

Restructuring State-owned Enterprises in Vietnam at Present

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Abstract: Vietnam has been actively accelerating the process of restructuring its State-owned enterprises (SOEs), focusing on State-owned economic groups and corporations, with the aim to transform the economic growth model, integrating into the global economy in an active, profound and comprehensive manner. In the 2011-2015 period, the SOE restructuring was strongly and drastically implemented by ministries and branches and achieved positive results. At present, under the context and requirements of the new period, the process has been slowing down. Therefore, the Government, localities and SOEs need to focus on researching and assessing promptly the restructuring process, pointing out difficulties and challenges, to devise more concrete and powerful solutions to attain the targets and fulfil plans set for the 2016-2020 period.

Keywords: State-owned enterprise restructuring, economic groups, State-owned corporations.

Subject classification: Economics

1. Introduction

Restructuring SOEs, focusing on State-owned economic groups and corporations, has been clearly defined in the Communist Party of Vietnam's (CPV) resolution and the Politburo's conclusions, especially in Resolution No.12-NQ/TW dated 6 June 2017 of the 5th Plenum of the Party's Central Committee (the 12th tenure) on continuing to restructure, renovate and improve the efficiency of SOEs. In recent years, with the thorough permeation and strong implementation by

ministries, sectors and localities, the policy of SOE restructuring has reached significant results. The number of SOEs has been drastically reduced; the production and business activities continue to be maintained; the operational efficiency of post-equitisation enterprises has been improved, leading to positive impacts on the socio-economic development of the country. Despite a number of remarkable results, the SOE reform still fails to achieve its set goals and schedule, as while progressing at a slow pace and facing many barriers and new challenges.

In an endeavour to overcome the shortcomings and challenges of the SOE restructuring, Decision No.707/QĐ-TTg dated 25 May 2017 by the Prime Minister approved the Scheme “Restructuring SOEs, focusing on State-owned economic groups and corporations in the 2016-2020 period”. The goals of the SOE reform include 1) arranging, equitising and divesting the state capital to make SOEs have a more rational structure and pay attention to their core industries and sectors; 2) the SOEs’ investments focusing on science, technology, industry and other strategic areas, (at the same time, improving SOEs’ operational and business efficiency; increasing their competitiveness and the rate of return on equity); 3) rigorously handling the shortcomings and weaknesses of SOEs and enterprises of State investment in accordance with the legal provisions, ensuring the publicity and transparency in conformity with the market mechanisms; 4) completing the management model of SOEs and the State capital and assets invested in enterprises; separating the function of representing the State capital ownership in SOEs and enterprises of State investment with the function of State management of ministries, sectors and localities.

The SOE reform is currently a “hot topic” in Vietnam in the context of implementing the policy of comprehensively restructuring the socialist-oriented market economy to shift the model of growth. Consequently, there have been many articles and research papers on this reform. This article contributes to the systematisation and analysis of the SOE restructuring to get a clearer view on its results during the 2011-2015 period; assessing the SOE restructuring for the first half of the 2016-2020 period;

and suggesting more specific and powerful solutions to fulfil the goals of SOE restructuring during the remaining years of the second period as set in the project approved by the Prime Minister.

2. Restructuring of SOEs in the 2011-2015 period

In 2011, Vietnam initiated the implementation of the five-year socio-economic development plan in the period of 2011-2015 in pursuant to the resolution of the 11th Party Congress on economic restructuring in association with the renovation of the growth model. The Government and the Prime Minister have provided stewardship to relevant agencies of researching and developing plans with priorities over the three main pillars of restructuring - that of public investment, of the system of credit institutions and of State-owned enterprises.

SOE restructuring has been dynamically promoted and achieved positive, outstanding results compared to the previous years. In July 2012, the Prime Minister approved the master plan on SOE restructuring for the period of 2011-2015, with the focus on State-owned economic groups and corporations. The plan’s implementation was expedited synchronously from completing institution, legal framework, mechanisms and policies to identifying restructuring contents of each enterprise and concretising implementation plans. During this period, many important tasks as stated in the plan [14, pp.52-56] have been implemented by central to local authorities as well as industries and enterprises. The main contents are as follows:

Firstly, completing mechanisms and policies to promote SOE restructuring. The Government and ministries have synchronously issued, amended and supplemented mechanisms and policies on renovating the organisation, operation and management of fully State-owned enterprises. Many significant mechanisms and policies towards renovations in the management and supervision of SOEs have been promulgated, including the regulation of supervising and inspecting the implementation of assigned strategies, plans, targets and tasks of enterprises; the regulation of supervising and inspecting the SOEs' compliance with the law and the owners' regulations; and the model charter of a one-member limited liability company (LLC) owned by the State. Such regulations have delineated more clearly rights, responsibilities and obligations of the Government, Prime Minister, ministries, sectors, localities, and members' councils of State-owned economic groups and corporations. At the same time, the function of a line ministry has been also clearly indicated as the focal agency which exercises the rights, responsibilities and obligations of State ownership in SOEs, especially State-owned economic groups and corporations and is responsible for the organisation, operation, supervision, examination and inspection of the business targets' fulfilment, investments for development, as well as State capital management, usage, preservation and development, and the evaluation of managers' performance and SOEs' operational efficiency.

