

**The project for enhancing corporate
finance management capacity to
implement SOE restructuring on
State Capital Investment Corporation
(SCIC) in Vietnam**

Project Completion Report

March 2015

JAPAN INTERNATIONAL COOPERATION AGENCY(JICA)

Japan Economic Research Institute Inc.

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Abbreviation List

ADB	Asian Development Bank
BOD	Board of Directors
BOM	Board of Management
CIEM	Central Institute for Economic Management
Circular 21	MOF Circular 21/2014/TT-BTC
CPC	Cam Pha Cement
CPMS	Capital and Portfolio Management System
DATC	Debt and Asset Trading Company
Decision 929	Prime Minister's Decision 929/2012/QD-TTg
Decree 151	The Government Decree 151/2013/ND-CP
DFI	Development Finance Institution
EG	Economic Group
ERM	Enterprise Risk Management
GC	(State) General Corporations
HNX	Hanoi Stock Exchange
IFC	International Finance Corporation
JERI	Japan Economic Research Institute Inc.
JSC	Joint Stock Company
KPI	Key Performance Indicators
KRI	Key Risk Indicators
MOF	Ministry of Finance
NPL	Non-Performing Loans
ODA	Official Development Assistance
PMD	Portfolio Management Department
RMD	Risk Management Department
SASAC	State-Owned Asset Supervision and Administrative Commission of China
SBV	State Bank of Vietnam
SCIC	State Capital Investment Corporation
SIC	SCIC Investment Company
SOE	State-Owned Enterprise including those partially owned by the government
SPD	Strategic and Planning Department
TISCO	Thai Nguyen Iron and Steel Corporation
VAMC	Vietnam Asset Management Company
VND	Vietnamese Dong

Executive Summary

1. Research on the status quo, identification of strategic opportunities and capacity development needs and provision of trainings had been carried out as planned.
2. Status quo of SCIC
 - a) SCIC has two main functions, managing and investing state capital. However, SCIC has been focusing its resources to the management and divestiture of state capital, while investment activities have been limited and consultancy service has not been started yet.
 - b) Despite the fact that SCIC has been functioning as a “state capital manager”, many mistake it as a “pure investment company” and criticize for “low return on invested capital”.
 - c) SCIC exercises its rights over state capital by voting at shareholder meeting and instructing State Capital Representatives, board members at investee enterprises appointed by SCIC, on how to vote at the board meetings. Many of SCIC’s representatives are not SCIC employees and do not receive any remuneration from SCIC.
 - d) SCIC has been managing State capital fairly well by securing autonomy for high-performers, providing hands-on support for enterprises in difficulty and arranging for state capital divestures.
3. Strategic opportunities

SCIC has a major role to play in ongoing SOE reform by accepting a larger number / scale of equitized SOEs from ministries / provinces and enhancing the corporate value by applying advanced corporate governance practices. SCIC should clearly separate its two functions, state capital management and investment, and promote its track record as an “effective state capital manager” so that the transfer of a larger number / scale of SOEs is accelerated.

4. Needs for operational improvement
 - a) To improve the ability and reputation, be a pioneer in promoting advanced corporate governance practice, such as formulation of voting guidelines and corporate governance code, and support on establishment of educational / certification institute for corporate directors.
 - b) Reinforce portfolio company data base to accommodate a larger number of SOEs.
 - c) Establishing function based teams to support portfolio officers and accumulate knowledge to be utilized for new investment activities (industry research, specialized divestiture, corporate governance and restructuring).

[End]

1. Outline of the project

1.1 Background of SOE reform and SCIC

1.1.1 Ongoing SOE reform

- i. SOEs are still playing a major role in Vietnam, producing 40% of GDP, employing 20% of workforce and generating 30% of government revenue¹.
- ii. Ministries, agencies, provincial people's committees, EG and GC have been actively implementing SOE restructuring roadmap in line with the Decision 929 on "Restructuring of State-owned enterprises, focusing on economic groups and State-owned corporation period 2011 - 2015".

The Decision stipulates the following:

- i. Classification of SOEs in four categories based on the state ownership.

Table 1.1-1 SOE grouping by capital participation ratio

State Ownership	Area or sector of industry
100%	<ol style="list-style-type: none">1. Fulfillment of National Defense and Security tasks as regulated of the Government.2. Manufacturing and supplying industrial explosive materials.3. Manufacturing and supplying toxic chemicals.4. Transmitting, dispatching the national power system, multi-purpose hydropower and nuclear power particularly important to the economy and society associated with the National Defense and Security.5. Managing, operating the infrastructure system of the national and the urban railway; controlling the national and the urban railway transportation.6. Managing, operating airports playing an important role to National Defense and Security; flight assurance services.7. Assurance of maritime safety.8. Providing public postal services.9. Lotteries10. Publishing (excluding printing and publishing)11. Printing money and casting coins.12. Map measurement serving National Defense and Security.13. Managing, operating the irrigation system, inter-provincial and inter-district agricultural hydraulic engineering and stone revetment.14. Planting and protecting watershed forest, protection forest, and specialized forest.15. Credit extension serving the economic and social development.16. The member enterprises that play an important role in business operation and strategy development hold the secret of business and technological secrets,

¹ OECD 2013, "SOUTHEAST ASIAN ECONOMIC OUTLOOK 2013", and SCIC "SOE RESTRUCTURING AND THE ROLE OF SCIC", 8/6/2012

	and of which 100% of capital must be held by state-owned Corporations to perform their tasks and the main business line.
At least 75%	<ol style="list-style-type: none"> 1. Managing, using and maintaining airports (excluding airports stated in Section I). 2. Managing, operating national integrated seaports and international gateway. 3. Managing, maintaining the system of roads and inland waterways. 4. Maintaining the infrastructure system of the national railway. 5. Providing the telecommunication infrastructure. 6. Extraction of minerals on a large scale. 7. Extraction of petroleum and natural gas
Above 65% to below 75%	<ol style="list-style-type: none"> 1. Processing petroleum and natural gas. 2. Producing cigarette. 3. The enterprises satisfying the essential requirements for development of production and raising the living standards of ethnic peoples in mountainous, remote and isolated areas. 4. Planting and processing rubber and coffee; planting and managing forests in strategic areas, mountainous, remote and isolated areas associated with National Defense and Security. 5. The enterprises with the role of assuring major economic balancing and stable market operating in the following industries and sectors: <ol style="list-style-type: none"> a) Wholesaling of preventive and treating medicines; b) Wholesaling of foods; c) Wholesaling of gasoline. 6. Finance and Banking (excluding insurance, securities, asset management companies, and financial leasing companies). 7. Air transportation. 8. Distribution of electricity.
Above 50% to below 65%	<ol style="list-style-type: none"> 1. Urban water drainage. 2. Environmental sanitation. 3. Urban lighting. 4. Manufacturing and supplying urban clean water. 5. Fundamental investigation into geology and hydrography and meteorology; exploration of, survey, investigation into the land resources, water resources, mineral resources and other types of natural resources. 6. Manufacturing and storing seeds and animal sperm; manufacturing biomedical vaccines and veterinary vaccines. 7. Manufacturing the basic chemicals, chemical fertilizers and plant protection drugs. 8. Planting, processing rubber and coffee; planting and managing the forests in the areas not mentioned in section III. 9. International sea transportation and railway transportation.

(Source) PM Decision 37/2014/QĐ-TTg, which updated the classification included in Decision 929

- ii. Divestment of state capital in the sectors which are not the main business or not directly related to the sector of main business, and state capital in joint stock companies that State does not need to control. Line ministries and provincial people's committee are responsible for directing the economic groups and corporations to develop divestment plans by 31 December 2015.

- iii. Restructure enterprises by sectors irrespective of management level and agency. In the short term, in the areas of construction, commerce, telecommunication, publication, lottery, water supply and drainage, urban environment, irrigation, management and repair of roadway, railway and waterway.
- iv. Restructuring group and state corporations comprehensively from organizational model, management, human resources, production and business lines, strategic development, investment to market and production. Reorganizing a number of economic groups and state-owned corporations to be in line with the actual situation and mission requirements.

1.1.2 Outline of SCIC

- i. Discussion on the separation of regulatory and ownership function was started about 10 years ago and two models were examined; 1) inter-ministerial committee model such as State-Owned Asset Supervision and Administrative Commission (“SASAC”) in China; and 2) holding company model such as Temasek Holding (“Temasek”) in Singapore. The government decided to establish SCIC by following Temasek model.
- ii. SCIC was incorporated under the Prime Minister’s Decision No.151/2005/QD-TTg dated June 20, 2005, and started its operation in August 2006. Later, SCIC was transformed into a one-member limited-liability company wholly owned by the State under the Prime Minister’s Decision No. 993010/QD-TTg dated June 10, 2010. SCIC is supervised directly by the Prime Minister’s Office but substantially controlled by the Minister of Finance (“MOF”) which advises the Prime Minister on most of important decisions concerning SCIC.

1.1.3 SCIC’s function in the SOE reform

- (1) Acceptance and value enhancement of newly equitized SOEs from line ministries and provincial people’s committees
- (2) Investment and acquisition of non-core businesses from EG and GC.
- (3) Accelerated divestiture of Group B and C investee companies

1.2 Background of the project

The government of Vietnam requested the Government of Japan technical assistance projects on “SOEs’ debt disposal and operational revitalization” and “Support on banking sector reform”. Vietnamese MOF and JICA signed “Record of discussions on the project for enhancing corporate finance management capacity to implement SOE restructuring in the Socialist

Republic of Vietnam” on February 2014. This project is a part of operations under the said record of discussions and aims at acceleration of SOE reform through capacity development of SCIC.

1.3 Purposes

- (1) Governance improvement for investee SOEs
 - To understand SCIC’s current situation and make suggestions on strategy and operational improvement
- (2) Revitalization of SOEs to be sold and acceleration of debt disposal
- (3) Capacity building on new investment
 - Establishment of appropriate risk management system, including adoption of multiple Key Risk Indicators (KRI)

2 Activities

The project is progressing as the original plan, except for the coordination meeting / workshop with relevant ministries and international donor agencies to be held during the first field work.

(1) Kick-off meeting

Kick-off meeting was held on September 18 at SCIC head office. It was originally scheduled on September 17 but postponed due to the flight delay.

