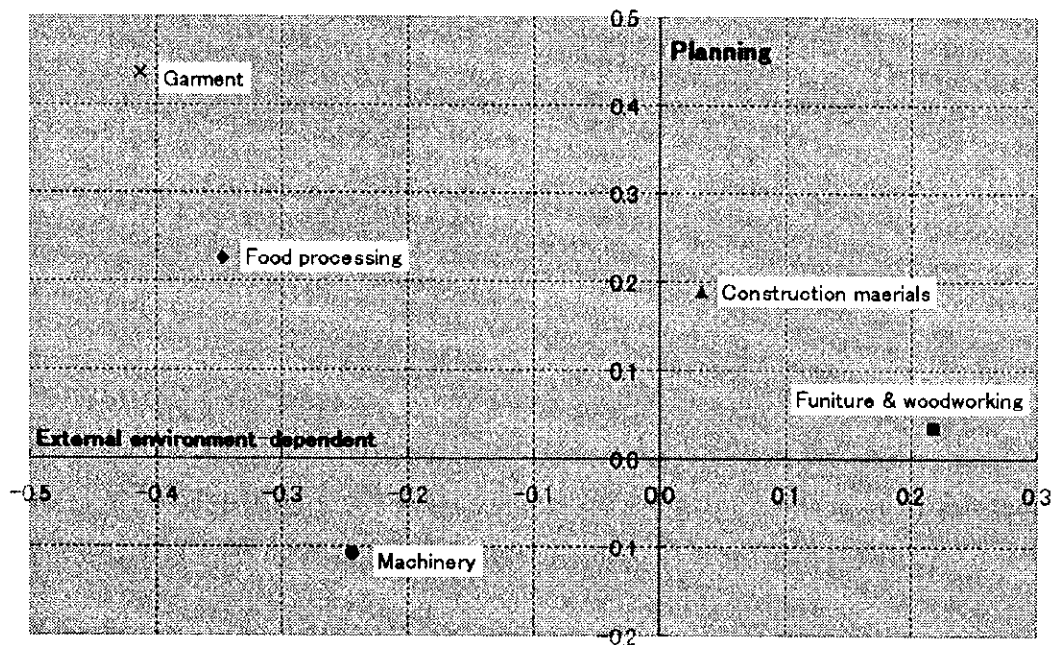


Table 24 Examination of differences in factor scores among major industries
(garment and machinery industries)

Garment		22									
Machinery		25									
		Levene examination for common variance		Examination of differences between two population means							
		F value	Level of significance	t value	Degree of freedom	Level of significance	Differences in mean values	Standard deviation in	95% confidence interval		
									Minimum	Maximum	
External environment-dependent	Assuming common variance	0.14	0.71	-2.13	45	0.03	-0.50	0.23	-0.96	-0.04	
	Not assuming common variance			-2.13	44	0.03	-0.50	0.23	-0.96	-0.04	
Creativity	Assuming common variance	0.85	0.36	-1.67	45	0.11	-0.40	0.25	-0.96	0.10	
	Not assuming common variance			-1.67	44	0.10	-0.40	0.24	-0.95	0.09	
Judging and dealing ability	Assuming common variance	0.63	0.43	-0.54	45	0.73	-0.07	0.20	-0.17	0.33	
	Not assuming common variance			-0.55	44	0.73	-0.07	0.20	-0.16	0.33	
Particularities	Assuming common variance	5.69	0.02	-0.67	45	0.57	-0.12	0.20	-0.55	0.29	
	Not assuming common variance			-0.67	44	0.56	-0.12	0.20	-0.52	0.29	
Executing ability	Assuming common variance	0.06	0.31	-0.42	45	0.64	-0.10	0.21	-0.52	0.32	
	Not assuming common variance			-0.42	43	0.65	-0.10	0.21	-0.52	0.33	
Planning	Assuming common variance	3.87	0.06	3.03	45	0.00	0.55	0.18	0.19	0.91	
	Not assuming common variance			3.18	44	0.00	0.55	0.17	0.20	0.91	
Flexibility	Assuming common variance	0.15	0.70	1.25	45	0.22	0.25	0.20	-0.17	0.65	
	Not assuming common variance			1.23	44	0.22	0.25	0.20	-0.16	0.66	
Self-conclusion	Assuming common variance	0.17	0.68	-0.63	45	0.62	-0.10	0.20	-0.51	0.31	
	Not assuming common variance			-0.63	43	0.62	-0.10	0.20	-0.51	0.31	
Multilaterally planning ability	Assuming common variance	1.91	0.17	0.96	45	0.34	0.21	0.22	-0.23	0.65	
	Not assuming common variance			0.99	43	0.33	0.21	0.21	-0.22	0.64	

Fig. 4 Average values of first and sixth factor scores by major industries



(5) Examination of differences in factor scores by location

We examined the difference in factor scores by head office location (northern and southern enterprises) to see if there are differences for each extracted factor. The findings showed significant differences in the following four factors:

First factor: External environment dependent

Second factor: Creativity

Sixth factor: Planning

Eighth factor: Self-conclusion

It was found that northern enterprises were strong in the first, third and eighth factors, while southern enterprises were strong in the seventh factor. Analyses of these findings lead us to believe that northern enterprises are more influenced by external environment in their operations, while southern enterprises are engaged in more systematic operations.

Table 25 Examination of differences in factor scores by head office location

Q5: Head office location											
Northern				118							
Southern				238							
		Levene examination for common variance		Examination of differences between two population means							
		F value	Level of significance	t value	Degree of freedom	Level of significance	Differences in mean values	Standard deviation in	95% confidence interval		
									Minimum	Maximum	
External environment-dependent	Assuming common variance	0.93	0.34	3.60	354	0.00	0.34	0.09	0.15	0.53	
	Not assuming common variance			3.46	211	0.00	0.34	0.10	0.15	0.53	
Creativity	Assuming common variance	0.29	0.59	1.94	354	0.05	0.17	0.09	-0.20	0.33	
	Not assuming common variance			2.02	259	0.04	0.17	0.08	0.00	0.33	
Judging and dealing ability	Assuming common variance	0.04	0.83	1.79	354	0.07	0.15	0.09	-0.10	0.33	
	Not assuming common variance			1.78	229	0.08	0.15	0.09	-0.10	0.33	
Particularities	Assuming common variance	1.52	0.22	-1.25	354	0.18	-0.11	0.08	-0.23	0.06	
	Not assuming common variance			-1.22	217	0.19	-0.11	0.09	-0.23	0.06	
Executing ability	Assuming common variance	0.27	0.60	-1.15	354	0.21	-0.10	0.08	-0.25	0.06	
	Not assuming common variance			-1.14	227	0.22	-0.10	0.08	-0.25	0.06	
Planning	Assuming common variance	3.40	0.07	-2.19	354	0.03	-0.12	0.08	-0.34	-0.01	
	Not assuming common variance			-2.15	197	0.03	-0.12	0.09	-0.35	-0.01	
Flexibility	Assuming common variance	8.38	0.00	1.40	354	0.16	0.12	0.08	-0.23	0.28	
	Not assuming common variance			1.49	279	0.14	0.12	0.08	-0.24	0.27	
Self-conclusion	Assuming common variance	10.13	0.00	2.34	354	0.02	0.19	0.08	0.03	0.35	
	Not assuming common variance			2.49	277	0.01	0.19	0.08	0.04	0.34	
Multilaterally planning ability	Assuming common variance	2.97	0.09	-1.54	354	0.13	-0.12	0.08	-0.25	0.03	
	Not assuming common variance			-1.44	199	0.15	-0.12	0.08	-0.29	0.04	

(6) Examination of differences in factor scores by years of operation

Then we examined differences in factor scores by years of operations using data for the year of registration. Examinations were made for two groups, enterprises less than a year in operation (registered after the enactment of the New Corporate Law in January 2000) and those over a year in operation (registered before 1999), and then another two groups, enterprises less than five years in operation (registered after 1996) and those over five years in operation (registered before 1995).

The findings showed no significant differences in all factors for two former groups (enterprises registered in 2000 and those before 1999). However, the latter two groups showed some significant differences as follows:

Fifth factor: Executing ability

Eighth factor: Self-conclusion

Ninth factor: Multilaterally planning ability

In the fifth factor (executing ability), enterprises registered before 1995 were found stronger, while in the eighth and ninth factors, those registered after 1996 were shown to be stronger.

These findings suggest the following conclusion.

The New Corporate Law enforced in January 2000 has had little impact on Vietnamese entrepreneurship.

Enterprisers with more than five years of experience have a degree of executing ability, but those with less experience are listening to others' opinions but lack this executing ability.

Table 26 Examination of differences in factor scores by time of registration
(Enterprises registered in 2000 and those registered before 1999)

Q7: Time of registration(Enterprises registered in 2000 and those before 1999)										
Registered before 1999		321								
Registered in 2000		33								
		Levene examination for common variance		Examination of differences between two population means						
		F value	Level of significance	t value	Degree of freedom	Level of significance	Differences in mean values	Standard deviation in	95% confidence interval	
External environment-dependent	Assuming common variance	0.21	0.65	0.18	357	0.86	0.03	0.15	-0.23	0.31
	Not assuming common variance			0.18	46	0.86	0.03	0.15	-0.27	0.32
Creativity	Assuming common variance	0.73	0.39	-0.24	357	0.81	-0.05	0.13	-0.19	0.23
	Not assuming common variance			0.20	43	0.84	-0.05	0.16	-0.25	0.29
Judging and dealing ability	Assuming common variance	1.55	0.21	-0.92	357	0.38	-0.12	0.13	-0.35	0.15
	Not assuming common variance			-1.10	57	0.25	-0.12	0.10	-0.30	0.09
Particularities	Assuming common variance	0.09	0.77	1.07	357	0.28	0.14	0.13	-0.12	0.39
	Not assuming common variance			1.16	48	0.25	0.14	0.12	-0.18	0.38
Executing ability	Assuming common variance	5.80	0.02	-0.93	357	0.36	0.13	0.13	-0.28	0.13
	Not assuming common variance			-1.18	55	0.24	-0.12	0.10	-0.31	0.08
Planning	Assuming common variance	0.31	0.58	-0.10	357	0.92	-0.01	0.13	-0.27	0.24
	Not assuming common variance			-0.13	52	0.90	-0.01	0.11	-0.23	0.20
Flexibility	Assuming common variance	0.66	0.42	-1.23	357	0.22	0.15	0.13	-0.40	0.09
	Not assuming common variance			-1.41	51	0.16	-0.15	0.11	-0.37	0.06
Self-conclusion	Assuming common variance	0.19	0.67	-1.40	357	0.16	-0.15	0.13	-0.42	0.07
	Not assuming common variance			-1.33	45	0.19	-0.12	0.13	-0.34	0.09
Multilaterally planning ability	Assuming common variance	1.82	0.18	0.44	357	0.66	0.05	0.12	-0.13	0.29
	Not assuming common variance			0.35	42	0.73	0.05	0.15	-0.19	0.36

Table 27 Examination of differences in factor scores by time of registration
(Enterprises registered after 1996 and those registered before 1995)

Q7: Time of registration(Enterprises registered after 1996 and those registered before 1995)										
Registered before 1995		153								
Registered after 1996		206								
		Levene examination for common variance		Examination of differences between two population means						
		F value	Level of significance	t value	Degree of freedom	Level of significance	Differences in mean values	Standard deviation in	95% confidence interval	
External environment-dependent	Assuming common variance	0.01	0.91	-0.01	357	0.94	0.01	0.09	-0.13	0.17
	Not assuming common variance			-0.01	326	0.94	-0.01	0.09	-0.13	0.17
Creativity	Assuming common variance	0.15	0.70	-1.70	357	0.20	-0.11	0.08	-0.27	0.05
	Not assuming common variance			-1.70	330	0.20	-0.11	0.08	-0.27	0.05
Judging and dealing ability	Assuming common variance	2.56	0.11	-0.75	357	0.45	-0.06	0.08	-0.24	0.10
	Not assuming common variance			-0.74	300	0.46	-0.06	0.09	-0.23	0.10
Particularities	Assuming common variance	1.27	0.26	0.82	357	0.41	0.07	0.08	-0.09	0.22
	Not assuming common variance			0.81	307	0.42	0.07	0.08	-0.09	0.23
Executing ability	Assuming common variance	0.03	0.86	2.11	357	0.04	0.16	0.08	0.01	0.32
	Not assuming common variance			2.10	323	0.04	0.16	0.08	0.01	0.32
Planning	Assuming common variance	3.42	0.07	-0.35	357	0.71	-0.03	0.08	-0.19	0.13
	Not assuming common variance			-0.36	269	0.72	-0.03	0.08	-0.19	0.13
Flexibility	Assuming common variance	0.04	0.84	1.77	357	0.17	-0.11	0.08	-0.25	0.05
	Not assuming common variance			-1.82	326	0.17	-0.11	0.08	-0.25	0.05
Self-conclusion	Assuming common variance	5.53	0.02	-2.04	357	0.04	-0.15	0.08	-0.41	0.01
	Not assuming common variance			-2.01	304	0.05	-0.15	0.08	-0.32	0.02
Multilaterally planning ability	Assuming common variance	5.99	0.01	2.11	357	0.04	-0.15	0.07	-0.30	-0.01
	Not assuming common variance			-2.06	297	0.04	-0.15	0.08	-0.41	-0.01

(7) Comparison with similar surveys in Japan

A similar survey was reported in Japan's 1999 White Paper on Small Enterprises. The Japanese questionnaire survey was conducted for 2,000 operators of small and medium-sized enterprises, and 414 of them responded. The findings were put to similar factor analysis and the following seven factors were extracted.

First factor: Planning

Second factor: Risk-taking posture

Third factor: Judgment and action taking

Fourth factor: Monitoring

Fifth factor: Endurance

Sixth factor: Flexibility

Seventh factor: Ascription of causes

Compared with the findings of the survey of Vietnamese business operators, the first factor (planning) in the Japanese survey indicates that Japanese business operators are inclined to conduct their businesses according to plan, and the second factor (risk-taking attitude) also indicates their intention to take risks in operating their businesses. Generally Japanese enterprisers are said to be more intent on avoiding risks than American and Taiwanese counterparts. Vietnamese enterprisers are more conservative and weaker in planning.

The analysis by Japan's White Paper divided the sample companies into the successful group and the unsuccessful group and verified whether there was a significant difference between the two groups for each factor. A significant difference was found in such factors as "judgment and action taking," "monitoring," and "flexibility".

A similar analysis was made in this survey of Vietnamese business operators, but little significant difference was observed. There are three reasons for this. First, unlike the responses from Japanese enterprisers who are accustomed to questionnaire surveys, those from unaccustomed Vietnamese respondents do not seem to reflect what they really have in mind. Second, they are not inclined to disclose the real state of their operation, and accordingly, it is open to question whether their responses about the results of their management, on the basis of which their success or failure should be judged, are reliable or not. Third, because of the relatively short history of private company management, Vietnamese business operators' experience is limited, and therefore, there seems to be no significant gap among them in regard to their awareness as corporate managers.

7. International comparison of management environment surrounding entrepreneurship

The environment surrounding corporate management has a major impact on the formation of entrepreneurship. The following is a comparison of Viet Nam with Japan, the U.S. and Taiwan on this point, by referring to the "Survey of the Comparative Japanese and American Conditions for Venture Startups" which was conducted by Nomura Research Institute at the request of the Small and Medium Enterprise Agency.

In terms of the social environment for entrepreneurship, big companies enjoy a high social status in Japan, and school education provides few opportunities to absorb knowledge about business founding. By contrast, in the U.S. and Taiwan, the social status of small businesses is relatively high, and people have many opportunities to see their family members or relatives launching on new businesses and experience business management by themselves. In Viet Nam, the social status of private companies is low, and it is close to that of Japan's small enterprises. Opportunities to learn how to manage enterprises are very limited in Viet Nam. Once enterprisers fail, it is almost impossible to rehabilitate, and thus business risks are enormous. This situation is never adequate in fostering entrepreneurs.