In order to partly finalise mechanisms and policies on SOE management, restructuring and equitisation, the Prime Minister promulgated directives on accelerating SOE restructuring; handling difficulties, obstacles

and recommendations of enterprises and promoting their business and production. At the same time, the Government issued some decisions on the SOEs' State capital divestment, sale of shares and registration for trade and listing on the securities market. The legal documents are greatly expected by the market, since it shall contribute to promoting the State capital divestment, attaching the equitisation with listing on the stock market, and creating a mechanism for the transformation of SOEs into joint stock companies (JSC) in case they do not have favourable conditions for the initial public offering (IPO) yet.

Five more decrees were approved in 2014 by the Government regarding the organisation and operation of the Vietnam Rubber Group, Vietnam Military Telecommunications Group, Vietnam Northern Food Corporation, Vietnam Southern Food Corporation, and State Capital Investment Corporation (SCIC). Particularly, the Ministry of Information and Communications has not yet submitted the statute on the organisation and operation of the Vietnam Posts and Telecommunications Group to the Government for its approval. The Prime Minister has ratified the plan on the re-organisation of State-owned economic groups and corporations in accordance with his authority. Ministries, sectors and provinces have also completed the ratification of plans on restructuring the State corporations under their management, except for the one from the Ministry of Defence, with 14 corporations not yet having their restructuring plans [1, p.2].

The Ministry of Finance has issued three circulars on guidelines for the handling of

financial issues and determination of enterprise values when a fully State-owned enterprise is shifted to a joint stock one; regulations for an authorised representative of State capital invested in enterprises; as well as the transfer of State-owned capital representative rights through the SCIC. The Ministry of Home Affairs is going to finalise the draft regulations on people holding managerial positions at fully State-owned enterprises and at charter capital enterprises which are over 50% State-owned.

Secondly, SOE equitisation and State capital divestment. As the result of SOE equitisation, the number of SOEs decreased sharply from 5,655 enterprises in 2001 to just over 1,300 enterprises with 100% State-owned capital as of the end of 2011 (excluding the number of State-owned agro-forestry enterprises) [7, p.47]. The year 2012 saw a big step taken in SOE reorganisation in line with the “SOE restructuring scheme for the 2011-2015 period” as approved by the Prime Minister. According to statistics reported by line ministries, sectors and provincial people’s committees, by the end of 2013, there were 796 enterprises with 100% State-owned capital. Among these, there were eight State economic groups; 100 State corporations (excluding Vietnam Shipbuilding Industry Corporation); 25 one-member LLCs operating under the model of a parent company; 309 one-member LLCs operating independently in the fields of public services and products; and 543 one-member LLCs operating independently in the fields of production and trading [3, p.1].

Based on the review of the three-year implementation of SOE restructuring from 2011 to 2013 and the tasks set for 2014 and 2015, the Prime Minister issued a directive

on strengthening the SOE restructuring. According to the approved plans on SOE restructuring, within the two years of 2014 and 2015, there must have 479 enterprises being completely reorganised (including 432 SOEs equitised; 22 SOEs sold, dissolved or bankrupted; and 25 SOEs merged). Of those 432 SOEs to be equitised, 390 enterprises had established steering committees, 288 enterprises were valued 175 enterprises had made out the decisions on their value determination, and 143 enterprises were equitised. Among the equitised enterprises were one economic group (Vietnam National Textile and Garment Group) and 16 corporations (11 of them were under the Ministry of Transport, two under the Ministry of Industry and Trade, two under the Ministry of Construction, and one belonged to the Ministry of Agriculture and Rural Development). As of 25 December 2014, 167 enterprises nationwide had been reorganised, with 143 equitised, one transformed into a multi-member LLC, three dissolved, three sold, and 14 merged [1, p.3].

According to the 2014 statistics of the State Securities Commission, 76 enterprises had their IPOs at the stock exchanges and 40 of 95 securities companies. 64 enterprises among them had already collected cash from selling shares, 12 enterprises had their IPOs completed, but the proceeds collection has not due yet. In general, among 64 enterprises that received proceeds from their IPOs, 49% of their expected shares were sold with a total earning of VND 5,115 billion, fulfilling 66% of the planned target (VND 7,740 billion).

The Government also approved nearly 70% of the SOE restructuring projects of State economic groups and corporations in accordance with the planned directions and

objectives (69 of 109 plans). In particular, the Prime Minister approved 20 of 21 projects from State-owned economic groups and corporations; decided to halt the pilot implementation of economic group model from two groups in the construction sector and the Vietnam Shipbuilding Industry Corporation. 39 and 10 more plans of State corporations were approved by the ministries and provincial authorities respectively.

On the basis of approved plans on SOE restructuring, the ministries, sectors, localities, State-owned economic groups and corporations were actively implementing their set plans, striving to achieve the objectives of reducing the number of SOEs from 1,254 to 692 by 2015, and heading forward to equitise all SOEs by 2020. The State will keep only about 200 SOEs operating in certain fields where State monopolies exist, and the fields of public services, national defense and security. At the same time, creating SOEs with reasonable and highly competitive structures, focusing on key industries and domains, providing essential public utilities and services serving the society, national defense and security, acting as the core component of the State economy to fulfil its leading role, as well as being the important resource for the State to orient and regulate the economy, and for the macroeconomic stability [12, p.28].