SCIC delegates were Mr. Lai, a deputy CEO and the project owner, and managers from International Relations, Risk Management and Human Resources Departments.

Our proposal on work-flow, schedule and other arrangements were all accepted. One meeting room at SCIC head office was assigned to JICA project as a permanent work space.

(2) Research on current state of SCIC and environment surrounding it

We conducted an extensive review of laws and SCIC’s internal documents and interviewed SCIC officers, management of 5 portfolio companies and relevant organizations from late September through mid-November. Interview period was extended from original schedule due to availability of interviewees and the intermission caused by the preparation for Annual Representative Meeting held by SCIC in the 2nd week of October.

Interviewees include multiple departments at SCIC, MOF officials in charge of SCIC and SOE reform, management of SCIC’s portfolio enterprises, president of Central Institute for Economic Management (CIEM) and officers in charge of SOE reform and / or corporate governance at

World Bank, Asian Development Bank and International Finance Corporation.



SCIC portfolio enterprises visited by JICA experts

While most of necessary information was successfully collected, we could not obtain any first-hand information on Output 1 of PDM, legal and institutional framework for corporate restructuring and divestment of non-core business of SOE, due to the following reasons;

- Bankruptcy procedure is rarely used in Vietnam and no SCIC staff or portfolio company has experienced it. (SCIC is not specialized in turnaround of troubled enterprises)

- While SCIC is expected to serve as a potential investor in non-core businesses to be divested by Economic Groups and State General Corporations, it is not involved in the drafting of divestment planning.

Please refer to 10.2 for detailed discussions.

(3) Drafting of business strategy

At the kick-off meeting, we were told that SCIC had already submitted its draft of “Strategy toward 2020” to MOF. Therefore, we were instructed to provide our own view on the strategic direction of SCIC to the management.

We presented our views contained in this progress report on November 25 as a part of “Observation of SCIC operations and strategic directions”.

(4) Coordination Meeting / Workshop

Based on the discussion with SCIC management, we decided not to hold coordination meeting / workshop on “SCIC’s role on SOE reforms” with relevant ministries and international donors. Instead, the presentation on “Observation of SCIC operations and strategic directions” was made on November 25 for 2 Deputy CEOs, Mr. Lai and Mr. Hien, and managers at SCIC head office. It was agreed with SCIC to hold an open workshop in February, 2015, inviting relevant government officials and international donor agencies.

(5) Training in Vietnam

We gave lectures on 8 subjects related to SCIC’s operations, from Monday, November 17, through Friday, November 21.

(6) Training program in Japan

12 lectures were given between Tuesday, January 20, and Thursday, January 29.

(7) Workshop on “SCIC’s role in SOE reform”

Presentation was made from 2:00 pm on Wednesday, February 4 and received feed-back from participants. Invited participants include Corporate Finance Department at MOF, National Steering Team of SOE Restructuring and Development (Office of the Government), State Securities Commission (SSC), International Finance Corporation, JICA SOE and Banking Sector Restructuring Project, JICA Vietnam Office, and SCIC directors and officers.

(8) Wrap-up meeting

Wrap-up meeting was held on February 6 at SCIC head office.

Mr. Hien expressed his gratitude for the successful completion of the project and requested for continued support from JICA. Mr. Sakakibara, a chief advisor on SOE reform project, expressed his intention to continue discussing with MOF and SCIC's management on concrete measures for future supports.

(9) Response for the matters requested by the letter dated August 14, 2014

We did not receive any concrete instruction on the matters that SCIC requested for JICA's support by the letter dated August 14, 2014, and, accordingly, our cooperation on them was limited. Please refer to 10.3 issues to be resolved in the 2nd phase; insufficient internal consideration on the matters to be supported.

3 Status quo of SCIC

3.1 Duties of SCIC as stipulated in Decree 151/2013/ND-CP

Decree 151/2013/ND-CP dated November 1, 2013 (hereafter, "Decree 151") is the latest government decree stipulating the tasks to be performed by SCIC. Compared to the previous decrees on SCIC, the most notable change was the inclusion of procedures for sale of state capital below face value, which make divestiture of state capital easier.

Article 4 of Decree 151 describes the functions and duties of SCIC which can be categorized into five categories, management of state capital, new investment, consultancy, management of Enterprise Restructuring Fund and others. Up to now, SCIC has been spending most of financial and human resource on management of state capital, while new investment is in its initial stage and consultancy service has not yet been started. The management of Enterprise Restructuring Fund is to merely execute the directions from the MOF. Clause 4 is related to both state capital management and new investment because SCIC invests in the portfolio company's share for the purpose of maintaining state ownership ratios.

Table 3.1-1 Functions and duties of SCIC as stipulated in Article 4 of Decree 151

1	Management of	Taking over the right to represent the state ownership in enterprises.
2	state capital in equitized SOEs	Exercising rights, duties of the owners with regards to the enterprises and capital that SCIC has taken over and directly invested in.
3	(main business)	Continuing to conduct the activities of restructuring, equitization, sale of state capital in enterprises transferred in accordance with the prevailing regulations.
4	New investment	Making capital investments in groups, corporations, or holding enterprises engaging in sectors or industries that the State holds the controlling rights.

5	(Initial stage)	Making capital investment into projects as instructed by the Government and the Prime Minister.
6		Making capital investment and trading in sectors, fields and projects that bring economic efficiency in line with laws.
7	Consultancy services (Not started)	Providing consultancy services on investment, finance, equitization, corporate governance, enterprise ownership transformation, merger & acquisition, and other enterprise supporting services in line with the laws.
8	Enterprise Restructuring Fund	Performing a number of duties relating to the Fund for supporting enterprise restructuring and development in line with the laws.
9	Others	Other duties as per the Prime Minister's decisions.

(Source) created by JERI based on Article 4 of Decree 151/2013/ND-CP

We consider that the nature of SCIC's operation is mistaken by many as a "pure investment company" while, in reality, it has been a state capital manager. Two roles require SCIC to perform very different tasks, which are summarized below.

Table 3.1-2 Two main functions of SCIC

	Managing state capital State agency in charge of managing state capital in equitized SOEs	Investing state capital Investment arm of the government
Mission	SCIC has no discretion over which SOE to accept	SCIC has discretion over which project/enterprise to invest in and freely negotiate for the price
Goal	<u>Exercise shareholder rights with market-based considerations</u> <u>Divest state capital based on the procedures</u>	<u>Find a good investment opportunity</u> & Achieve high return on capital

(Source) created by JERI

The main difference between the two functions above is **the discretion over what, how and when to invest and how much to pay**. As a state capital manager, SCIC is tasked to receive all

the remaining state capital in equitized SOEs, except for those involving in provision of public services / products or directly related to national security, and EGs, GCs and other cases in accordance with the Prime Minister decisions (Article 7, Decree 151). In this regards, SCIC cannot select or reject any entity to be transferred to itself. When receiving state capital, SCIC does not have a right to negotiate the price, as the transfer price is stipulated in Decree 151 at a book value or an average price of the last 3 months for non-listed and listed equities respectively (Article 8). This function is very different from “investment” under which the most important task is to find a promising investment opportunity and acquire it at lowest cost possible.

We consider that the two roles above should be clearly distinguished when discussing SCIC’s role and strategic directions, because many of the criticism on SCIC is considered to be based on the misunderstanding or confusion about its functions as a pure investment company.

3.2 Financial standing

Steady growth of SCIC has been confirmed by the reviews on the financial statements of SCIC in 2013.

SCIC manages its own assets and the assets for Enterprise Restructuring Fund separately. The amount of assets for Enterprise Restructuring Fund was about half of the SCIC’s total assets in 2013. Since SCIC has no discretion over the use of Enterprise Restructuring Fund and performs administrative work only, any gain or loss from such does not affect the income statement or shareholders’ equity of SCIC and they are simply credited or debited from the balance of the fund.

The largest asset of SCIC is cash and cash at banks, followed by government bonds owned under Enterprise Restructuring Fund and listed / unlisted stocks.

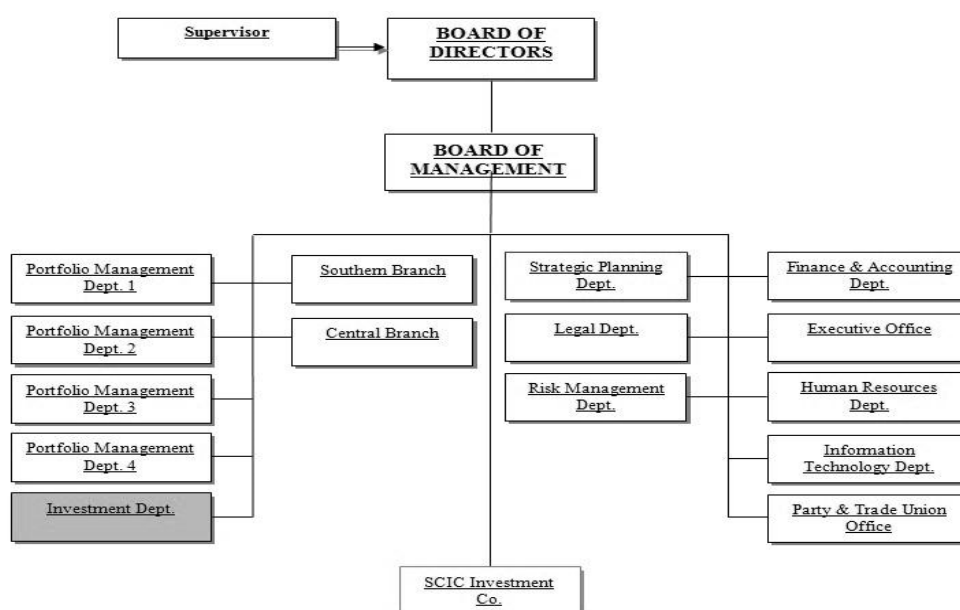
Major revenue sources of SCIC in 2013 were dividends from portfolio enterprises and interests from bank deposits. Capital gain from the sale of equity was limited since divestiture of state capital was stagnant due to the sluggish stock market condition in Vietnam. SCIC’s liability in 2013 was limited and there was no major long-term liability.