International comparison of social environment and education for fostering enterprisers

	Vietnam	Japan	America	Taiwan
Social environment	Social status of private enterprises is low. There is a strong perception that being successful and outstanding results in losing money. Business failures virtually wreck the chance of rehabilitation.	Social status of big companies is high and that of small companies is low. There is a strong hesitation for standing out. A popular saying is, The nail that sticks out will get a pounding. Once one fails in business, he will find few chances to rehabilitate.	The frontier spirit that respects independence has prevailed since the country was founded. Entrepreneurial experience is respected, and retry is always allowed.	Being an owner-businessman is received higher than being a salaried worker. Many families and relatives have owner-businessmen, and business operation is felt familiar. People are quick in starting up or with drawing from businesses, and big losses can often be avoided.
School education	No entrepreneurship education is given in schools. Recently, business schools have been opened.	No entrepreneurship education is given from primary to high schools. Recently, entrepreneurship education has started in some universities and graduate schools.	Lower-grade schoolchildren are educated in business founding. Courses for fostering entrepreneurs are offered by more than 200 universities and colleges.	No entrepreneurship education is offered.
Private sector seminars	No private sector seminars on business founding are available.	Such seminars have been frequent in recent years.	Many universities and non-profit organizations hold seminars on business founding for entrepreneurs.	Such seminars for enterprisers are few.

(Source) Prepared on the basis of the "Survey of the Comparative Japanese and American Conditions for Venture Startup".

The following table shows a comparison of educational background of enterprisers. The structure of educational background of Vietnamese enterprisers is similar to that of Japanese or Taiwanese counterparts. About 60% of Vietnamese enterprisers are graduates from middle schools, high schools or vocational colleges. Those with higher educational background tend to wish to be employed by state-owned enterprises. According to a questionnaire survey of university and college graduates that was conducted in 1999 by the Ministry of Education and Training with the cooperation of the World Bank, 97% of them were employed by enterprises, mostly state-owned. A hearing survey also shows that many graduates wish to work for state-owned enterprises, and those with higher marks are actually employed more often than others.

Comparison of educational background of enterprisers

	Viet Nam	Japan	U.S.	Taiwan
Middle schools, high schools, vocational colleges	56.8%	57.6%	23.8%	72.7%
Universities, graduates or dropouts	36.8%	39.6%	43.7%	24.1%
Graduate schools	1.4%	2.7%	32.5%	3.3%

Notes 1) Data for Viet Nam show the findings of the questionnaire survey. "Middle schools, high schools, vocational colleges" include "others".

2) Data for Japan and the U.S. show the results of the FY1996 survey by the Waseda University Entrepreneur Study Group.

3) Data for Taiwan are from the Executive Yuan of Taiwan.

Employment courses of university graduates in Viet Nam

	Total	Engineering	Economics & Law
Responses	6,304	1,174	1,208
Employed	97.08%	97.96%	97.93%
State-owned enterprises	76.57%	81.77%	63.49%
Private companies	13.61%	10.73%	23.42%
Foreign-affiliated companies	6.90%	5.45%	11.01%
Self-employed	2.92%	2.04%	2.07%

(Source) MOET (1999)

The business environment of enterprisers and socio-economic conditions for corporate management also greatly influence the formation of entrepreneurship. Compared with Japan, the U.S. and Taiwan, the Vietnamese business environment is much behind in terms of the availability of seeds, incentives for business startup, the business environment at the time of startup and at the time of business expansion, financial resources and market conditions. Especially Viet Nam is noticeably behind in financial resources and market conditions.

In the U.S. and Taiwan, by contrast, various official and private forms of support for enterprisers are available at every stage from startup to business expansion, and this arrangement helps reduce enterprisers' risks at these stages.

8. Factors hampering entrepreneurship

(1) General impediments to entrepreneurship

There are many impediments to entrepreneurship, including economic and social factors. The OECD report "Fostering Entrepreneurship" gives the following factors.

1. Institutional impediments: time and cost for startup
2. Impediments from competitive conditions
3. Bankruptcy system
4. Impediments from the taxation system
5. Impediments from administrative procedures
6. Delayed payment
7. Intellectual property rights.

(2) Impediments in Viet Nam

These factor analyses based on questionnaire surveys and hearings that complemented them have made it possible to extract some causes that hamper the development of entrepreneurship in Viet Nam. These causes can be grouped into three: (1) enterprisers' lack of skill and ability; (2) inadequate information necessary to promote business; and (3) the social and economic environment that hampers entrepreneurship.

1) Enterprisers' lack of skill and ability

Entrepreneurship is nurtured when enterprisers acquire professional knowledge and skill (expertise) necessary for corporate management. Behind the fact that Vietnamese entrepreneurship is overly influenced by changes in the external environment seems to be the lack of such expertise.

Education regarding corporate management in Vietnamese universities focuses more on professional knowledge necessary for middle management in big companies, centering on practical aspects such as accounting and labor affairs. Students have few opportunities of receiving education and training about business planning and promoting their abilities that are required of business managers. Many enterprises are operating in their own ways, and this seems to lead to the present state of Vietnamese entrepreneurship that hampers systematic promotion of business.

2) Inadequate information necessary for business promotion

The second issue that plays an important role in nurturing entrepreneurship is the inadequacy of information. Corporate management requires decision-making by choosing from various kinds of information in many aspects such as market, customers, competitors, technology and policy. In Viet Nam, however, the amount of information available to enterprisers is limited, and instead, there are

many kinds of unreliable information.

Business support services are also underdeveloped, making it difficult to obtain professional information necessary for business management by enterprisers.

3) Social and economic environment hampering entrepreneurship

Moreover, the social and economic environment for Vietnamese enterprisers contains many factors that hamper the development of entrepreneurship. The following four are particularly responsible for this trend.

i. High business risks

If entrepreneurship is taken as meaning the intention to launch and expand a business, this intention is determined by enterprisers' judgment of expected profits that are generated through operation as well as subsequent risks. The greater the risk is, the more entrepreneurship is restrained.

Generally, business risks exist on two occasions, at start-up and at the time of expansion. In Viet Nam, however, risks can occur even for successful business. Not a few managers have the fears that when they become famous because of successful business, they may receive harassments from government organizations such as public security authorities, taxation office and customs house or demanded by friends to give them money. The first kind of risks (at start-up) and the second type of risks (at the time of business expansion) are larger than in other countries. Furthermore, the existence of the latter risks itself is weakening entrepreneurship.

ii. Low social position of private sector enterprises

There is a general perception that employees of private companies are lower in social position than those of state-owned enterprises. The perception that competent students get jobs at state-owned enterprises or foreign-affiliated companies also prevails in society. It is also believed at least in part that business success is the result of unlawful operations, and thus even successful businessmen's social position is not always high.

The above-mentioned social perception of corporate operation not only directly impedes the formation of entrepreneurship but also generates an attitude for successful enterprisers to hide their success from others. This attitude keeps successful experiences from being transmitted to others.

iii. Difficulty in raising funds

The difficulty in raising funds is the most frequently pointed out among the problems which enterprises are faced with. Supply of funds to private sector companies is steadily increasing, but the shortages of funds for capital investment are impeding corporate growth and development. This

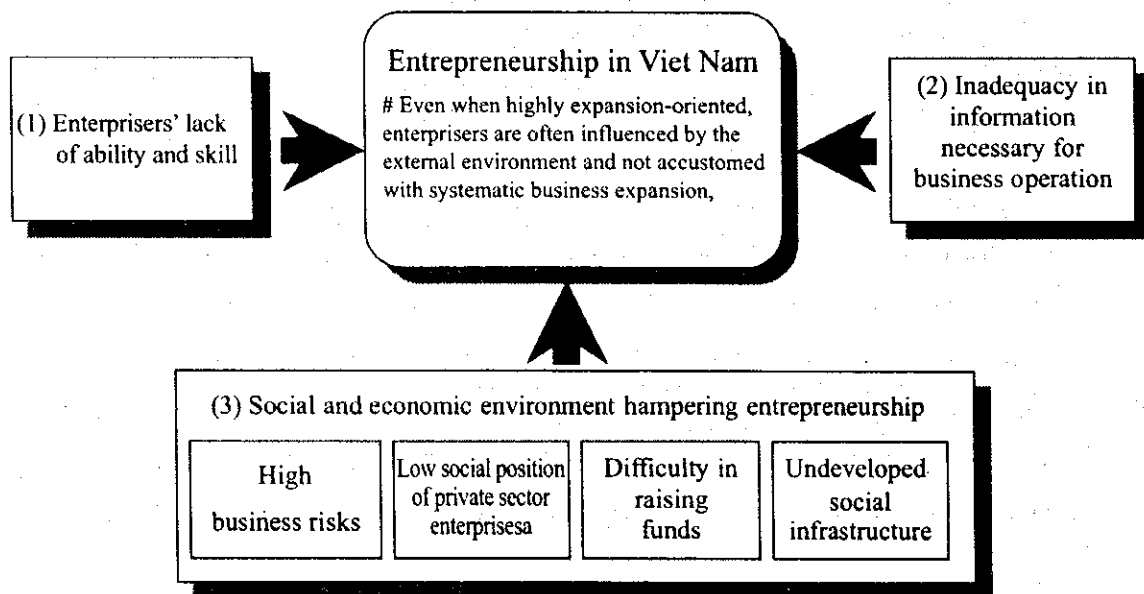
is a big headache particularly for export-oriented companies that have to modernize their production facilities through capital investment.

Behind the background of difficult fund raising is the issue of mortgage that arises from the inadequate land system as will be reviewed later, and thus the financial system alone should not be blamed. However, these causes are interacting with each other and spoiling entrepreneurship.

iv. Undeveloped social infrastructure

Entrepreneurship is also affected by slow construction of social infrastructure in such forms as electric power, and the water supply and drainage systems. Among others, the difficulty in securing industrial water is greatly discouraging the intension to expand business operations. Especially there are many disputes over land ownership in the northern area. Many enterprises, which virtually hold industrial land, are not provided with “red book” necessary to exercise their rights of mortgage. There is also a problem that industrial parks, which can embrace medium and small-scale enterprises, have not been sufficiently constructed.

Fig. 5 Problems surrounding Vietnamese entrepreneurship



9. Measures to enhance entrepreneurship

(1) Attitude toward entrepreneurship promotion

The foregoing analyses indicate that entrepreneurship in Viet Nam has not reached a level high enough to lead the private sector's growth and development. Therefore, it is necessary to take measures to improve entrepreneurship in order to help the private sector grow and develop further.

Judging from the fact that most enterprisers want to expand the scale of their operations, measures to be taken to improve entrepreneurship should focus on improving their attitude to higher levels. Specifically, this will be attained when enterprisers acquire professional knowledge and skill (expertise), accurately appraise risks, and proceed with their businesses systematically and strategically. In essence, it is important for enterprisers to acquire and utilize expertise and prepare the business environment where they can make best use of their expertise.

(2) Measures to enhance entrepreneurship

We would like to make the following five proposals on the basis of the concept shown above.

1) Substantial education and training of enterprisers

As is clear from factor analyses based on the questionnaire survey, problems with Vietnamese enterprisers are that without a definite management policy, they are strongly affected by the external environment and thus cannot make prompt decisions about capital investment and other plans. Behind such problems lies the fact that enterprisers do not have adequate knowledge and know-how on corporate management or do not want to acquire, and that opportunities are not available for those who want to acquire.

At present proper business education is given by only a limited number of universities including Hanoi Economic University. The courses of many other universities of economics are limited to accounting and taxation systems. Education and training courses at VCCI and other organizations focus merely on practical aspects. Under the circumstances, it is necessary to expand the courses for nurturing and training enterprisers at colleges and universities and increase the opportunities for enterprisers to receive such education and training.

2) Expansion of business support

When their present knowledge and skill is found inadequate and insufficient, corporate managers should make positive use of outside professionals, including management consultants, law consultants, accounting consultants and other forms of management-support consultation.

For this purpose, it is important:

- # To nurture management consultants.
- # To provide incentives to utilize consulting services.
- # To increase consulting services at support organizations.

3) Accumulation and sharing of information on successful experiences at private sector enterprises

Enterprisers' experiences of successful business are of great help to other enterprisers. In Japan and other advanced countries, information about business successes and failures are collected by mass media, entrepreneur support organizations and administrative organizations, and is transmitted to other enterprisers through various media.

In Viet Nam, by contrast, there is little transfer of such information on business success to the next generation. One reason for this phenomenon is that many enterprisers are worried that the transfer of such information might invite harassment. Another major reason is that the awareness of this problem is missing among mass media, entrepreneur support organizations and administrative organizations.

In 1999 the Young Entrepreneur Association started a system to commend successful entrepreneurs and published a book on 20 commended entrepreneurs. However, the book only introduces these entrepreneurs, and fails to report on what problems they had faced and what efforts they had made to solve those problems.

It is recommended, therefore, to collect information on business success by managers of successful enterprises, analyze and appraise the information, and release it, so that other enterprisers may refer to it in performing their own business.

4) Promotion of capital investment support measures

In developing the private corporate sector, it is essential for enterprisers to expand their operations by reinvesting profits they have gained. Our questionnaire surveys reveal that many enterprises attach importance to reinvestment of profits, while not a few enterprises have missed opportunities to expand their operations simply because of the difficulty in raising funds and various other constraints that prevented such reinvestment.

In order to promote capital investment, the following measures should be taken.

- # To provide incentives for capital investment by establishing a domestic investment encouragement law, for instance.
- # To provide funds for capital investment.
- # To construct industrial parks and provide factory attached apartment houses.

5) Promotion of exchanges among entrepreneurs

Exchanges among enterprisers play a significant role. They can consult with each other about

bottlenecks and problems and generate new ideas about business by mutually exchanging their opinions. This process of mutual exchanges should stimulate and enhance entrepreneurship. In Viet Nam, however, such exchanges are infrequent, and institutions and organizations for mutual exchanges among enterprisers are limited to industrial associations such as VCCI as well as UAIC (Union Association of Commerce and Industry) that binds associations by sector and associations by regional sector. It is advisable to promote the activities of these organizations and enhance exchanges through such activities.

Appendix: Questionnaire

Questionnaire on Management and The Direction of Growth of Private Enterprises

Company name: _____

Name of respondent: _____

Address: _____

Telephone No.: _____

Fax No.: _____

Major products: _____

I. Profile of your company

1. Industry

- | | |
|----------------------------|---------------------------------|
| 1) Food processing; | 8) Metal household goods |
| 2) Clothing | 9) Agricultural machinery |
| 3) Construction materials | 10) Machinery & tools |
| 4) Plastic products | 11) Cars, motorcycles & parts |
| 5) Furniture & woodworking | 12) Electrical products & parts |
| 6) Leather goods | 13) Shipbuilding, etc. |
| 7) Ceramics | 14) Computer software* |
| | 15) Others _____ |

2. Organizational format

- 1) Company of limited liabilities
- 2) Joint stock company
- 3) Partnership
- 4) Private company
- 5) Cooperative (non-agriculture)
- 6) Individual and business group(very small business)
- 7) Household

* italics are supplemented or changed by Vietnamese party

3. Number of employees (regular employment)

1995	1996	1997	1998	1999	2000

4. Amount of paid-in capital

Million dong

5. Location of the headquarters

- 1) Mountainous and midland areas in the North
- 2) Red river delta
- 3) The central area
- 4) Central Highlands
- 5) The East areas and Mekong river delta
- 6) Others: _____

6. Year of start-up _____

7. Year of company registration _____

8. What were the levels of sales and profits in 1999 compared with those in 1998 (1998=100)

Sales:

%

Profits:

%

9. What is the ratio of profits to sales?

%

II. Background for the founding of the business

10. How was your business founded? (Please choose one answer.)

- 1) Started the business by myself
- 2) Started the business with other family members
- 3) Started the business with a friend(s)
- 4) Started the business with a foreign partner(s)
- 5) Bought the business from an SOE
- 6) Bought the business from a family member(s)
- 7) Bought the business from people other than family members
- 8) Inherited the business from a family member
- 9) Others

11. Background for start-up

- 1) I want to operate business on my own judgment.
- 2) I want to demonstrate my capability.
- 3) I want to earn more income.
- 4) There were some seeds for commercialization.
- 5) I found my former job unpromising.
- 6) I found no other jobs.
- 7) I was advised to start up by friends and acquaintances.
- 8) I wanted to have my own time.
- 9) I wanted to engage in something that is helpful to society.
- 10) The present job is my family business in which I have been engaged.
- 11) Others

12. Why did you choose the present product line?

- 1) Had experience in manufacturing
- 2) Was a traditional, local product
- 3) Family members had been engaged in the industry for a long time.
- 4) Copied people who were successful
- 5) Was able to secure raw material supply
- 6) On the advice of a friend
- 7) On the advice of the local government
- 8) Others _____

13. What skill or know-how have you acquired before the establishment (or registration) of your company?

- 1) General knowledge about corporate management.
- 2) Production technology. Production control technology.
- 3) Product development technology.
- 4) Sales and marketing.
- 5) Know-how regarding fund raising.
- 6) Control of employees.
- 7) Information about regulations for the projected business.
- 8) Know-how about export.
- 9) Preparation of business plans.
- 10) Others _____

14. What problems have you expected to occur before the establishment (or registration) of your company?

- 1) Difficulty in raising funds necessary for the establishment of the company.
- 2) Troublesome and time-consuming registration procedures.
- 3) Difficulty in securing factories and procuring production equipment.
- 4) Difficulty in developing customers.
- 5) Difficulty in procuring raw materials.
- 6) Difficulty in developing production technology.
- 7) Difficulty in securing employees.
- 8) Harassment from related organizations.
- 9) Others _____

15. What actual problems have occurred at the time of start-up?

- 1) Difficulty in raising funds necessary for the establishment of the company.
- 2) Troublesome and time-consuming registration procedures.
- 3) Difficulty in securing factories and procuring production equipment.
- 4) Difficulty in developing customers.
- 5) Difficulty in procuring raw materials.
- 6) Difficulty in developing production technology.
- 7) Difficulty in securing employees.
- 8) Harassment from related organizations.
- 9) Others _____

16. Please select one of the following degrees of your present satisfaction compared with your expectation at the time start-up, and encircle the applicable number.

