Mekong Project Development Facility

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EQUITIZATION OF STATE ENTERPRISES IN VIETNAM:

Experience to Date

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ABBREVIATIONS AND ACRONYMS

CIEM	Central Institute for Economic Management
EEQ	Enterprise Equitization Board
GDMSCAE	General Department for Management of State Capital and Assets in Enterprises
HCMC	Ho Chi Minh City
JSC	Joint Stock Company
LSOE	Law on State Enterprises
MOFI	Ministry of Finance
MPDF	Mekong Project Development Facility
SBE	State Business Enterprise
SOE	State-owned Enterprise
SPSE	State Public Service Enterprise
VND	Vietnam Dong

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PREFACE

i. Equitization in Vietnam started with a pilot program in 1992. The Government committed itself more firmly to equitization in 1996 with introduction of Decree 28-CP which, along with its supplementary regulations, has established the legal framework for equitization in Vietnam. Thus far, equitization has proceeded at a very slow pace. The Government has stated its commitment to accelerate equitization. Amendments made to Decree 28-CP in 1997 and an ongoing review of this decree are signs of progress towards this goal.

ii. In support of the Government's expanded equitization program, Vietnam's Ministry of Finance (MOFI) and the World Bank group jointly organized an international seminar on equitization in Hanoi during February 19-20, 1998. As one of the inputs for this seminar, the Mekong Project Development Facility (MPDF), supported by MOFI, commissioned a survey of the 17 enterprises that have been equitized thus far in Vietnam. The objectives were to evaluate the equitization process, assess the status of equitized enterprises, and identify key issues for the coming larger equitization program. The survey was carried out during January 9-23, 1998 by M. Reza Amin (a consultant to MPDF) and Leila Webster (a staff member of MPDF). A summary report was presented at the international seminar on February 19, 1998.

iii. This report presents the survey team's findings and incorporates relevant contributions made by participants in the seminar. It is organized in four parts. Part I provides information on the legal framework for equitization, highlights salient features of the equitization program, and presents a step-by-step description of implementation procedure. Part II briefly discusses the survey's scope and limitations. It then identifies key features of enterprises visited and elaborates on the survey team's findings. Part III presents the major issues identified during the survey and makes a series of recommendations. Part IV summarizes the team's conclusions.

iv. The survey team wishes to acknowledge with thanks the assistance rendered by the officials of MOFI and managers of enterprises included the survey.

EXECUTIVE SUMMARY

i. *The framework for equitization.* Restrictions on State enterprises (SOEs) were relaxed in 1989, and their numbers surged and a significant segment behaved irresponsibly. The Government launched a reform program in the early 1990s and successfully reduced the number of SOEs from some 12,000 to about 6,000 by April 1995. The Law on State Enterprises (LSOE), enacted in April 1995, granted full autonomy to SOEs, held them responsible for their actions, and required approval of their financial statements by a competent State agency. It classified SOEs into two categories: (i) State Business Enterprises (SBEs) which operate on a profit basis and without subsidies; and (ii) State Public Service Enterprises (SPSEs) which operate in accordance with State social and defense/security policies and are eligible for subsidies. The Law also called for the formation of State corporations (similar to holding companies in the West).

ii. By the end of 1996, Vietnam had 6,020 State enterprises employing some two million people. These comprised about 1,140 enterprises belonging to State corporations, 500 centrally-controlled State enterprises, and 4,380 locally-controlled State enterprises. The State corporations and their enterprises accounted for 42 percent of total SOE output, 47 percent of its employment, and 74 percent of its profits. Within the corporations, 154 SOEs (corresponding to 13.5 percent of its members) were loss-makers, while 62 (12.4 percent) of the 500 independent centrally-controlled SOEs incurred losses in 1996.

iii. Equitization of SOEs started with a pilot program in 1992. The program called for transformation of a limited number of viable or potentially viable small scale, non-strategic SOEs into joint-stock companies (JSCs) subject to the Law on Companies. This was to be accomplished through sales of enterprise shares to employees on preferential terms, to domestic private and public investors, and to foreign investors on a limited basis. By the end of 1995, only five SOEs had been equitized. Recognizing the need for a more aggressive approach to equitization, the Government adopted Decree 28-CP in May 1996. This decree extended the scope of equitization to all non-strategic small and medium sized SOEs and required SOE controlling agencies (ministries, minister-level institutions, People's Committees, and State corporations) to select enterprises for equitization.

iv. Decree 28-CP and its supplementary regulations laid the foundation for expanded equitization with the following objectives: (i) transformation of non-strategic small and medium sized State enterprises into JSCs in order to mobilize capital from employees and outside investors for renewing technologies and developing enterprises; and (ii) creation of conditions for enterprise employees and outside investors to own shares, play the role of real owners, and give new impetus to enterprise efficiency. All

Vietnamese citizens and legal entities can acquire shares through public offerings, but foreign investments are subject to the Prime Minister's approval. Proceeds from the sale of State shares are be used only for the development of SOEs. Equitized enterprises are given incentives (50% income tax exemption during the first two years of operation and access to State-owned bank credit on the same terms as SOEs), and employees receive preferential treatments in equitization (a share of State shares' dividends, share purchase through credit, and safeguards against abrupt dismissal). An elaborate and lengthy system has been devised for equitization process.

v. *Survey results*. By early 1998, only 17 small and medium sized SOEs had been equitized. Fourteen of these were surveyed by the MPDF team through interviews with enterprise managers. Main findings of the survey include the following:

- All enterprises were reportedly profitable at the time of equitization, and none had substantial debt burden, significant social facilities, or excessive redundant workers. These initial settings were key to their passage through the equitization process;

- In the post-equitization period, all firms continued to be profitable; those equitized in the earlier years showed remarkable growth in revenues and profits;

- None had laid off employees; firms had followed policies of normal attrition, plus absorption of redundant workers and adjustment of skill mix through expansion. Enterprise labor forces had grown on average 39 percent since equitization;

- The State, employees, and outside investors owned 34 percent, 46 percent and 20 percent of the aggregate equity capital of the firms, respectively. Despite the State's minority shareholding in all firms, nearly half reported that the State continued to have significant influence over company affairs;

- Main constraints were: (i) inadequate working capital financing; (ii) the absence of investment capital financing; (iii) lack of employees' understanding of, and adaptation to, equitization; and (iv) cumbersome customs procedures for imported goods;

- The equitization period for all firms averaged 27 months, with an average of 13 months for firms that started equitization after the adoption of Decree 28-CP.

vi. *Main issues*. The survey team divided the main issues into two groups: equitization issues and post-equitization issues. The former group included eight issues: valuation methodology; valuation procedures; use of proceeds from sales of shares; credit provisions for share purchase; business plans, company statutes and management; governance; public awareness; and equitization procedures for very small SOEs. The latter group included three issues: working capital financing; investment capital financing;

and the post-equitization role of State representatives. The report lays out the main parameters of each issue and offers recommendations to address them.

vii. *Conclusions*. Equitization in Vietnam is slowly maturing. Equitized firms are doing well, and State revenues have increased in comparison with the pre-equitization period. The fact that there have been no labor lay-offs should bring comfort to those who fear large-scale unemployment in equitized firms.

viii. But without improvements, Vietnam's future equitization program is likely to run into difficulties in three areas. First, it is significant that this first batch of equitized companies volunteered for equitization, and that they entered the process with significant advantages that future firms might well not have, e.g., minimal debt, few social assets and no redundant workers. Equitization of firms without these advantages is likely to be far more difficult and time-consuming. Second, the Government has stated its intentions to equitize significantly larger numbers of firms in the coming several years. As currently implemented, the equitization process is too lengthy and cumbersome to accommodate substantial numbers of firms, and large-scale bottlenecks can be anticipated. Third, the ultimate success of the equitization program depends on equitized firms' abilities to function profitably as majority-private firms. Much of this depends on management skills and starting advantages, but much of it also depends on how well the business environment supports these newly-equitized enterprises. These firms will confront much the same environment as fully private firms and, as MPDF has noted in a recent issues note on constraints to private sector development, this is not a particularly 'pro-business' environment.

ix. The survey team recommends action on two inter-related fronts. The first is improvement in the equitization process so that it can accommodate larger numbers of firms on an effective and efficient basis. Procedures currently in place need to be streamlined--both simplified and shortened. The survey team recommends use of auctions with built-in preferences for employees for small SOEs as a quick and effective means of divestiture. The second is improvement in the business environment that equitized firms will confront as majority private firms after equitization. Recommendations for improvement include: (I) improving private firms' (including equitized firms) access to credit services; (ii) making the legal/regulatory framework more 'pro-business' by resisting frequent changes in regulations and by cutting back on red tape; and (iii) removing the many elements in business regulations and practices that discriminate in favor of SOEs.

x. During the Equitization Seminar, it became evident that local and central governments had identified similar issues to those determined by the survey team; issues whose resolution would alleviate many of the implementation problems. Less encouraging was the relatively limited attention accorded to the linkage between equitization and private sector development. The survey team highly recommends treating both components as integral to achieving the ambitious goals of Vietnam's equitization program.

PART I. **BACKGROUND INFORMATION**

A. State Enterprise Reform

1.01. *Restructuring the State enterprise sector.* Concurrent with liberalization of the economy in 1989, the Government relaxed restrictions on establishment of new State-owned enterprises (SOEs) and granted full autonomy to all SOEs. This was done without specifying SOEs responsibilities or setting up financial control systems to monitor their activities. The result was a surge in the number of SOEs and irresponsible behavior by a significant segment of the State enterprise sector. Subsequently, the Government required re-registration of SOEs and reduced their total number from about 12,000 to some 6,000 prior to enactment of the Law on State Enterprises (LSOE) in April 1995.[1] The new law grants full autonomy to SOEs, holds them accountable for their decisions and actions, and requires approval of their financial statements by a competent State agency.

1.02. The SOE sector rapidly reorganized after enactment of the LSOE, establishing State corporations in accordance with the Prime Minister's Decisions 90 and 91 of March 1994. Decision 90 called for establishment of State corporations with at least five voluntary SOE members and minimum legal capital of VND 100 billion. Decision 91 called for formation of much larger corporations with at least seven SOE members appointed by the State and minimum legal capital of VND 1,000 billion. Decision 90 corporations report to line ministries or People's Committees; Decision 91 corporations report directly to the Prime Minister.

1.03. By the end of 1996, Vietnam had about 6,020 State enterprises employing some two million people. These comprised about 1,140 enterprises that are members of State corporations, 500 centrally-controlled State enterprises (not members of corporations), and 4,380 locally-controlled State enterprises. The State corporations and their enterprises accounted for 42 percent of State enterprise sector output, 47 percent of its employment, and 74 percent of its profits. Within the corporations, 154 SOEs (13.5 percent of member enterprises) were loss-makers in 1996; 62 (12.4 percent) of the 500 independent SOEs incurred losses in 1996.

1.04. *The Law on State Enterprises.* According to the LSOE, SOEs are classified into two categories: (i) State Business Enterprises (SBEs) which operate with profit as a primary objective; and (ii) State Public Service Enterprises (SPSEs) which produce and distribute public services and carry out national defense/security activities.

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[1] About 2,000 inefficient and chronic loss-making SOEs were liquidated, another 4,000 poorly performing SOEs were merged with other SOEs, and the remaining SOEs (at the time comprising 1,861 under central control and 4,190 under local control) were re-registered.

1.05. SOEs are entitled to government subsidies (price subsidies and other preferential treatment) if they produce goods or services for national defense, security, natural disaster prevention, and public services, or if they provide products and services that are subject to State pricing policies that prevent them from covering their costs.