Dividends from SCIC’s investments continued to be a dominant source of income. On the other hand, interest income from bank deposits and bonds was reduced in 2013 since the inflation rate subsided and interest rate was lowered.

3.3 Organization

SCIC has 11 departments at head office and 2 branches in Ho Chi Minh and Da Nang. Southern

Branch (in Ho Chi Minh) was established in 2006 and the Central Branch (in Da Nang) recently. In January 2013 SCIC established SCIC Investment Company (SIC) as a wholly owned subsidiary company with initial capital of VND 500 billion to carry out smaller scale financial (equity, fixed income) and project investment.



(Source)

web-site of SCIC: <http://www.scic.vn/english/index.php>

Figure 3.3-1 Organizational Chart of SCIC

(1) Board of Directors (BOD) and Board of Management (BOM)

SCIC is managed by the Board of Management (BOM) under the guidance and supervision by the Board of Directors (BOD). BOM is composed by a Chief Executive Officer (CEO) and 5 Deputy CEOs and BOD is composed by representative from the ministries and the executives below.

Current board members of SCIC

Chairman	Mr. Tran Van Hieu, the Vice Minister of MOF
Member	Mr. Ho Sy Hung, Director of Enterprise Development, MPI Mr. Lai Van Dao, CEO of SCIC Mr. Hoang Nguyen Hoc, Deputy CEO of SCIC Mr. Nguyen Quoc Huy, Deputy CEO of SCIC

(2) Strategy and Planning Department (SPD)

SPD prepares an annual plan and strategy. The annual plan includes key figures such as revenue, profit, number of enterprises and amount of state capital to be divested.

SPD also conducts annual performance review of each department based on annual plan and strategy. Up to now, revenue amount has been the main performance criteria for the review and it will affect the bonus fund for each department. From 2015, the criteria is planned to be changed to the rate of return which is to be defined as government bond yield plus certain risk premium.

(3) Risk Management Department (RMD)

RMD has been focusing on the verification of each department's compliance with regulations and guidance. The Internal Review Division of RMD is in charge of carrying out internal audit which is to be carried out on the minimum of 1 department per year.

As SCIC is expanding new investment activities, RMD has started designing the enterprise risk management framework. RMD hired Deloitte Vietnam in early 2013 to propose and construct Enterprise Risk Management system, which is explained in "3.10 Enterprise risk management (ERM)".

(4) Finance and Accounting Department

Finance and Accounting Department is in charge of accounting, finance, fund mobilization, fund management and other related works.

In addition, this department performs administrative work on Enterprise Restructuring Fund based on the instruction by the Government (based on Decision 21/2012, Decree 184/2012 and guidance from the Government). Enterprise Restructuring Fund is the proceeds of state capital divested by other government agencies and SCIC has no discretion over the use of it.

SCIC disburses the fund based on the instruction from the government for financial support of restructuring or expansion at SOEs outside of SCIC's portfolio.

SCIC receives no management fee for the clerical duties on administration of the fund.

(5) IT and Statistics Department

SCIC has been running IT system for 7 years and currently using the following.

- a) E-office system which supports the management of SCIC's documents,
- b) FAST which is used for accounting operations by Finance and Accounting Department,

- c) Capital & Portfolio Management System (CPMS) which is a web-based database developed in 2008 for the management of information collected from and concerning to portfolio enterprises.

(6) Portfolio Management Departments (PMD)

Portfolio management departments at head office and branches are in charge of administering state-capital accepted from ministries and provincial peoples committees. Portfolio officers are responsible for the following tasks;

- a) Monitoring and supporting the performance of investee enterprises
- b) Expedite and process divestiture of state capital
- c) Making additional investment to maintain the state ownership share
- d) Process new capital acceptance from ministries and provincial people's committees

Each portfolio departments are responsible for certain sector or region.

(7) Investment Departments & SCIC Investment Company (SIC)

New investment activities are being carried out by the New Investment Department at Head office, investment divisions at 2 branches and the investment subsidiary, SIC. New Investment Department is further divided into financial investment division and project investment division.

SIC was established two years ago with the initial capital of VND 500 billion, which was increased later to VND 2,000 billion. Majority of SIC staff are newly recruited, although some were transferred from SCIC. SIC works independently from SCIC and mainly participating in medium and small scale projects. SIC is also supporting SCIC to accelerate the new investments.

For further discussion on new investment, please refer to 3.9.

3.4 Profile of SCIC staff and past training programs

SCIC has about 238 staff of which about 110 staff is in charge of investee company management and new investment. SIC has more than 30 staff.

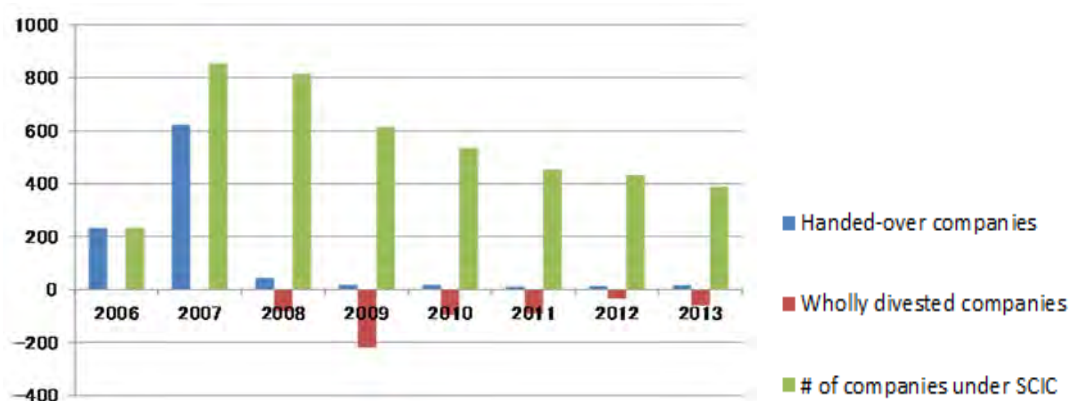
SCIC has been implementing staff trainings utilizing both internal and external resources. The programs are composed of (i) special skill development for targeted professional staffs such as controller's skill, (ii) general skill development such as training for document compiling and regulation development, (iii) core knowledge development such as financial monitoring, assessment for operation efficiency and disclosure of financial information by SOEs or

procurement guidelines, (iv) knowledge sharing / update on issues related to the task of SCIC, such as new labor law or revisions of decrees etc., and (v) management skill development such as Leader skill development program.

3.5 Portfolio enterprises

(1) Number of enterprises under SCIC

Since the establishment in 2006, SCIC has divested 660 SOEs. SCIC is currently managing 315 enterprises as of October 24, 2014.



(Source) created by JERI based on the information provided by SCIC

Figure 3.5-1 Number of Enterprises under SCIC's Portfolio

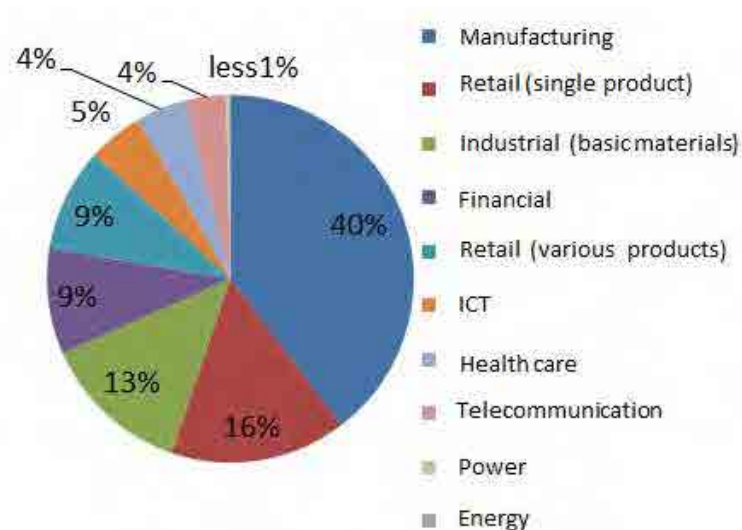
Table 3.5-1 Number of state capital divestiture by SCIC

	'06-'08	'09	'10	'11	'12	'13	'14	Total
Wholly divested	84	219	97	92	35	61	72	660
Partially divested	14	19	9	9	3	6	7	67
Total	98	238	106	101	38	67	79	733

(Source) created by JERI based on the information provided by SCIC

(2) Sector distributions

The investee enterprises operate in wide variety of areas while manufacturing and construction ranks the 1st and 2nd in terms of number of enterprises.



(Source) created by JERI based on the information disclosed by SCIC

Figure 3.5-2 Industry composition of enterprises under SCIC portfolio
(The number of enterprises in each industry at the end of 2013)

(3) Grouping based on strategic importance

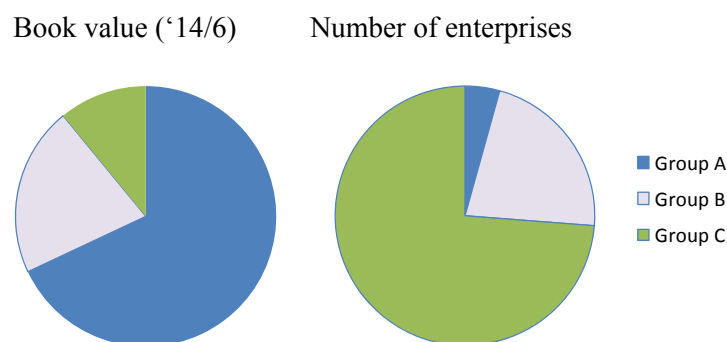
SCIC classifies its investee enterprises into three following categories:

Group A; Large enterprises effectively operating in key industries and in line with SCIC's long term strategy (Strategically core group)

Group B; Mid-size enterprises, with capital of over VND 10 billion or more and ROE of over 10% (Flexible group)

Group C; Those not meeting the criteria above and to be divested (Divesture group)

Group A enterprises account for about 70% of SCIC's equity book value, while the number of enterprises is less than 5% of total.