- 1) I am very satisfied.
- 2) I am somewhat satisfied.
- 3) I am somewhat unsatisfied.
- 4) I am very unsatisfied.
- 5) Self-achievement.
- 6) Income
- 7) My own time.
- 8) Overall evaluation.

III. Obstacles to business expansion

17. At what levels were your sales and profit in 1999, compared with your projection?

	(Sales)	(Profit)
1) Much greater sales than projected	1)	1)
2) Slightly greater sales than projected.	2)	2)
3) Almost the same levels of sales as projected.	3)	3)
4) Slightly smaller sales than projected.	4)	4)
5) Much smaller sales than projected.	5)	5)
6) Others.	6)	6)
7) My business has not started up yet.	7)	7)

18. What are the reasons for greater profits than projected?

- 1) The scale of the domestic market has greatly expanded.
- 2) We have been able to make products with great competitiveness.
- 3) Competitors' influence has weakened.
- 4) The price of our products has risen.
- 5) The price of raw materials has declined.
- 6) We have tried to reduce production cost.
- 7) Our exports have increased.
- 8) Others.

19. What are the reasons for smaller profits than projected?

- 1) The scale of the domestic market has become smaller.

- 2) The competitiveness of our products has declined.
- 3) Competition with other companies has intensified.
- 4) The selling price of our products has dropped.
- 5) The price of raw materials has risen.
- 6) The production cost has risen.
- 7) Our exports have decreased.
- 8) Others _____

20. How do you want to utilize your profits?

- 1) We will use profits to expand the present business.
- 2) We will use profits to start up a new business.
- 3) We have no plan to use profits immediately.
- 4) We will divide profits among business owners.
- 5) We will distribute profits to employees.
- 6) Others _____

21. Future expansion of your business

- 1) We will try to expand as much as possible.
- 2) We will try to expand step by step.
- 3) We will maintain the present business scale.
- 4) We wish to reduce the present business scale.
- 5) We are considering a withdrawal from the present business.

22. (To those who selected 1. and 2. in 21.) Why do you want to expand the scale of your business?

- 1) To secure greater profits.
- 2) To gain economies of scale.
- 3) To win over competitors.
- 4) To demonstrate my own capability.
- 5) To contribute to society.
- 6) Others _____

23. (To those who selected 3., 4. and 5. in 21.) Why do you want to expand the scale of your business?

- 1) Because the present business is not promising.
- 2) Because the expansion of business entails risks.
- 3) Because it is difficult to secure funds.

- 4) Because know-how on corporate management is insufficient.
- 5) Because the present profits are sufficient.
- 6) Because there is a risk of inviting harassment.
- 7) Others _____

IV. Qualification of manager

24. Gender of the president

- 1) Male
- 2) Female

25. President's age

At the time of founding the business: _____ years old

At present: _____ years old

26. What is the academic background of the president?

- 1) Less than 12 years of schooling
- 2) High school diploma
- 3) Training or associates degree
- 4) Bachelor's degree
- 5) Master degree
- 6) Doctorate degree
- 7) Others _____

27. For each of the following 30 items, select the most applicable judgment of your behavior or thinking.

1. I agree very much.
2. I agree somewhat.
3. I don't agree somewhat.
4. I don't agree at all.

	Selections
1) I will give it a try, sink or swim	1 2 3 4
2) I try to organize many kinds of information logically instead of relying on one kind of information	1 2 3 4
3) I will take a risk even if I fail.	1 2 3 4
4) I want to accomplish an outstanding level of achievement.	1 2 3 4
5) I want to do things in my own way.	1 2 3 4
6) I will do anything patiently even if it takes time.	1 2 3 4
7) When a trouble occurs, I will try to think out how to solve it in my own way without losing time.	1 2 3 4

8) I do not hesitate to adopt good views even if they are different from my own.	1	2	3	4
9) I always follow the procedure that is familiar to me.	1	2	3	4
10) It depends on good or bad luck whether I will succeed or not.	1	2	3	4
11) The key to success is in my own efforts.	1	2	3	4
12) I cannot achieve my objective under such difficult situation.	1	2	3	4
13) I take my failure as an indication of my inability and give up.	1	2	3	4
14) Before I launch something, I try to collect as much information as possible.	1	2	3	4
15) I proceed with my plan based primarily on my own idea.	1	2	3	4
16) I try to estimate the probability of success.	1	2	3	4
17) I do many simulations to find out the best measure for the situation.	1	2	3	4
18) I decline any unreasonable request even if it comes from the best friend.	1	2	3	4
19) I adopt others' advice and consider the business from many perspectives.	1	2	3	4
20) I check competitors and similar ideas and then work out my own plan.	1	2	3	4
21) I consider friends preferentially in making a team.	1	2	3	4
22) I don't want to succeed at the cost of others' trust.	1	2	3	4
23) I don't want to change what has been decided once.	1	2	3	4
24) I cannot promptly overcome oppositions and criticisms from the people around me.	1	2	3	4
25) My failure is the result of the lack of support from the people around me, and therefore I am not responsible for that.	1	2	3	4
26) Once I start a project, I will carry it out.	1	2	3	4
27) I want to bet on a big hit.	1	2	3	4
28) I earnestly try to build up personal connections.	1	2	3	4
29) Even when I fall into a complicated situation, I make my own judgment.	1	2	3	4
30) It is more important to act than just thinking.	1	2	3	4

28. Which ethnic group does the president belong to?

- 1) King
- 2) Ethnic (minority)
- 3) Chinese
- 4) Vietnamese people living abroad
- 5) Others _____

29. What was the previous occupation of the president?

- | | |
|-------------------------------------|---|
| 1) Military | 5) Foreign firm in Viet Nam |
| 2) SOE | 6) Engaged in another position in our company |
| 3) Other governmental organization | 7) Lived abroad |
| 4) Other non-state-owned enterprise | 8) Others |

30. Is the president or his/her family a member of the Communist Party?

- 1) Yes.
- 2) No.

31. What was the occupation of the father and mother of the president?

The occupation of the father

The occupation of the mother

- | | |
|--|--|
| 1) Professional or technical occupation | 1) Professional or technical occupation |
| 2) Manager of a business | 2) Manager of a business |
| 3) Clerical or service worker | 3) Clerical or service worker |
| 4) Farming, hunting, fishing or forestry | 4) Farming, hunting, fishing or forestry |
| 5) Manufacturing worker | 5) Manufacturing worker |
| 6) Military | 6) Military |
| 7) No work | 7) No work |
| 8) Others | 8) Other |

32. Do you have any family members who reside overseas at present?

- 1) Yes. (Country) _____
- 2) No.

V. Fund raising

33. How did you raise the funds needed to start your business? (Please circle all the answers that are applicable.)

- 1) Borrowed from a state-owned bank
- 2) Borrowed from a private, commercial *joint stock* bank
- 3) Borrowing and investment from other firms
- 4) Own funds
- 5) Subsidies from the government
- 6) Borrowed from financial institutions other than banks (*credit institution (credit cooperative, people's credit fund...)*)
- 7) Borrowing or investment from relatives, friends and/or acquaintances
- 8) Borrowing or investment from over-seas Vietnamese
- 9) Others _____

34. How did you accumulate your own funds?

- 1) Real assets (cash __%, real estate __%, others __%)
- 2) Financial assets (bank deposits __%, private loans/ mutual loans __%, cash __%)
- 3) Others (Be specific) _____

35. Does your company have sufficient funds?

- 1) Surplus
- 2) Adequate
- 3) Insufficient.

36. In what form are your company managing (investing) surplus funds?

- 1) Real assets (cash __%, real estate __%, others __%)
- 2) Financial assets (bank deposits __%, private loans/mutual loans __%, cash __%)
- 3) Others (Be specific) _____

37. In what form does your company plan to manage (invest) surplus funds?

- 1) Real assets (cash __%, real estate __%, others __%)
- 2) Financial assets (bank deposits __%,
Long-term bank deposits with (preference loans for capital investment if commercialized __%,
Private loans/ mutual loans __%,
Gold investment securities if commercialized __%,
Stock market if established __%).
- 3) Others (Be specific) _____

38. When a stock market is established, do you want to utilize it as a place to manage (invest) your funds?

- 1) Want to consider the stock market as a place for managing (investing) our funds.
- 2) Don't want to use the stock market.
- 3) Don't know.

39. Does your company receive funds from overseas Vietnamese?

- 1) Yes
- 2) No.

40. When you can obtain funds from overseas Vietnamese in the future, in what form do you want to manage (invest) them?

- 1) Real assets (cash __%, real estate __%, others __%)
- 2) Financial assets (bank deposits __%,
Long-term bank deposits with preference loans for capital investment if commercialized __%,
private loans/ mutual loans __%,
gold investment securities if commercialized __%,
stock market if established __%).

3) Others (Be specific) _____

41. In what forms is your company raising funds?

- 1) Internal reserves__%.
- 2) (Funds from overseas Vietnamese)__%,
- 3) Contributions from general partners (with unlimited liability) and friends ...%
- 4) Private loans/ mutual loans__%,
- 5) Bank deposits__%,
- 6) Others (Be specific) _____

42. In what forms does your company plan to raise funds?

- 1) Internal reserves__%.
- 2) (Funds from overseas Vietnamese)__%,
- 3) Contributions from general partners (with unlimited liability) and friends__%
- 4) Private loans/ mutual loans__%,
- 5) Bank deposits__%,
- 6) Others (Be specific) _____

43. When a stock market is established, do you want to utilize it as a place to manage (invest) your funds?

- 1) Want to consider the stock market as a place for managing (investing) our funds.
- 2) Don't want to use the stock market.
- 3) Don't know.

44. As real investment, to what form do you attach importance?

- 1) Inventory investment
- 2) Equipment and machinery investment
- 3) Real estate investment
- 4) Move to an industrial park
- 5) Others _____

VI. Export activities

45. What is your present export ratio?

- | | | |
|--------------|--------------|--------------|
| 1) 0% | 2) Under 20% | 3) Under 40% |
| 4) Under 60% | 5) Under 80% | 6) 100% |

45-1. What are the percentage compositions of your export markets?

- 1) Japan(%) 2) Europe(%) 3) US(%) 4) Taiwan(%)
5) Hong Kong(%) 6) Singapore(%) 7) Other Asia(%).

45-2. What was the average annual growth rate of your export value for the past five years?

- 1) Under 10% 2) Under 20% 3) Under 30%
4) Under 40% 5) Over 40%.

45-3. What is the present FOB ratio in your exports?

- 1) FOB 0% 2) FOB under 20% 3) FOB under 40%
4) FOB under 60% 5) FOB under 80% 6) FOB over 80%.

45-4. Do you wish an early conclusion of the Vietnamese-American trade agreement?

- 1) Yes 2) No.

46. What are constraints on your export activities? (You may choose more than one answer.)

- 1) The need to obtain export quotas
2) Cannot directly access overseas buyers
3) No one in the firm is proficient in English.
4) No one in the firm is proficient in clerical work for export.
5) Export regulations
6) Cumbersome red tape for exports
7) Difficulties in obtaining overseas market information
8) High tariffs
9) Others. Please specify: _____
10) Do not export.

46-1. If there are any problems with respect to exports, please describe them in concrete terms.

--

47. How do you obtain information on export markets? (You may choose more than one answer.)

- 1) TV, radio
2) Newspapers, magazines (domestic)

- 3) Newspapers, magazines (foreign)
- 4) Trade or specialized publications
- 5) Other companies in the industry
- 6) The Chamber of Commerce & Industry (VCCI)
- 7) Exhibitions and trade fairs
- 8) Libraries
- 9) Domestic exporter-maker
- 10) Suppliers of materials and parts
- 11) Government agencies (VITRADE of MOT)
- 12) State-owned enterprises
- 13) Overseas buyers
- 14) Domestic private exporters
- 15) Private technology information service firms, consulting firms
- 16) Others _____

47-1. Are you satisfied with the present availability of information on overseas markets?

- | | |
|---------------------------|----------------------|
| 1) Very satisfied | 4) Very dissatisfied |
| 2) More or less satisfied | 5) Can't say which. |
| 3) Rather dissatisfied | |

48. How do you evaluate your competitiveness in export markets?

- | | |
|----------------|----------------|
| 1) Very strong | 4) Poor |
| 2) Strong | 5) Very poor |
| 3) Average | 6) Don't know. |

48-1. What country do you think will be Viet Nam's greatest export competitor in the future?

- | | | | |
|---------------|------------------|-------------|------------|
| 1) China | 2) Indonesia | 3) Thailand | 4) Myanmar |
| 5) Bangladesh | 6) Cambodia/Laos | 7) Others | |

48-2. At what average annual rate do you think your export value will grow up to 2010?

- | | | |
|--------------|--------------|--------------|
| 1) Under 10% | 2) Under 20% | 3) Under 40% |
| 4) Under 60% | 5) Under 80% | 6) 100% |

48-3. What export ratio do you estimate for 2010?

- | | | |
|-------|--------------|--------------|
| 1) 0% | 2) Under 20% | 3) Under 40% |
|-------|--------------|--------------|

- 4) Under 60% 5) Under 80% 6) 100%.

48-4. What will be the percentage compositions of your export destinations in 2010?

- 1) Japan(%) 2) Europe(%) 3) U.S.(%) 4) Taiwan(%)
5) Hong Kong(%) 6) Singapore(%) 7) Other Asia(%).

48-5. What will be the FOB ratio in your export in 2010?

- 1) FOB 0 %; 2) FOB under 20%; 3) FOB under 40%;
4) FOB under 60%; 5) FOB under 80%; 6) FOB over 80%.

49. What kind of supporting measures for exports are necessary? Please circle up to three answers from the list below.

- 1) Provide information on export markets
- 2) Provide credit information on trading partners
- 3) Streamline procedures for export permit and export red tape
- 4) Provide export credit from public financial institutions
- 5) Create a trade insurance system
- 6) Increase transparency of export tariffs
- 7) Improve the agency for inspection of export products
- 8) Provide training on international standards for technology, etc.
- 9) Provide consulting services on exports
- 10) Support research and development and technology development to enhance export competitiveness
- 11) Create one-stop centers to provide supporting services for exports.
- 12) Others _____

49-1. Please describe in concrete terms what kind of supporting measures you wish for increasing exports.