In the context of difficulties in both the global and domestic economies with unexpected changes, especially in the last months of 2014 and early 2015, when oil prices began to tumble unusually, leaving significant impacts on the national economic stability, the above-mentioned SOE restructuring results originated indeed

from strong and positive efforts. Many ministries such as the Ministry of Transport, the Ministry of Agriculture and Rural Development, and the Ministry of Construction, Ministry of Culture, Sports and Tourism, cities and provinces such as Hanoi, Ho Chi Minh City, Ha Tinh Province, Thai Binh Province, as well as groups and corporations such as Vietnam National Chemical Corporation, Vietnam National Textile and Garment Group, Vietnam Airlines Corporation, Vietnam National Shipping Lines, have given appropriate guidance to the process, taking strong, determined and creative actions in compliance with the laws for achieving the set objectives.

Regarding the State capital divestment of State-owned economic groups and corporations, as of 25 December 2014, about VND 6,076 billion (in book value) were divested from 233 enterprises with VND 8,002 billion collected, equal to 1.3 times of the par value. The divested capital included VND 204 billion from securities; VND 297 billion from insurance; VND 185 billion from real estate; VND 1,489 billion from finance sector; VND 1,308 billion from the banking sector; and VND 4,519 billion collected from the sale of shares at SOEs where the State does not need to hold capital (accounting for 56% of the total divested capital) [1, p.5]. Even though the proceeds from divestment were relatively high (three times higher than in 2013), the progress was still slow and the rate was lower than being required. The consequence was partly due to domestic economic difficulties while the securities market had not recovered adequately and non-core investments of SOEs having low efficiency

or even incurring losses, thus still experiencing difficulties in attracting strategic investors.

Some agencies or provinces with high State capital divestment were, among others, the Vietnam National Coal and Mineral Industries Holding Corporation with VND 1,732 billion; Vietnam Posts and Telecommunications Group with VND 151 billion; Vietnam Rubber Group with VND 523 billion; the SCIC sold out all the State capital at 27 joint stock companies and collected about VND 2,017 billion; the Ministry of Construction divested from 37 affiliate companies in 11 corporations and collected VND 1,321 billion; the Ministry of Transport divested from 52 affiliate companies in 7 corporations with VND 595 billion collected; and Ho Chi Minh City collected nearly VND 318 billion from 27 joint stock companies. Nevertheless, there were still some corporations and provinces that had not yet completed the State capital divestment in non-core investments or at enterprises where the State ownership was unnecessary.

Thirdly, restructuring the State-owned economic groups and corporations in accordance with the approved plans. The State-owned economic groups and corporations have re-identified their objectives and tasks, clarified the roles and positions of every individual economic group and corporation in the economy; their business lines have been reviewed towards eliminating those activities that have little or no relevance in order to concentrate on the main ones. Accordingly, the Vietnam National Oil and Gas Group shall focus on its five key areas, with oil and gas research, exploration and exploitation as the main businesses. The Vietnam National Coal and

Mineral Industries Holding Corporation shall focus on the production of coal, minerals, electricity, industrial explosive materials, and mechanical engineering in mining industry. The Vietnam National Coffee Corporation defines its main businesses as coffee planting, production, processing and trading. The Vietnam National Shipping Lines shall focus on the three main businesses, including marine transportation, seaport exploitation and marine services.

Based on the above re-identified objectives and tasks, the State-owned economic groups and corporations have reorganised their production and business as well as restructured their member companies in the direction of specialisation, division, cooperation, acquisition or merging of member companies of the same fields, avoiding “dispersion” (i.e. spreading on an overly large scope, not sufficiently concentrated) and internal competition. The Vietnam National Coal and Mineral Industries Holding Corporation has received six affiliate coal production companies and developed them into its branches, and equitised its three member companies. The Vietnam Paper Corporation has equitised four dependent companies, transformed its research institute into a science-technology enterprise, and transferred its college to the Ministry of Industry and Trade. The Multimedia Corporation has completed the merging of three affiliated companies into the parent company. The Vietnam National Tobacco Corporation has transformed one affiliate company into its branch.

The State-owned economic groups and corporations have developed their financial plans for their core businesses and production. They also had to build appropriate plans in accordance with their

situations in order to solve the remaining financial problems. They have, at the same time, actively sold or transferred the State capital, or sought for appropriate partners for divestment in line with their characteristics, conditions and situations. Until 30 September 2013, over VND 4,164 billion out of VND 21,796.8 billion invested in non-major businesses of the State-owned economic groups and corporations were divested. The Vietnam National Oil and Gas Group has restructured the PetroVietnam Financial Corporation in the direction of merging it with the Western commercial joint stock bank and is in the process of capital divestment as scheduled. Some other enterprises such as the Vietnam Tobacco Corporation and the Vietnam National Vegetable, Fruit and Agricultural Product Corporation have been working with the Debt and Asset Trading Company (DATC) to solve the outstanding debts of enterprises.