(Source) created by JERI based on the information provided by SCIC. Grouping is as of September 9, 2014

Figure 3.5-3 Composition of portfolio enterprises by Group A, B and C

(4) Distribution among portfolio departments

On average, each portfolio officers monitors 2.5 investee enterprises. By department, a staff in Southern Branch is monitoring the largest number of 4.7 enterprises and a staff in PMD 4 monitors the second largest number of enterprises of 4 enterprises and more. Investment Department is allocated with the smallest number of investees. Allocation of portfolio enterprises to each portfolio officer is decided by the level of complexity in enterprises' situation and his / her experiences.

3.6 SCIC's approach for representing state capital

(1) State-capital representatives system

All the state-capital owners, including SCIC, must appoint "state-capital representative" among board members, who represent the interest of the state at board meetings. While ordinary shareholder of private joint stock companies must own at least 10% of outstanding shares to nominate 1 director, state-capital owners appoint one director even when their shareholding is less than 10% (Circular 21, Regulation, Article 4.1.a, Article 5).

Important feature of state-capital representative system is direct instruction by the state-capital owner, a shareholder, to its representative on how to vote at BOD meeting. On issues stipulated by the law, state-capital representatives must obtain written instruction from the state capital owners on how to vote at the board meeting (Circular 21, Regulation, Article 4). For SCIC, the issues requiring SCIC's instruction differ by the percentage of SCIC shareholding, 100% of the charter capital (Decree 151, Article 20 and 21), more than 50% (Decree 151, Article 3) and not more than 50% (Decree 151, Article 23). This requirement is unique to state-capital and not applicable to private shareholders even when they hold majority ownership.

(2) Right and obligations of the representatives

Major tasks of the representatives are to conduct, cast votes or make decision at meetings of member's Council or BOD based on the instruction from the owner of the state capital. Representatives are also required to make periodical report to the owner of the state capital about financial situation including enterprise's operation and send ad-hoc reports if requested by the owner of the state capital or on unusual issues that may greatly affect business activities of the enterprises. (Circular 21, Regulation, Article 6)

(3) Criticism over state-capital representative system

This state-capital representative system has been criticized by some of SCIC's investee enterprises. First of all, obtaining SCIC's approval takes a long time. SCIC's instruction on important issues must be decided by the board of management level and the internal decision making process require more than a week. For urgent managerial decisions, the time required for decision making within SCIC can be detrimental.

Secondly, this system makes it difficult to maintain confidentiality of sensitive information. For example, if the decision on merger and acquisition is to be discussed at the board meeting, the information is usually kept at board members. However, if a board member is a state-capital representative, he / she must disclose the information to SCIC and multiple officers at SCIC shall be in the position to see it during the internal decision making process.

On top of these practical problems, state-capital representative system poses a question over the corporate governance principle of "equal treatment for shareholders". Under this system, state-capital owner is in a special position to be informed of material information, which is discussed at the board-level but not be informed to all the shareholders. This problem has not yet been voiced in Vietnam but it should be considered in future as the discussion on modern corporate governance progresses.

(4) Profile of SCIC representatives

Due to the limited pool of personnel qualified to sit on the board, SCIC tends to nominates existing board members at investee enterprises as its representatives. Because remunerations for non-SCIC representatives are covered by the investee enterprises, SCIC's influence such representatives is limited. To mitigate this problem, SCIC is considering the introduction of incentive for non-SCIC representatives.

However, appointment of non-SCIC person as representatives may not be considered a problem. As a reference, Singapore's Temasek is also avoiding the accusation of "insider trading" by

excluding its own employees from the representative candidates.

(5) SCIC's track record of state capital management

SCIC has been effectively performing the role of state capital manager by providing its portfolio enterprises;

- Autonomy and market-based guidance for high performers (“hands-off” approach)
- Tight financial control and restructuring support for enterprises in distressed situations
- Transitional support for SOEs by establishing efficient internal control and organizational framework for enterprises
- Divesture support by assisting enterprises preparing financial and non-financial data, hiring auction agencies and holding presentations for potential investors

We consider that SCIC's past contribution on support to portfolio enterprises and divesture of state capital has not properly been understood. Proactive promotion of its track record should be made to raise the profile of SCIC, which shall eventually accelerate the transfer of a larger number / scale of equitized SOEs from line ministries / provincial people's committees. Further improvement in state capital management function can be achieved by strengthening company database, promoting corporate governance and reorganizing portfolio departments. (see 4. Suggestions on strategic direction)

The OECD Principles of corporate governance are thought to be the guiding principles that should be followed by the enterprises all over the world. Here are some excerpts.

Shareholder	<ul style="list-style-type: none">- Elect and remove members of the board- Amend to the statutes, or articles of incorporation- Authorize additional shares and extraordinary transactions
Board (BOD)	<ul style="list-style-type: none">- Review and guide corporate strategy, major plans, risk policy, annual budgets, etc.- Select, compensate, monitor and replacing key executives
Executives (BOM)	<ul style="list-style-type: none">- No description on the role in corporate governance (manage day-to-day operation, propose to the board business plan, risk policy and future strategy, etc.)

While SCIC has been fulfilling its mission as a state-capital manager fairly well, following characteristics can be generally observed among the Vietnamese enterprises and at SCIC.

Limited influence on portfolio enterprises due to weak powers of shareholders in Vietnam

[Cause] Still immature corporate governance culture in Vietnam

[Measure] SCIC has been promoting modern corporate governance through seminars jointly held with IFC and HNX

Not sufficient pool of talent to function as top management for portfolio enterprises that are in need of new management

[Cause] Only 7 years of history for SCIC and a short history of market economy in Vietnam

[Measure] SCIC already started training programs for young staff to gain experience in industrial /commercial enterprises

Less systematic approach for managing enterprises in strategic industries

[Cause] Lack of collaboration among portfolio departments, industry analysis function, weakness in CPMS database

[Measure] SCIC recently started corporate-wide research for strategic industries

Less systematic approach toward divestiture of difficult-to-sell enterprises

[Cause] Portfolio department is organized by sector; geography and no consideration for the size or state of the enterprises is given

[Measure] Sector strategy, more systematic divestiture efforts and other team-oriented measures has recently been initiated

3.7 Divestiture of state capital

As mentioned in 3.5, SCIC has divested state capital in over 700 enterprises. However, the divestiture activities have been slowing down in the last three years due to weak demand from investors and deterioration in some of portfolio enterprises to be divested.

Divestiture of state share must be conducted through public auction in order to secure the transparency, while up to 70% of the shares to be sold can be reserved for employees or strategic players. Strategic investors and employees can acquire the share at the price not lower than the lowest successful price at the auction. (Article 14, Clause 4 (a) of Decree 151). Finding good strategic buyers is one of the most important tasks for Officers at PMDs.

Southern Branch and Central Branch had hosted seminars for potential investors and financial intermediaries, such as strategic investors, investment funds, security enterprises and M&A consultants. Also, some Portfolio Officers are discussing with top managements of their portfolio enterprises on mergers and acquisitions between them and there have been some successful cases of portfolio enterprises being acquired by other portfolio enterprises.



Investor seminar held by the Central Branch in Da Nang on August 15, 2014

Except for the examples mentioned above, coordinated efforts on divestiture have been limited. The seminars for investors had only been held at branch level but no corporate-wide event has been held to attract strategic investors.

Also, there has been very limited communication between officers in different department and branches. Even for sectors that SCIC has multiple enterprises in its portfolio, such as pharmaceutical production and construction, information sharing between officers in charge has been limited.

Furthermore, while the enterprises to be divested have different kind of potential buyers based on size, profitability and SCIC's ownership ratios, they have not been categorized accordingly. In order to advance the divestiture of difficult-to-sell enterprises, proper analysis and categorization should be carried out and strategic planning and realignment of portfolio officers should be considered.

3.8 Capital and Portfolio Management System (CPMS)

SCIC had developed its own IT system to monitor and store information on portfolio enterprises, "Capital and Portfolio Management System" or "CPMS". CPMS is a Postgres based database with 800 tables developed since 2008 and contains the following information on portfolio enterprises.

- a. Basic information (company name, address, charter capital, state holding, etc.)
- b. Representative (name, age, address, years since appointed as board member and by SCIC respectively, retirement year, % of capital he / she represent)

- c. Land use right (m², location, value, years remaining, other information)
- d. Financial statements (annually or quarterly, balance sheet and income statement)
- e. Shareholders meeting (date, compliance with SCIC's instruction, receipt of minutes by SCIC, obstacles for holding, etc.)
- f. Future Divesture (planned year, procedure status, actions taken by SCIC)
- g. Business plan
- h. Change in State Capital (date, amount of share, price, total amount)
- i. Dividend
- j. Past divesture record
- k. Liability
- l. Additional investment by SCIC

While the information collected from portfolio enterprises and account officers have been stored since 2008, it has not been used effectively. From interviews with officers from IT, Portfolio Management and Strategy and Planning departments, the problem with current system can be summarized as follows.

- i. Data input is not linked to any other IT system or internal procedure. This resulted in the lack of incentive for portfolio officers to input data swiftly and accurately.
- ii. CPMS can issue only static reports and the flexible data retrieval must be done by writing special programs by IT department. This takes several days to see specific data for certain purposes, such as change in sales of pharmaceutical enterprises.

3.9 New investment

(1) Legal ground of SCIC's new investment

The legal ground of SCIC's new investment is the article 4.4 - 4.6 of the Decree No.151/2013/ND-CP, which are the article 4.4 "Making capital investments in groups, corporations, or holding enterprises engaging in sectors or industries that the State holds the controlling rights", the article 4.5 "Making capital investments into projects as instructed by the Government and the Prime Minister", and the article 4.6 "Making capital investments and trading in sectors, fields and projects that bring economical efficiency in line with the laws". In addition, investment principles, forms, authority for decision-making, etc. are stipulated in the article 16 -19 of the Decree.

(2) Departments in charge of new investment

The Investment Department at Head Office and project development division at branches are in charge of new investment. In addition, SCIC Investment Corporation (SIC: capital of VND 2 trillion, 30 employees) was established as a SCIC's 100% subsidiary in January 2013. The Investment Department is divided into the Investment Division (Investment target: infrastructure, hospital, education, pharmaceuticals, etc.) and the Financial Investment Division (Investment target: listed equity, bond, etc.), and SIC has focused on the investments in smaller-scale projects and financial investments.