50. Has the business exempted from the business income tax, whenever it:

- 1) Exported products to new market
- 2) Had new export product
- 3) Gained a large export turnover than that of previous year, or
- 4) Had all 3 of these above conditions

51. Custom procedures concerning export are:

- 1) Easy
- 2) Normal
- 3) Difficult
- 4) Very difficult

52. Does the enterprise suffer a loss compared to SOEs due to burden of custom procedures?

- 1) Yes
- 2) No

If "Yes", please states the loss:

--

VII. Problems and managerial challenges

53. What are the problems you are facing in marketing?

- 1) Demand shortage
- 2) Slow payments from customers
- 3) Difficulty in advertising
- 4) Physical distribution to customers
- 5) Regulations on sales of products
- 6) Regulations on and permits and licenses for marketing
- 7) Others _____

54. What are the problems you are facing with respect to production?

- 1) Aging of production equipment
- 2) Difficulties in maintenance and repairs of production equipment
- 3) Lack of information on production technology
- 4) Shortage of suppliers of production equipment
- 5) Difficulties in obtaining replacement parts
- 6) Difficulties in securing high-quality raw materials
- 7) Shortage of raw materials
- 8) Shortage of power supply
- 9) Shortage of skilled labor

10) Regulations on and permits and licenses for production

11) Others _____

55. What are the problems associated with the procurement of raw materials and parts? (You may choose more than one answer.)

- 1) Increases in domestic prices of raw materials and parts
- 2) Increases in import prices of raw materials and parts
- 3) Depletion of raw materials
- 4) Deterioration of the quality of raw materials and parts
- 5) Instability of raw materials and parts supply
- 6) Tariffs on imported raw materials and parts
- 7) Transportation of raw materials and parts
- 8) A shortage of funds needed for securing supplies of raw materials and parts
- 9) Others _____

56. What are the problems you now have in relation to your production facilities? (You may choose more than one answer.)

- 1) Facilities are too small to increase production capacity.
- 2) Pollution problems around the plant.
- 3) Problems in product shipment
- 4) Problems in securing manpower and means of commuting
- 5) Problems in securing electric power and water
- 6) Sharp increases in land leasing charges
- 7) Others _____

57. Does your company have a plan for capital investment within five years?

- 1) Yes.
- 2) No.

57-1. If you have a plan for capital investment, please give the detail.

(Example) Plan to move and expand the factory after three years.

57-2. What is the amount of the funds necessary for your capital investment?

_____,000 USD

58. What are your problems in making capital investment? (You may choose more than one answer.)

- 1) Shortage of funds for capital investment
- 2) Difficulties in obtaining high-performance production equipment
- 3) Difficulties in obtaining used equipment
- 4) The land is too small to add capacity.
- 5) Difficulties in securing new site
- 6) Difficulties in obtaining licenses and permits for plant and equipment investment
- 7) Others. _____

59. What are the problems you have concerning technology development? (You may choose more than one answer.)

- 1) A shortage of technology staff
- 2) A shortage of funds for technology development
- 3) A shortage of equipment for technology development
- 4) Difficulties in obtaining information on technology
- 5) Lack of places to consult regarding technological problems
- 6) No need for technology development
- 7) Others _____

60. What item below best describes your assessment of your present business?

- 1) Successful.
- 2) Somewhat successful.
- 3) Unsuccessful.
- 4) Somewhat unsuccessful.

61. What are your present management problems? Please circle all the answers that are applicable.

- 1) Constraints on fund-raising
- 2) Shortages of raw materials and parts
- 3) Aging of equipment
- 4) Inadequacy of distribution networks
- 5) Shortage of technological know-how
- 6) Competition with other firms in the industry

- 7) Stagnation of the product area
- 8) Shortage of skilled labor
- 9) Overall shortage of labor
- 10) Shortage of electric power supply
- 11) Inadequate means of transportation
- 12) Others _____
- 13) No problems

62. Is there any possibility that your company changes its corporate form?

- 1) Yes.
- 2) No.

62-1 If there is such possibility, what form do you have in mind?

- 1) Owner-managed company.
- 2) Partnership.
- 3) Enterprise with limited liability.
- 4) Joint stock company with limited liability.

62-2 Why do you choose the above form?

- 1) Manager can be employed.
- 2) It is advantageous in raising funds.
- 3) It is helpful in diversifying business operations.
- 4) It is helpful in expanding the scale of business.
- 5) Others _____

VIII. Needs of support

63. Are you a member of groups of commerce and industry or industrial associations?

- 1) Yes.
- 2) We would like to, but there are no appropriate organizations.
- 3) Don't want to.

63-1. If "yes," which organizations do you belong to?

- 1) VCCI (Vietnamese Chamber of Commerce and Industry)
- 2) VCOOPSME (Central Council of Cooperatives Union and Small & Medium Enterprises of Vietnam)

- 3) UAIC(Union Association of Industry and Commerce)
- 4) Trade associations—Names: _____
- 5) Regional association of employers—Names: _____
- 6) Other organizations (Association of Women Entrepreneurs, etc.)—
Names: _____

63-2. What are the benefits you expect from your participation in various groups of commerce and industry?

- 1) Obtain various information
- 2) Will make it easier to make requests to the government, etc.
- 3) More opportunities to attend seminars
- 4) Possibilities of joint undertaking in production and marketing
- 5) Possibility of joint ownership of plant and equipment
- 6) Others: Please specify: _____

63-3. Do you evaluate the present commerce and industry organizations, positively or negatively?

	(VCCI)	(VICOOPSME)	(UAIC)
1) Highly positive.	1)	1)	1)
2) Relatively positive.	2)	2)	2)
3) Relatively negative	3)	3)	3)
4) Negative.	4)	4)	4)
5) Don't know.	5)	5)	5)

64. Last year, how many times the government officials visited your firm per month? (The average number of visits per month)

times

65. Last year, how much money did you spend as informal payments to government officials?

_____ (in 1,000 VND)

66. Do you know that a new Business Law has been enacted?

- 1) Yes, I know the content of the law very well.
- 2) Yes, I know the law has been enacted, but I don't know about its content.
- 3) No.

67-1. (To the companies that started up before December 1999)

Do you think that it is advantageous to register before the enactment of the New Enterprise Law?

- 1) Yes.
- 2) No.
- 3) Don't know.

67-2. (To the companies that started up after January 2000)

Do you think that it is advantageous to register after the enactment of the New Enterprise Law?

- 1) Yes.
- 2) No.
- 3) Don't know.

68. Do you know Law on domestic investment promotion

- 1) No
- 2) Yes. Have you acceded to the preferences provided by this law? Yes/No

69. What kind of supporting measures do you wish for private enterprises? Please circle up to five answers from the list below.

- 1) Creation of industrial parks for plant relocation and expansion
- 2) Easing of regulations on plant and equipment investment
- 3) Enhancement of the government's investment promotion system
- 4) Expansion of bank lending
- 5) Financial assistance to exports
- 6) Easing of regulations on exports
- 7) Provide overseas information
- 8) Technology guidance and consultation
- 9) Creation of educational institutions for engineers, technicians, etc.
- 10) Provide technology information
- 11) Provide information on management
- 12) Create opportunities for education and training in business management
- 13) Create opportunities for education and training in technology development
- 14) Tax incentives, exemption and reduction
- 15) Enact relevant laws
- 16) Streamline administrative procedures
- 17) Improve transportation infrastructure, such as roads, ports and harbors

- 18) Stable supply of electric power
- 19) Improve water supply systems and sewerage
- 20) Support the creation of industry associations
- 21) Provide information on various supporting measures
- 22) Others _____

69-1. Please describe in concrete terms the supporting measures you wish.

Trend and Outlook for the Availability of Funds through Banking System and Remittance from Overseas Vietnamese to Non-state Economic Sectors (Supply Side Analysis)

Hitoshi Sakai

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1. Introduction

- a) In the developing countries, private enterprises usually raise funds from informal financial systems, financial institutions, equity markets, venture capital funds, trade credit and/or remittance from overseas.
- b) Since the Asian Economic Crisis of 1997, the government of Viet Nam has become more cautious about fostering the equity market or venture capital funds. It has imposed strict trading restrictions and price movement limits on the equity market, making it difficult to realize capital gains even if one lists shares there. As a result, all of the six venture capital funds which existed in 1997 have been either dissolved or forced to suspend their activities. Although an equity market was launched in 1999, it is not an attractive place to raise funds yet. As the government is expected to remain cautious about the development of the equity market due to the ups and downs of Asian equity markets in the midst of the Asian Economic Crisis, equity financing is not likely to become a significant means of fund raising for private enterprises in Viet Nam.
- c) The decrease in investment opportunities resulting from the deceleration of the domestic economy has increasingly made enterprises and individuals to manage their funds through bank deposits. As a result, financial institutions have abundant cash, with which they are buying SBV's T-bills and government bonds. Under these circumstances, since the 1990s, the government has taken a series of measures in rapid succession to ease the financial institutions' lending stance to private enterprises. The resultant sharp increase in bank lending to private enterprises has had an impact on their use of informal financial systems. For example, the UNDP's surveys of household income and expenditure taken in 1992/1993 and 1997/1998 show that the weight of borrowing from informal financial systems declined as monetary policy was eased and that the weight of borrowing from financial institutions increased between these years.
- d) Questionnaire surveys on demand for funds by private enterprises alone are not an accurate measure of the problem of fund shortages experienced by private enterprises. The questionnaires only show demand for funds without any regard to would-be borrowers' abilities to repay loans or the soundness of their businesses. The increase in lending to growth sectors and the decline in lending to the sectors with poor profit growth

prospects are a sound development. Since the Asian Economic Crisis, the developing nations have faced the following two issues and have taken the following countermeasures against them: (i) financial sector reforms, which have consisted of applying brakes to banks' lending that do not take into account the borrowers' ability to generate cash flows; the disposal of non-performing loans stemming from increased lending to the real estate sector; the enactment of the movables collateral law; the improvement of the financial institutions' credit screening ability to go with improved disclosure by corporations; the prevention of a chain of bank failures; and assuring depositor protection; and (ii) corporate sector reforms, which have consisted of the improvement of corporate governance; enhancement of the surveillance system against inadequate or illegal financial disclosure; and the enactment of corporate liquidation law and corporate rehabilitation law in addition to the bankruptcy law. However, since Viet Nam has been little affected by the Asian Economic Crisis, it has been slow to realize the above issues. As a result, its crisis management system is fragile. Therefore, it is not appropriate to take measures to increase credit supply to private enterprises without taking into account their credit risk solely because surveys have found that Viet Nam's private enterprises have heavy demand for funds. Another problem is that since the enactment of the business law, a large number of private enterprises has been registered, but their corporate fabric is fragile. If this situation continues, the registration of private enterprises could result in many bankruptcies if the economy turns downward. This is especially so, as the economic growth rates of the Asian countries are expected to decline in 2001 below the levels of 2000 because of the expected deceleration of the U.S. economy. Financial institutions will increasingly make flight-to-quality in their lending activities, becoming increasingly selective in their lending to private enterprises. Thus, they will place greater emphasis on the evaluation of credit risks of private enterprises.

- e) Given these backgrounds, this report will examine (i) the present status of lending by the banking system to the non-state economic sectors because bank loans represent the principal source of funds available to private enterprises and (ii) the levels of remittance to Viet Nam by Overseas Vietnamese, which has been on the increase, and will make some recommendations. It may safely say that the loans from banking system and the remittance by Overseas Vietnamese are the two biggest source of funds available to private enterprises, because of the former amount to USD 4 billion and the latter amount to USD 3.5 billion in 2000. Other sources are smaller compared with them.

2. An overview of the development of the non-state economic sectors in Viet Nam

Since the start of the renovation course in 1986 (the Doi Moi policy), when Viet Nam's economy was re-directed from the traditional planned economy to a market economy, the non-state and private economic sectors in Viet Nam have experienced a remarkable development. Especially since the early 1990s, the non-state economic sectors have developed rapidly. Factors in the rapid development of these sectors are as

follows:

- (1) The State reduced its staff. The numbers of state agencies and their staff, military and public security staff have been reduced. Furthermore, many state-owned enterprises, mainly under the control of district, cities and unions as well as of the central government, have been dismantled. Consequently many people have become unemployed due to loss of jobs or compulsory early retirement. The unemployed had to seek opportunities in private business.
- (2) The repatriation of overseas workers. Workers, especially young people who had left Viet Nam to work in such countries as the former Soviet Union, Eastern European socialist countries, and Germany returned to Viet Nam. They brought back capital and technologies. Some of them had technical or professional qualifications. Without employment, they also had to seek opportunities for making business in the non-state economic sectors.
- (3) Vietnamese living abroad.
- (4) Vietnamese workers in the United States, Australia, Germany, Eastern Europe and elsewhere made huge amount of remittance to their relatives at home for domestic business investment, company establishment or other purposes (Appendix 1).
- (5) The private development of border trade with China, Laos and Kampuchea has resulted in a sharp increase for funds raising that can be invested in company establishment or business development.
- (6) The emergence and development of the real estate market with an increase in the number of land transactions. Many poor Vietnamese have become rich thanks to the proceeds from the sales of land, and they spent these proceeds on business investment. Otherwise, due to the growth of foreign investment in Viet Nam, a great deal of land has been used for the implementation of investment projects. The owners of such land received money in exchange for their land. Many other land areas were also used for the implementation of road, city and commercial center building projects, resulting in considerable amounts of compensatory payments to former residents. These people, after acquiring new homes, invested the rest of their money in business.

Such a remarkable progress of the non-state economic sectors has generated a large number of customers for banks, which provide development loans to them. Because, the financial independence of the non-state economic sectors is low. In Ho Chi Min City, the average owner's equity of the non-state economic sectors occupies 28 % of total capital and liabilities have become more important to their business activities (Table 1). The larger the private enterprises are, the higher the liability leverages are (Table 2). The smaller the private enterprises are, the lower the liability leverages are (Table 3).

Table 1 Capital and liabilities of non-state economic sectors by form of enterprises in
Ho Chi Min City in 1998

Unit: VND billion

Form of enterprises	Total assets (%)		Owner s equity (%)		Liabilities (%)	
Limited Co.	11,805	100	3,678	31	8,127	69
Joint Stock Co.	5,889	100	1,099	19	4,790	81
Private Co.	1,473	100	541	37	932	63
Total	19,167	100	5,318	28	13,849	72

(Source) Tax Service Office of HCMC

Table 2 Capital and liabilities of non-state economic sectors by form of enterprises in
Ho Chi Min City in 1998 with over 10 VND billion registered capital

Unit: VND billion

Form of enterprises	Total assets (%)		Owner s equity (%)		Liabilities (%)	
Limited Co.	2,148	100	690	32	1,458	68
Joint Stock Co.	4,477	100	778	17	3,700	83
Private Co.	381	100	121	32	260	68
Total	7,006	100	1,589	23	5,417	77

(Source) Tax Service Office of HCMC

Table 3 Capital and liabilities of non-state economic sectors by form of enterprises in
Ho Chi Min City in 1998 with less than 1VND billion registered capital

Unit: VND billion

Form of enterprises	Total assets (%)		Owner s equity (%)		Liabilities (%)	
Limited Co.	3,228	100	1,065	33	2,163	67
Joint Stock Co.	650	100	48	7	602	93
Private Co.	790	100	256	32	534	68
Total	4,668	100	1,369	29	3,299	71

(Source) Tax Service Office of HCMC

Due to the lack of capital, private enterprises in Ho Chi Min City mainly invest in trading and service which do not require much investment in fixed assets (Table 4). Private enterprises concentrate much on current assets which have high coefficient of capital. Some fields of which the capital invested in fixed assets is minimum are sport & culture: 0%, science & technology: 4%, commerce: 16%. The larger the enterprises' scale of business is, the more the rate of fixed assets invested is. However, the level of investment in fixed capital is low, the technology and equipment are out of date. These will damage to the competitiveness of the non-state economic sectors' product.