However, in the context of no positive recovery signs in both the world and domestic economies so far, many difficulties in the re-organisation of enterprises regarding finance and capital divestment from non-major businesses remained. The Vietnam National Coal and Mineral Industries Holding Corporation has twice failed to organise share auctions. The Vietnam National Chemical Group has not yet been able to divest the State capital from its non-core business fields due to lower share prices than mentioned in the approved plan.

With a view to revising, supplementing and improving the system of internal management regulations, the State-owned economic groups and corporations have re-considered their development and implementation of regulations and rules

available on supervision, examination, inspection and evaluation of performance; applying modern personnel administration policies; rearranging the labour force and solving the problems of redundant labour during the restructuring process.

Along with the process of restructuring each State economic group and corporation, the Government and the Prime Minister have had incessant instructions to the acceleration of SOE restructuring. “Many enterprises are in the process of having their value determined, developing plans for equitisation and submitting to relevant authorities for approval, such as the Vietnam Textile and Garment Group, Vietnam Airlines Corporation, and other corporations under the Ministry of Construction and the Ministry of Agriculture and Rural Development. Positive and remarkable results from the SOE equitisation could be seen in cases like the Ministry of Transport (with 25 enterprises) and Lam Dong provincial People’s Committee (3 enterprises)” [12, p.29].

Fourthly, renovating and re-arranging State-run agro-forestry enterprises. Along with the SOE restructuring, the re-organisation of agro-forestry enterprises has been dynamically implemented since 2003 in accordance with Resolution No.28/NQ-TW dated 16 June 2003 by the Politburo. The Government realised the resolution via Decree No.170/2004/ND-CP dated 22 September 2004, and Decree No.200/2004/ND-CP dated 3 December 2004 on re-organisation, renovation and development of State-run agro-forestry enterprises. As a result, the number of State-run agro-forestry enterprises was significantly reduced via becoming one member LLCs or JSCs. As of

30 June 2013, there were 145 agricultural enterprises nationwide, including two one member LLCs and three JSCs; 91 State-run agricultural enterprises had been transformed into forest management boards functioning as income generating units that provide public services, and 14 enterprises dissolved during the restructuring process.

In 2013, the Government held a review meeting of the 10 years' implementation of Resolution No.28/NQ-TW on the enterprises' re-organisation and the pilot equitisation of gardens, planted forests and animal farms in connection with the equitisation of processing enterprises, the pilot model of post-equitisation agro-forestry enterprises in some provinces and agencies, as well as the management of land utilisation in the State-owned agro-forestry enterprises.

The Politburo agreed with the assessments on the situation and results of enterprise equitisation, re-organisation, and the directions and tasks for the next stage. It also agreed to promulgate another resolution in replacement of Resolution No.28/NQ-TW to continue the equitisation of agro-forestry enterprises. On this basis, the Government continued working out more effective implementation plans on restructuring such enterprises.

3. Results of SOE restructuring in the first half of the 2016-2020 period

Entering the 2016-2020 period, Vietnam has accelerated the restructuring of large-scale SOEs with a wide scope of operations, operating in many business lines, and being in a complex financial situation. The tasks of SOE restructuring

have become heavier and heavier accordingly. The restructuring target set out by 2020 is to diminish the number of SOEs to nearly 200 enterprises (a 50% reduction in quantity compared to 2015); and on the other hand, financial problems and the issues of redundant labour of the SOE sector shall be settled. In the first two years of the period, the SOE restructuring has accomplished the following noteworthy results:

Firstly, in an endeavour to realise the resolution of the 5th Plenum of the 12th tenure Party Central Committee on continuing to restructure, renovate and enhance the efficiency of SOEs' operations, a number of important mechanisms and policies have been promulgated by the Government and the Prime Minister to improve the legal framework, remove difficulties and obstacles, accelerate the process of equitisation of, divestment from and restructuring of SOEs. The Government assigned the Ministry of Planning and Investment to assume the prime responsibility, in coordination with the Ministry of Finance, to develop a plan to establish a new specialised agency as the representative of the State capital owner of the enterprises. In February 2016, the Government officially ratified the establishment of the Committee for Management of State Capital². The establishment of a separate and independent State agency which is responsible for the State ownership at enterprises will take the ownership rights from ministries and agencies. In order to implement the Law on Management and Utilisation of State Capital Invested in Production and Business Doing at Enterprises, the Government issued Decree No.32/2018/ND-CP dated 8 March 2018 amending and supplementing a number

of articles of its Decree No.91/2015/ND-CP dated 13 October 2015 on investing State capital in, and on the management and utilisation of State capital and assets at enterprises. Particularly, the regulations on State capital transfer into JSCs and multiple-member LLCs have recorded many adjustments and supplements (such as: principles and methods of transferring the State capital or SOEs' capital invested in other enterprises; determination of initial prices when transferring the State capital or SOEs' capital invested in other enterprises; the authority to make decision on the transfer of the State capital or SOEs' capital invested in joint stock companies, multiple-member limited liability companies; or provisions stipulating the responsibilities of the representative of State capital in collecting and paying dividends and profits to the State budget). The schemes to restructure five State-owned groups, namely the Vietnam Electricity, Vietnam National Coal and Mineral Industries Holding Corporation, Vietnam Posts and Telecommunications Group, Vietnam National Chemical Group and Vietnam Military Telecommunications Group; and two corporations including the State Capital Investment Corporation and Northern Food Corporation have been approved by the Prime Minister. The list of enterprises under the Vietnam Oil and Gas Group which are to engage in the re-organisation and restructuring in the period of 2017-2010 has also been ratified [2, p.2]. On 17 August 2017, the Government issued Decision No.1232/QĐ-TTg on handing over the right of SOE ownership representation to the SCIC, which own 62 enterprises for the whole period of 2017-2020 (the number of enterprises being handed over is 4 in 2017, 55 and 3 in 2018 and 2019 respectively). A

