-Affiliated Manufacturers in Asia and Oceania" surveys, by the Japan External Trade Organization (JETRO) for the years 2003-07 and 2010 and 2011.

2. The three breakthroughs include quality of human resources, market institutions and infrastructure.

3. The capital account in 2007 received USD 18 771 million, six times higher than those in 2006.

4. Based on data from StoxPlus (2012) the average of registered capital of listed banks in China is around USD 4.17 billion, around USD 2.2 billion in Singapore, around USD 4.1 billion in Malaysia, and around USD 3 billion in Thailand. The total assets of leading banks in China is around USD 2 456 billion, in India USD 369.5 billion, in Indonesia USD 60 billion, and in Thailand USD 66 billion.

5. The collapse of Vinashin caused Habubank to go bankrupt and to be subsequently acquired by the SHB.

6. According to the Asia Association Banker (2012), 35 leading banks in the Asia-Pacific Region maintain CAR of more than 19.2%.

7. Source: Report dated 15 February, 2011 by the National Steering Committee for Enterprise Reform and Development on “Summary of the SOE rearrangement, renovation, development in the 2001-10 period”.

8. SOEs operating in manufacturing; electricity, gas and water supply; transportation and storage; information and communication; mining and quarrying.

9. SOEs that were established pursuant to Decree No. 90/TTg dated 7 March 1994 on rearranging state-owned enterprises are under direct management by Province People’s committee or a ministry.

10. SOEs that were established pursuant to Decree No. 91/TTg dated 7 March 1994 on the trial establishment of economic groups are under direct management of a Ministry.

11. Item 2, Clause 41.

12. In the most flourishing period, Vinashin had more than 400 subsidiaries that produced products ranging from consumer goods to heavy industrial equipment.

13. Vietnam Petroleum Group accounts for more than 60% of the petroleum market, while the market share of Vietnam Electricity is 80%, of Vietnam National Coal-Mineral Holding Corporation is 98%, and Vietnam Cement Industry Corporation is 50%.

14. Main orientations include: i) SOE sector is an important instrument for state macroeconomic management; ii) SOE reform aims at strengthening SOE’s vital role in the market economy with socialist orientation; iii) SOE reform should be done at both macro and micro levels, in compliance with the growth model, macroeconomic stability and the socio-economic development strategy for the 2011-20 period; and iv) there is no discrimination among SOEs.
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