1.06. SOEs can join one another on a voluntary basis to establish State corporations. An exception is made for particularly important State corporations wherein member enterprises are appointed by the State. Subject to their scale and importance, State corporations may or may not include financial companies as member units.

1.07. The LSOE defines the ownership rights of the State. It stipulates that the Government shall: delegate or authorize ministers and provincial and municipal People's Committees to exercise some of these rights; determine the responsibilities of the Ministry of Finance (MOFI) in managing State capital and assets in enterprises; and determine the relationship between MOFI and other agencies in exercising State ownership rights in SOEs.

1.08. SOEs are required to publish their annual financial statements and other information to allow objective and accurate evaluation of enterprise activities. Further, their financial statements must be reviewed and approved by MOFI, except in the case of State corporations where financial statements of subsidiary enterprises are approved by the corporation and the consolidated accounts of the corporation are subject to review and approval by MOFI.

1.09 The management structure of State corporations and large-scale independent SOEs comprises a Management Council, an Inspection Committee and a General Director or Director. Smaller SOEs have only a Director. Chairpersons and members of the Management Council are nominated by the government body that proposed establishment of the enterprise. They are then appointed, dismissed, rewarded, and disciplined by the Prime Minister or any person authorized by the Prime Minister. The Management Council nominates and the Prime Minister, or a person authorized by the Prime Minister, appoints the General Director or Director. In enterprises without a Management Council, the appointment, dismissal, reward, and discipline of the Director shall be decided by the government body that issued the decision to establish the enterprise (Line Ministries and People's Committees).

1.10. *The equitization program.* As a part of the State enterprise reform program, equitization in Vietnam started with a pilot program in 1992. Based on a resolution of the tenth session of the Eighth National Assembly, the Prime Minister issued Decision 202-CT to launch the program in mid-1992.[2] The program called for transformation on a voluntary basis of a limited number of medium-scale, non-strategic SOEs, that were

[2] Prime Minister's Decision No. 202-CT of June 8, 1992, entitled "Implementing Experiments to Convert State Enterprises into Shareholding Companies."

either viable or potentially viable, into joint-stock companies (JSCs). This was to be done through acquisition of shares by enterprise employees (on preferential terms), by domestic private and public investors, and by foreign investors (with the proviso that this latter group's participation had to be approved by the Prime Minister). The companies so formed would be governed by the Law on Companies.[3] Disappointed with the progress made, the Prime Minister issued another decree in March 1993 to accelerate implementation of the pilot equitization program.[4]

1.11. Nearly three years later, at the end of 1995, the total number of equitized SOEs stood at just five. Recognizing the need for a more aggressive approach, the Government adopted Decree 28-CP in May 1996.[5] This decree maintains the general principles of the pilot equitization program, extends the scope of equitization to all non-strategic small and medium scale SOEs, and requires SOE controlling agencies (ministries, ministerial-level institutions, People's Committees and State Corporations) to select enterprises for equitization. Subsequently, supplementary regulations for implementation of an expanded equitization program were issued by MOFI[6] and the Central Committee for Equitization,[7] respectively. Decree 28-CP was then amended in March 1997 to increase the approval authority granted to ministries and People's Committees.[8]

B. Salient Features of the Expanded Equitization Program

1.12. *Objectives.* The stated objectives of the equitized program are: (i) transformation of non-strategic small and medium sized State enterprises into JSCs in order to mobilize capital from employees and outside investors for renewing technologies and developing enterprises; and (ii) creation of conditions for enterprise employees and outside investors to own shares, play the role of real owners, and give new impetus to enhancement of each enterprise's business efficiency.

1.13. *Provisos.* Regulations contain the following provisos: (i) all Vietnamese citizens aged 18 or more and all Vietnamese legal entities are eligible to purchase shares of equitized enterprises; (ii) experimental sale of shares to foreign individuals/organizations

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[3] Law on Companies of December 21, 1990.
[4] Prime Minister's Decision No. 84/TTg of March 4,1993, entitled "Instructions on Accelerating the Pilot Scheme for Converting State Enterprises into Shareholding Companies."
[5] Government Decree No. 28-CP of May 7, 1996, entitled "The Transformation of a Number of State Enterprises into Joint-Stock Companies."
[6] Ministry of Finance's Circular No. 50 TC/TCDN of August 30, 1996, entitled "Providing Guidance on Financial Issues, on the Sale and Issuance of Share Certificate in the Transformation of State Enterprises into Joint-Stock Companies under the Government Decree 28-CP."
[7] Decision No. 01-CPH of September 4, 1996, of the Minister-Chairman of the Central Committee for Equitization, entitled "The Procedure for Transforming State Enterprises into Joint-Stock Companies."
[8] Government Decree No. 25-CP of March 26, 1997, entitled "Amending some Articles of Decree No. 28-CP of May 7, 1996."

will be carried out in accordance with specific instructions to be issued by the Prime Minister; (iii) shares will be sold publicly by equitized enterprises or through commercial banks and financial institutions; and (iv) proceeds of the sale of State shares will be used only for the development of State enterprises.

1.14. *Conditions and forms of equitization.* The value of an enterprise at the time of equitization is to be determined according to the following formula: adjusted net worth +/- advantage/disadvantage value + expenditures for implementation of equitization. Three forms of equitization, or combinations thereof, are allowed:

- equitization through a capital increase based on additional funds;
- equitization through sale of some portion of State shares in an enterprise; and
- detachment and equitization of a part of an enterprise that meets the conditions for equitization.

1.15. *Enterprise incentives.* The main incentives offered to equitized enterprises include: (i) entitlement to 50 percent income tax reduction during the first two years of post-equitization operation; (ii) exemption from the registration fee for registering the new JSC; (iii) entitlement to continued borrowing from State commercial banks using the mechanisms and interest rates applied to SOEs; (iv) entitlement to distribute in cash, at its own discretion and prior to equitization, the residues of the reward and welfare funds among its working employees for purchasing shares; and (v) transfer of social assets to the labor collective and the management of these assets by the JSC trade union.

1.16. *Employee incentives.* Employees of equitized SOEs will benefit from allocation of dividends from a portion of State shares, not exceeding 10 percent of the enterprise value to employees during their lifetime. The value of dividends allocated to each employee for this purpose will not exceed the equivalent of a six-month position salary as stipulated in the State salary scale. The State shall remain the owner of these shares.

1.17. Employees will also be entitled to purchase JSC shares on credit (5 year term with an annual interest rate of 4 percent). The value of these shares shall not exceed 15 percent of the enterprise value (or 20 percent in special cases). Further, shares sold on credit shall not exceed shares bought by employees in cash. Detailed conditions for purchase of shares on credit are stipulated.

1.18. Finally, all employees will be guaranteed the right to continue their work at a JSC after equitization. If, 12 months after the registration date of a JSC, an employee becomes redundant due to restructuring of the company, such employee will then benefit from the policies stipulated in Article 17 of the Labor Code and the Government Decree 72-CP of October 31, 1995.

1.19. *Approval of equitization plans.* The Ministry in charge of the technical and economic branch or the People's Committee of the city/province directly under the central government will: (i) approve equitization plans of enterprises with State capital (including State budget allocations and State budget-derived capital) and self-generated capital of VND 10 billion or less; and (ii) report equitization plans of enterprises with State capital of VND 10 billion or more to the Central Steering Committee for Equitization and MOFI which will then submit them to the Prime Minister for approval.

1.20. The managing boards of State Corporations will report equitization plans of their member enterprises to the Central Steering Committee for Equitization and MOFI which will then submit them to the Prime Minister or the authorized Minister for approval.

C. A Summary of Equitization Implementation Procedures

1.21. *Agencies of the Government* that control SOEs (ministries, ministerial-level institutions, People's Committees and State Corporations) shall:

- establish steering committees for equitization;
- study the business conditions and expectations of State enterprises in order to choose enterprise segments and specific enterprises for equitization;
- after consultation with Party organizations at the same level and the People's Council of the city/province, decide which enterprise segments and enterprises should be equitized and send the list to the Central Steering Committee for Equitization;
- notify each selected enterprise of the decision to equitize it;
- issue the decision to set up the enterprise's equitization board; and
- provide training for equitization board members and concerned enterprise officials.

1.22. The *enterprise equitization board* shall:

- popularize the Government's equitization policies and regulations by explaining them to the workforce;
- prepare the enterprise's financial statements for the last three years of operation;
- prepare a report on the enterprise personnel, clearly stating the responsibilities, work quality and seniority level of each person;
- prepare an inventory of assets comprising assets in use, assets not needed, assets to be liquidated, and social assets to be transferred to the company trade union; and
- prepare an estimate of expenditures for equitization up to the time of closure of the first general meeting of shareholders.

1.23. The *director of the enterprise* shall:

- sign a contract with an accredited auditing agency to audit the accounts of the enterprise, thereby establishing the basis for determining the enterprise value;

- settle debts, clarify status of unsold materials, and liquidate assets identified for liquidation to the extent allowed under his/her competence;
- open an account at the State Treasury for depositing proceeds of the sale of shares of the equitized enterprise; and
- establish a register for listing prospective shareholders.

1.24. The *controlling agency* shall:

- direct the enterprise equitization board to: (i) determine the enterprise value, (ii) elaborate on the equitization plan, and (iii) draft the statutes of the JSC to be established;
- preside over meetings to be held with concerned institutions to resolve equitization problems; and
- evaluate the enterprise value submitted by the enterprise, issue a written agreement on the appraised enterprise value, and send it for decision to the General Department for the Management of State Assets and Capital in Enterprises (GDMSCAE) under MOFI.

1.25. *MOFI through GDMSCAE* shall:

- collaborate with the controlling agency in appointing an audit agency and resolving financial matters that are beyond the enterprise's competence; and
- issue a written decision on the actual enterprise value within 30 days of receipt of the controlling agency's report.

1.26. The *enterprise equitization board (EEQ)* shall:

- prepare a 3- to 5-year business plan for post-equitization;
- prepare a draft plan for: (i) cash distribution of reward and welfare funds (if any) among the employees, (ii) assigning to each employee the number of State shares whose dividends will be allocated to him/her, and (iii) determining the amount of credit available to each employee for share purchase;
- publicize the above-mentioned plan in the enterprise, arrange for its discussion, and establish its implementation method;
- set up a Council (led by the Chairperson of the Equitization Board and including Equitization Board members, a representative of GDMSCAE, and several economists and technicians with expertise in the fields pertinent to the enterprise) to re-evaluate the enterprise on the basis of MOFI's guidance and decision;
- report the results of re-evaluation to the controlling agency for adoption prior to submitting them to MOFI for decision;

- prepare a detailed equitization plan and present it to an extraordinary congress of employees for review and comment;
- finalize the equitization plan after the above-mentioned consultation;
- submit the finalized equitization plan to the controlling agency for approval; and
- draft the JSC's statute and submit it to the controlling agency for comments.

1.27. The *controlling agency* shall:

- take measures for approval of the final equitization plan as per stipulations presented under "Approval of Equitization" (para 1.18);
- propose nominees to represent the State shareholding on the boards of management of the JSCs;
- direct the EEQ to organize the first meeting of the shareholders; and
- issue the decision to transform the State enterprise into a JSC.

1.28. The *enterprise equitization board* shall:

- make public the financial status of the enterprise before equitization;
- publicize the sale of shares and arrange for registration of inside and outside prospective shareholders;
- organize the sale of shares in accordance with the equitization plan and transfer proceeds to the account at the State Treasury;
- report the outcome to the controlling agency;
- recommend nominees for the board of management and seek the opinion of the controlling agency; and
- convene the first meeting of shareholders to elect the board of management and adopt statutes of the JSC.