report by the Ministry of Finance stated that 24 of 62 enterprises were transferred to the SCIC in 2017 with the amount of State capital of VND 10,460 billion. In the first six months of 2018, three more enterprises were handed over to the SCIC [2, p.5]. It could be said that the timely promulgation of those new legal documents, mechanisms and policies has fundamentally solved the difficulties and obstacles of enterprises while accelerating the progress of equitisation and capital divestment in correlation with maximising the State benefits in a more stringent and transparent manner.

Secondly, the Government has drastically instructed with a list of SOEs to be equitised and divested from following the planned roadmap. Statistics shows that the accumulated number of enterprises with equitisation plans approved by competent authorities by July 2017 was 26. Among them, 7 of 47 enterprises were on the list of SOEs to be completely equitised within the same year³. The processes for the remaining ones were conducted in compliance with the Decision approving the plan for the period of 2011-2016. The total actual value of the 26 enterprises, the equitisation plans of which were approved, was VND 71,880 billion. Out of that, the actual value of State capital invested in the enterprises was VND 18,368 billion. According to the approved equitisation plans, the charter capital of those 26 enterprises is VND 22,633 billion, of which the State shall hold VND 11,063 billion, strategic investors are sold to with the shares worth VND 6,528 billion, employees VND 156 billion, shares worth VND 16 billion are sold to the trade union, and the value of shares publicly auctioned is VND 4,869 billion [11, p.2]. As of the end of the first six months of 2018, the Government approved

of the equitisation of 19 enterprises (86.2% compared to the same period of 2017). Based on the approved plan, the charter capital of those 19 enterprises is VND 22,026.38 billion, of which the State holds VND 12,957.22 billion (accounting for 58.83% of the total charter capital), shares worth VND 112.34 billion are sold to employees (accounting for 0.51% of the total charter capital), and VND 8,955.47 billion - to external investors (40.66% of the total charter capital). The total value of these 19 enterprises is VND 40,672.09 billion, including the State capital of VND 23,084.23 billion [2, p.3]. In addition, 16 enterprises⁴ conducted their IPOs and sold their shares to strategic investors (the plans of eight enterprises approved in 2017 and the remaining in 2018), collecting VND 22,457.29 billion [2, p.3]. As regards capital divestment, as stated by the Ministry of Finance (as of July 2017), VND 3,693 billion was divested, with VND 15,770 billion collected, (that also included divestments of 2016 which were reported not earlier than in the first seven months of 2017). The divestment in five sensitive areas brought about VND 103 billion. The divestment in other sectors was VND 2,195 billion, VND 3,428 billion collected. The SCIC sold its capital at 20 enterprises with the value of VND 1,394 billion, collecting VND 12,238 billion (including the 2016 divestment of Vinamilk⁵ [11, p.2]. As shown by the data of the Steering Committee for Enterprise Renovation and Development, by the end of June 2018, State capital had been divested from 42 enterprises with the book value of VND 1,813 billion, bringing about VND 5,598 billion (3.08 times higher than the book value)). Ten of those 42 enterprises

are on the list of divestments under Decision No.1232/QĐ-TTg. Consequently, the total revenue from the equitisation and capital divestment in the first six months of 2018 reached VND 28,055.29 billion, of which VND 22,457.29 billion was gained from equitisation, VND 5,598 billion was collected from capital divestment. Accumulated from 2016 to date, the total revenue of the equitisation and divestment reached about VND 198 trillion (30 trillion in 2016, 140 trillion in 2017 and 28 trillion in 2018). As planned by the National Assembly's Resolution, the total revenue from the equitisation and divestment paid to the State budget during the 2016-2020 period shall amount to at least VND 250 trillion. Up to now, the accumulated value from 2016 to June 2018 that has been transferred from the Enterprise Restructuring and Development Fund to the State budget is VND 115 trillion, 46% of the expected target of the whole period of 2016-2020⁶ [2, p.4].

Thirdly, up to date, the Government has approved most of the comprehensive plans to rearrange and renovate agro-forestry enterprises which are under the ministries, branches, provinces, and State-owned groups and corporations (including 249 enterprises as planned, while those belonging to the city of Hanoi are the only ones not yet approved). 160 out of 249 enterprises have been rearranged, in which 78 enterprises continue to have the State retaining 100% of the charter capital; 42 enterprises have completed their equitisation plans; 12 enterprises have been converted into multiple-member LLCs; 23 enterprises have their plans for dissolution approved; and five enterprises have been transformed into Forest Management Boards [2, p.4].