Table 4 Assets and capital of non-state economic sectors by sector in Ho Chi Min City in 1998

Unit: VND million

Sector	The number of enterprises		The number of employees		Total assets	Current assets		Fixed assets	
	Quantity	%	Quantity	%	Value	Value	%	Value	%
Agriculture, forestry and irrigation	7	0.1	64	0.0	8,175	3,610	44.2	4,565	55.8
Agriculture	1	0.0	-	0.0	-	-	-	-	-
Mining	4	0.1	141	0.0	75,322	9,684	12.9	65,638	87.1
Industrial processing	850	16.1	259,166	82.7	5,220,560	2,526,325	48.4	2,694,235	51.6
Power production	3	0.1	31	0.0	2,085	1,856	89.0	228	11.0
Construction	336	6.4	10,166	3.2	1,548,754	1,052,206	67.9	496,547	32.1
Commerce	3,047	57.7	27,260	8.7	7,352,765	6,169,820	83.9	1,182,945	16.1
Hotels, restaurants and service	398	7.5	2,520	0.8	238,796	92,205	38.6	146,591	61.4
Transport and ware house	44	0.8	2,019	0.6	213,911	66,551	31.1	147,359	68.9
Finance and credit	26	0.5	1,310	0.4	4,212,805	3,698,346	87.8	514,459	12.2
Science and technology	3	0.1	9	0.0	1,152	1,102	95.7	50	4.3
Financial investment	138	2.6	1,305	0.4	33,790	19,692	58.3	14,097	41.7
Education and training	1	0.0	33	0.0	795	473	59.5	321	40.5
Sport and culture	3	0.1	13	0.0	28	28	100.0	-	0.0
Activities for individual	421	8.0	9,347	3.0	258,808	168,847	65.2	89,961	34.8
TOTAL	5,282	100.0	313,384	100.0	19,167,754	13,810,751	72.1	5,357,002	27.9

(Source) Tax Service Office of HCMC

(continued)

Sector	Total capital	Including			
		Owner's equity		Liabilities	
	Value	Value	%	Value	%
1	12=14+16	14	15=14/12	16	17=16/12
Agriculture, forestry and irrigation	8,175	4,969	60.8	3,206	39.2
Agriculture	0	-	-	-	-
Mining	75,322	27,371	36.3	47,951	63.7
Industrial processing	5,220,560	2,000,211	38.3	3,220,349	61.7
Power production	2,085	1,423	68.3	661	31.7
Construction	1,548,754	585,733	37.8	963,020	62.2
Commerce	7,352,765	1,771,676	24.1	5,581,088	75.9
Hotels, restaurants and service	238,796	175,243	73.4	63,553	26.6
Transport and warehouse	213,911	82,295	38.5	131,615	61.5
Finance and credit	4,212,805	515,454	12.2	3,697,351	87.8
Science and technology	1,152	1,043	90.6	108	9.4
Financial investment	33,790	24,900	73.7	8,889	26.3
Education and training	795	424	53.4	371	46.7
Sport and culture	28,129	28,129	100.0	-	-
Activities for individual	258,808	128,075	49.5	130,732	50.5
TOTAL	19,167,754	5,318,851	27.8	13,848,902	72.2

(Source) Tax Service Office of HCMC

As we can see from table 5, most technology and machinery standard of enterprises in private sector are at average or backward level. This results in the low competitiveness of the products. Undoubtedly, the main reason is the lack of capital. The sequence of backward technology and machinery leads to the inadequate industrial manufacturing automation in the business sector. Table 6 shows that semi-automatic machinery in the private business sector only takes 29.23%, while enterprises which have mechanical and semi-mechanical machinery take over 50% of the total surveyed enterprises. This situation affects the labor productivity as well as the production effectiveness of the private sector.

Table 5 The technological machinery standard in private sector (1998)

Unit: number of enterprises

Forms of enterprise	Advanced		Average		Backward		Total	
	Nums	%	Nums	%	Nums	%	Nums	%
1. Corporation	1	16.67	3	50.0	2	33.3	6	100
2. Ltd. Company	50	10.10	410	82.8	35	7.1	495	100
3. Private enterprise	12	6.28	163	85.3	16	8.4	191	100
4. Cooperative	1	1.41	61	85.9	9	12.7	71	100
Total	64	8.39	637	83.5	62	8.1	763	100

(Note) Numbers abbreviated as Nums

(Source) Industry Bureau of HCMC's survey

Table 6 Automatic level in private sector (1998)

Unit: number of enterprises

Forms of enterprise	Automatic		Semi-automatic		Mechanical		Semi-mechanical		Manual		Total	
	Nums	%	Nums	%	Nums	%	Nums	%	Nums	%	Nums	%
1. Corporation	-	-	1	16.67	1	16.7	2	33.33	2	33.33	6	100
2. Ltd. Company	2	0.40	156	31.51	97	19.6	164	33.13	76	15.35	495	100
3. Private enterprise	-	-	56	29.32	34	17.8	56	29.32	45	23.56	191	100
4. Cooperative	-	-	10	14.08	12	16.9	28	39.44	21	29.58	71	100
Total	2	0.26	223	29.23	144	18.87	250	32.77	144	18.87	763	100

(Note) Numbers abbreviated as Nums

(Source) Industry Bureau of HCMC's survey (1998)

3. The rapid development of non-state banks in Viet Nam

Before 1998, there were only four commercial banks, approximately 200 urban credit funds and 7,100 rural credit cooperatives operating in Viet Nam. During the two years of 1998 and 1999, nearly 99 percent of the urban credit funds and rural credit cooperatives collapsed or went bankrupt. On the other hand, non-state banks in Viet Nam achieved a steady growth during the 1990-1997 period. Viet Nam's banking system now includes the following:

- (1) State-owned banks, including four state-owned commercial banks and two policy banks;
- (2) Non-state banks, including 52 joint-stock commercial banks and joint-stock financial companies, 27

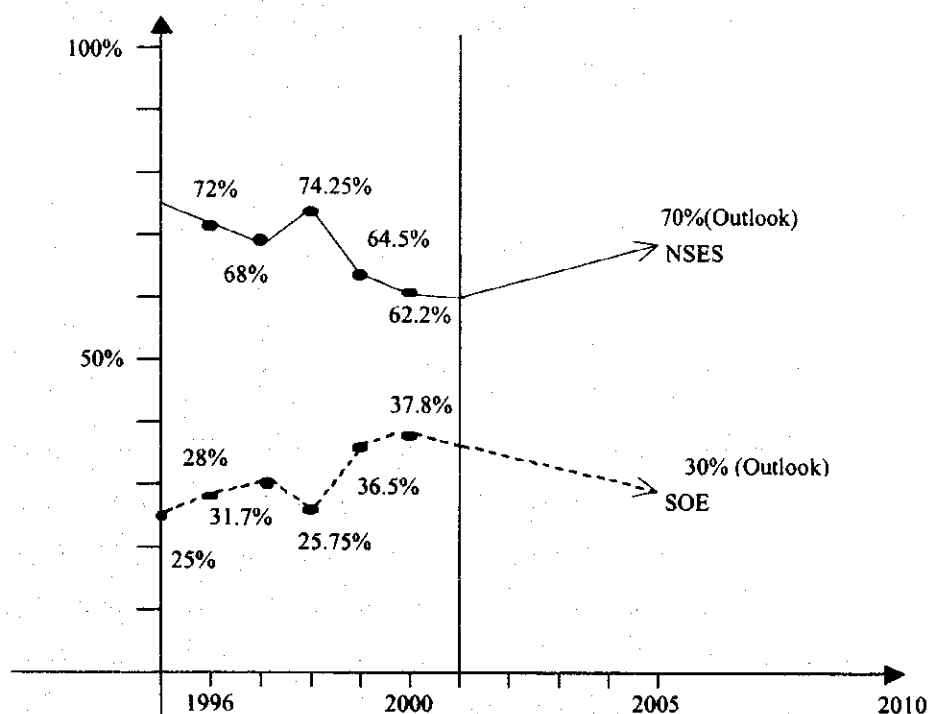
branches of foreign banks, four joint-venture banks and 970 People's Credit Funds.

Since the early 1990s, state-owned banks that used to monopolize capital mobilization and lending in the past have faced strong competition from non-state banks, thus the share of states-owned banks the lending market has been shrinking. The non-state banks extend loans to the non-state economic sectors. The state-owned commercial banks also began to extend credit to the non-state economic sectors due to the reduction of the state-owned enterprises, their traditional customers.

The demand side analysis for the availability of funds always points out that there are many shortages of loans to the non-state economic sectors. However, the shortages of loans to the state-owned enterprises are common things as well now in the midst of a budgetary cutback to state-owned enterprises. The quality and reliability of some questionnaire surveys and interviews are not assured due to the exaggerated information provided by private entrepreneurs. Their complaint on government policies and bank's practices may be right, though without proper and sufficient proof. The information gained in such surveys and interviews should be verified based on transparent financial positions of private enterprises. The other side, another issue exists in that data on bank loans extended to private enterprises are not available because these data are not collected officially from the banks.

4. The trend of extending loans to the non-state economic sectors in Ho Chi Minh City

Chart 1 The trend and the outlook of extending loans to the non-state economic sectors in Ho Chi Minh City



(Source) Ho Chi Minh City's University of Economics, Nov. 2000

Ho Chi Minh City is the largest economic, financial and commercial center in Viet Nam. It is estimated that by the end of 2000, the City will account for 19 percent of GDP, 29 percent of total industrial output, 25 percent of total services and 34 percent of the budget revenues of Viet Nam.

Viet Nam's four largest state-owned commercial banks do not have headquarters in Ho Chi Minh City. They only have branches. In Ho Chi Minh City, there are 19 joint-stock commercial banks and joint-stock financial companies, 15 branches of foreign banks and 20 People's Credit Funds. Banking operation in Ho Chi Minh City accounts for 31 percent of the total capital mobilization market and the same percent of the total lending market in Viet Nam (as of August 31, 2000). In Ho Chi Minh City, the proportion of loans extended to state-owned enterprises is often fluctuating between 25 percent and 38 percent, which is lower than that in the whole country, declined from 55 percent in 1995 to 49 percent in 1999. The outstanding loans to state-owned enterprises amounted to VND15,865 Billion in the end of 1999, to non-states economic sectors amounted to VND29,580 Billion in the same date. In the end of August 2000, the outstanding loans to state-owned enterprises amounted to VND18,609 Billion, to non-states economic sectors amounted to VND30,621 Billion. This low proportion of loans to state-owned enterprises in Ho Chi Min City for the following reasons:

- (1) The number of state-owned enterprises operating in Ho Chi Minh City is not large (Table 7). There are few general corporations, few large enterprises or those under the control of the central government. Those that exist there are mainly state-owned enterprises under the control of the municipal government or subsidiaries of state-owned enterprises under the control of the central government.

Table 7 Kinds of productive organizations in Ho Chi Min City, 1996-1998

Kinds	1996	1997	1998
Total numbers	31,244	25,159	24,399
State sector	303	287	284
- Central	122	122	120
- Local	181	167	164
Non-state sector	30,741	24,583	23,803
- Private enterprises, corporations and Ltd. companies	827	816	704
- Co-operatives	79	65	71
- Individuals and families	29,840	23,703	23,028
Foreign invested companies	200	287	312

(Source) Industry Bureau of HCMC

- (2) The non-state economic sectors, including private enterprises, joint-stock and limited companies, have grown very fast, taking the lead in the nation both in number and scale for the following reasons:
 - (a) A market economy already existed in the former Saigon (now Ho Chi Minh City) before 1975. Therefore, the non-state economic sectors in the City are well positioned for further development under the nation's renovation policy. Civilians have become more flexible and are encouraged to establish private companies and expand their businesses.
 - (b) In Ho Chi Minh City, there is a large community of overseas Chinese, who densely live such as

Table 8 Business position of non-state economic sectors by district in Ho Chi Min City in 1998

District	The number of enterprises		The number of employees		Sales revenue		Total assets	
	number	%	number	%	VND million	%	VND million	%
District 1	925	18%	14,448	5%	9,943,902	24%	3,562,613	19%
District 2	57	1%	881	0%	146,631	0%	62,993	0%
District 3	384	7%	4,220	1%	3,309,100	8%	2,646,726	14%
District 4	124	2%	1,601	1%	657,101	2%	299,354	2%
District 5	551	10%	8,281	3%	3,240,327	8%	2,375,277	12%
District 6	257	5%	168,439	54%	2,762,387	7%	880,258	5%
District 7	118	2%	2,231	1%	4,094,031	10%	747,762	4%
District 8	145	3%	3,100	1%	853,812	2%	311,104	2%
District 9	51	1%	4,488	1%	238,190	1%	144,347	1%
District 10	284	5%	3,755	1%	1,880,958	4%	847,939	4%
District 11	282	5%	5,766	2%	3,054,632	7%	1,459,122	8%
District 12	100	2%	7,234	2%	987,234	2%	551,741	3%
Go Vap	166	3%	15,584	5%	1,115,282	3%	639,020	3%
Tan Binh	653	12%	18,483	6%	3,972,420	9%	1,475,384	8%
Binh Thanh	440	8%	8,526	3%	1,691,384	4%	1,042,060	5%
Phu Nhuan	311	6%	6,078	2%	1,268,646	3%	568,333	3%
Thu Duc	103	2%	28,371	9%	719,016	2%	351,351	2%
Cu Chi	61	1%	1,854	1%	177,086	0%	77,400	0%
Hoc Mon	81	2%	1,463	0%	226,548	1%	52,986	0%
Binh Chanh	177	3%	8,575	3%	1,806,550	4%	1,071,824	6%
Nha Be	12	0%	6	0%	18,470	0%	150	0%
Total	5,282	100%	313,384	100%	42,163,715	100%	19,167,754	100%

(Source) Tax Service Office of HCMC

District 5, 6, 10, 11 and are very dynamic in business and are often successful in foreign trade. The business position of overseas Chinese in Ho Chi Minh City shows about 60 % in employees and near 30% in the number of enterprises and sales volume and total assets (Table 8).

- (c) Many residents of Ho Chi Minh City have relatives living abroad over 1.5 million people, who usually send money home to help their families develop business operations or establish business networks with other countries.
- (d) The City's authorities have adopted open and clear administrative mechanisms in 2000. They offer incentives with respect to taxes, land, and administrative procedures for the establishment of private enterprises in order to stimulate the development of the non-state economic sectors.
- (e) Trade and commercial activities between Ho Chi Minh City and Cambodia, Thailand and Singapore are growing.
- (f) The amount of foreign investment flows into Ho Chi Minh City is the largest in Viet Nam.
- (g) The City's neighboring areas, such as the provinces of Ba Ria-Vung Tau, Binh Duong and Dong Nai, are also developing rapidly.

During the period of 1990-1996, the City witnessed a fast growth in the amount and proportion of loans extended to the non-state economic sectors for the following reasons:

- (1) The growth was in line with the rapid development of the non-state economic sectors, which was reflected particularly in the growing number of private enterprises, limited companies, joint-stock companies and 100 percent foreign-owned companies set up in this area.
- (2) Many non-state banks, including joint-stock commercial banks, joint-stock financial companies, joint-venture banks and branches of foreign banks, have been established and expanded in scope in the City.
- (3) The state-owned commercial banks took a strong shift into extending loans to the non-state economic sectors.

However, the proportion of loans extended to the non-state economic sectors has been stagnant since 1997 after the Asian Economic Crisis for the following reasons:

- (1) The Asian Economic Crisis brought the non-state economic sectors losses in 1998 (Table 9). Therefore, generally speaking, banks would not extend loans to the non-state economic sectors.