"New Investment" is further divided into the two areas: 1) investment in enterprises that the government takes control, investment instructed by the government and investment in existing investee enterprises (more than 70% of total annual investment); and 2) investment in economically efficient sectors (30% or less of total annual investment). But according to the interview with SCIC, there have not been clear criteria to make a distinction between the two.

(3) Projects considered by SCIC to-date and potential future projects

SCIC has invested in one office building development in 2010 and currently considering 3 projects, new hospital development, cancer prevention drug factory and water purifying plant. On top of these projects considered by SCIC's initiative, there have been some "instructed investments" by the Prime Minister to consider. They include investments in the expansion project at TISCO and development of a real estate complex centering on very high TV broadcasting tower.

(4) New Investment strategy toward 2020

In the draft strategy submitted to MOF in September 2014, SCIC is targeting to make VND 100 trillion worth of investment over the next 6 years in 2015 - 2020. In terms of the basic policy of new investment, the draft strategy focuses on fundamental sectors that the State needs to control while keeping the economic efficiency. It also mentions SCIC's investment principle as "Dynamic, Effective, and Sustainable".

In addition, the draft strategy selects 8 sectors (Part II.III.1.2 Table) in accordance with the state policies (Economic and Social Development Strategy 2010 - 2020 from the Party Congress XI, Prime Minister's Decision No.37/2014/QĐ-TTg, Decree No.151). Those 8 sectors are 1) telecommunication; 2) healthcare; 3) financial services; 4) information technology; 5) industry-construction; 6) water-electricity-gasoline; 7) basic consumer goods; and 8) energy-mining. This direction may be appropriate for SCIC as an investment company supervised by MOF and, given the wide range of target, there will not be any trouble for the

SCIC's operations.

3.10 Enterprise risk management (ERM)

(1) Background

SCIC understood the importance of managing risks in both existing and future assets to make the organizations effective and efficient. SCIC retained Deloitte Vietnam Business & Finance Advisory Company Ltd. ("Deloitte") as the consultant for the ERM Framework development Project at SCIC (the "SCIC ERM Project") in 2014.

(2) Outlines of the SCIC ERM Project

The objectives of the Deloitte's consulting service for SCIC ERM Project are to:

- Assess the current state of SCIC risk management capabilities
- Compare the current state of international leading risk management practices, with gap analysis
- Provide recommendations on how SCIC could improve the effectiveness and efficiency of SCIC's risk management capabilities.

Deloitte developed a 6-year roadmap for SCIC to establish appropriate risk management system and organization, starting from 2014 and ending in 2020. The roadmap is based on the real practical experience from other countries and shall be adjusted to match with the SCIC's characteristics.

3.11 SCIC's role in SOE reform

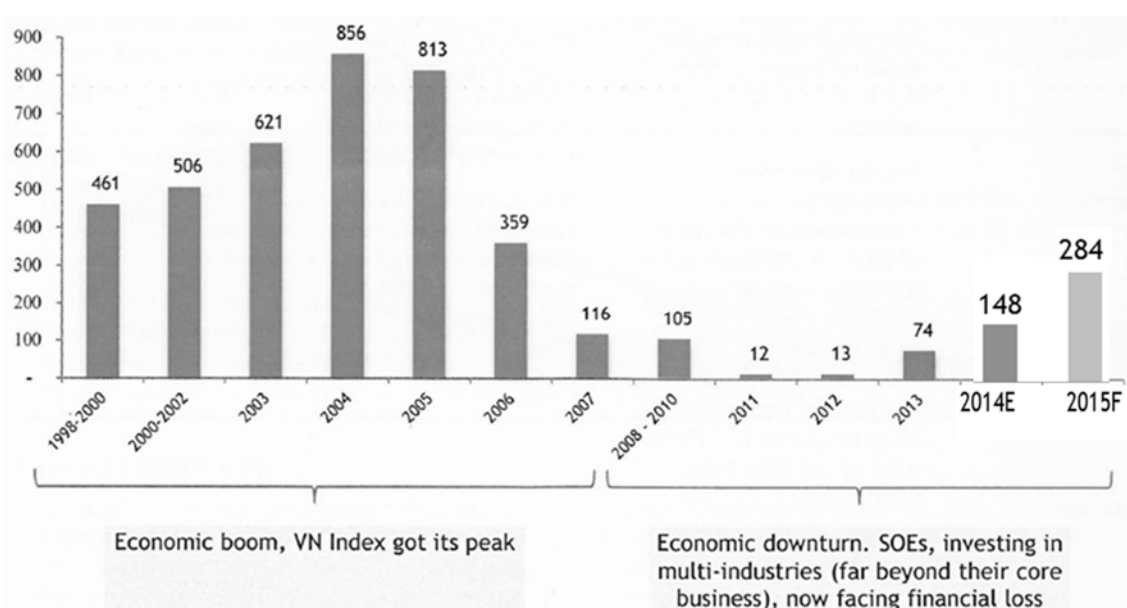
While SCIC was originally established to achieve a policy goal of separating regulatory and ownership role of the state, the number of SOEs transferred to SCIC has been limited. It can be attributable to the slow progress of SOE equitization but some point out that the weak political influence of SCIC is one of the major reasons.

However, the recent movement in SOE reform is rejuvenating the equitization activities. On July 17, 2012, Decision 929 was issued and it clearly narrowed down the scope of the majority-owned SOEs to "key sectors and areas", and, at the same time, also called for the divestiture of those SOEs that state does not need to control. (see 1.1.1 and below).

No.929/QĐ-TTg (July 17, 2012) ; Decision on approval of scheme "Restructuring of State-Owned Enterprises, focusing on Economic Groups and State-owned Corporations, excerpt from Article 1

- State-owned enterprises have a more reasonable structure, concentrating on key sectors and areas, providing products, essential public services for society, security and national defense
- Divest the state capital in joint stock companies the State does not need to control

Under the current SOE reform, 432 SOEs are planned to be equitized for 2014 and 2015, as the chart below shows. If the government of Vietnam continues to fulfill the polity target of divesting all the SOEs that are not serving for public services / goods, many more SOEs shall be equitized in near future.



(Source) Created by StoxPlus from the data published by MOF, NSCERD and CIEM.

The estimated and forecasted # of IPOs for 2014 and 2015 are made from the government plan

Figure 3.11-1 Number of SOEs sold their shares via IPOs

As stipulated in Decree151, SCIC is in a position to receive the remaining state capital in such equitized SOEs from current owners, ministries and provincial people's committees. The part starting from "excluding" and ending at "Prime Minister" in Article 7 of Decree 151 was newly added to identify the role of SCIC as a "state capital manager of SOEs in competitive sectors". Also, dd) in Article 7, 1 was newly added to prepare for the future possibility that SCIC manages the state capital of Economic Groups.

Decree151, Article 7. Taking over the right to represent the state ownership in enterprises

1. The corporation shall take over the right to represent the state capital in the following types of enterprises (excluding enterprises mainly engaging in provision of public

services, good, or directly serving national security and defense and other cases that are assigned to other agencies by the Prime Minister):

- a) One member state limited company
- b) Limited liability company
- c) Joint Venture company
- d) Joint stock company
- dd) Economic groups, corporations in accordance with the Prime Minister's decisions

To confirm SCIC's role mentioned above, government has recently issued Resolution 15/NQ-CP below, calling for accelerated transfer of equitized SOEs to SCIC.

Resolution No.15/NQ-CP (March 6, 2014); Solutions for speeding up equitization and divestment of state capital in enterprises, Article 3

The ministries, sectors and localities are obliged to review and transfer the equitized enterprises to the State Capital and Investment Corporation (SCIC)

Also, Prime Minister issued Decision 51/2014/QD-TT on September 15, 2014 to clarify the rules and procedures for divestiture of state capital and cleared a way for SCIC to acquire the state capital upon initial offering.

Decision 51/2014/QD-TT on the divestment, sale of shares, and transaction registration, listing on stock exchanges of SOEs

Article 9. Equitizing enterprises that SCIC acquires initial offering shares

Article 10. Methodology and price that SCIC pays to initial offering shares

Timing of negotiation by SCIC	Existence of Strategic Buyer	
	Yes	No
Before public auction	Lowest successful price	No lower than initial price
After public auction		Par value

Rationale behind recent revision or enactment of laws is Government of Vietnam's continued commitment for separation of the ministry / province's regulatory function and ownership in SOEs, which is a globally recognized best governance practice as stipulated in OECD Guideline below.

OECD Guidelines on Corporate Governance of State-Owned Enterprises

Chapter II. The State Acting as an Owner

D. The exercise of ownership rights should be clearly identified within the state administration. This may be facilitated by setting up a co-ordinating entity or, more appropriately, by the centralization of the ownership function.

“Centralization of the ownership function could also allow for reinforcing and bringing together relevant competencies by organizing “pools” of experts on key matters, such as financial reporting or board nomination.”

“Centralization of the ownership function in a single entity is probably most relevant for SOEs in competitive sectors and is not necessarily applicable to SOEs that are mainly pursuing public policy objectives.”

On top of the merit of centralized holding, there is more practical requirement for SCIC’s holding of state capitals. Since there are so many SOEs to be equitized, there will not be sufficient private capital to absorb all the shares offered in the short period of time. Therefore, divestment of equitized SOEs requires multiple years and careful planning and SCIC should play the role of warehousing them until the appropriate time for divesture is reached.