4. Current issues of SOE restructuring in Vietnam

So far, the policy of SOE restructuring has only been reflected in the CPV's Resolutions and concretised in the Government's sub-law documents. The equitisation and divestment in Vietnam also lack a legal basis (while many countries in the world have enacted the Law on Privatisation to implement the SOE reform). In addition, the Government has promulgated several legal documents with new provisions on equitisation and divestment in a tighter direction to ensure the maximum benefits of the State, but not yet provided sufficient specific guidelines. That leads to difficulties and confusion for localities and SOEs during their implementation. Issues that are facing the SOE restructuring include:

Firstly, during the process of equitisation and State capital divestment, some guiding documents have not been issued timely by the relevant ministries and branches to remove problems on time. Those are the new regulations in Decree No.126/2017/ND-CP, which took effect on 1 January 2018, but its guiding circular has only been issued by the Ministry of Finance, while other ministries and authorities including the Ministry of Resources and Environment, Ministry of Labour, Invalids and Social Affairs, the State Bank of Vietnam and the Vietnam Social Insurance have not guided in detail yet. Another example is Decree No.32/2018/ND-CP taking effect on 1 May 2018, with its guiding document still unavailable. In accordance with Decree No.126/2017/ND-CP, some enterprises cannot sell their shares to strategic shareholders as set in the approved plans due to the fact that the 4 months limitation after being IPO has been

exceeded, i.e. they have missed the deadline, such as the Oil Corporation, the PetroVietnam Power Corporation, the Binh Son Refining and PetroChemical, and Becamex Binh Duong [2, p.8]. Those enterprises must re-conduct some procedures in the equitisation process, which prolonged the process. Decree No.32/2018/ND-CP requires determining the cultural, historical and traditional values of the enterprise, or the price of land use rights for leased land which is paid annually, etc. Confusion and consistency have been seen among the implementing and guiding agencies when developing plans. Enterprises have had to review and conduct activities again at some stages of their equitisation process, thus making the process longer than planned.

Secondly, the approval of the land utilisation plans of equitised enterprises in cities and provinces has been implemented at a slow pace with a prolonged timeline. As stated in the new regulations, equitised enterprises must review and have their land utilisation plans approved before having themselves valued, while such approval in some cities and provinces (especially in big cities like Hanoi or Ho Chi Minh City) is facing many difficulties. Some localities have not been determined in land acquisition and handling towards enterprises using the land for improper purposes or violating the land laws. Many large-scale SOEs have a wide scope of operation and troublesome financial situations that have led to difficulties in the determination of their value or the auditing of the valuation by the State audit agencies.

Thirdly, the transfer of the right to represent the State ownership to the SCIC, the registration of trading on the stock exchange, and compliance with the

reporting regulation have not been strictly conducted in some ministries, agencies, provinces, and State-owned economic groups and corporations. On 15 August 2017, the Ministry of Finance made public the list of 747 enterprises that had not registered their shares for trading or listing on the securities market yet. As reported by the State Securities Commission on 30 March 2018, by the end of the first quarter of 2018, 139 companies had been listed and registered for trading on the Upcom⁷; while 72 companies had not registered their shares for trading or listing yet; and 23 companies having cancelled their registration as a public company [2, p.7].

Fourthly, the pressure of implementing the SOE equitisation and divestment as planned and approved by the Prime Minister for the 2016-2020 period is very high. According to the plan, there should be 85 enterprises completely equitised in 2018 (including 21 enterprises under the 2017 list and 64 enterprises of the 2018 list). To date, only 19 have been (three of them, the An Giang Urban Environment Company, Cable Television Company and Dong Thap Petroleum Trading Company are from the 2018 list). Also based on the 2018 plan, Ho Chi Minh City should equitise 39 enterprises, while the number for Hanoi is 11 (accounting for 61% and 17.1% of the 2018 plan nationwide, respectively). However, none of those has been equitised so far yet. The State divestment at enterprises took place at a very slow pace compared to the plan. In line with Decision No.1232/QĐ-TTg, 135 enterprises should have been divested in 2017, but only 17 of them were. In 2018, 181 enterprises plan to divest, only 10 of them have implemented [2, p.7]. The number of 181 enterprises to

divest during the year, which means that more than 15 shall each month, yet to include those in the SCIC which shall divest following their specific plans, has been putting significant pressure on the SOE restructuring process. One of the reasons for such slow equitisation and divestment process is that the leaders of enterprises, as well as agencies representing the State ownership in the economic groups and corporations, have not paid sufficient attention to and strictly followed the Government's directions. Moreover, they were not proactively implementing, counselling and making proposals to the Prime Minister to settle obstacles and shortcomings, but, instead, remained with caution, waiting for the time of the tasks being transferred to the Committee for Management of State Capital.