Table 9 Profit or loss in non-state economic sectors by forms of enterprises in Ho Chi Min City in 1998

Unit: VND million

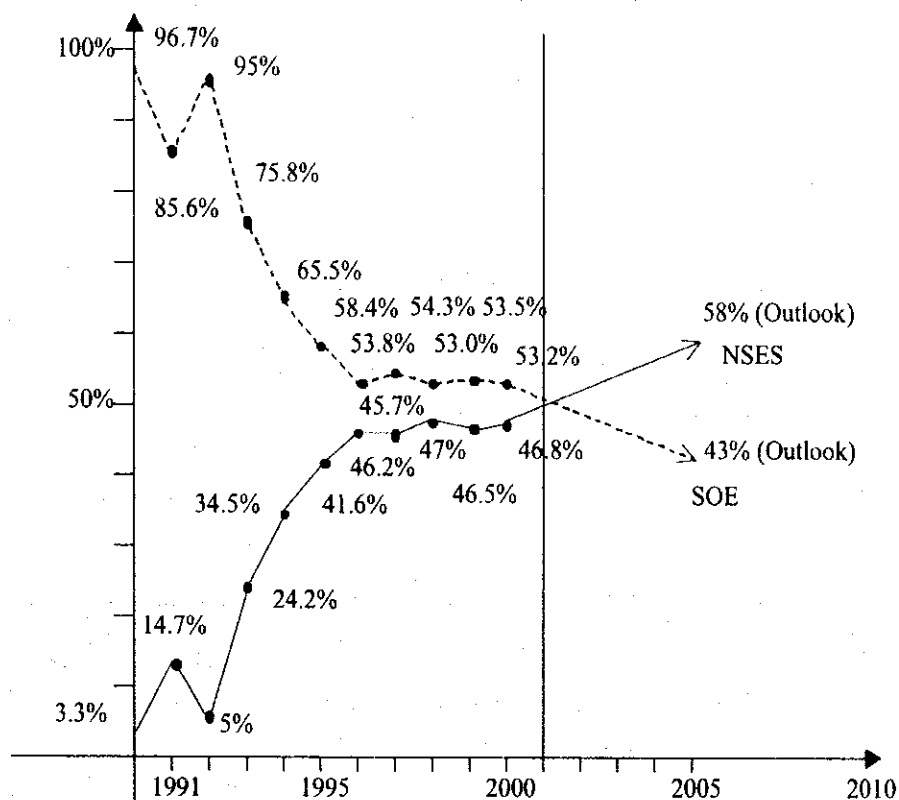
Forms of enterprises	Sales revenue	Total costs	Profits or losses
Ltd. Company	2,374,040	2,320,705	-52,415
Corporation	2,039,013	1,895,841	32,092
Private enterprise	272,362	269,255	-18,758
Total	4,685,416	4,485,802	-39,081

(Source) Tax Service Office of HCMC

- (2) The uncovering of extremely serious violations in credit relationship between banks and private enterprises, including Apco, Minh Phung, Duong Thanh Cuong, Ngoc Thao and Nam Do, have brought bank officials to trial and discouraged many banks from making new loans to the non-state economic sectors.
- (3) The People's Committee of Ho Chi Minh City has applied for bank loans for many projects in order to stimulate demand, which would be carried out by the state-owned enterprises. The guarantee of the City's authorities has made banks ready to extend loans to these projects. As of August 31, 2000, there were a total of 112 demand stimulation projects worth over 4,000 billion dong, 733 billion of which have been committed by banks to state-owned enterprises for the implementation of these projects.
- (4) Many state-owned enterprises which won bids for the implementation of road, bridge and housing projects found themselves short in capital. They had to apply for bank loans.

5. The Trend of extending loans to the non-state economic sectors in Hanoi (Chart 2)

Chart 2 The trend and the outlook of extending loans to the non-state economic sectors in Hanoi



(Source) Hanoi's University of Economics, Nov. 2000

Table 10 The proportion of loans extended to non-state economic sectors (NSES) in Hanoi

Unit: VND million

Year	Total outstanding loans		Outstanding loans extended to SOEs		
	Outstanding loans	Growth rate in percentage	Outstanding loans	Growth rate in percentage	Proportion in percentage
1990	738,202	-	714,306	-	96.7 %
1991	825,018	11.8	788,711	10.5	85.6 %
1992	942,928	14.3	891,778	13.1	95.0 %
1993	1,878,836	99.2	1,424,078	59.5	75.8 %
1994	7,758,389	313.0	3,116,745	118.9	65.5 %
1995	8,140,380	4.9	4,760,058	52.7	58.4 %
1996	16,302,567	100.2	7,152,000	50.3	53.8 %
1997	18,035,056	10.6	9,804,998	37.1	54.3 %
1998	23,445,572	30.0	12,426,153	26.7	53.0 %
1999	32,620,000	39.1	17,451,710	40.4	53.5 %
31/8/2000	36,599,640	12.2	19,471,008	11.6	53.2 %

(Source) Hanoi's University of Economics, Nov. 2000

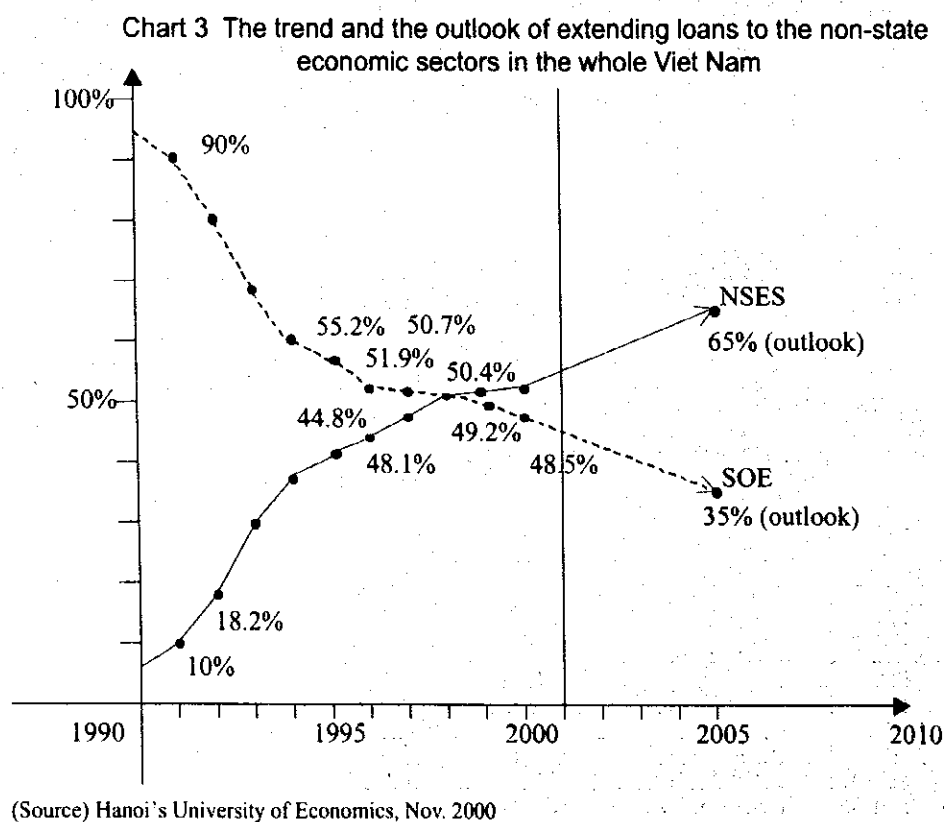
Year	Outstanding loans extended to NSES		
	Outstanding loans	Growth rate in percentage	Proportion in percentage
1990	23,896	-	3.3 %
1991	363,078	52.0	14.4 %
1992	51,150	40.1	5.0 %
1993	454,758	789.1	24.2 %
1994	4,641,664	920.0	34.5 %
1995	3,380,322	-17.2	47.6 %
1996	9,150,567	171.0	46.2 %
1997	8,230,057	-10.1	45.7 %
1998	11,019,419	33.9	47.0 %
1999	15,168,290	37.6	46.5 %
31/8/2000	17,128,632	12.9	46.8 %

(Source) Hanoi's University of Economics, Nov. 2000

Though Hanoi is the capital of Viet Nam, it is the second largest economic center after Ho Chi Minh City in the country. The proportion of loans extended to state-owned enterprises in Hanoi has always been higher than that in Ho Chi Minh City for the reasons that the headquarters of the four largest state-owned commercial banks in Viet Nam are all in Hanoi. It is also the home for headquarters of nearly 100 general corporations as well as of the largest state-owned enterprises in Viet Nam. Many huge loan agreements are implemented in Hanoi. However, outstanding loans extended to the non-state economic sectors have been increasing sometimes sharply and at other times more steadily in Hanoi between 1990 and 2000 for the following reasons:

- (1) The non-state economic sectors in Hanoi, particularly private enterprises, joint-stock and limited companies, are less developed than those in Ho Chi Minh City. However, they are developing at the second strongest pace, after Ho Chi Minh City, in the country.
- (2) Over the past ten years (1990-2000), the proportion of loans to state-owned enterprises has been declining rapidly while that of loans to the non-state economic sectors has been increasing rapidly for the following reasons:
 - (a) State-owned enterprises have been restructured, with many of them having gone bankrupt or been dissolved or privatized.
 - (b) The development of the non-state economic sectors has been encouraged, resulting in the establishment of many private enterprises, joint stock and limited companies.

6. The trend of extending loans to the non-states economic sectors in the whole Viet Nam (Chart 3)



A. The backgrounds of the increasing in loans to the non-state economic sector between 1990 and 2000

According to an analysis of the trend of the proportions between loans extended to state-owned enterprises and those to the non-state economic sectors between 1990 and 2000, the former decreased rapidly while the latter increased remarkably in the whole Viet Nam during this period for the following reasons:

(1) Viet Nam has conducted three courses of state-owned enterprise restructuring in the periods of 1991-1994, 1995-1997 and 1998-2000. As a result, the number of state-owned enterprises has been cut by 50 percent from 12,300 to 5,789 due to dissolution, bankruptcies, integration or privatization. However, there still exist many ailing state-owned enterprises, which are burdened with heavy bank debts. These include Nam Dinh Textile Factory, Ha Bac Nitrogenous Fertilizer Plant and Thai Nguyen Iron company. There also exist many state-owned corporations operating with the amount of debt exceeding the limits as stipulated by law. Banks cannot provide further loans to these borrowers.

(2) The non-state economic sectors have grown rapidly, as demonstrated by the fact that:

(a) As of August 31, 2000, 451 state-owned enterprises had been privatized in Viet Nam. These new private enterprises are receiving bank loans.

(b) More than 13 million rural households have become business and production households, which are receiving loans from banks. By the end of August 2000, the outstanding loans that the Agricultural and Rural Development Bank of Viet Nam had extended to 6.5 million such households amounted to 28,000 billion dong, a 38-fold increase from 1990, and accounted for 73.8 percent of its total outstanding loans. Other banks are also increasing their lending to the non-state economic sectors. The Industrial and Commercial Bank of Viet Nam has maintained regular credit relations with 228,873 non-state small and medium-scale enterprises with the outstanding loans surging from 5,896 billion dong, or 50.9 percent of its total outstanding loans, in 1995 to 8,642 billion dong, or 51.6 percent of the total, in 1997.

(3) Banks have helped implement many foreign projects, extending credit to the non-state economic sectors.

(a) The Agricultural and Rural Development Bank of Viet Nam has received and implemented 46 projects sponsored by the ADB, WB, AFD, KFW totaling USD1.2 billion, USD382 million of which has been disbursed. Many of these projects are big projects and include the VN2561 project worth USD49 million financed by the WB to extend loans to peasant households in the form of capital rotation.

(b) The Industrial and Commercial Bank of Viet Nam has been serving as the project agent to implement EC projects, providing funds totaling USD22 million to the Vietnamese repatriating from Hong Kong.

(c) The project of German Balance Bank to finance the Vietnamese workers repatriating from Germany totals 166 billion dong.

(d) The project of Taiwan Fund for the Development of Small and Medium-scale Enterprises to extend loans to such firms amounts to USD20 million.

- (e) There are also many other projects from such countries as the Czech Republic, France and Britain.
- (4) Banking operation requires continuing credit extension to raise banks' returns and profits. Therefore, the banks were compelled to extend loans to the non-state economic sectors in the face of the change in their customer base. State-owned enterprises, which used to be their only customers, have been decreasing.
- (5) The real estate market has emerged and has been developing in Viet Nam.
- (6) The development of businesses and trade requires bank loans.
- (7) In order to rectify the shortage of funds in the non-state economic sectors, the following policies put into force recently.
 - (a) The government and the State Bank of Viet Nam have encouraged banks to extend loans to the non-state economic sectors. The State Bank has published a specific set of rules and regulations on the credit extension to these sectors. A regulation of the Bank has raised interest rates on loans to the non-state economic sectors compared with those to state-owned enterprises, and encouraged the banks to boost lending to the non-state economic sectors to make risk premiums.
 - (b) The government and the State Bank of Viet Nam have deregulated the banking system and curtailed the monopoly of state-owned commercial banks. Many non-state banks have been established and they have experienced rapid growth. Thus, the four state-owned commercial banks can no longer near monopolize the lending market as in the past. These banks together accounted for 70-74 percent of the lending market share in 1990, but the figure has dropped to 68 percent since the end of 1999.
 - (c) According to the government's regulation, rural business and production households can borrow up to 5 million dong from banks without collateral. The ceiling of such loans was raised to 10 million dong in March 1999 and to 20 million dong in September 2000. The government and the State Bank of Viet Nam are ready to allow well-performing non-state enterprises to borrow up to 100 million or 200 million dong, for example, without collateral.
 - (d) The government has reduced the tax imposed on banking operations in the rural areas.

B. The backgrounds of its stagnation in loans to the non-state economic sector between 1997 and 2000

- (1) Since 1996, there has been a series of losses and bankruptcies among private enterprises, and joint stock and limited companies. Many private enterprises with huge outstanding bank loans have been brought to trial, which has made banks reluctant to extend new loans.
- (2) Many state-owned enterprises and state-owned corporations doing business or providing services in such important fields as gas and petroleum, post and telecommunications, electric power, bridge and road building borrowed money from banks for the implementation of big projects, thus raising the proportion of outstanding loans to state-owned enterprises.
- (3) The reliabilities of private enterprises has been very low because of the following factors:

(a) Private enterprises were involved in most of the economic cases that have been brought to court. There have been many cases relating to the collapse or bankruptcy of or swindling in private enterprises. The state management authorities complain a great deal about private enterprises.

(b) Private enterprises have been responsible for the largest proportion of overdue debts to banks.

(c) Many private enterprises have registered as businesses but have no head offices or moved their head offices so frequently that the management authorities have no information on them. During the first half of 2000, 300 private enterprises in Ho Chi Minh City disappeared without leaving any trace.

(d) Private enterprises have not been able to obtain sufficient information on the market after the Asian Economic Crisis, particularly the international markets, and have not been competitive in terms of technologies and product quality.

(4) The banks are also at fault.

(a) The procedures and regulations that banks set are so rigid and strict that private enterprises cannot meet them, and the banks' credit officers are unable to complete documents for lending.

(b) Bank staffs do not have skills that are good enough for project management, examination and/or assessment.

7. Outlook for the proportion of loans to the non-state economic sectors in the whole Viet Nam after 2000

(1) The proportion of loans to be extended to the non-state economic sectors by the whole banking system is forecast to climb after 2000. The government has dissolved or forced state-owned ailing enterprises to go out of business and resold, leased or privatized other state-owned enterprises, thus reducing the density of state-owned enterprises in the whole economy. By the end of August 2000, Viet Nam had privatized up to 451 state-owned enterprises with total registered capital of 2,281 billion dong. It is expected that 800 state-owned enterprises will be privatized by 2001. The number of state-owned enterprises will be reduced to 60 percent of the present figure by 2005 and to 30-35 percent by 2010. The Vietnamese government sets the target of completing by 2005 the privatization of the state-owned enterprises which, in its judgment, do not have to be 100-percent state-owned. On the other hand, there is a trend running counter to the above-mentioned one. That is, the government has decided to maintain its exclusive ownership on enterprises in such key areas as electric power, gas and petroleum, telecommunications, airline and navigation. As a result, a considerable proportion of existing state-owned enterprises will be maintained and will be able to receive bank loans.

(2) After a period of the Asian Economic Crisis in the 1996-1999 period, when a series of collapses and bankruptcies of private enterprises as well as in joint-stock and limited companies occurred, the non-state economic sectors have started recovering and regained the former pace of growth from the middle

of 1999. The newly amended Law on Enterprise, which went into effect on January 1, 2000, replacing the old Law on Enterprise, has created a new, clear and complete legal environment, which is conducive to sustainable development of private enterprises, and joint-stock and limited companies in accordance with the relevant laws. Between January 1, 2000, when the new Law on Enterprise went into effect nationwide, and September 30, 2000, 7,664 new enterprises, including 3,737 limited companies and 3,559 private enterprises, with total registered capital of more than 4,500 billion dong were established. The number of new enterprises was three times larger than in 1999. In Ho Chi Minh City, during the first eight months in which the new Law on Enterprise was in effect (January - August 2000), the number of newly-established non-state enterprises stood at 3,446, increasing by 98 percent from the level of the same period of 1999. Their total registered capital stood at 3,590 billion dong, up 64 percent from a year earlier. Among the newly-established enterprises, 2,084 were limited companies, 1,213 private enterprises, 141 joint-stock companies and eight single-owner limited companies. The present number of private enterprises, joint-stock and limited companies will increase after 2000.

8. Policy options for the availability of funds through banking system to the non-state economic sectors

Based on the above discussion, the following policy options are recommendable through formal financial system to the non-state economic sectors.