We consider that SCIC’s portfolio has a large room for growth as there exist a lot of SOEs outside of SCIC. Only less than 30% of equitized SOEs have been transferred to SCIC and SCIC was managing less than 3 % of total SOE equity at the end of 2012.²

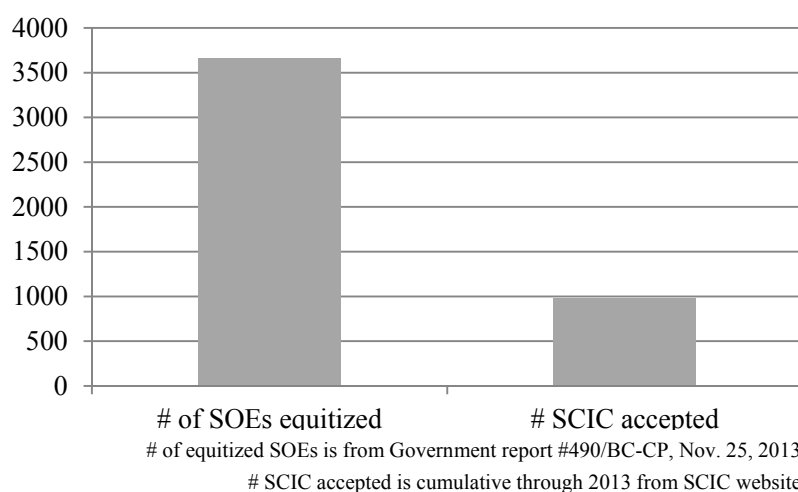


Figure 3.11-2 Number of equitized SOEs and those transferred to SCIC

3.12 Strategy toward 2020

For the first time, SCIC had drafted its long term plan toward 2020 and submitted to MOF for

² SCIC’s shareholder’s equity in 2012 divided by Total SOE equity in 2012 (Government report #490/BC-CP, Nov. 25, 2013) = 2.7%

review in September 2014.

In its draft plan, SCIC describes the direction for operation as follows.

- (1) Accelerate the reception of state capital within the scope described in Decree 151
- (2) Apply modern corporate governance standards to portfolio enterprises
- (3) Invest in new and existing enterprises, including non-core business of Economic Groups and State Corporations

While all three directions are in line with SCIC's mission, SCIC's target vision is heavily skewed toward the third direction above. In the section called "Target until 2015", SCIC mentions that it aims to become a "strategic investor of the government", start looking for overseas investment opportunities, and become "top investment and financial organization with total assets under management of USD 5 billion". Target until 2020 is "top investment and financial organization with total assets under management of USD 3.5 billion".

The statements above may further aggravate the misunderstanding of SCIC's function as a "pure investment company" and should be modified to emphasize the track record and future potential as a state capital manager. However, since this strategy has already been submitted to MOF before the start of this project, our recommendation has not been reflected.

3.13 Third party's view on SCIC

(1) Media coverage

We had identified multiple news articles criticizing SCIC for not making new investments while keeping a large amount of cash at banks, or lower return on investments than other investment funds.

- (When many of business entities are suffering from liquidity shortage,) Dr. Nguyen Minh Phong, a well-known Vietnamese economist, has affirmed that it's quite an abnormal thing for SCIC, which is authorized by the state to make investment in enterprises, make money just by depositing state's money.³

³ Lacking capital, businesses look daggers at SCIC, VietNamNet Bridge, March 17, 2013

- SCIC should sell the Vinamilk's shares for potential investors who can help Vinamilk to develop better. If SCIC opens a "Venture fund", SCIC will help many SMEs who have growth potential. (written by Mr. Tran Dinh Thien, Vietnam Institute of Economics)⁴

Such criticism is based on misunderstanding over SCIC's role, which is a state-capital manager and not a pure investment company. Also, it should be pointed out that about 55% of bank deposits to be criticized actually belong to Enterprise Restructuring Fund as of end 2012, for which SCIC simply serves as an administrator based on the instruction from the government.

(2) National Assembly

We had a chance to talk to one member of the National Assembly and he mentioned that many of the members are not happy with the return on capital made by SCIC. He also mentioned that the management of SCIC is not as capable of private enterprises. This criticism can also be considered to stem from the misunderstanding over the function of SCIC.

On the other hand, some others are arguing that National Assembly should have a direct control over the proceeds of state capital divestiture, not MOF or SCIC.

(3) MOF

We interviewed officers in charge of SOE reform and SCIC and they consider that SCIC has not been fully performing the task of state capital manager for equitized enterprises. They mentioned that SCIC lacks capacity to manager large scale SOEs, such as economic groups and state corporations and that is the reason why Article 7 of Decree 151 stipulates that, with regards to economic corporation and corporations, the transfer shall be conducted in accordance with the Prime Minister Decisions.

(4) CIEM

The president of CIEM, Dr. Nguyen Dinh Cung, pointed out the reason for slow progress in transfer to SCIC as the low political position of SCIC and reluctance of line ministries and provincial people's committees using "low-capacity of SCIC" as excuses. Dr. Cung mentioned that, while some point out the lack of technical expertise at SCIC, the fundamental problem lies in the lack of commitment to reduce direct involvement in economic activities by the government as a whole. He described the issue as a systemic problem and not about individual entity. Dr. Cung believes that SCIC should be a champion in corporate governance in Vietnam and be involved in the establishment of Institute of Directorship being considered by IFC, as it

⁴ Quản lý vốn nhà nước, căn cơ chế mới, Tuổi Trẻ Online, March 9, 2013

will contribute to raising the status of SCIC.

(5) World Bank

We interviewed a country economist and operation officer for SOE reform. They did recognize the name of SCIC but did not fully understand its role in SOE reform.

(6) ADB

We interviewed a country economist and his knowledge on SCIC was at the same level as the World Bank.

(7) IFC

We interviewed officers in charge of corporate governance reform. They understood well about SCIC's operation because they had hosted a joint seminar on corporate governance. They shared our perception of SCIC being a potential major player in SOE reform but also acknowledge the limit of its capability and commitment to improve governance practice in Vietnam. IFC is maintaining close contact with Mr. Lai for potential collaboration on the area of corporate governance, including the establishment of Institute of Directorship.

4 Suggestions on strategic direction

Table 4-1 SWOT Analysis of SCIC

Strength	Opportunity
1. Experience in administering state capital based on economic considerations and modern corporate governance practice (hands-off approach) 2. Track record of supporting equitized SOEs on <ol style="list-style-type: none"> Establishment internal controls as an independent economic entity Restructuring of unprofitable businesses 3. Successfully divested 600+ equitized SOEs	1. Prime Minister is carrying out SOE reform which involves the second wave of accelerated equitization 2. SCIC is tasked to accept equitized SOEs not serving public services/products and national security
Weakness	Threat
1. Limited influence on portfolio companies due to weak powers of shareholders in Vietnam 2. Not sufficient pool of talent to function as top managers of portfolio companies that are in need of new management 3. Less systematic approach for managing companies in strategic industries 4. Less systematic approach toward divestiture of difficult-to-sell companies 5. Limited experience in new investment	1. Criticism based on lack of understanding over SCIC's function (Many people do not understand SCIC's role as an administrator of state capital) 2. Potential pressure to purchase shares in out-of-core business of State Economic Groups and State Corporations that are not attractive to private investors 3. Establishment of new holding company for all SOEs, separately from SCIC

(Source) created by JERI

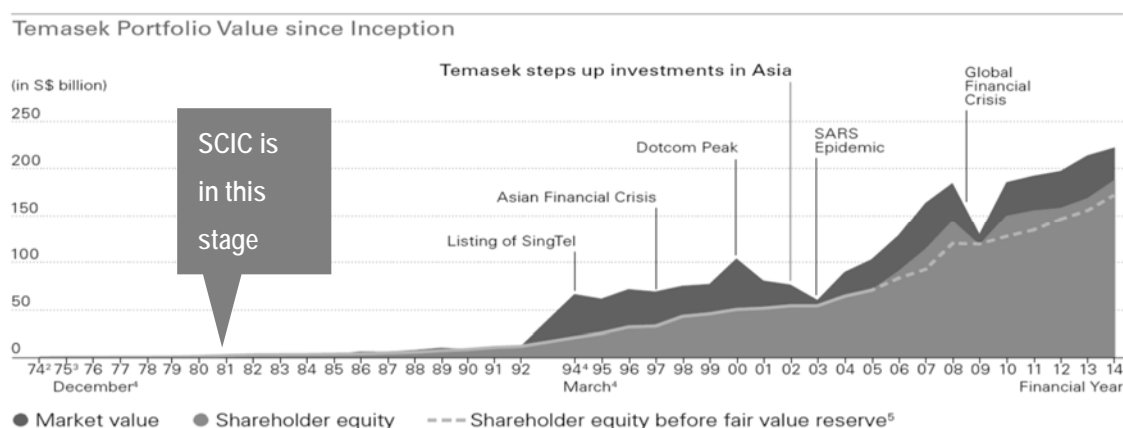
Based on the SWOT analysis above, we came up with the following suggestions.

- Given the current state of SOE reform in Vietnam, the need for the function of “state capital manager” is expected to grow. SCIC should clearly separate the two roles, state capital management and investment, when considering strategy and communicating with the government and general public, and promote its track record as an effective state manager, in order to accelerate the transfer of larger number / scale of SOEs.
- While the new investment activity, including foreign investment, should be expanded, SCIC should take a step-by-step evolutionary path of its role in future, following Temasek example.

- Current status: Manage / divest commercial SOEs
- Next step: Manage / divest SOEs providing public services, once the sector is liberalized and open for private enterprises to enter
- Ultimate goal: Strategic investor of the government

On the role of SCIC, the evolution of **Temasek Holdings** provides useful insight.

- i. Started with state capital in **start-ups and JVs** (1974 - 1992, Phase 1).
- ii. **Received former state boards**, such as telephony and public utility, which largely expanded its scale and stabilized profit (1993 - 2003, Phase 2).
- iii. Appointed the first non-public servant CEO, reshuffled top management and **increased overseas investments** (2003 - present, Phase 3).



(Source) Temasek Review 2013

Figure 4-1 Temasek Portfolio Value since Inception and comparison to SCIC's function

In comparison with the evolution of Temasek, SCIC is in the Phase 1 above as it has received only medium and small SOEs in competitive sectors. It should be noted that Temasek started overseas investment in major scale 10 years after it received former state monopolies, such as telephony and electricity distributions. SCIC should continue to focus on support and divestiture of state capital, rather than shifting toward new investment activities.