1.29. The *enterprise director and chief accountant*, in the presence of the Equitization Board and the controlling agency, shall transfer the management responsibilities of the enterprise to the newly elected board of management.

1.30. The *company board of management* shall:

- apply for a new seal for the JSC;
- complete the procedure for transferring ownership of the enterprise from the State to the JSC; and
- organize inauguration of the JSC.

PART II. **RESULTS OF THE SURVEY**

A. Introduction

2.01. *Enterprise selection*. By early January 1998, a total of 17 enterprises had been equitized. One enterprise could not be fit into the team's tight schedule because of its remote location. Of the remaining 16 enterprises, 14 agreed to interviews while two refused.

2.02. *Methodology*. Using a standardized questionnaire (Attachment 1) that incorporates sufficient flexibility to capture differences across firms, interviews were carried out with the enterprises' managers or their deputies. In most cases, interviews lasted for about three hours--sufficient for a snapshot of each firm but not an in-depth analysis. Financial statements for the last year prior to equitization and for 1997 were requested. The former statements were provided by MOFI, but only a few enterprises complied with the latter request. The timing of the survey, January 9-23, 1998, was not ideal, because it coincided with the pre-Tet period on one hand and was too early for final 1997 financial statements on the other. The timing was dictated by the February date of the seminar.

B. Key Findings of the Survey

2.03. All 14 enterprises were reportedly profitable at the point of equitization. None had substantial debt, significant social facilities, or excessive redundant workers.[9] These initial settings made equitization an easier process than it might have been had these problems been present. In the post-equitization period, all firms continued to be profitable. Indeed, those that were equitized in the earlier years showed remarkable growth in revenues and profits.

2.04. Nine equitized enterprises are located in Ho Chi Minh City (HCMC), and eight other localities have only one enterprise each. Enterprises span a wide spectrum of economic activities, including five manufacturers, four agro-processing companies, four service firms, and one mining company. Five were serious exporters. Three were formerly centrally-controlled and 11 were formerly locally-controlled.[10] This broad range in the types of firms that have been equitized reflects the lack of geographical, sectoral and jurisdictional restrictions on equitization, except for strategic and large enterprises as per Decree 28-CP.

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[9] Annex 1 depicts the key features of the 14 enterprises visited and some features of the three enterprises not visited.

[10] Although authorized to equitize their SOEs, no State corporation had yet equitized any of its member enterprises.

2.05. *Equitization period***.** The equitization period ranged from nine to 79 months, with an average of 27 months. This wide range in the length of the equitization period is best explained by dividing the enterprises into three groups: (i) those from the pilot equitization program that completed the process prior to May 1996 when Decree 28-CP was issued; (ii) those that began under the pilot equitization program but completed the process after May 1996 according to Decree 28-CP; and (iii) those that started and completed equitization after May 1996. Equitization periods averaged 19 months for the first group, 39 months for the second group, and 13 months for the third group. This suggests that Decree 28-CP has been instrumental in shortening the equitization period for enterprises that entered the process after May 1996. The equitization period will clearly need to be shortened considerably more if the Government's plan to equitize 150-200 enterprises in 1998, 400-500 in 1999, and 1,000 in 2000 is to be realized.

Table 1: The Equitization Period

	Total Sample	Started and Completed Before May 96	Started Before and Completed After May 96	Started and Completed after May 96
Ave. Number of Months	27	19	39	13

2.06. *SOE value and JSC equity capital.* SOE value represents the determined value of the enterprise. This is considered State capital. Part of this capital is kept by the State, and the balance is sold. The proceeds of sale are transferred to the State Treasury. For some enterprises, the SOE value equals the legal equity capital of the established JSC, but where fresh capital has been infused, the latter exceeds the former.

2.07. *Ownership.* The State share in the surveyed JSCs ranged from 20 percent to 46 percent, accounting for about 34 percent of the aggregate capital of all 14 companies. Employees’ shares ranged from 19 percent to 70 percent, with an average share of about 46 percent. Outside investors had not purchased any stocks in two companies, but their share in the other 12 companies ranged from 19 percent to 51 percent. Outside investors, largely individuals, accounted for about 20 percent of the aggregate capital of all 14 JSCs. Institutional investors, private and State-owned, had acquired stocks in only two companies.

Table 2: Ownership Shares

	Employees	State	Outside Investors

Average % Shares	46%	34%	20%

2.08. The response to public offerings has been quite positive. There was only one case of a negative response and over-subscription was noted in about half of the companies. In aggregate, cash purchase, credit purchase and use of welfare funds by employees accounted for 29.7 percent, 15.3 percent, and 1.5 percent of the total capital, respectively.[11] In 1997, a modest number of shares were traded among outside individual investors, ranging from 600 to 8,000 and averaging about 1,600 shares among the 12 companies with outside investors. Taken together, the cash/credit ratio of stocks purchased by employees and the public response to stock offerings indicate a willingness on the part of the public to take advantage of what it perceives as attractive investment opportunities.

Table 3: Employee Share Purchase Method

	Cash Purchase	Credit Purchase	Welfare Funds
Ave. % by Method	64%	33%	3%

2.09. *Management*. Management boards (boards of directors) of the companies were made up of five to nine members drawn from the three main groups of shareholders. Among the 13 enterprises that had established their boards at the time of the survey, nine had assigned the positions of chairperson of the board and of manager (CEO) to the same person (six representing the State and three representing employees). Among the other 4 companies, separate State representatives occupied both positions in one company, and the positions were split between State and employee representatives in two companies. In the fourth company, the chairperson of the board represented the State, and the manager represented private outside shareholders. Regarding pre-equitization positions of the managers, 12 had been directors of the same enterprise, and one had been the manager of another enterprise.

2.10. The survey team was favorably impressed with the perspective, dynamism and leadership of about half of the managers interviewed. These individuals seemed to be fully aware of the objectives of equitization; they understood the market economic system fairly well; and they were trying to adapt the culture of their enterprises to the new circumstances.

[11] Annex 2 provides details on the share acquisition methods used by employees.

2.11. *Workforce.* As Annex 1 shows, the workforce in these enterprises had increased by 39 percent since equitization, largely as a result of expansion of enterprises equitized during 1993-1996. Although Decree 28-CP allows dismissal of redundant workers, none of the enterprises had opted to do so. Instead, they had followed a policy of normal attrition, plus absorption of redundant workers and adjustment of skill mix through expansion. Enterprises equitized during 1997-1998 had not addressed the redundancy issue at the time of interviews.

Table 4: Changes in the Workforce[a]

Average Increase in Workforce	Average Increase in Wages and Cash Benefits	Percent Who Had Changed Employee Incentive System
39%	60%	64%

[a] These figures represent changes since equitization

2.12. The monthly wage plus cash benefits, which ranged from VND 150,000 to VND six million during the pre-equitization period, had increased from VND 250,000 to VND 12.5 million during the post-equitization period, on average from VND 712,000 to VND 1,142,000. Interviewers noted sharp variations among wage and cash benefits based on type of activity, location and, in a couple of cases, on hazardous working environments. Performance incentives had been established in most of the companies.

2.13. All companies had joined the National Social Fund. Further, many companies provided their employees with additional social benefits, such as injury-at-work insurance and emergency support. Overall, post-equitization social services available to employees reportedly exceeded those provided in the pre-equitization period.

2.14. *Social assets.* Social assets in equitized enterprises were minuscule. Their separation and transfer to labor collectives, as stipulated in Decree 28-CP, did not need to be addressed. A few companies with a limited number of housing units had already sold these units to the workers or were in the process of doing so. A number of companies continued to operate small clinics and saw no need to transfer these to the labor collectives.

2.15. *Physical assets.* Buildings and equipment in most companies were old, and some had long passed their economic lives. The exceptions were facilities established in the post-equitization period. Inadequacy of environmental protection facilities was noted or reported in many companies. There are no restrictions on the sale or lease of assets, but only a few companies had exercised these options. Disposal of obsolete equipment was part of firms' restructuring plans. All firms had developed physical restructuring plans to be implemented if, and when, financing possibilities arise.

2.16. *Inputs and outputs*. All firms reported that input supply was adequate. However, those companies whose operations were based on imported inputs considered the lengthy and cumbersome customs procedures time-consuming and hence costly. The principal markets for companies' products/services were local (4 firms), national (6 firms), and international (4 firms). With the exception of two companies whose main customers were SOEs, all other companies provided goods and services mainly to private and foreign customers.

2.17. *Financial status*. The 14 companies appeared to be financially healthy for the most part. At the time of equitization, two enterprises had long-term domestic debts, and one had a long-term foreign debt. The domestic debts had been settled by local governments, and the foreign debt was transferred to the liabilities of the equitized enterprise. Cash flow was reported adequate to cover operating costs in 12 companies and almost adequate in the remaining two companies. Overdue accounts receivable were reported by three companies, but 11 companies had none. Since equitization, seven companies had received short-term working capital loans from State-owned commercial banks. Nevertheless, most managers considered working capital financing as a major constraint to their operations. They blamed this on their inability to meet banks' requirements for collateral. Citing daunting obstacles to accessing long-term credit, none had received term loans since equitization.

2.18. *Performance*. All companies reported profits for 1997. Assessments of the four companies equitized during 1993-1995 revealed particularly remarkable achievements. These companies had undergone major expansions and had increased their workforces, revenues, and profits substantially. Despite the dearth of long-term investment credit, management had financed expansions through re-investing earnings, loans from non-state shareholders, and in one case, sale of convertible bonds in the UK and USA.

2.19. Two of the three enterprises equitized in 1996 showed growth patterns similar to 1993-1995 group; the third one had suffered a 33 percent decline in 1997 gross revenues. Equitized only in 1997 and early 1998, the period was too short to make a meaningful assessment of the remaining seven enterprises.

2.20. By agreeing to re-invest company profits and by buying their shares primarily with cash, employees have been instrumental in developing their companies. In one case, employees demonstrated their concern for company performance when they agreed to a pay cut to maintain profit levels when their enterprise hit a slow period.

2.21. *State benefits*. Data provided by enterprises equitized through 1995 indicate that these firms' annual contributions (mainly taxes and dividends) to the State budget significantly increased during post-equitization years as compared to those of the year prior to equitization. GDMSCAE has confirmed this for equitized enterprises through 1996 and attributes it to the revenue growth of these enterprises.

2.22. *Constraints*. Constraints faced by companies are listed below in descending order of frequency:

- working capital financing;
- investment capital financing;
- lack of employees' understanding of and adaptation to equitization; and
- cumbersome customs procedures for imported goods.

2.23. *Future strategies*. Priorities in companies' medium-term (2-3 years) strategies are listed below in descending order of frequency:

- investment in new equipment;
- investment in new buildings;
- improvement in financial management;
- reorganization of production process; and
- improvement of marketing skills.

PART III. **EMERGING ISSUES**

A. Introduction

3.01. The principal objective of the survey was to identify issues that hamper the equitization process and/or limit the subsequent success of equitized enterprises. The survey team has identified a number of such key issues and divided them into two groups: those associated with the equitization process itself and those associated with the post-equitization status of firms. These issues conform very much to issues raised by Dr. Tran Cong Bay (General Director of GDMSCAE) and Mr. Nguyen Thieng Duc (Head of the Equitization Board of HCMC) through their respective papers presented at the Equitization Seminar of February 19-20 in Hanoi.[12]

B. Equitization Issues

3.02. *Valuation methodology*. As noted earlier, the value of an enterprise at the time of equitization shall be: Adjusted Net Worth +/- Advantage/Disadvantage Value + Equitization Expenditures. The above formula is considered reasonable for larger firms but unnecessary for most smaller firms which are better divested through simpler means such as auctions. Enterprise managers expressed concerns about the methodologies for adjusting the audited net worth and for determining the advantage/disadvantage value. MOFI has issued supplementary formulas to facilitate application of the above formula, but re-assessment of fixed and current assets in current prices is left to the discretion of experts at the various levels of review. The only specific guideline is that building values should be re-assessed in accordance with local conditions. The absence of more specific guidelines on re-assessing buildings, equipment, and goods results in endless discussions among numerous experts which are then repeated with enterprise management. The effect is a negotiated settlement and a considerable delay in equitization implementation.