- a) The government should allow well-performing non-states enterprises to be able to borrow funds from banks up to 100 million or 200 million dong without collateral, provided that they have successive healthy financial position and have feasible projects.
- b) The government should request banks to adopt risk management system to borrowers not only non-states enterprises but also state-owned enterprises, such as preferential/risks premium interest rates, credit rating, prompt conversion of collateral into money, debt-equity conversion, etc.
- c) The government is preparing for the setting-up of the guarantee fund system for small and medium-sized enterprises. The implementation is expected without delayed.
- d) The government and the State Bank should allow to the non-state economic sectors to issue commercial papers and prepare the exchange market of commercial papers.
- e) Since the government of Viet Nam does not always recognize financial institutions' right to dispose of real estate which was handed to them as payments in subrogation, the real estate collateral system in effect is not functioning properly. This is one of the reasons for banks' reluctance to lend to some private enterprises. In addition to the real estate collateral system, the movables collateral law should be enacted.
- f) Because neither the disclosure system nor the auditing system have been established, the development of the equity market at the present slow pace is deemed to be appropriate. However, the disclosure and

auditing systems should be established soon for the purpose of credit screening by financial institutions. Even if there is heavy demand for funds on the part of private enterprises, lenders cannot extend credit unless these systems are solidly established. The Asian Economic Crisis has clearly demonstrated that rather than the problem of financial institutions' reluctance to lend to private enterprises, the issue of depositor protection in case of failures of financial institutions has greater social impact.

- g) As long as general corporations enjoy monopoly or oligopoly, they impede the growth of private enterprises. The unemployment resulting from the reduction or dismantling of general corporations is a problem that should be addressed by social insurance or other forms of safety net and should not be used as an excuse to keep them as they are.

9. A survey of remittance from overseas Vietnamese

(1) Size of remittance from overseas Vietnamese

Table 11 Size of bank remittance (in U.S. dollars)

	Y1996	Y1997	Y1998	Y1999
Total remittance from overseas Vietnamese (via banks)	USD 470 million	USD 400 million	USD 1 billion	USD 1.3 billion
(Remittance from Vietnamese in U.S.)	n.a.	n.a.	n.a.	USD 700 million
(Remittance to Ho Chi Minh City from overseas Vietnamese)	n.a.	n.a.	USD 600 million	USD 710 million
(Remittance to Ho Chi Minh City from Vietnamese in U.S.)	n.a.	n.a.	USD 160 million	USD 250 million
(Remittance to Ho Chi Minh City from Vietnamese in Europe)	n.a.	n.a.	USD 180 million	USD 180 million
(Remittance to Ho Chi Minh City from Vietnamese in Australia)	n.a.	n.a.	USD 130 million	USD 140 million

(Source) Forex Control Division, Ho Chi Minh City Branch, State Bank of Viet Nam,

Total remittance via banks from overseas Vietnamese in 1999 amounted to 1.3 billion U.S. dollars, which was equivalent to 5 percent of Viet Nam's GDP, 11 percent of its total exports or total ODA funds received from 45 countries.

Table 12 Amount of hand-carried funds to Viet Nam (Estimate)

	Y1995	Y1998	Y1999	Y2000
Total number of temporary visits to Viet Nam (man-visits)	168,000	259,000	280,000	612,000
Estimated amount of funds brought in/per visit (USD)	2000	2500	3000	3500
Amount of funds brought in to Viet Nam (USD)	USD 340 million	USD 650 million	USD 840 million	USD 2.14 billion

(Source) Forex Control Division, Ho Chi Min City Branch, State Bank of Viet Nam

The State Bank of Viet Nam estimates that total remittance from overseas Vietnamese including funds brought in by those making visits to Viet Nam amount to a little over 3.5 billion U.S. dollars.

Table 13 Scale of investment by overseas Vietnamese

(in 1,000 of U.S. dollars)

Y1989	Y1990	Y1991	Y1992	Y1993	Y1994
6,300	9,940	11,330	7,000	1,270	550
Y1995	Y1996	Y1997	Y1998	Y1999	-
92,930	70,970	1,200	8,200	150	-

(Source) Overseas Vietnamese Committee

Investment in Viet Nam by overseas Vietnamese is concentrated in Ho Chi Minh City, Donnai Province and Bindung Province. Since investment by overseas Vietnamese has been declining in recent years, the government of Vietnamese has begun to ease regulations. The government decision No.175, taken on August 19, 1999, ended the overseas remittance tax and allowed Vietnamese residents to receive the remittance in foreign currencies. The State Bank Circular 1, issued on April 16, 1999, permitted resident and non-resident individuals to receive the remittance in foreign currencies. This has allowed domestic banks to make payments in foreign currencies to the recipients of overseas remittance and allow them to make foreign-currency deposits and re-remit the remittance to overseas. In October 1999, the Business Association of Overseas Vietnamese (BAOV) was established in Ho Chi Minh City and received authorization from the Ho Chi Minh Peoples' Committee. In 2000, the government allowed overseas Vietnamese to purchase homes in Viet Nam, simplified the visa procedures for entry to Viet Nam, adopted the domestic national treatment regarding visa fees and otherwise improved the treatment of overseas Vietnamese. The Overseas Vietnamese Management Committee studies the present condition of overseas Vietnamese and makes policy concerning them. Mr. Nguyen Duy Nien, who was appointed as the Minister of Foreign Affairs in February 2000, is a former chairman of the Committee. According to Dr. Vinh of Ho Chi Minh Political Academy, the government of the Viet Nam and the party are now studying how to take advantage of the potentials of overseas Vietnamese.

(2) An overview of Vietnamese in the U.S.

(a) Vietnamese population in the U.S. and its distribution

There are 2.5 million Vietnamese living abroad, comprising one million in the United States, 350,000 in Australia, 340,000 in Canada, 300,000 in France, 180,000 in Germany, 150,000 in Taiwan, 100,000 in China and 70,000 in Japan. Especially in the State of California, U.S., a large number of Vietnamese is working in the Silicon Valley, which has given an impetus to the development in Viet Nam of software technology for personal computers. For example, FPT, which is the largest state-owned information technology company in Viet Nam, has begun to develop the U.S. market by taking advantage of technological know-how and distribution networks of the Vietnamese living in the United States.

(b) Living conditions

The Vietnamese living in the United States have on average more education and income than the U.S. average.

Table 14 U.S. cities with large Vietnamese population

Anaheim-Santa Ana (Orange County) CA	71,826	Seattle, WA	12,621
Los Angeles-Long Beach, CA	62,568	San Francisco, CA	12,448
San Jose, CA	54,218	Dallas, TX	11,521
Houston, TX	33,039	New Orleans, LA	11,419
Washington, D.C. area	23,413	Bernardine, CA	11,320
San Diego, CA	21,118	Sacramento, CA	10,651
Orkland, CA	16,732	Philadelphia, PA	10,416

(Source) U.S. Census Bureau, October 1, 1998

Table 15 A Comparison between the Vietnamese population in the U.S. and the U.S. population in general

	U.S. average	Vietnamese in U.S.
Those living in the U.S. West	22.4%	55.3%
Those under the age of 34 years	51.2%	58.4%
Those with college education or more	23.9%	42.2%
Those living in cities	86.6%	95.6%
Those with annual income of \$75,000 or more	16.4%	24.9%

(Source) U.S. Census Bureau, October 1, 1998

(3) Recipients of remittance

Five percent of all households in Viet Nam are receiving remittances from overseas Vietnamese. However, 85 percent of the recipients are households in large cities, including Ho Chi Minh City and Hanoi, and are relatively well-off. In Ho Chi Minh City, in particular, 600,000 persons out of the total population of six million are receiving remittances from overseas Vietnamese.

Table 16 Distribution of households receiving remittances from overseas Vietnamese

	South	North	Central
Distribution of households receiving remittances	68%	15%	17%

(Source) Forex Control Division, the State Bank of Viet Nam.

(4) Objectives of remittance

The objective of remittances is to support the livelihood and businesses of families and relatives living in Viet Nam. The planning and investment Bureau of Ho Chi Minh City People's Committee is focusing on the use of the funds of overseas Vietnamese for investment.

(5) Frequency of remittances

Forty-five percent of Vietnamese in the United States make on average four remittances a year, each in the amount of from 150 to 500 U.S. dollars. The remaining 55 percent do not make regular remittances, but they remit somewhere between 100 to 5,000 U.S. dollars a year.

(6) Methods of remittance

(a) Banks

- The remittances are made via the foreign banks in the country in which the sender lives and domestic

banks in Viet Nam. Since the recipients receive the money at branches of Vietnamese banks, it is possible to know the size of remittances. Incombank, which is the second largest bank in Viet Nam in terms of assets, handled somewhere between 10 million and 15 million U.S. dollars in remittance through its branch in Ho Chi Minh City alone in 1998 and 40 million U.S. dollars in 1999. Vietcombank, the largest bank in Viet Nam in terms of assets, annually handles a total of 80 million U.S. dollars in remittance from overseas Vietnamese at its branches across the country. The remittances peak during the Christmas season and just before Tet, Viet Nam's New Year.

(b) Officially recognized remittance agency:

- Vina USA is a mail order company, which has post office boxes and has received special approval from the U.S. government to handle remittances without using bank accounts. It has 40 offices in Viet Nam. When a request for remittance to a Vietnamese living in the United States is presented at its office by a would-be recipient of a remittance, the request is transmitted by facsimile to the New York Office, which in turn send it on to Vietnamese in the U.S. by facsimile or post. The party receiving the request can instruct the New York Office of Vina USA to make the remittance. The amount of funds remitted via Vina USA is not known.
- Although Western Union has a large number of remittance offices in the United States, it is not authorized to receive U.S. dollars in Viet Nam. Therefore, it makes remittances via ACB Bank, which is the largest non-state bank in Viet Nam. The annual amount of remittance via this route is somewhere between 18 million and 20 million U.S. dollars.
- As a receiving agent in Viet Nam, International Tourism & Investment Consultancy Co. was established under the wing of Viet Nam General Labor Confederation to handle remittances to households in remote areas. The International Tourism & Investment Consultancy Co is a state-owned travel agency, which has approval from the government to handle receiving of U.S. dollars in Viet Nam. It delivers the money to the recipients' homes by motorcycle.

(c) Quasi remittance transactions

- Under this system, when Mr. A, a Vietnamese resident in the United States, wishes to make a remittance to his relative Mr. X in Viet Nam, he gives the money to Mr. B, Mr. X's relative, friend or business partner in the United States. In return, Mr. B's partner Mr. Y, a Vietnamese resident, gives the equivalent amount of money to Mr. X. This method is used for raising business capital in Viet Nam for trading or investment purposes.

(7) Proposals for making use of overseas Vietnamese funds

Since the second half of the 1970s, China has been establishing investment corporations in each of the provinces to receive funds from overseas Chinese and investment them in promising projects. In the 1980s, these investment corporations expanded the scope of their activities to enter into joint ventures

with foreign companies or to float bonds in overseas financial markets while at the same time accepting funds from overseas Chinese. However, in the 1990s, some of these corporations became insolvent and went bankrupt because their borrowers had made poor or bad investment in real estate. In view of these Chinese experiences, the following measures are recommended in the short term to increase the availability of funds to the non-state economic sectors in Viet Nam.

- (a) The government should enact Overseas Vietnamese Investment Promotion Law to establish legal foundation and protection provisions for investment by overseas Vietnamese.
- (b) The government should introduce further preferential treatments for remittance and investment from overseas Vietnamese into their mother country.
- (c) The State Bank could set up the domestic investment funds for them with some favorable treatments. In the future, the domestic investment funds should be viewed to develop to the domestic investment corporations.

Entrepreneurship in Viet Nam and Promotion of the Private Sector: Some Judgments from a Survey

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This short paper highlights some issues related to entrepreneurship in Viet Nam and provides some findings and remarks drawn from the results of the recent survey conducted by CIEM with JICA's support.

1. Outline of the surveyed firms

The survey has studied 452 businesses of Viet Nam's private sector.

- Of 452 firms 153 limited liability companies (34%), 127 private enterprises (28%), 76 non-agricultural cooperatives (17%), 54 business households (12%), and 42 shareholding companies (9%).
- 284 (63%) from 452 surveyed firms are located in the South of Viet Nam and the remaining 168 (37%) have sieges in the North. This proportion, to a certain extent, reflects current "economic power" of the 2 main regions of the country.
- With regard to labor size, of 432 firms having reported the number of laborers 184 firms (43%) have less than 30 laborers, 131 (30%) have from 30 to 99, and 117 (27%) have over 100 laborers.
- Among 452 studied firms 197 (43.6%) are established before 1996, 207 (45.8%) were registered between 1996 and 1999, and the remaining 48 (10.6%) have just been registered in 2000 under the Enterprise Law.
- The 452 private firms in study have covered 510 industries, i.e. many private firms run simultaneously 2 or more industries. This work focuses on 14 most popular industries in terms of share in employment and GDP.

2. Factors affecting entrepreneurship: Findings from the survey

2.1 Motivation for the formation of the business

Perhaps, one of the most obvious expressions of entrepreneurship is motivation to create a business. Motivations differ from a social group to another one, from region to region and even from country to country. Thus, the answers given by the business founders of different category may help us to understand background for the funding of firms.

- Among 470 firms giving answers for the question "How was your business founded", 137 firms (29%) informed they started the business by themselves, 129 firms (27%) started the business with other family members, 117 (25%) founded the business with friends. Others ways such as bought the business from people other than family members (3%), bought the business from a family member (1%), bought the business from an SOE (1%), or inherited the business from a family member (1%), represent rare cases.
- With regard to the questions relating to background for start-up or, in other words, driving force to do business, the most interesting finding is that the wish to engage something that is helpful to society is the biggest driving force for all forms of business (for cooperatives 40%; for limited liability companies 30%; for business households 28%; for shareholding companies 27%; and for private enterprises 24%). Other 3 important motivations (of nearly same percentages) are willingness of the managers to operate business on their own judgment; to demonstrate their capacity; or to engage in their family business.
- As far as the reasons to choose the present product line are concerned, the survey gives the following interesting findings:
 - + Having experience in manufacturing is a key reason absolutely of businesses of all forms. Follow it the reasons that the choice has come from traditional products, engagement of family members, and ability to secure raw materials. Other motives such as "copied" successful people, on the advice of a friend, or on the advice of the local government have little impact on the decision of managers.
 - + In terms of choosing a certain industry, experience in manufacturing is the strongest motivation (On experience rely 73% managers in cars, motorcycles&parts industry, 65% in agricultural machinery, 50% in metal household goods, 49% in machinery&tools, 48% in plastic products). Like the case of form of business, the advice of a friend, or the advice of the local government in choosing the product line have insignificant influence on the decision of managers.

2.2 Problems and challenges to the private firms

A range of factors associated with production, marketing and other business activities have strong impact on entrepreneurship. The survey has discovered a number of problems and managerial challenges, which encourage or discourage the development of the PS.

- The "weakest point" of Vietnamese private managers appears to be the lack of know-how regarding fund raising and know-how about exports. This reflects the legacy of the discouraging fund raising mechanism and export constraints, that were pervaded in the past, rather than weakness of business management.
- The biggest difficulty, perhaps, common for all business forms as well for almost all industries in

study is difficulty in developing customers. It reflects an unhappy reality in Viet Nam today, when many domestic products cannot find customers and export markets.

- Following this difficulty, private investors continue suffering difficulty in raising funds necessary for the establishment of the firm, difficulty in securing factories and procuring production equipment, and troublesome and time-consuming registration procedures.
- On the question "How did you raise the fund needed to start your business?", 314 firms chose the answer "Own funds"; 163 firms borrowed from credit institutions including state-owned banks (96 cases), commercial joint-stock banks (51 cases) and non-bank credit institutions (16 cases); and 281 had to use informal sources such as borrowing or investment from relatives, friends, acquaintances, over-seas Vietnamese and others (according to the survey, 19 firms receive funds from overseas Vietnamese). The results of the survey have reconfirmed the fact that there exists a weak relation between private enterprises and commercial banks, in other words, enterprises of the private sector get insignificant access to basic services of the bank.
- It is to note that some industries which are considered as key or driving branches (agricultural machinery, machinery & tools, cars & motorcycles, electrical products, shipbuilding, or computer software) hardly acceded to investment credit from banks.
- A good finding concerning the fund raising matter is the fact that the informal financial market is the "main supporter" for private investors in their starting-up. The founders of cooperatives were those who depended on this market for help at most (46%), next, shareholding companies (43%), then limited liability companies (37%), and lastly private enterprises (29%) and business households (29%).
- On the simple and straight question "Does your company have sufficient funds?", great majority of firms (69%) have given the "well-known" answer "Insufficient", the most serious state of fund insufficiency (72.2%) is recorded in "big" firms. Just remaining 31% informed they had surplus or adequate funds.
- Less difficult, but still burdensome is harassment from related organizations in establishing the business. Of 452 firms in question 48 firms complained about harassment from local authorities. Moreover, the degree of harassment does not change since the beginning of the economic reform until now.
- On the question what problems the firm is facing in marketing, about half of firms (49.3%) refer to slow payments of customers, a third (33.6%) complain about demand shortage. Slow payments have become extremely serious in electrical products&parts (78.9%), agricultural machinery (72.7%), ceramics (69.6%), construction materials (60.8%), and plastic products (59.1%). Demand shortage is considered a big obstacle for ceramics (50%), furniture&woodworking (40.4%), machinery&tools (39.3%), food processing (34.5%).