5. Suggestions on operational improvement

5.1 Leadership of corporate governance improvement

(1) Leadership in corporate governance

As a state agency that manages state capital in hundreds of enterprises, SCIC should be “the pioneer” in promoting modern corporate governance practice in Vietnam, by establishing the following.

a) Voting guideline

A summary of general philosophy and approach to issues that may commonly arise in the BOD or shareholders’ meeting

b) Corporate Governance Code

A set of guiding principles for realization of effective corporate governance

c) Institute of Directorship

Educate and accredit those who become a board member of JSC (there is a plan to establish one in Vietnam)

(2) Voting guideline

Out of three matters mentioned above, establishment of voting guideline can be implemented unilaterally by SCIC and is considered most effective for operational improvement. SCIC had already established procedures on how representatives should process the voting at BOD or shareholders meeting, however, the guidelines have not been established on how SCIC decides on each managerial issue. By creating this guideline and distributing it to both the SCIC employees and the portfolio enterprises, communication with portfolio enterprises will be more efficient. SCIC can develop its own voting guidelines referring to the examples of the Institutional Investors Service, etc.

5.2 Reinforcement of portfolio company data base

SCIC has been collecting financial statements from portfolio enterprises every quarter and non-financial information from their day-to-day contacts. The information collected from portfolio enterprises is the most valuable asset of SCIC. However, much of such information has been lost in paper files and not effectively utilized for strategic planning and industry research.

While the database system called Capital and Portfolio Management System (“CPMS”) exists, many point out the inaccuracy of data as a major problem. Also, CPMS can issue only a static report with fixed format and cannot provide on-demand data.

We consider that the problem with data accuracy stems from the data input procedure that is detached from quarterly report on portfolio enterprises. Once such report is being made electronically, portfolio officers input data correctly and swiftly.

Also, CPMS should be equipped with web-based flexible data retrieval function. It will allow planning officers and portfolio officers to utilize the data for various purposes.

Lastly, CPMS should also include information on other shareholders and their holding ratios.

5.3 Establishment of function-based teams

SCIC can create specific teams in the portfolio departments.

(1) Strategic industry team with industry research capability

SCIC's strategic sectors are telecom, pharmaceutical, food / beverage, plastic, construction and banking / insurance and SCIC has many portfolio enterprises in those sectors. However, information sharing among portfolio officers has been very scarce. To make the best use of precious information collected by each portfolio officer through daily dialogue with their portfolio enterprises, we propose the establishment of strategic industry team with industry research capability. The team is consisted of portfolio officers and industry analysts and serves as "Industry Knowledge Hub." For portfolio officers of divestiture group enterprises, those with potential to find strategic buyers should be included. Industry analysts collect information from dialogue from investee enterprises and report periodically to senior management and to general public. Accumulated industry expertise can be utilized for voting decisions, new investment, policy proposal and so on.

(2) Specialized divestiture team for specific purposes

SCIC is planning to divest nearly 300 portfolio enterprises. The enterprises to be divested differ in size, sector and profitability. In order to facilitate the divestiture, we consider that SCIC can develop function based teams as below.

a) Team for investor relations / strategic investor relations

Strategically market to potential investors and host industry / region specific presentations, like the ones hosted by Southern and Central Branches.

If the company is still operational and either profitable, having brand value or valuable customer base, finding a strategic buyer is possible. Officers dealing with this kind of enterprises should accumulate skills similar to M&A advisory, such as industry research and corporate strategy.

b) Team for marketing land use rights at non-functional enterprises

Officers should accumulate the knowledge on real estate market and demand from real estate developers active in the company locations.

c) Team for marketing other valuable assets (share in JV, etc.)

d) Team for difficult-to-sell enterprises

To keep track of those enterprises which are not operational / no valuable assets, etc.

(3) Specialized teams to support portfolio enterprises

While the management of state-capital requires a wide range of knowledge on legal and financial expertise, we consider that there are two areas that special team of officers should be formed to accumulate the expertise. One is on the corporate governance including supports to newly equitized SOEs on establishment of internal control and business strategy; the other is on the restructuring of portfolio enterprises in difficulty. SCIC has been providing such services in the past but such experience had not systematically recorded within SCIC. Such precious experience should not be confined to a single officer but be utilized by many within SCIC and with outside through disseminating such by publication and seminars. Also, expertise accumulated in this field can be utilized for growth capital or turnaround investment activities.

a) Corporate governance team

To establish well-functioning corporate governance structure at portfolio companies is essential for SCIC's operation as a state capital manager. To do this, SCIC must accumulate know-how and develop systematic framework on organizational design, education for board members, and corporate governance code or voting guidelines. SCIC can also help newly equitized SOEs to establish effective internal control and establish business strategies. By accumulating expertise in this area, this team can be used for future consulting services to third parties as well.

b) Restructuring team

To support investee enterprises in need of financial and business restructuring;

This team can also be the candidate for future consulting services and new investment for turnaround opportunities by accumulating expertise.

5.4 Gradual expansion of new investment operations

We consider that SCIC should take step-by-step approach mentioned below for expansion of new investment activities.

(1) SCIC should clearly identify the purpose of new investment activity

Given that the Decision 929 limits the scope of government involvement in economic activities, SCIC should avoid moving against this direction by investing government funds in areas that State does not need to enter. SCIC should identify the fields where the government's

investments are justified, such as playing the role of a “catalyst” to promote investment in strategic sectors and / or areas that are difficult for private investors to invest.

(2) SCIC should set target returns depending on each type of investment

The risk profiles are different for each type of investment and therefore, specific target should be set for each of them. In general, the risks of new projects / enterprises are higher than those of non-listed enterprises.

(3) Maximum loss tolerance should be considered

Based on the SCIC’s annual profit level and retained earnings, the single entity exposure limit and sector exposure limit should be set clearly.

Within the available capital and based on the long-term planning of pipeline projects, SCIC should estimate capital availability for the coming years. Forecast of future profit should be conservatively made and prioritization of important projects is also important when allocating investment budget.

On top of the capital availability, single entity investment limit should be set with certain percentage (e.g. 20%) of annual operating profits to avoid annual loss from failure of single project. Such single entity limit should also be considered based on the actual size of pipeline projects.

6. Workshops in Hanoi



6.1 SCIC's corporate governance: lessons from overseas experiences

A presentation was made on SCIC's corporate governance in the workshops in Hanoi on November 17 by a JICA expert (Mr. Komori). The purpose was to learn from overseas institutions' experiences in corporate governance.

First, OECD guidelines on corporate governance of SOEs were introduced to stress the importance of transparency and accountability.

Second, as the model cases, Temasek Holdings of Singapore and Development Bank of Japan were introduced. They both have the advisory boards (comprising external experts) that guide the institutions through external vigilance.

Third, historical facts were presented that some development finance institutions (DFIs) in Asia and Africa actually failed because of the weak supervision and political intervention. Thus, many Asian DFIs are taking the approaches like no intervention by government, independent appraisal and monitoring with own expertise, and proper accountability.

Therefore, implications for SCIC can be summarized as below:

- i. To further improve governance principles and disclose information to maintain transparency
- ii. To utilize the “external vigilance” discipline to check possible political intervention in the future, from outsiders' objective viewpoints
- iii. To strengthen autonomy, e.g.
 - Arms' length principle from the government
 - Independent judgment regarding individual investment, etc.

Discussion within the organization and with MOF / MPI will be desired to improve the autonomy in Vietnam's context.



6.2 Evaluation of project feasibility study for infrastructure and healthcare projects

A presentation was made by a JICA expert (Mr. Adegawa) on November 20, 2014. The purpose was to make SCIC's staff understand the importance of feasibility study for investments, influential factors and key risks in projects, major influential factors in infrastructure projects and healthcare projects.

The following are the contents of the presentation.

(1) Objectives of feasibility study

Key message is that investors should investigate the possible negative and positive outcomes of a project through the feasibility study.

(2) Contents of feasibility study report

Key message is that feasibility study analyzes the viability of the project, taking into account legal, economic, technological, scheduling and other factors.

(3) Technical feasibility, including the reliability and competitiveness of the applied technologies for projects, the certainty of project implementation, the performance test at project start-up and the stable operation

(4) Economic feasibility, consisting of the market analysis and the financial analysis

(5) Operational feasibility, including the issues of KRIs (Key Risk Indicators) in each industry

- (6) Social and environmental feasibility, including the introduction of the case
- (7) Evaluation of feasibility study for infrastructure projects, including the introduction of the cases. Key message is that infrastructure projects are classified into two types. (Type A: governments enter into service purchase contracts and Type B: projects take the sales risk)
- (8) Evaluation of feasibility study for healthcare projects, including the introduction of the cases (Hospital project and Pharmaceutical projects).
- (9) Way forward

It was recommended for SCIC to expand the knowledge on each sector, since KPIs (Key Performance Indicators) and KRIs differ from one industrial sector to another, and to enhance industrial research capability in order to improve the capacity for project feasibility study.

In the end of the presentation, the address of the home page of JICA library was introduced for SCIC's further study on feasibility study and the Q&A session was followed after the presentation.

6.3 Five Guiding principles for SCIC officers on new investment operations

A presentation was made by a JICA expert (Mr. Oba) on November 18, 2014. The purpose was to provide SCIC officers practical advices on new investment.

The critical challenge for SCIC's making new investment in the future is the lack of SCIC officers' experience in investment operations. While the relevant internal regulations have been prepared and just started the process of establishing enterprise risk management framework, for the time being SCIC officers will need to gain experience in making new investments in a gradual manner.

In order to make investment officers recognize the importance of both risk sensitivity and proactive action i.e. finding of investment opportunities, the five guiding principles for SCIC officers on their new investment operations were presented and discussed:

- (1) Change your mind from a state capital manager to a shareholder / a financial investor
[Basic Frame of Mind]
- (2) Pay more attentions to the management team and their ability [Investment Appraisal]
- (3) Try to be a better business partner continuously for the investee enterprises
[Post-investment]

- (4) Focus on assisting the investee enterprises for achieving their goals [Investment Appraisal, Post-investment and Exit Strategy]
- (5) Get the perspective of organizational diagnosis for investee enterprises' reforms [Investment Appraisal and Post-investment]

In the Q&A session, a participant from the Financial Investment Division of Investment Department touched on the difficulty to make target returns (The rate of 5-year Vietnamese Government Bond + 3-4%) while keeping the state capital in the current environment. This implies the difficulty of investment operations in SCIC as a state capital manager as well as the reality where it would be dangerous to promote new investments rapidly at SCIC and moving forward gradually would be a must.

6.4 Restructuring of portfolio enterprises (case study of Vinaconex)

A presentation was made on November 20 by a JICA expert (Mr. Furukawa). The purpose was to draw lessons from the case study.