5. Solutions to strengthen SOE restructuring by 2020

Results of the SOE restructuring in recent years showed great efforts made by all sectors from the central to local levels and enterprises. However, there are still a number of SOEs that need to be reorganised, equitised and divested under the Restructuring Plan of the 2016-2020 period. In order to effectively implement contents proposed in the Plan, it is necessary to focus on the following solutions:

Firstly, the Government needs to complete mechanisms and policies on arranging, equitising and divesting the State capital according to the Resolution of the 5th Plenum of the Party Central Committee (the 12th tenure) on continuing the restructuring, renovation and improvement of SOEs

(Resolution No.12-NQ/TW dated 03 June 2017). Accordingly, the ministries and agencies, based on their assigned functions and tasks, must speed up the finalisation of legal documents to be submitted to the Government and Prime Minister for an adequate and timely promulgation of mechanisms, policies and unfinished plans of restructuring SOEs in 2017 as well as for plans for 2018 and the following years. The Ministry of Finance should promulgate a circular on the implementation of Decree No.32/2018/ND-CP on State capital investment in enterprises, use and management of capital and assets in enterprises, as while issuing a model regulation on share auction to ensure the unified application by SOEs, thereby speeding up the equitisation and divestment, but still ensuring the strictness and transparency. The Ministry of Natural Resources and Environment, Ministry of Labour, Invalids and Social Affairs, Ministry of Planning and Investment, the State Bank of Vietnam, Vietnam Social Insurance, and the State Audit should urgently review and issue circulars guiding Decree No.126/2017/ND-CP dated 16 November 2017 on conversion from SOEs and one-member LLCs with 100% of charter capital by SOEs into joint stock companies. The issuance of a specific guiding circular for Decree No.126 will solve difficulties and obstacles and create favourable conditions for the IPO implementation of enterprises that have been approved by the Prime Minister and competent authorities, especially in the case of equitised enterprises having strategic shareholders that may sell their shares timely within four months as stipulated in the Decree. Any delays in the formulation of mechanisms and policies, as well as issuance of guiding circular during the implementation

process, will restrict the efforts for SOE restructuring, equitisation and divestment.

Secondly, based on the SOE Restructuring Plan for the period of 2016-2020 approved by the Government and competent authorities, line ministries and provincial people's committees need to accelerate the equitisation and divestment. The Ministry of Finance needs to take the lead and coordinate with the Ministry of Planning and Investment and the Steering Committee for Enterprise Renovation and Development to supervise and expedite sectors, provinces, State-owned economic groups and corporations on weekly, monthly and quarterly bases, or even assign officials to participate in the equitisation steering committee at enterprises. Moreover, it is necessary for these ministries to promptly handle problems and difficulties and give specific instructions during the implementation process. The Government also needs to clarify the responsibilities of the enterprises' leaders in preparing a restructuring plan, implementing the equitisation and divestment progress in line with the schedule.

If the ownership representative agencies strictly follow the Prime Minister's directions, with the support of ministries and sectors, on the basis of proposals by enterprises, the equitisation and divestment progress shall be secured as planned. The statistics in the first quarter of 2018 showed that some large enterprises under the Vietnam Rubber Group, Southern Food Corporation, National Oil and Gas Group have successfully processed their IPO. A few examples are Binh Son Refining and Petrochemical Company, Vietnam Oil Corporation and PetroVietnam Electricity Corporation [6, p.5]. The Ministry of

Construction has accelerated the equitisation progress of the Vietnam Cement Industry Corporation and the Housing and Urban Development Corporation, as well as divested from enterprises of the 2018 divestment list. The Ministry of Industry and Trade has focused on the equitisation in Vietnam Paper Corporation; divested from large-scale enterprises such as Petrol Group, Vietnam Industrial Construction Corporation, Hanoi Beer-Alcohol-Beverage Joint Stock Corporation, Vietnam Engine and Agricultural Machinery Corporation, expected to finalise the plan in 2018 [2, p.10].

Thirdly, the line ministries need to complete soon a decree on functions, tasks, authorities and organisational structure of the Committee for Management of State Capital to make it come into operation without any delays. The selection and appointment of leaders for this Committee must follow a competitive, public and transparent procedure. The Committee will be empowered to become the sole agency to decide and be accountable for the whole SOE equitisation process. Concurrently, it must play a rational coordination role of large-scale IPOs to avoid any abrupt changes in supply when the market's absorptive capacity is limited.

Fourthly, a cooperation mechanism of debt trading at enterprises in compliance with the State capital divestment schedule needs to be established by the Government. In order to facilitate the sale of SCIC's capital at enterprises, contributing to hastening the SOE restructuring progress, the SCIC should propose the competent authorities to issue guiding documents on the State capital invested in enterprises (such as determining the value of utilisation

right of leased land which is paid annually, value of intellectual property rights and other intangible assets). In addition, the Ministry of Finance should promulgate in a timely manner a new circular to replace Circular No.118/2014/TT-BTC guiding the transfer of State ownership representation at enterprises to the SCIC. The enterprises transferred from ministries and people's committees of provinces and cities to the SCIC must conduct the transfer even in cases where the enterprises have not yet completed the equitisation settlement at the time of being transformed into joint stock companies (as specified in Decree No.147/2017/ND-CP). SCIC should propose the establishment of a cooperation mechanism on debt trading with other debt trading organisations such as Vietnam Debt and Asset Trading Corporation (DATC). If such mechanism is realised, the debts in SCIC's divestments would be considered and negotiated for resale to DATC, which would support the SCIC's progress of selling and divesting the State capital promptly, recovering the State capital and completing the equitisation process at enterprises.