- Regarding the production problems the studied firms are facing, the most notable difficulties for all business forms are old, backward production equipment; shortage of skilled labor, and lack of information on production technology. Old equipment has become more serious in small and very small firms.
- They are too small facilities to increase production capacity; difficulties in securing manpower and means of commuting; difficulties in securing electric power and water; and sharp increases in land leasing charges.
- A permanent problem for almost all private firms is the problem in making capital investment. Three "classic" difficulties they are facing are shortage of funds for capital investment; the land too small to add capacity; and difficulty in securing new site. The survey has reconfirmed the above impediments which many other studied have found. It is to say, the sharpest demand in solving these problems comes from big firms operating in agricultural machinery, machinery&tools, food processing, clothing, and export companies.
- As far as the problems concerning technology development are concerned, all questions put to the investigated firms deserve paying great attention. A shortage of funds for technology development is problem No.1, next, a shortage of technology staff, and further, go shortage of equipment for technology development, difficulties in obtaining information on technology, lack of places to consult regarding technological problems.
- Regarding the present managerial problems, the order of difficulty ranked according to 1086 opinions, is as follows: constraints on fund raising (245); competition with other firms in the industry (217); shortage of skilled labor (139); aging of equipment (112); inadequacy of distribution networks (98); stagnation of the product area (52); shortage of raw materials and parts (49); shortage of technological know-how (42); shortage of electric power supply (35); inadequate means of transportation (28); overall shortage of labor (12).
- Export is considered by majority of experts as an important indication of entrepreneurship. An export expansion may mean some improvement of entrepreneurship, and on the contrary, an export contraction says about deterioration of it. The different "rumors" about constraints on export activities have been revised by the survey. It appears, the heaviest constraint among 9 constraints questioned by the survey is difficulties in obtaining overseas market information (112 cases); the second "huge burden" is impossibility to directly access overseas buyers (108 cases); further in decreasing order of difficulty, are the need to obtain export quotas (59), cumbersome red tape for exports (51), no proficient people in clerical work for export (36), complicated export regulations (28), no proficient people in English (25), high tariffs (17). From this feedback, one can see how important is more openness and quicker integration of the national economy to the world's economy, if the country wants to carry out successfully the export-oriented strategy.

- The manners in which private businesses obtain information on export markets are worth thinking about. Absolute majority of export firms obtain export information mostly from TV, radio, newspapers and domestic magazines, that are regarded to be not "professional sources". 104 firms get information from exhibitions and trade fairs, 93 from The Chamber of Commerce & Industry (VCCI). Other sources such as trade or specialized publications; foreign newspapers, magazines; other companies in the same industry; domestic exporter-makers; suppliers of materials & parts; overseas buyers are quite useful for firms. SOEs, private technology information service firms and consulting firms, that are regarded key information providers in the market economy, unfortunately, play a very modest role in providing export market information.
- Competitiveness is the first concern of all who are interested in prosperity of country's economy, especially competitiveness in export markets play a decisive role in the economic development. On the question "How do you evaluate your competitiveness in export markets?" just 9.5% (32/336 answerers) firms believe their products are competitive or strongly competitive; 47% (158/336) evaluate their competitiveness at average level; 24.2% (81/336) consider their competitiveness poor or very poor; and the remaining 18.8% even cannot define the degree of their competitiveness. Larger percentages of poor and very poor competitiveness have been recorded in cars & motorcycles (45.45%); shipbuilding (40%); plastic machinery & tools (36.8%); products (33.3%); software (33.3%). In others words, competitiveness seems to be poor in those industries that require higher technology. The above figures reflect a reality that majority of Vietnamese private firms are still not ready to compete foreign partners, once Viet Nam joins more regionalization and globalization. It is worth noting, that competition now has become one of the biggest problems not only for big firms, but also for small ones, and demand of skilled labor is the sharpest for the private individual enterprises rather than for the private companies.
- Viet Nam has committed to meet all requirements imposed by AFTA in the year 2003. One of the "headache" questions for Vietnamese policymakers is what impact will be happen in Viet Nam industries after the reduction of import tariffs in AFTA implemented in 3 coming years. The result of the survey shows virtual worries of majority of private businessmen: about 3 thirds of firms suppose there will be hard domestic competition with import finished goods from ASEAN; 68 firms expect strengthening export competitiveness with reduction of import tariff for materials; few firms share the opinion that no impact due to strong domestic competitiveness or due to weak relationship in import and export with ASEAN.
- It is interesting to know whom the business managers ask to advise when they have troubles in their business. From the answers given by the managers one can see that in such circumstances about 40% of them ask friends in the same business to advise, 27.9% go to consultants', 19.2% consult friends coming from the same province., and 18.8% address to staffs of the business support

organizations such as VCCI or business associations. A very small number of firms look for professors, staffs of the SOEs, or staffs of government (4.6%, 3.8%, and 5.3% respectively) to get advises from them. This reality reflects not high trust of these groups to the business world.

2.3 Qualification and business spirit of Vietnamese managers

"How do the managers cope or intend to cope with difficulties and challenges they are facing" is an important question to be studied. Below are some interesting findings saying about entrepreneurship of Vietnamese private businessmen.

- With regard to profit utilization, 350/452 firms (77.4%) have confirmed they would use profits to expand the present business, of which 71/81 firms from food processing, 43/50 firms from furniture & woodworking, 10/12 firms from leather, 20/23 from metal household goods, all 11/11 firms from agricultural machinery, 21/23 firms from machinery&tools, 21/23 firms from cars, motorcycles & parts. It is very good news.
- With regard to future expansion of business, majority of firms (380 firms) intend to expand as much as possible or step by step. Only 12 cases want to reduce the present business scale and 13 cases are considering a withdrawal from the present business. The latter is occurring mainly in construction materials industry, furniture&woodworking and machinery&tools, especially in the small firms. The fact that many private firms wish to expand their business reflects partly arising entrepreneurship at present in Viet Nam.
- The reasons why businessmen want to expand the scale of their business must have discovered their virtual motives to do business. They are, first of all, to contribute to society (34%), next, to secure greater profits (29%), to gain economies of scale (14%), to demonstrate their own capacity (13%). To win over competitors is the motive of just 31 managers (5%). The above figures speak a lot about characteristics of Vietnamese businessmen, of which social recognition is thought to be the most important for them.
- For those who do not want to expand the scale of the present business, the main explanations are because of difficulties to secure funds (42%), because it entails risks (20%), and because the present business is not promising (19%). Other reasons such as insufficiency of know-how on corporate management, insufficiency of the present profits, or risk of inviting harassment are not so much influencing.
- More than half of managers (299) accept totally or partly to take a risk even if fails. But about the third of questioned businessmen (133), a significant number, do not agree somewhat or do not agree at all to take risks.
- Majority of managers (297) do not agree with the opinion that it depends on good or bad luck whether they will succeed or not. This may express to a certain extent self-confidence of the private

businessmen in Viet Nam at present. However, still not a small number of businessmen (140) consider their business a "game of hazards".

- Absolute majority of managers (420) suppose the key to success is in their own efforts. This fact says a lot about some improvement of entrepreneurship in Viet Nam private sector.
- The stock market is widely recognized as one of the most efficient forms of fund management. However, it is met not very "warmly" by Vietnamese managers at the moment. 42% (175/417) managers do not want to use the stock market as a place to invest their funds, 38% (159/417) hesitate to use it (they answered they did not know), and only 20% (83/417) want to do it.
- The definition of the role of the informal credit market in Viet Nam may be an important finding provided by the survey. Over the question "Which forms does the enterprise borrow in informal credit market?" the replies are interesting: 177 firms have borrowed from family members, relatives, friends, of which 96 (54.2%) bore interest rate from 0.0-1.01%; 75 firms paid from 1.01 to 3.0% (from 2 to 6 times greater compared to interest rate of the bank); and even 6 cases had to pay more than 3%.
- Deferred-payment, borrowing from trading partners and borrowing from employees are the important forms for firms: 34 firms often use the deferred-payment form with interest rate equal to or under 1.0%; 13 others must pay interest rate at over 1.0%, of which 4 firms pay even over 5%; 33 firms borrow from trading partners of which 10 firms borrow at from 1.01 to 3.0%; 24 firms managed to borrow from their employees at not high interest rate (18 cases at no more 1%; 6 others at no more 3%).
- Other forms such as borrowing from an association, group (veteran group, female group,...) or playing "hui, ho" are being used by a number of firms, but not very popular: 20 firms declared they used the former form; 10 firms take part in "hui, ho", of which 8 firms play at rate under 3.01% the other two accept over 5%.
- All these figures plus the data analyzed above reconfirm the fact that the informal credit market but not formal one has had decisive contribution to the development of Viet Nam private sector.
- In order to receive loans, as a rule, private firms have to meet requirements imposed by the lenders. It is to note, that among 4 kinds of requirement, trust has proved to be the most prevalent (179 cases or 56%), less prevalent but quite frequent is collateral (93 cases or 29%). Guarantee by a third party, mortgage and other kinds have been used just by unimportant number of firms. This fact may point out that "the rule of game" in the informal credit market is more favorable and "more agreeable" than the rule in the formal one.

3. Needs to support

To grow, the firm needs not only support vis-a-vis material resources or production factors, but also institutional support, in particular, it needs a transparent and favorable legal framework for its activities.

- It is strange, however, till September 2000, the time the questionnaires were distributed, after 9 months the Law came into effect, 22 questioned managers did not know that this new Law had been enacted; 30 managers just heard about it but did not know about its content. This evidence explains again the informational support must be the first thing the Government has to provide with.
- The situation is worse with the Law on domestic investment promotion. 26.8% of the questioned managers do not know the existence of this Law, although it was enacted in June 1994 and amended in May 1998. And among those who know the Law, only half of them (147) has acceded to the preferences provided by this law. If taking into account that all firms exporting over 30% of their output belong to the beneficiary-object, we can see that many investigated export firms have missed the benefits of the Law.

The essence of the survey is to know what kind of supporting measures private businesses wish to get. 21 tailored measures were offered to the firms. The survey gives us a global image on their needs in decreasing order of importance.

- Among the supporting measures that got over 100 opinions, the measure No. One is tax incentives, exemption and reduction (277 opinions);
- Expansion of bank lending is at the second place (246 opinions);
- Enact relevant laws is No. Three (189);
- Next, streamline administrative procedure (161);
- Enhancement of the government's investment promotion system (155);
- Provide overseas information (135);
- Creation of industrial parks for plan relocation and expansion (108);
- Financial assistance to exports (106).

All the above listed measures belong to the "policy frame" covered by the Government", or in other words, it is the Government who is responsible for implementing such measures to promote the development of the private sector.

The second group of important supporting measures consists of:

- Stable supply of electric power (88);
- Creation of opportunities for education and training in business management (87);
- Easing of regulations on exports (86);
- Easing of regulations on plant and equipment investment (79);
- Providing technology information (77);

- Providing information on various supporting measures (75).

This second group of measures is again under responsibility of the Government or more exactly of the line ministries.

The last group covers such measures like:

- Improvement of transportation infrastructure (67);
- Technology guidance and consultation (60);
- Creation of educational institutions for engineers, technicians (60);
- Providing information on management (54);
- Support of the creation of industry associations (41);
- Creation of opportunities for education and training in technology development (29);
- Improvement of water supply systems and sewerage (28).

The implementation of the supporting measures of the last group needs the engagement not only of government agencies but also the network of consulting companies.

Like some other surveys conducted in the past, this survey has suggested a number of supporting measures for exports to be opted for by the firms. 11 supporting export measures assessed by the firms that have been ranked in the following order of importance:

- Provide information on export markets;
- Streamline procedures for export permit and export red tape;
- Provide credit information on trading partners;
- Support research and development and technology development to enhance export competitiveness;
- Provide export credit from public financial institutions;
- Create one-stop centers to provide supporting services for exports; provide consulting services on exports;
- Improve the agency for inspection of export products;
- Provide training on international standards for technology;
- Increase transparency of export tariffs; and create a trade insurance system.

The assessment has given again an important message to all who are responsible for export promotion that the private firms need first and first of all not export credit lending or capital support but information on export markets, on trading partners and simplification of export procedures. Among the export procedures, custom procedures are recognized to be the most crucial for the export environment. The assessments by the firms on Viet Nam's custom procedures concerning exports inform us that over half of the answerers are dissatisfied or even very dissatisfied with the current custom procedures.

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International comparison of business environment for enterprisers

	Viet Nam	Japan	America	Taiwan
Availability of technological seeds at the time of startup	Few results of university researches are industrialized. Hanoi University of Technology has established an enterprise that would industrialize the results of its researches. There are relatively many cases of using the experience at state-owned enterprises as seeds.	There are few cases of industrializing the results of university researches. Recently, an attempt to industrialize the results of university researches has begun.	Industrialization of technologies developed by universities is active. Researchers are highly intent on industrialization of the results of their researches.	There are few cases of industrializing the results of university researches. Technological seeds are those that were developed by Taiwanese students during their stay in the U.S. and brought back to Taiwan, or those developed by the government-affiliated research institutions.
Incentives for business establishment:	There are few incentives for business establishment.	Stock option is available only at some companies. Business founders social status was low but has been rising recently.	Researchers are entitled to receive royalty income and the distributed research funds. Stock option is widely available. Sale of companies at their growth stage is easy.	The results of the development by government-affiliated research institutions can be used at low costs. The social evaluation of business founders is high.
Environment at the time of business startup	With the establishment of the corporate law, the conditions for company founding have been substantially eased. There are few support services for business founding. Labor mobility is low and it is difficult to secure skilled workers.	The cost of business founding is high. Support services for business founding are inadequate. Chambers of commerce and industry have begun to provide support services. Labor mobility is low and it is difficult to secure skilled workers. Companies that have just been established find it difficult to sell their products to big companies and government agencies.	The cost of business founding is low. Support services for business founding are substantial. Contingency fees are paid for professional services. Really good products are dully evaluated by the market even if their makers have a very short history of operation.	Public organizations provide funds and consulting services. As labor mobility is high, it is relatively easy to secure skilled workers at the time of business founding. Overseas Taiwanese network can be utilized at the time of export.
Environment at the time business expansion	Difficulty in securing funds and plant sites hampers business expansion.	How to procure funds is a bottleneck in business expansion.	Various support services are available for business growth and expansion.	There are relatively few constraints on business expansion.
Availability of funds	Funds for business startup come from funds on hand, family members, relatives and friends. Difficulty in procuring funds for business expansion hampers business expansion.	Funds for startup are limited to funds on hand. Funds for business expansion are available from government-affiliated financial institutions.	Funds for startup are provided by seeds capital and angels. Venture capital will also provide funds depending on the business scale. There are programs for financial support from the government.	There are various sources of funds, such as government institutions, loans among companies or individuals and overseas Taiwanese.
Market environment	Market entry by private companies is subject to various restraints. Market information (domestic and overseas) is inadequate.	Products by big companies are evaluated on the market, and it is difficult for small companies to develop the market for their products.	Even the companies with a very short history of operation can enter the market if their products and services are of high quality and performance.	Because of a small domestic market, many companies tend to export their products.
Public offering	The stock market has just opened, and many private companies have no plan to list there.	The average period from start up to public offering was 25-30 years, but recently this period is short ening.	The average period from startup to public offering on the NASDAQ market is about 7 years.	Public offering is not common because of an attitude to avoid fund procurement and management intervention from outside.

(Source) Based on the "Survey of the Comparative Japanese and American Conditions for Venture Startup".