3.03. Regarding the calculation of the advantage/disadvantage value, MOFI has developed an approach similar to that used in other countries. The performance of the enterprise over the three years prior to equitization will be compared with performances of enterprises of the same type that are active in the same economic subsector during the same period. This comparison determines the advantage/disadvantage value. That these data are rarely available makes this process very difficult, if not impossible. In fact, among the enterprises surveyed, the advantage value had been included in only three cases. Even in these cases, the survey team understood that the values applied (corresponding to six percent, five percent, and two percent of the enterprise value,

[12] At the Equitization Seminar, the survey team learned that the Government plans to amend Decree 28-CP. Annex 3 highlights some specific proposals under consideration and provides commentary.

respectively) were the outcome of negotiations between the State and the enterprise, rather than application of the above-mentioned methodology. Estimation of the advantage/disadvantage value is needed to determine an enterprise's market value, but the issue is whether this cumbersome process should be included at this stage, particularly for equitization of small enterprises.

- *Recommendation:* In light of the foregoing, the survey team suggests that MOFI issue specific guidelines for re-assessment of fixed and current assets and waive the requirement for determining the advantage/disadvantage value in the case of small enterprises unless an enterprise in the service industry has an obvious location advantage/disadvantage;

3.04. *Valuation procedure.* Steps in the valuation process are as follows:

- EEQ prepares all information required, including financial statements;
- The accounts of the enterprise are audited by an accredited auditing firm;
- EEQ determines the enterprise value and submits it to the controlling agency;
- The controlling agency appraises EEQ's submission and sends it to MOFI;
- MOFI issues a written decision;
- EEQ establishes a council, the Enterprise Value Verification Board, to re-evaluate the enterprise value in line with MOFI's guidance and decision; and
- EEQ reports the results of the re-evaluation to the controlling agency whose Value Verification Board reviews and approves the results if the State capital is VND 10 billion or less; otherwise, after adoption by the controlling agency, the documentation is sent to the Central Value Verification Board chaired by MOFI for decision.

The above procedure is lengthy and cumbersome. At each decision-making stage, the review process consumes a considerable amount of time. Further, if there are disagreements at any stage, the submission must go back to the originator for revision.

- *Recommendation:* The survey team believes that this procedure could be streamlined and its duration considerably shortened. To achieve this, it is suggested that a small group of experts carry out a study and make appropriate proposals. Given the information available, this work could be done in one month's time.

3.05. *Proceeds from sale of State shares.* Decree 28-CP stipulates that proceeds from sale of State shares will be used only for the development of SOEs.

- *Recommendation:* Given the financing needs of equitization, particularly in cases of enterprises that are burdened with heavy debts, extensive social assets, and redundant workers, the survey team proposes that a significant portion of sales proceeds be used to meet the needs of equitized firms.

3.06. *Share purchase through credit.* Most managers consider the current practice of "buying one share in cash as a prerequisite to getting one share on credit" as unfair to employees with no available cash who could therefore be deprived of ownership. This practice has apparently resulted from the requirement under Article 11 of MOFI's Circular 50 TC/TCDN which states "the total shares sold on credit shall not exceed the shares bought in cash by workers". Many managers felt that this practice reinforces employees' resistance to equitization.

- *Recommendation:* It is suggested that a portion of the available credit be allocated for distribution without requiring share purchase and that the balance be allocated in line with the current practice.

3.07. *Business plan, company statute and management.* A sound business plan, an appropriate company statute, and management familiar with the dynamics of a market economy are essential to the long-term success of every equitized enterprise. Having operated under a planned economy, most SOEs are generally ill-equipped to respond properly to any of these requirements.

- *Recommendation:* Perhaps with the help of international donors, technical assistance should be made available to enterprises to develop further their capabilities in all three areas.

3.08. *Governance.* Appointing the same person to the two key positions (chairperson of the board and CEO) results in concentration of too much power in a single person and should be avoided.

- *Recommendation:* Fill these positions with separate individuals representing the company's two major shareholders.

3.09. *Public awareness.* The governing regulations require public notice of equitization of a targeted enterprise, public disclosure of information on the enterprise, and public offering of its shares. What is missing is a means of increasing the general public's awareness of the process and benefits of equitization. Where limited public awareness has developed, e.g. in HCMC, positive responses to public share offerings have been notable.

- *Recommendation:* A national campaign to explain and promote equitization would help smooth and accelerate the equitization process. The survey team also recommends requiring audit and disclosure of JSCs' financial statements. At present, disclosure of financial statements is required at the time of equitization, but it is not a requirement during the post-equitization period under the Law on

Companies. Public confidence in equitization would be much strengthened if audited financial statements of equitized companies were disclosed on an annual basis.

3.10. *Equitization of very small State enterprises.* The lone JSC in Hanoi stands out with its equity capital of only VND 356 million (about US$27,500) and workforce of 36 employees. This very small company had to complete the entire equitization process.

- *Recommendation:* Given the lengthy and cumbersome equitization procedure, the survey team recommends that very small State enterprises be divested through an alternative, simplified divestiture process rather than through the current equitization process. This could be based on auctions, with a built-in mechanism for preferential treatment of enterprise employees. In the first stage, equitize with the participation of employees only, using the audited net worth and equitization expenses as the principal parameters. In the second stage, auction the State shares to the general public and let the market decide the enterprise value. This would allow a fast-track divestiture program for very small State enterprises. Consideration of this recommendation by the Government and appointment of a task-force to prepare the relevant regulations are highly recommended.

C. Post-equitization Issues

3.11. *Working capital financing.* Of the 14 companies interviewed, nine considered difficulties in financing their working capital as the biggest constraint to their operations. As an incentive to equitized enterprises, Article 10-3 of Decree 28-CP stipulates that these enterprises will "be entitled to continue borrowing capital from State commercial banks according to the mechanism and at the interest rate applied to State enterprises". In practice, however, this has not been the experience of enterprises equitized to date. For example, SOEs are not required to provide banks with collateral to qualify for loans, but State-owned banks have insisted on adequate fixed assets as collateral from equitized firms. Further, inventory financing by pledging goods as collateral is not practiced in Vietnam. In this aspect, equitized firms have been treated exactly like private sector companies. But perhaps unique to equitized firms, several companies reported that banks also had required authorization from their former controlling agency on top of collateral.

3.12. These equitized enterprises faced serious problems with maintaining sufficient working capital. Being generally labor-intensive, the value of their fixed assets were rarely sufficient to meet the banks' purely collateral-based requirements for provision of loans. This problem was particularly acute for those engaged in agro-industry, import-based consumer goods manufacturing, and exports. The problem was further exacerbated in cases where there had been considerable delay in transferring property titles from the State to the equitized enterprise.

- *Recommendation:* The survey team does not recommend pursuing implementation of Decree 28-CP's above-mentioned provision for preferential credit to equitized enterprises. Problems in accessing credit faced by equitized enterprises are problems that apply across the board in the private sector. The solution lies in addressing deficiencies in the borrowing environment for the private sector as a whole, not in re-creating the unbalanced "playing field" that already is a core cause of inefficiency in the Vietnamese economy. That said, clarification of the contradictions between Article 10-3 of Decree 28-CP and reality is recommended.

3.13. *Investment capital financing.* As is generally the case for private companies in Vietnam today, long-term credits (one year or more) from local banks have not been available to equitized companies. Post-equitization financing is further restricted under equitization regulations that stipulate that a capital increase can only be carried out one year after the equitization date or after full settlement of credit extended to employees for share purchase, whichever is longer. To deal with these constraints, some enterprises have infused additional capital into their JSCs at the time of equitization, while some others have used innovative means for financing their restructuring and expansion programs. Among the companies visited, only one company (equitized in 1993) had met the capital increase conditions, and it planned to increase its equity capital substantially in April 1998.

- *Recommendation:* Long-term success of equitized enterprises and of the Government's equitization program is contingent on the availability of investment capital. Fundamental conditions for lending to the private sector should be improved such that local banks are willing to make three- to five-year credits available to viable companies on a prudent and commercial basis. While a one year post-equitization moratorium is considered reasonable, awaiting full repayment of credit for purchasing shares is not. After all, the State remains the owner of these shares until the full settlement, and any capital increase requires the approval of MOFI.

3.14. *Role of State representatives.* Decree 28-CP stipulates that the person representing the State's shares in an equitized enterprise shall exercise her/his duties and responsibilities in accordance with Articles 50 and 54 of the Law on State Enterprises. Article 54, applicable to cases where the State share is dominant, is not pertinent to equitized enterprises. The survey team's interpretation of Article 50 is that the role of State representatives is similar to the role of other owners. According to some managers interviewed, this interpretation is not shared by some State representatives who have sought to combine the regulatory and ownership roles of the State. Despite the State's minority shareholding in all companies, six companies indicated that the State continues to have significant influence in company affairs.

- *Recommendation:* Clarification of the above issue is recommended.

PART IV. **CONCLUSIONS AND RECOMMENDATIONS**

4.01. Equitization in Vietnam is slowly maturing. Enterprises equitized thus far have had favorable conditions at the time of equitization: they were profitable and not burdened with heavy debts, extensive social facilities or an excessive workforce. It is significant that these enterprises volunteered for equitization. Starting with these enterprises was appropriate for launching an unprecedented process. This survey concludes that equitization has been successful thus far in the sense that most equitized firms are performing well, and their aggregate contribution to the State budget has increased significantly relative to pre-equitization. The fact that there have been no lay-offs of labor should bring comfort to those who fear large-scale unemployment in equitized firms.

4.02. But it would not be correct to attribute their success to the process by which they were equitized. As noted, this process took on average 27 months, 13 months for more recently-equitized firms. A great many steps and parties were involved.

4.03. Lessons learned from this first stage of equitization for application to the much expanded program currently discussed by the Government point to specific problems that are likely to arise going forward. First, current procedures are too cumbersome and lengthy to apply to large numbers of firms without significant bottlenecks arising. Second, the current process is more complex and thorough than needed for smaller SOEs. Third, at least some percentage of incoming SOEs will enter the equitization process with less favorable conditions than did the early firms--and thus perhaps with less motivation to complete the process. Resolution of significant problems associated with debt, social assets and redundant employees will snarl the process even further.

4.04. Equitization is not completed with issuance of a company license. Rather, it is completed when the equitized company is operating profitably and sustainably as a majority-private firm. The real test of the equitization program will come when equitized companies are operating fully as majority private firms. MPDF’s work with private firms has shown that the business environment in Vietnam is not an especially supportive one.[13]

4.05. In theory, equitization should free up firms to make more rational decisions to enhance profitability, i.e. move them from less favorable to more favorable conditions. In practice, however, equitization in the Vietnamese context will mean that participating firms will be asked to move from privileged to under-privileged status, due to the poor

[13] Information about constraints to private sector development in Vietnam (that is additional to survey data from equitized companies) in this section is taken from MPDF’s “Vietnam’s Corporate Private Sector--An Issues Note”, March 1998.

regard with which the private sector is held in Vietnam and to the regulatory environment that routinely discriminates against private firms. So long as this is the case, it is reasonable to expect resistance from managers who anticipate problems when their firms are forced to operate as private companies. Improving the business environment for private firms would go a long way to assisting equitized firms to make this difficult transition.