Fifthly, enterprises shall handle their financial situations and have themselves evaluated before the equitisation. Based on the list of enterprises to be equitised as approved by competent authorities, enterprises should actively handle financial issues in compliance with current regulations; as well as develop and submit the land utilisation plan for approval in accordance with the land laws and the law on reorganising and handling State-owned and State-managed housing and land. Enterprises are required to have inventory and classification of their assets and capital

in order to determine their value as stipulated in Article 13 of Decree No.126/2017/ND-CP dated 16 November 2017 and to prepare financial statements at the time of being transformed into joint stock companies. The consultation for their valuation must follow the asset valuation method as prescribed in Section 2, Chapter III of Decree No.126/2017/ND-CP and its guidance in detail. Other appropriate methods of enterprises valuation could be added in compliance with the law on price and price appraisal, ensuring that every equitised enterprise has been applied on with at least two methods of valuation, which are submitted to the capital owner's representative agencies for consideration and final decision. At the time of valuation, enterprises must prepare a paper listing and specifying their actual quality, conditions and the value of their existing assets⁸ that are being managed and used. Moreover, they must check the funds of cash, reconciling the bank deposit balances, determining the assets and cash that are different from those listed in the accounting books, clearly analysing the causes of the differences and the responsibilities of related persons, and determining the rate of compensation to be paid in accordance with the law. The process of financial handling and valuation of equitised enterprises must be strict, apparent and transparent in compliance with the State regulations. Related organisations and individuals, when processing financial issues and enterprise valuation, shall assume the administrative responsibilities by paying the compensation or being criminally prosecuted in accordance with the law if they fail to comply with the prescribed regulations and

have caused any damage or losses to the State assets [9, pp.12-13].

6. Conclusion

Vietnam has been making strong efforts to speed up the process of economic restructuring in connection with the growth model transformation, looking forward to a market economy with an advanced legal system, ensuring a fair environment for enterprises of all kinds. In addition, the Government has been proactive to negotiate and participate in new-generation free trade agreements (FTAs). The participation in such FTAs is expected to bring the economy in general and the business community in particular new opportunities for integration and development. As a result, the acceleration and completion of the goals of SOE restructuring, with the focus on State-owned economic groups and corporations in the period of 2016-2020, are of high significance for asserting the country's commitments of profound and comprehensive integration into the regional and global economies.

Notes

¹ This paper was published in Vietnamese in: *Khoa học xã hội Việt Nam*, số 10, 2018. Translated by Do Quynh Nga, edited by Etienne Mahler.

² Resolution No.09/NQ-CP dated 3 February 2018 of the Government on establishing the Committee for Management of State Capital at enterprises. The Committee is the representative agency for State's ownership rights in the State Capital Investment Corporation (SCIC) and 18 parent companies of groups

and corporations in which the State holds 100% of charter capital or long-term controlling stakes. The estimated aggregate value of State capital in these 19 economic groups and corporations is estimated to be 50% of the total value of State capital invested in SOEs.

³ Including the Investment and Industrial Development Corporation (Becamex), Song Da Corporation JSC, Urban and Industrial Zone Development Investment Corporation (IDICO), VTV Broadcom One Member LLC, Soc Trang Water Supply and Sewerage One Member LLC, Soc Trang Urban Works One Member LLC, and Hung Yen Water Supply One Member LLC.

⁴ According to the approved equitisation plan, the charter capital of these 16 enterprises is VND 136,205.37 billion. The State holds 54.12%, employees hold 0.52%, and 45.36% will be sold to external shareholders. Among those are some large-scale enterprises such as PetroVietnam Power Corporation, PetroVietnam Oil Corporation, Binh Son Refining and Petrochemical One Member LLC, Vietnam Rubber Group, Southern Food Corporation, Power Generation Corporation No.3, and Hanoi Trading Corporation.

⁵ In 2017, the SCIC continued to sell part of its capital in Vinamilk. The total amount of capital to be sold during this time was 48.33 million shares, equalling a 3.3% stake in Vinamilk.

⁶ Including the transfer of VND 30,000 billion in 2016; VND 60,000 billion in 2017; VND 25,000 billion in the first six months of 2018. The remaining amount that must be transferred to the State budget is VND 135,000 billion, of which VND 40,000 billion must be paid for 2018; VND 50,000 billion for 2019 and VND 45,000 billion for 2020.

⁷ Upcom (Unlisted Public Company Market) is a market for unlisted public companies. It is organised at Hanoi Stock Exchange (HNX). The current goods on the market are mainly stocks and convertible bonds of unlisted public companies. The Upcom stipulates that all member companies with trading

shares must disclose information both periodically and ad-hoc as requested by the HNX. The companies must also disclose information on the trading activities of treasury shares, transactions of members of their Board of Directors, Board of Management, Supervisory Board and related persons.

⁸ Assets which have been calculated as inventory are classified into nine groups: (1) assets used in business and production activities; (2) assets in stock awaiting liquidation; (3) assets formed from the fund of bonuses and welfare of the enterprises; (4) leased, borrowed and consigned assets; (5) assets attached to land of State ownership that must be handled in compliance with the restructuring plan approved by competent authorities; (6) assets of the income-generating public agencies; (7) assets awaiting decisions by competent authorities; (8) financial investments, investments using the land utilisation rights; and (9) other assets (if any).

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