4.06. During the Equitization Seminar, it became evident that local and central governments had identified similar issues to those determined by the survey team; issues whose resolution would alleviate many of the implementation problems. Less encouraging was the relatively limited attention accorded to the linkage between private sector development and equitization. The survey team highly recommends actions on these two parallel fronts to achieve the ambitious goals of Vietnam's equitization program.

A. Improving the equitization process

- *Valuation methodology*. A reasonable method in principle, but rigid and without specific guidelines. It should be made more flexible with clear instructions for implementation.
- *Valuation procedure*. A lengthy and cumbersome seven-step procedure which needs to be shortened and streamlined. A group of experts could achieve this task within one month.
- *Sale proceeds of State shares.* Decree 28-CP stipulates that proceeds of sale of State shares will be used only for development of SOEs. The survey team proposes that a significant portion of these proceeds be used to support equitization.
- *Share purchase through credit.* The practice of "buying one share in cash as the prerequisite to getting one share on credit" by the employees is a disincentive to the workforce. It should be modified.
- *Business plan, company statutes and management.* Weaknesses of SOEs in these areas requires provision of technical assistance, perhaps with help from international donors.
- *Public awareness.* The general public's awareness of the process and benefits of equitization is very low. A national campaign should be launched to promote equitization.
- *Equitization of very small SOEs.* Application of existing procedures to these enterprises is ineffective and costly. A fast-track divestiture program for sale of these enterprises through auctions with a built-in mechanism for preferential treatment of employees should be developed.
- *Role of State representatives.* The current practice of State representatives exercising dual State functions (ownership and regulatory) is not consistent with prevailing regulations. This should be clarified.

- *Company Law and disclosure rules.* The Law on Companies is being revised by CIEM. The survey team makes two specific recommendations: (1) allow ownership of shares by foreign nationals in a JSC; and (2) require audit and disclosure of JSCs' financial statements. The latter would strengthen public confidence in equitization.

B. Improving the business environment

4.07. *Improving access to finance.* Banks in Vietnam do not meet basic needs of private companies, particularly for credit services. This is seen in onerous collateral regulations, the centrality of personal connections, distortions in lending incentives, lack of banking skills, and issues of confidentiality. Common alternative sources of formal finance (capital markets, leasing, foreign banks, foreign investment funds, venture capital, and mortgage finance) are underdeveloped in Vietnam. Solutions include:

- Communicate clearly to the banks from the highest levels that growth of private companies, including equitized companies, is imperative and that lending to them is a priority;
- Liberalize banking regulations to allow greater competition with State-owned banks from local and private banks;
- Assist banks to make it easier for private sector firms to access credit services: rationalize asset registries, speed up titling procedures, and streamline overall process;
- Clean up the banks, restructure them and, in time, privatize them; in the short run, find an effective means of imposing a bottom line to incentivize them to lend to the best borrowers;
- Rationalize regulations concerning debt collection and collateral: (i) improve those aspects of the legal framework that apply to property rights and contract enforcement, (ii) strengthen enforcement, (iii) broaden acceptable collateral to include additional types of fixed and current assets; (iv) simplify procedures associated with registering collateral; and (v) reduce restrictions on foreign lenders taking collateral;
- Assist banks to develop and install proper credit appraisal and approval procedures, and offer training in their use;
- Assist banks in developing codes of ethics, including regulations on confidentiality;
- Undertake legal/regulatory changes and institution-building to develop additional sources of capital for private firms;

4.08. *Cleaning up the legal/regulatory environment***.** Private firms are subject to far too much red tape and many encounter significant official hostility. Regulations (laws, decrees, circulars) are constantly changing, unclear, and often conflicting. Solutions include:

- The government needs to launch a broad and credible public campaign to improve the image of private enterprise;
- The government needs to make clear its unqualified endorsement of legitimate private enterprise and its zero tolerance for official payoffs and harassment at all levels of government;
- The government should scrap the large numbers of unneeded regulations in favor of a small number that are needed; make these simple, clear and easy to understand; and then enforce them;
- Make the tax regime more rational and equitable, and eliminate discrimination against domestic private firms, including service firms.

4.09. *Leveling the playing field between SOEs and private companies.* SOEs have much greater access to resources than do private firms, and they receive preferential treatment at all levels. Solutions include:

- Subject almost all SOEs to hard budget constraints;
- Revise the Law on Association so that private firms are free to organize themselves;
- Consolidate all enterprise laws into one law that applies equally to enterprises of all ownership types;
- Provide equal access to government contracts;
- Provide equal access to foreign partners;
- Provide equal access to land-use rights.

Annex 1

VIETNAM - EQUITIZATION SURVEY (January 9-23, 1998)
Key Features of 14 Enterprises Visited
(values in VND billion, periods in months)

No.	Company	Location	Activity	EQ Date	EQ Period	SOE Value	JSC Equity Capital	State Share (%)	Pre-EQ Revenue	1997 Revenue	Labor, Pre-EQ	Labor, 1997	Exports
1	REE	HCMC	Service Ind.	93/10	12	16.0	16.0	30	46.6	426.0	200	800	
2	HA	HCMC	CG Manuf.	94/10	26	2.8	4.8	30	3.5	7.6	380	400	100%
3	VIFO	HCMC	Agro-Ind.	95/07	20	7.9	7.9	30	27.9	72.0	70	120	
4	LAFPE	Long An	Agro-Ind.	95/07	35	3.5	3.5	30	45.6	75.6	1,000	1,500	100%
5	BH	HCMC	Agro-Ind.	96/06	35	1.5	2.5	30	43.0	29.0	30	26	90%
6	QVEC	Binh Dinh	Shipyard	96/07	18	1.2	1.2	20	0.4	6.5	26	26	
7	DGS	Ninh Binh	Mining	96/09	26	1.3	3.2	39	8.0	10.7	212	300	
8	SH	HCMC	Service Ind.	97/01	26	16.1	18.0	40	18.9	15.9	100	102	
9	NAMDO	HCMC	CG Manuf.	97/03	26	2.7	6.4	33	31.0	26.2	80	80	40%
10	BTP	HCMC	CG Manuf.	97/11	17	20.0	20.0	35	130.0	130.0	192	192	
11	BTC	HCMC	CG Manuf.	97/11	13	11.4	11.4	30	46.7	46.7	205	205	
12	BC	Hai Phong	Service Ind.	97/11	79	1.8	1.8	39	1.6	1.6	175	180	
13	SC	Danang	Fish Process.	98/01	9	1.8	3.9	37	16.1	16.1	392	392	100%
14	HDWT	Hai Duong	Service Ind.	98/01	29	2.2	2.8	46	N/A	N/A	182	182	
	Total				371	90.0	103.4		419.3	863.9	3,244	4,505	
	Average				27	6.4	7.4		32.3	66.5	232	322	
	Median				26	2.7	4.4		27.9	26.2	187	187	
	Some Features of 3 Enterprises Not Visited												
15	DLL	HCMC	Service Ind.	93/07		6.2	6.2	18				320	
16	CB	Minh Hai	Aquatic Prod.	95/11		7.7	10.0	51				730	
17	SX	Hanoi	CG Manuf.	96/07		0.4	0.4	0				36	

Annex 2

VIETNAM - EQUITIZATION SURVEY (January 9-23, 1998)
Share Acquisition by State and Employees in 14 Enterprises Visited
(values in VND billion)

No.	Company	Capital	State Share		Employees Shares		Credit		Cash		Welfare	
		VND B	Percent	VND B	Percent	VND B	Percent	VND B	Percent	VND B	Percent	VND B
1	REE	16.0	30.0	4.8	50.0	8.0	25.0	4.0	25.0	4.0		0.0
2	HA	4.8	30.0	1.4	35.0	1.7		0.0	35.0	1.7		0.0
3	VIFO	7.9	30.0	2.4	50.0	4.0	24.0	1.9	26.0	2.1		0.0
4	LAFPE	3.5	30.0	1.1	40.0	1.4	40.0	1.4		0.0		0.0
5	BH	2.5	30.0	0.8	40.0	1.0	10.0	0.3	30.0	0.8		0.0
6	QVEC	1.2	20.0	0.2	25.0	0.3	25.0	0.3		0.0		0.0
7	DGS	3.2	39.0	1.2	45.0	1.4	13.0	0.4	23.0	0.7	9.0	0.3
8	SH	18.0	40.0	7.2	40.0	7.2	6.0	1.1	34.0	6.1		0.0
9	NAMDO	6.4	33.0	2.1	50.0	3.2	8.0	0.5	42.0	2.7		0.0
10	BTP	20.0	35.0	7.0	45.0	9.0	20.0	4.0	25.0	5.0		0.0
11	BTC	11.4	30.0	3.4	57.0	6.5	15.0	1.7	42.0	4.8		0.0
12	BC	1.8	39.0	0.7	61.0	1.1		0.0	61.0	1.1		0.0
13	SC	3.9	37.0	1.4	46.0	1.8		0.0	46.0	1.8		0.0
14	HDWT	2.8	46.0	1.3	54.0	1.5	10.0	0.3		0.0	44.0	1.2
	Total	103.4	33.9	35.1	46.5	48.1	15.3	15.8	29.7	30.7	1.5	1.5

Annex 3

PROPOSED AMENDMENTS TO DECREE 28-CP

At the Equitization Seminar, Mr. Nguyen Van Huy, Vice Chairman of Central Steering Committee on SOE Reform and Central Steering Committee on Equitization, presented a summary of proposed amendments to Decree 28-CP. Brief descriptions of these amendments and the survey team's comments on each of them are given below:

- To guarantee social equality, the total shares that an individual and a legal entity can purchase from an enterprise will be limited to 5 percent and 10 percent of the enterprise value, respectively.

Comments. This amendment may achieve its objective, but it will jeopardize participation of strategic investors who are badly needed for many medium and large SOEs. Exemption of such investors from the amendment should be considered.

- To realize foreign investments in equitization on a pilot basis, an appropriate regulation should be drawn.

Comments. Expeditious issue of such a regulation is recommended.

- The proceeds of the sales of State shares are to be used for further development of equitized SOEs and resolution of problems associated with redundant workers. These proceeds could also be used for consolidation of some SOEs.

Comments. This proposal is generally in line with the recommendation made by the survey team.

- Valuation methodology and procedure for SOEs with less than VND 5 billion of State capital will be simplified by introducing a flexible method in determining advantage/disadvantage value and by eliminating the auditing requirement.

Comments. This proposal is a step in the right direction, except that the survey team still recommends sale of these enterprises through auctions.

- The maximum value of State shares allocated to each worker under the dividends allocation scheme will be raised from the equivalent of the worker's six-month position salary to his/her twelve-month position salary.

Comments. As indicated in the proposal, this will increase the workers' incentives to support equitization.

- The limit on share purchase through credit is proposed to increase from 20 percent to 30 percent of the enterprise value for enterprises with self-generated capital of 80 percent or more. For low income workers, interest rate is to be decreased and the credit term be extended (possibly to 10 years).

Comments. While the proposed additional incentives are supported by the survey team, the issue of "buying one share as a prerequisite to getting one share on credit," referred to above remains unresolved. In this context, consideration should be given to the survey team's recommendation.

- A new incentive to workers, namely, tax exemption of dividends for the first two years of operation of the equitized enterprise, is proposed.

Comments. Since the fiscal implications of this proposal do not appear to be significant, the survey team supports it.

- The list of SOEs that will not be equitized and those in which the State shall have controlling or special shares is proposed to be prepared. Then, based on this list and sector development strategies, the controlling agencies would prepare their lists of enterprises to be equitized through 2000.

Comments. The survey team supports this proposal.

- The Laws on State Enterprises and Companies will be amended to clarify various issues in connection with equitization, including the management of State shares in JSCs created as a result of equitization.

Comments. The survey team supports this proposal.

VIETNAM
EQUITIZATION SURVEY QUESTIONNAIRE

The Mekong Project Development Facility

January 1998

Name of Firm: ____

Interviewer: ____

Date of Interview: ________________________

INTERVIEWING GUIDE FOR EQUITIZED ENTERPRISES

I. BASIC INFORMATION

Name of Person Interviewed___________________________________

Position of Person Interviewed:

0. Owner
1. Manager
8. Other (Specify)____

Name of the firm:____

Headquarters Address or location: (Be specific: mailing & physical)

____

____

Telephone: _______________________ Fax: __________________

Facilities Locations: ____

Branch Offices Locations: ______________________________________

What is the current legal form of this enterprise?

0. Limited liability company
1. Joint stock company (open)
2. Joint stock company (closed)
8. Other: WHAT? (e.g. jt. venture) ________________________

In what month and year did this enterprise take its current legal form? ________________

If a joint-stock company, give the date on which shares were issued to the shareholders: ________________

If a joint-stock company, what types of shares have been issued?

0. Registered
1. Bearer
2. Registered and Bearer

If a joint-stock company, what is the number of shares? ________

If your enterprise is an open joint stock company, are your shares publicly traded?

What is the legal (equity) capital of the company? _________ VND million

0. No 1. Yes 8. Other 9. N/A

Who owns this company?

If yes, provide the number of shares traded in 1997: _____________

Insiders:

O. Managers, acquired through subsidized credit __________ %

1. Workers, acquired through cash purchase __________ %

Outsiders:

2. State with entitlement to dividends __________ %
3. State with dividends allocated to workers __________ %
4. Individual Investors __________ %
5. Institutional Investors __________ %
8. Others (explain ______________________) __________ %

Total 100.00 %

Provide breakdown of shares acquired by managers:

0. Through subsidized credit __________ %
1. Through Welfare Fund __________ %

2. Through cash purchase ___________ %

Total 100.00 %

Provide breakdown of shares acquired by workers:

0. Through subsidized credit ___________ %
1. Through Welfare Fund ___________ %
2. Through cash purchase ___________ %

Total 100.00 %

What is the composition of outside individual investors?

0. Enterprise retiree ___________ %
1. Company agents, suppliers and customers ___________ %
8. Others (_______________________________) ___________ %

What is the composition of outside institutional investors?

0. State Banks and Financial Institutions ___________ %
1. Non-financial SOEs ___________ %
2. Privately-owned firms ___________ %
8. Others (_______________________________) ___________ %

What percent of this enterprise is privately owned?___________ %

On what date did this firm became majority privately-owned?

0. On the date of registration of the equitized enterprise
1. ____ months after the equitization
8. Other ____
9. M/A

Which shareholder group is most influential in major decisions?

O. Workers

1. Managers
2. Workers and managers
3. State
4. Outside private sector shareholders
8. Other: ____
9. N/A

Principal activity: ____

What percentage of your revenue comes from this activity? _____ %

Is your primary output:

0. An intermediate input
1. A finished good
2. A service
8. Other: _______________________
9. N/A

Apart from these primary outputs, what are your other sources of revenue?

0.	Other products	_______ %
1.	Trade (selling products you don't produce)	_______ %
2.	Services (incl. repair, installation,...)	_______ %
3.	Leasing equipment and/or real estate	_______ %
8.	Other (what: ________________________)	_______ %
9.	N/A, i.e., no other sources	
	Total of other sources of revenue	_______ %

What are the three biggest problems affecting your business today?
(Write down managers' responses and code later)

[ ]#1

[ ]#2

___

What is the biggest problem for most Vietnamese enterprises today?

___

[ ]#3

___

___

___

Do you have any serious problem with government regulations? If yes, which one and what problems?

0. No serious problem
1. High taxes Which ones? ___
2. Constantly changing tax regulations Which ones? ___
3. Getting all permits and licenses required
4. Labor/Health and safety
5. Environment
6. Import/export
7. Real estate
8. Other: ___
9. N/A

Do you face any of the following labor/management constraints:

0. None
1. Organization and Management restrictions
2. Excess labor
3. Skill shortage
4. Wage and salary restrictions
8. Other: ___
9. N/A

Do you face any of the following constraints in your operation:

0. None
1. Obsolete equipment
2. Input shortage
3. Output price control
4. Market saturation
5. Restrictions on access to State contracts and orders
6. Equity capital increase restrictions
7. Credit access limitation
8. Other: ____
9. N/A

Do you receive any support from the State or State Institutions (banks, state corporations and SOEs):

0. None
1. Direct subsidies
2. Indirect subsidies
3. Marketing facilities
4. Exclusive contracts
8. Other: ____
9. N/A

II. THE EQUITIZATION PROCESS

The name of this enterprise before equitization:

____

When was it originally established? __________________________

Which of the following categories best describes this enterprise before equitization?

0. Independent Centrally-Controlled SOE
1. Independent Locally-Controlled SOE
2. Independent Member of a State Corporation or a Large SOE
3 Dependent Member of a State Corporation or a Large SOE
8. Other: ____

Name of controlling agency: ________________________________

Name of the enterprise director: ____________________________

The date on which the equitization process started: _______________

List the initiators: ____

Duration of consensus build-up for equitization in the enterprise: ____________ months

Date of establishment of the enterprise equitization board: _______

Composition of equitization board:

____
____

Chairperson of the equitization board: _______________________

Duration of equitization plan preparation: _______ months

Enterprise net worth, excluding social assets, determined by the equitization board: ________ VND million

Equitization expenses estimated by equitization board: ____ VND million

Did equitization board prepare 3-5 year business plan?

0. yes 1. no 8. Other 9. N/A

Name of auditing firm selected: ________________________________

Audit starting date: __________________

Audit completion date: _________________

Enterprise net worth determined by auditors: ____________ VND million

Agencies represented in valuation committee: ____________________

____

Valuation starting date: _________________

Valuation completion date: _________________

Results of valuation:

0. Enterprise net worth _____________ VND million

1. Good will value ______________ VND million
2. Equitization expenses ______________ VND million
8. Other ______________ VND million

Total Value ______________ VND million

Date of agreement on total value: ______________

Agreed total value: ____________ VND million

Measures taken for public offering:

0. None
1. Informal contacts
2. Advertisement in news papers
8. Other: ____
9. N/A

Did you transfer the enterprise's social assets to the labor collective?

0. yes 1. no 8. Other 9. N/A

Date of official tranformation of the enterprise into a company: _________________

Do you consider any of the following measures stipulated in Decree 28-CP as constraints to equitization?

0. None
1. Valuation principles (Article 8)
2. Six months wage/salary limit (Article 11-1a)
3. 15% and 20% limit on the value of enterprise for credit purchase (Article 11-1b)
4. Provisions for dismissal of redundant workers (Article 11-2)

8. Other: ____
9. N/A

What significant changes have been taken in this enterprise since it was equitized?

____
____
____

How would you evaluate the performance of this company since equitization?

0. It's doing worse. In what way? ______________________________
____

1. It's doing better. In what way? _______________________________

____

8. Other: ____

III. COMPANY PROFILE

A. **Management**

Composition of the board of management (directors)?

0. No. of persons representing the workforce __________
1. No. of persons representing the State __________
2. No. of persons representing outside shareholders __________

Total No. of Directors __________

of which, External Directors __________

Chairperson of the Board? ________________, representing ________

General Director (CEO)? _______________, representing ____________

First Inspector? _____________________, place of work ________________, area of specialization _____________________

Second Inspector? ____________________, place of work ________________, area of specialization

Age of CEO: _______

Educational Background of CEO?

0. Secondary (12 years)
1. Unfinished higher education/university (2-3 yrs)
2. Higher education/university (5 yrs)
3. Post graduate work (2-3 years after university)
4. Doctorate
8. Other (Specify) ______________________
9. N/A

Previous position of CEO?

0. General manager in this enterprise
1. Technical manager in this enterprise
2. Chief financial officer in this enterprise
3. A manager in another enterprise
4. Technical specialist
5. Foreman
6. Skilled employee
8. Other (Specify)____________________________________
9. N/A

B. **Labor**

How many full-time employees are in this enterprise now? _________

0. Permanent employees __________
1. Contract employees __________
8. Other __________
9. N/A

How many full-time employees were in this enterprise prior to equitization?

____

0. Permanent employees ___________
1. Contract employees ___________
8. Other ___________
9. N/A

What is the monthly wage plus cash benefits range in this enterprise now?

0. Minimum _________________ VND thousand
1. Maximum _________________ VND thousand
2. Average _________________ VND thousand

What was the monthly wage plus cash benefits range just before equitization?

0. Minimum _________________ VND thousand
1. Maximum _________________ VND thousand
2. Average _________________ VND thousand

Have you fired any employees since equitization?

0. No
1. Yes If yes, how many and what kinds? ______________________
8. Other: ____
9. N/A

Have you hired any new full-time employees since equitization?

0. No
1. Yes If yes, how many and what kinds? ______________________
8. Other: ____
9. N/A

Do you have problems getting/keeping skilled employees?

0. No
1. Yes What problems? ______________________________
8. Other: ______________________________
9. N/A

How has the skill mix of labor needed by this enterprise changed since privatization?

0. It has not changed
1. We need more technically skilled employees (engineer-types)
2. We need more sales and marketing people
3. We need more product development people
4. We need more unskilled employees
8. Other: ______________________________
9. N/A

Have you changed the way you stimulate/reward your employees?

0. No
1. Yes Describe: ______________________________
8. Other ______________________________
9. N/A

Do managers of equitized enterprises run into big problems now if they want to lay off redundant employees?

0. No
1. Yes
8. Other: ______________________________
9. N/A

If yes, what problems? ______________________________
____

In your view, how many employees are really needed in this enterprise at this time? ___________ employees, which is:

0. The same number as work here now
1. A small number fewer than work here now
2. A lot fewer than work here now
3. A few more than work here now
4. A lot more than work here now
8. Other: ____
9. N/A

Do the employees benefit from the centrally-managed Social Insurance Fund?

0. No, explain ____
1. Yes, employees contribute ___% of their gross wages
2. Yes, company contributes ___ % of the wage bill
8. Other ____
9. N/A

C. <u>**Assets**</u>

What is the status of the buildings used by this enterprise?

0. The enterprise owns all of them
1. The enterprise owns some and leases some from:

____

2. The enterprise leases all of the buildings from:

____

3. The status is unclear and changing often
8. Other: ____
9. N/A

If you lease all or part of these factory buildings, are you in the process of buying some or all of these buildings?

0. No 1. Yes 8. Other 9.N/A

If yes, what problems are associated with this purchase?

____

What is the status of the land occupied by this enterprise?

0. The company has formal land-use right
1. The company has informal land-use right
2. The company has land-use right fore some land and leases some
3. The company has a short-term lease for it (< 24 mos.)
4. The company has a long-term lease for it (> 24 mos.)
5. The company is using the land with no lease arrangements
6. The status is unclear
8. Other: ____
9. N/A

If you lease part or all of this land, are you in the process of getting the land-use right for this land?

0. No 1. Yes 8. Other: ________________
9. N/A

If yes, what problems are associated with this process?

____

____

What is the status of the production equipment in this company?

0. The company owns all of it

1. The company owns some and leases some
2. The company leases all of it
3. The status is unclear and changing often
8. Other: ____
9. N/A

If some or all of the equipment in your company is leased, are you in the process of purchasing this equipment?

0. No 1. Yes 8. Other: _____________ 9. N/A

Have you sold any equipment or buildings since equitization?

0. No
1. Yes What, how & to whom? __________________________

____

8. Other: ____
9. N/A

If you haven't sold any equipment, why not?

0. We don't want to sell any
1. It is illegal to do so. Explain: ________________________
2. It is legal but too costly because of the number of regulations
3. Nobody wants to buy this equipment
4. People want to buy it but they don't have money to do so
8. Other: ____
9. N/A

If you haven't sold any buildings, why not?

0. We don't want to sell any
1. It is illegal to do so. Explain: _________________________
2. It is legal but too costly because of the number of regulations
3. Nobody wants to buy these buildings
4. People want to buy them but they don't have money to do so

8. Other: ____
9. N/A

If you have sold some, what problems were associated with this transaction?

____

What kind of social facilities are currently provided by this company and who owns them (company=a; municipality=b; collective=c; other=d)?

0. None ________________
1. Health facilities ________________
2. Educational facilities ________________
3. Housing ________________
4. Vacation facilities ________________
5. Recreation facilities ________________
6. Transportation ________________
7. Farming plots ________________
8. Other: ________________
9. N/A

Comments: ____

Which services did you used to provide but no longer do?

0. None
1. Health facilities
2. Educational facilities
3. Housing
4. Vacation facilities
5. Recreational facilities
6. Transportation
7. Farming plots
8. Other: ____
9. N/A

What are the financial implications of this situation for the company:

0. We pay the same as before and it is not a problem

1. We pay the same as before but now we can't afford it
2. We pay more than we used to and it is not a problem
3. We pay more than we used to and we can't afford it
4. We pay less than we used to and it's not a problem
5. We pay less than we used to but we can't afford it
8. Other: ____
9. N/A

Comments? ____

What is the status of social assets owned now by the municipality?

0. They operate them the same as we did when we owned them
1. They operate them but have cut back services
2. They operate them and provide more services
3. We still operate them by agreement with the municipality
4. We still operate them because the municipality refuses to/can't
5. The municipality has contracted someone else to operate them
6. The municipality is transferring them to employees
8. Other: ____
9. N/A

From the point of view of enterprise employees, how has the level of social services provided by this enterprise changed since equitization?

0. It has not changed at all
1. Employees get fewer services now, explain**:** ___________________
   So where do they now get these services? ___________________
2. Employees get more services now, explain: ___________________
8. Other: ____
9. N/A (i.e. they get no services)

What are the financial implications of this situation for employees/users?

0. They pay the same amount on average as they did before
1. They pay more on average
2. They pay less on average
3. They pay nothing for any of these services
8. Other: ____

9. N/A

Comments? ____

What are your plans for the social assets that you currently own?

0. We are going to keep them
1. We have leased some and are going to keep the remainder. details: ____
2. We have already leased some of them and we are now in the process of selling/leasing more or the remainder. details: ____
3. We have already leased/sold some. We'd like to sell/lease more but we can't find buyers/lessors. details: ____
4. We have not sold/leased any. We'd like to but we can't find buyers/lessors.
5. We have not sold/leased any. We'd like to sell/lease some but government regulations make it almost impossible to get rid of some assets. details: ____
6. We have not sold/leased any. We'd like to but it would be unacceptable to our workers. details: ____

D. FINANCE

Please complete the following table:

Income Statement (in VND million)

Description	Pre-Equitization	Post-Equitization		
	Last Year	Year 1	Year 2	Year 3
Gross Sales Revenues				
Turnover & Excise Tax				
Sales Costs				
Net Sales Revenues				
Cost of Sales				
- Material Inputs				
- Fuel/Power/Util.				
- Wages				
- Depreciation				
- Financial Charges				
- Adjustments				
Total Cost of Sales				
Operating Profits				
Subsidies				
Other Adjustments				
Pre-Tax Income				
Distribution of Income				
- Income Tax				
- Other Transfers				
- Compulsory Funds				
Total Distribution				
Dividends				
Retained Earnings				

Please complete the following table:

Balance Sheet (in VND million)

Description	Pre-Equitization	Post-Equitization		
	Last Year	Year 1	Year 2	Year 3
ASSETS				
Current Assets				
Cash & Deposits				
Accounts Receivable				
Inventories				
- Materials				
- Finished Goods				
- Work In Progress				
- Other Current Assets				
Total Current Assets				
Fixed Assets				
Facilities at Cost				
- Depreciation				
- Revaluation				
Net Fixed Assets				
Other Fixed Assets				
Total Fixed Assets				
TOTAL ASSETS				
LIABILITIES				
Current Liabilities				
Accounts Payable				
Bank Credits				
Long-Term Debts Due				
Welfare Fund				
Bonus Fund				
Other Current Liabilities				
Total Current Liabilities				
Investment Credits				
Enterprise Credits				
Other LT Liabilities				
Total LT Liabilities				
TOTAL LIABILITIES				
EQUITY				
Fixed Assets Own Fund				
Working Capital Own Fund				
Capital Construction Fund				
Production Develop. Fund				
Legal Capital				
Reserves				
TOTAL EQUITY				
TOTAL LIABILITIES & EQUITY				

Calculate key financial indicators from the Income Statement and Balance sheet:

Key Financial Indicators

Description	Pre-Equitization	Post-Equitization		
	Last Year	Year 1	Year 2	Year 3
Value-added/Employee(VND '000)				
Subsidy in Pre-tax Income, %				
Pre-tax Income/Sales, %				
Pre-tax Income/Total Assets, %				
Pre-tax Income/Equity, %				
Current Ratio				
Debt/Assets, %				
Long-term Debt/Equity, %				
Inventory (weeks)				
Receivable (weeks)				
Payable(weeks)				
Bank Credit (weeks)				
Materials (% Total Cost)				
Energy "				
Wages "				
Depreciation "				
Financial Charges "				
Other "				
Income Tax (% Pre-tax Income)				
Transfers "				
Compulsory Funds "				
Dividends "				
Retained Earnings "				

What are your biggest problems in financing your enterprise now?

____

____

Is a significant portion of your receivable overdue by more than 60 days?

0. No
1. Yes, mostly by private sector customers
2. Yes, mostly by state sector customers
3. Yes, by both private and state sector customers

If people are late in paying you, what action do you take?

0. None
1. Harass them
2. Charge them interest
3. File a claim in the court
4. Stop delivering my products
5. Demand advances from them in the future
8. Other: ____
9. N/A

Since equitization, have you tried to get a short-term loan from a bank (<12 months)?

0. No Why not?

____

1. Yes, but not successful. What kind of loan? ____________

   Why not successful? ____________________________________

2. Yes, short term loan received
   Terms of loan:
   - What month and year did you receive this loan? ________
   - monthly interest rate for the first month __________%
   - term (length of time for repayment) ______________
   - how was it secured? ______________________________
   - name of bank ____________________________________
   - ownership of bank (state, private) ___________________
   - do you own shares in this bank? ___________________
8. Other (Specify) ____________________________________

9. N/A

How difficult is it currently to get a short-term loan from a bank on commercial terms? i.e., at real interest rates

0. Very easy
1. Fairly easy
2. Fairly difficult
3. Very difficult
4. Impossible, completely unavailable
8. Other (Specify) ____________________________________
9. N/A

If it is difficult, what is the main problem?

0. The regulations and paperwork are too much to handle
1. Banks don't have enough money to lend
2. Size of loans available is not large enough
3. Lenders prefer favored clients, those who have large deposits or are long-term clients
4. Lenders do not like our kind of business
5. Lenders require more collateral than we have
   How much collateral is required and what kind is acceptable:

____

8. Other (Specify): ____________________________________

____

9. N/A

In the last 12 months, have you tried to get a short-term loan from a non-bank institution (ex: other financial institutions or enterprises)?

0. No Why not?

____

1. Yes, but not successful. What kind of loan? ____________

Why not successful? ______________________________

2. Yes, short term loan received (12 months or less)
   What month and year did you receive this loan? ______
   monthly interest rate for the first month ________%
   term ______________________________
   how was it secured? ______________________________
   name of institution ______________________________
   ownership (state, private) ______________________________
   do you own shares in this institution? ______________
8. Other (Specify) ______________________________
9. N/A

If you have received a short-term loan since privatization, how many times have you renewed it and for what periods of time?

0. We have not renewed it
1. We renewed it once for ___ days
2. We renewed it twice for ____ days each time
3. We renewed it 3-5 times for ____ days each time
4. We renewed it over 5 times for ____ days each time
8. Other: ______________________________
9. N/A

If you received a short-term loan, for what did you use it?

0. To pay employees
1. To pay for inputs
2. To pay overhead
3. To buy machinery
4. To buy real estate
5. To pay off other debts
6. To pay taxes
7. To buy consumer goods for workers
8. Other: ______________________________
9. N/A

Since equitization, have you tried to get a long-term loan from a bank?

0. No Why not?

____
1. Yes, but not successful. What kind of loan? ______________

   Why not successful? ____
2. Yes, long term loan received (>12 months)
   - What month and year did you receive this loan? _______
   - monthly interest rate for the first month _________%
   - term ____
   - how was it secured? ___________________________________
   - name of bank ____
   - ownership (state, private) _____________________________
   - do you own shares in this bank ________________________

8. Other (Specify) ____

____
9. N/A

Since equitization, have you tried to get a long-term loan from a non-bank institution?

0. No Why not? ____
1. Yes, but not successful. What kind of loan? _____________
   Why not successful? ____
2. Yes, long term loan received (>12 months)
   - What month and year did you receive this loan? ________
   - monthly interest rate for the first month ________%
   - term ____
   - how was it secured? ___________________________________
   - name of institution ____________________________________
   - ownership (state, private) ____________________________
   - do you own shares in this institution? _________________
8. Other (Specify) ____
9. N/A

How difficult is it currently to get a long-term loan from a bank on commercial terms, i.e., real interest rates?

0. Very easy

1. Fairly easy
2. Fairly difficult
3. Very difficult
4. Impossible, completely unavailable
8. Other (Specify) ____
9. N/A

The main difficulty in getting a long-term loan is:

0. Paperwork
1. The banks don't have enough money to loan
2. Size of loans available is not large enough
3. Bankers prefer to make larger loans
4. Lenders prefer favored clients, those who have large deposits or are long-term clients
5. Lenders do not like our kind of business
6. Lenders require more collateral than we have
   What kind of collateral do they require and how much:

____
7. Bankers are unwilling to lend because inflation is so high
8. Other (Specify): ____
9. N/A

If you received a long-term loan, for what did you use it?

0. To buy machinery
1. To buy real estate
2. To pay off other debts
3. To pay taxes
4. To invest in other enterprises
5. To stockpile raw materials
8. Other: ____
9. N/A

Do you use hard currency in your business?

0. No 1. Yes 8. Other: ____________ 9. N/A

What banking services have you used since equitization?
(Check as applicable)

0. ___________ Saving account
1. ___________ Payments instruction
2. ___________ Letters of credit
3. ___________ Working capital
4. ___________ Investment credit
5. ___________ Equipment lease finance
6. ___________ Insurance (Type?)
____
8. ___________ Other
____
9. ___________ None

What is the biggest problem you have had with your bank?

0. Transaction speed
1. High fees for service
2. Won't give us a loan
3. Our bankers violate confidentiality
8. Other(Specify) ____

Does this enterprise own shares in a bank?

0. No
1. Yes Share of ownership? _____ Name of bank? ____________
8. Other: ____
9. N/A

Is your cash flow adequate to cover the costs of your operations?

(total money coming in and money paid out)

0. No, not nearly 1. No, but almost
2. Yes, it covers 3. It far more than covers
8. Other: ____

9. N/A

Comments: ____

E. PRODUCTION AND SALES

Have you changed your mix of outputs since equitization?

0. No
1. Yes
8. Other: ____
9. N/A

New outputs (Describe them, why did you choose this output? Source of design and know-how?)

____

____ _

Discontinued outputs? (List them, provide reasons for discontinuation)

____
____

____
____

____

Given your current labor force, equipment and number of shifts, what is your current capacity utilization? _________ percent

In the past 3-4 months, how has your production/service volume changed? For what single most important reason? (circle only one)

0. No significant change
1. Increased, because foreign exchange (inputs) more available
2. Increased, because local raw materials are more available
3. Increased, because demand has increased
4. Increased, because of entering new markets
5. Increased, because imported goods now are more expensive
6. Increased, because production in state-owned enterprises has declined
7. Increased, other reason (specify): ________________________

____

8. Decreased, because demand is weak
9. Decreased, because of competition from imports
10. Decreased, because of increased domestic competition
11. Decreased, because of high costs of imported inputs (lack of working capital)
12. Decreased, because of high costs of local inputs (lack of working capital)
13. Decreased, because can't get local inputs
14. Decreased, other reason (specify):

____

99. N/A

At present, is the firm selling everything that it produces/provides?

0. No, inventories are piling up (demand constrained)
1. Yes, and one could sell more if one had more orders (demand constrained)
2. Yes, but couldn't sell much more even if demand increased (supply constrained)
8. Other (Specify): ____
9. N/A

How many months of work do you have lined up now?

0. Less than 1 month
1. 1-3 months
3. 3-5 months
4. 6 months

5. > 6 months
8. Other: ____
9. N/A

Are there price controls or fixed profit margins on your major products and services?

0. No
1. Yes Details: ______________________________________

____

8. Other: ____
9. N/A

What is your biggest problem in getting the inputs you need?

0. They have become too expensive
1. There's a general shortage of basic inputs in our area
2. We need very specialized inputs that generally are not available here
3. The quality of available inputs is too low
4. We need imported inputs and they are too expensive
5. The delivery schedule of inputs is very unreliable
6. The quality of inputs is very unreliable
8. Others: ____

____

How many other businesses (private or privatized) does this company own in full or in part?

0. None
1. One
2. Two
3. Three
4. More than three
8. Other (Specify) ______________________________________
9. N/A

What role do these other enterprises play in this enterprise?

0. None, they are entirely unrelated
1. A large share of our inputs come through this enterprise
2. A large share of our products are sold through this enterprise
3. They are financiers for this enterprise
4. They are distributors for this enterprise
8. Other: ____
9. N/A

Who are your main customers? (Circle only one answer)

0. State-owned enterprises (inputs)
1. Domestic private firms including leaseholds and coops (inputs)
2. Private shops, retailers (finished goods)
3. State enterprises or government (finished goods)
4. State trading companies (finished goods or inputs?)
5. Private traders (finished goods or inputs?)
6. Foreign buyers (finished goods or inputs?)
8. Other (Specify) ___________________________________

____

9. N/A

Where are most of your products/services sold? (one answer only)

0. Locally
1. In surrounding towns
2. Nationally
3. Other countries in East Asia
4. World wide
8. Other (Specify): ______________________________________
9. N/A

Are there regulations regarding distribution channels you must use for your products/services?

0. No 1. Yes

If yes, what are they?

____

8. Other (Specify) _______________________________________

____

9. N/A

What kinds of problems do you have with distributing your products?

0. None
1. Transportation is not available, too expensive or unreliable
2. Not enough distributors for our product
3. Not enough retail units for our product
4. Lack of information systems makes it difficult
5. Lack of warehousing makes it difficult
8. Other: _______________________________________

Who are your firm's <u>main</u> competitors? (circle one)

0. None
1. Small private firms
2. Large private firms
3. State enterprises
4. Cooperatives
5. Foreign-owned firms
6. Foreign-local joint ventures
7. Imports
8. Other (Specify) ___________________________________

____

9. N/A

How many other firms sell in your main markets?

0. None
1. Fewer than 10
2. 10-50

3. 50-100
4. More than 100
8. Other: ____
9. N/A

Do you export your product?

0. No
1. Yes, export directly
2. Yes, export through others
8. Other (specify): ______________________________________
9. N/A

If yes, about what proportion of your production is exported (in value terms)?
__________ percent

If you are exporting, what are the main obstacles that you face? (For example: taxes, paperwork, knowledge, costs)

____
____
____
____
____

In your view, is the current level of technology, machinery and labor adequate for the near future?

____
____
____
____
____
____
____

Are there important environmental concerns associated with this enterprise and how do you plan to address them?

____
____
____
____
____
____

IV. STRATEGIC PLANNING: THE FUTURE

What are the priorities in your enterprise strategy for the next 6 months?
(circle all that pertain)

0. Investment in new equipment
1. Investment in new buildings
2. Reorganize the production process
3. Improve financial management
4. Improve marketing skills
5. Downsizing by laying off employees/selling off equipment
6. Dropping/adding products and entering new markets in Vietnam
7. Entering export markets
8. Other: ____
9. N/A

Which one of these is the first priority? ______________

Which one of these is the second priority? _____________

What are the priorities in your enterprise strategy for the next 2-3 years?
(circle all that pertain)

0. Investment in new equipment
1. Investment in new buildings
2. Reorganize the production process
3. Improve financial management
4. Improve our ability to market
5. Downsizing by laying off employees/selling off equipment

6. Dropping/adding products and entering new markets in Vietnam
7. Entering export markets
8. Other: ____
9. N/A

If you are planning to make capital investments, what will be your primary source of financing?

0. A short-term bank loan
1. A long-term bank loan
2. A loan from elsewhere Where? ____________________
3. Business profits
4. Equity from a local investor
5. Equity from a foreign investor
6. Sales of assets
8. Other: ____
9. N/A

What will be your strategy when energy prices are freed? How are you anticipating this?

____

____

If you intend to cut costs through greater efficiency, how do you plan to do so?

____

____

If you intend to increase sales in this enterprise, how do you plan to do so?

____

____

If you intend to downsize by laying off employees, what kinds of problems do you anticipate with this?

0. We expect to have big problems with labor councils/unions
1. It will cost a lot in compensation payments for those laid off

2. We will be unable to do it because these employees have no place to go
3. Many of these employees are shareholders and we can't lay them off
8. Other: ____
9. N/A

If you intend to upgrade employees through training, how will you do it?

0. Send employees to local training institutions
1. Bring in trainers to give short courses
2. Rely on suppliers of new equipment to give training
3. Send employees abroad for training
8. Other: ____
9. N/A

In which of area do you feel that you need external assistance?

0. Marketing
1. Finance
2. Management What kind? ______________________________
3. Production organization
4. Labor training
5. Technology
6. Entering export markets
7. Product quality/packaging
8. Other: ____
9. N/A

In these areas, which form of assistance would be most helpful to your enterprise?

0. A short course
1. A study tour
2. A foreign consultant (short-term)
3. A foreign consultant (long-term)
4. A domestic consultant (short-term)
5. A domestic consultant (long-term)
6. Just learning by doing
7. Printed material
8. Other What? ______________________________________

9. N/A

In your opinion, who should offer this training course?

0. The government
1. A foreign assistance organization
2. A private trade association
3. Private domestic consultants
4. Private international consultants
5. Local colleges/universities
8. Other (Specify) ____
9. N/A

To what extent would you be willing to pay for courses, study tours or consultants? (use examples to get answer)

____

____

____

If you had to predict the future of this enterprise, where do you think this firm will be five years from now?

____

____

Interviewers: After leaving the enterprise, start by ranking the firm with a plus sign (+), a minus sign (-) or an equal sign (=) on the first page of this questionnaire (q.#2). A (+) means that you think this enterprise has an excellent chance of long-term viability; a (-) means that you think that this firm has no chance of long-term viability short of a miracle or sustained bail-outs; an (=) means that it really isn't clear to you what will happen to this firm. It has a mix of strengths and weaknesses and it could go either way depending on events in the larger economy, the speed at which imports come in, and on the quality of decisions taken by managers.

Next, answer the following questions. Include the things that are important about this firm that you want to make sure come out in the final report. Also look for ways in which this firm illustrates common patterns among privatized firms, i.e., this firm is a good example of large worker shares of ownership but no active participation in the firm for the following reasons. Or point out the anomalies that you saw in this firm. Whatever you consider to be important.

What is your impression about the managers?

____

____

____

What is your impression about the factory workforce, organization, products...)

____

____

____

Is this firm acting differently since privatization?

____

____

____

What are the most serious restructuring issues. Are they addressing them? How?

____

____

Is financing a serious issue?

Will they borrow from commercial bank:

Short term?

Long term?

Will commercial banks be willing to lend them money?

What kind of TA do you think they really need: which areas, which forms?

Other?

CODING LIST FOR QUESTION ON PROBLEMS

Demand

1. People don't have enough money (generally)
2. People aren't buying because it is the off season
3. Too many other firms in the same business
4. Too many imports
9. Other demand problems (specify) ____________________________

Raw Materials and Inputs

11. Can't get enough local raw materials and inputs
12. Quality of raw materials and inputs is poor
13. Price of local raw materials and inputs is too high
14. Can't get enough imported raw materials and inputs
15. Price of imported raw materials and inputs is too high
16. Tariffs on imported raw materials are too high
19. Other; (specify) ____

Technology, Equipment

21. Equipment is old and needs replacing or updating
22. Replacement costs are too high
23. Can't get spare parts
24. Local equipment is inferior, can't afford imports
25. Repairs are difficult to do or get done
29. Other; (specify) ____

Finance

31. Have to give too much credit to customers
32. Can't get credit for raw materials or working capital
33. Can't get credit for equipment
34. Banks are too difficult to deal with (guarantees are too high, too much collateral, other)
35. Interest rates are too high
36. Cash flow problems due to delayed clearing of payments to threat the bank
37. State enterprises are not paying on time
39. Other; (specify) ____

Labor, Management

40. Lack of skilled employees; employees don't have the right skills
41. Lack of unskilled employees
42. High wages and benefits for skilled employees
43. High wages and benefits for unskilled employees
44. Not allowed to lay employees off
45. Inadequate management skills. In which area? ____
46. Not permitted to increase wages sufficiently to attract appropriate labor
47. Employees unmotivated or lazy
49. Other; (specify) ____

Infrastructure

50. Lack of or frequently interrupted electricity
51. Inadequate telecommunications, specifically
52. Inadequate roads for transport
53. Transportation costs are too high
54. Shipping by land, sea and air is very difficult to arrange
55. Shipping by land, sea and air is very expensive
56. Factory space is inadequate and getting a larger space is too expensive
57. Factory space is inadequate and a larger space is not available
58. Warehouse space is not available
59. Other; (specify) ____

Business Environment

60. Taxes
61. Regulations, licensing, permits
62. Obtaining foreign exchange
63. Rules and policies change too often
64. Standards and quality requirements are unreasonable (e.g., for gov't. procurement)
65. Government rules and regulations are too costly to comply with
69. Other; business environment (specify) __________________

Marketing and Distribution

70. Too few distributors
71. Distributors won't handle the firm's product
72. Distributors will pay too little for the firm's products
73. Difficult to gain access to retail market directly

79. Other; (specify) ____________________________________

80. Other problems; (specify) ____________________________

99. N/A = not asked, not applicable, no answer.