Vinaconex was established in 1988. It is a leading construction company and 6th largest investee company of SCIC now. SCIC received the transfer of its capital from the Government (Ministry of Construction) in 2008 when Vinaconex was listed in the HNX. SCIC restructured Vinaconex during 2008 - 2013 and it is considered as the typical success case of restructuring of SOE under the leadership of SCIC.

Vinaconex faced the imbalance between cash inflow and cash outflow, especially a cash shortage of VND 3 trillion in 2008 for repaying bonds issued to finance the investment in the subsidiary called Cam Pha Cement (CPC) investment. Following issues were pointed out as the reasons of difficulties of Vinaconex:

- Rapid expansion of non-core businesses including establishments of many subsidiaries by Vinaconex
- Excess investments and over borrowings
- Insufficient business expertise in cement production
- Weak internal control (governance) that allowed such excess investment
- Foreign currency loss

Main measures taken to restore the business of Vinaconex are as follows:

- a) Financial restructuring measures:

- Vinaconex, in addition to negotiation with banks to reschedule payment contract as well as lowering interests and increase of capital, tried to find new funding resources including ODA assistance from abroad, and find a partner to sell the CPC factory. The biggest financial contribution was realized by the transfer of assets from Vinaconex to Viettel. As the result of the asset transfer, the profit before tax of Vinaconex increased more than VND 500 billion in 2013 (profit before tax of Vinaconex in 2012 was only VND 194 billion).
- Stopped all the investment projects and reviewed them carefully.
- Stopped all the lending activities to subsidiaries.

b) Measures taken to enhance the Governance of Vinaconex:

- Sending representatives on full time basis including CFO (and Deputy CEO) to guide the restructuring process: this was the first case of sending director level official⁵ of SCIC to the investee company.
- Strengthening monitoring and supervision of internal management by establishing a centralized functional board on finance chaired by the CFO, together with implementing external audit.
- Realizing cost reduction by (i) introducing the performance based salary system (reviewing the labor contract of employees in each division and ending contract with ineffective employees), and (ii) reallocating salary funds from the whole company budget to each department budget (e.g. for management board, executive board, education center, that have income sources, salaries are paid from their department's fund instead of Vinaconex salary fund).
- Divest subsidiaries in non-competitive business.

Lessons learnt from the case

- When the enterprise faces with difficulties, the success of the restructuring plan depends highly upon the consensus building in the enterprises as well as the joint efforts of stakeholders, including BOD, BOM, with contribution of the whole enterprise. Sending a director level staff directly from SCIC gave a strong impact to the enterprises for the need of restructuring.
- Financial restructuring measures especially the cooperation of major shareholders also

⁵ Mr. Tung, current head of Portfolio Management Department 2

played a decisive factor to restructure the Vinaconex financial situation.

- Establishment of an efficient governance mechanism ensured the continuous success of business restructuring.

6.5 Recent development on legal framework for corporate restructuring

A presentation was made on November 19 by a JICA expert (Mr. Furukawa). The purpose was to highlight what kind of influences the new Bankruptcy Law may give to the operations of SCIC.

Vietnamese government has been reviewing legal framework related to the restructuring of enterprises. The new Bankruptcy Law (No. 51/2014/QH13, hereafter ‘the Law’) was approved by the National Assembly on June 19, 2014 and is to be enacted on January 1, 2015.

The notable changes are as follows.

- i. The company is considered insolvent automatically after “3 months from the due date”
- ii. any employee or internal trade union can send a written request for initiation of bankruptcy process after 3 months from the day on which the entity have to pay salaries and other debts to the employees (before, it is necessary for employees of the enterprise to appoint their representatives to submit or submit through trade union representatives)
- iii. Procedure became clearer and more practical
- iv. Professional asset managers and liquidators are introduced
- v. The competence of the court is also revised

It will be necessary for SCIC to pay due attention to following stipulations related to the operations of investee enterprises that will be put under the bankruptcy procedure:

- i. If SCIC has a claim against the enterprise, be careful not to enter into voidable transactions.
- ii. If a commercial bank is considered insolvent, it may be put under the special control (SC) by State Bank of Vietnam and SCIC shall follow the instruction (Chapter VIII of the Law).

6.6 Supervision of investee enterprises through representatives

A presentation was made on November 19 by a JICA expert (Mr. Komori). The purpose was to discuss the representative system of SCIC.

Temasek tends to select and dispatch “independent” board members. The reasons for directors’ “independence” are rationality of judgment, stockholders’ viewpoint, professional expertise and compliance. They basically respect the investee enterprises’ autonomy and do not intervene into daily operation usually (“hands-off” approach). They do not seek for Temasek’s direction regarding individual agenda of board meeting even if they are important matters. Board members from Temasek at listed enterprises are not privileged to receive undisclosed special information in the midst of other board members, even though they represent the state’s interest (due to board members’ confidentiality obligation and equal treatment of shareholders).

On the other hand, overseas global firms are managing their “talent pool.” They employ rotation system, which is a good way to nourish representatives.

SCIC should keep exercising voting rights with professional care. SCIC had already established procedures on how representatives should process the voting at BOD or shareholders meeting, but the guidelines have not been established on how SCIC decides on each managerial issue. By creating this guideline and distributing it to both the SCIC employees and the portfolio enterprises, the communication with portfolio enterprises can be more efficient.

6.7 Conceptual study on new steel projects in Vietnam for Investors

A presentation was made by JICA expert (Mr. Adegawa). The purpose of the presentation was to clarify the influential factors in the project feasibility in steel projects and Initial KPI (Key Performance Indicator) and Initial KRI (Key Risk Indicator) in steel industry. The rationale behind the presentation was the governmental instruction on SCIC to support TISCO Phase 2 Project.

The following is the contents of the presentation.

(1) Global and regional steel market

Key message is that the demand forecast for steel depends on future economic growth, with explanation on the lessons learned from the steel industry in Japan.

(2) Strategy for the development of Vietnam’s steel industry

(3) Plant configuration in steel industry

(4) Cost of production / sales of steel products

Key message is that steel project is capital-intensive and profitability depends on the demand and supply situation.

- (5) KPIs and KRIs in steel industry
- (6) How to manage investments in steel projects

In the second section, the key points for evaluations were explained.

- (7) Basic evaluation on TISCO Phase 2 project, with the summary of evaluation for the project, including its contribution to the total capacity of Vietnam's steel industry and to Vietnam's foreign currency reserve by production of billets from domestic iron ore and also the tough market situation for the project due to multilateral trade frameworks.

In the Q&A session, a participant from the project division of Investment Department made several questions regarding to the evaluation on TISCO Phase 2 project. He discussed with Mr. Adegawa on the expected procedures of the appraisal for the investment in SCIC as well.

6.8 Industrial research function for industrial reorganization and proactive policy proposals to the government

A presentation was made on industrial research function in the workshops in Hanoi on November 18 by a JICA expert (Mr. Komori). The purpose was to introduce the significance of such activities to enhance SCIC's reputation and presence in Vietnam.

Development Bank of Japan has contributed to industrial structure enhancement through close communication by the loan / investment / research departments with the government and client enterprises. It has shared information through industrial seminars / workshops and diverse reports / articles. It has also provided advisory /consulting services including company matching for M&A, etc. to achieve higher business efficiency and a stronger competitive position.

Other institutions in Japan are also publishing diverse information to expand the client basis and to contribute to the stakeholders. Private financial institutions provide business matching service, too.

SCIC has selected key sectors that are strategically important. SCIC can formulate strategic industry teams with industry research capability.

To further enhance SCIC's reputation and presence in Vietnam, SCIC can devise own way of information dispatch like seminars and workshops.

6.9 Overview of SCIC operation and measures for operational improvement

A presentation on the findings and suggestions for strategic directions and operational improvement contained in sections 2, 3, and 4 of this progress report was made by Mr. Kondo, a team leader of the project, on November 25, 2014.



Mr. Hien, Deputy CEO, is the 4th and Mr. Kondo, team leader, is the 3rd from the left.

7. Training Program in Japan

Training program was completed as scheduled and the program purpose has been successfully achieved in January 2015.

7.1 Program purpose

With the aim of gaining practical knowledge, create a chance to directly interact with the top practitioners in the field of corporate governance, new investment and other fields that are relevant to SCIC's operation.

7.2 Schedule

[First week]

Date	Time	Topic	Lecturer
19 Jan	Left Hanoi		
20 Jan	Arrived in Tokyo		
21 (Wed) Jan	9:00 - 10:00	Program introduction Status quo and future role of SCIC	JERI
	10:00 - 12:30	Program orientation by JICA	JICA
	13:30 - 15:00	Industrial Research Function of Development Bank of Japan	Economic & Industrial Research Dept., Development Bank of Japan
	15:30 - 17:00	Wrap up session	JERI
22 (Thu) Jan	10:00 - 11:30	Equity and industrial investment by the Japanese Government	Financial Bureau, Ministry of Finance
	13:30 - 14:50	Outline of corporate investments by public/private investment fund	Innovation Network Corporation of Japan
	15:15 - 16:45	Japan's Corporate Governance Code	Representative Director, Governance for Owners Japan
	17:00 - 17:45	Wrap up session	JERI
23 (Fri) Jan	10:30 - 12:00	Corporate Governance	Nishimura & Asahi Law Firm
	14:00 - 16:00	Infrastructure fund focusing on Japan & ASEAN	IDI infrastructures
	16:00 - 17:00	Wrap up session	JERI

[Second week]

Date	Time	Topic	Lecturer
26 (Mon) Jan	9:30 - 11:00	Change from to government agency to JSC	Tokyo Metro
	13:30 - 15:00	Equity investment and engagement with investee companies	Growth & Cross Border Investment Dept., Development Bank of Japan
	15:20 - 17:00	Wrap up session	JERI
27 (Tue) Jan	9:30 - 11:00	Enhancement of corporate value through engagement	Institutional Shareholder Services
	13:30 - 16:00	Recent development of Japanese securities market	Japan Exchange Group
	16:30 - 17:30	Wrap up session	JERI
28 (Wed) Jan	10:00 - 11:30	Competitiveness enhancement measures of the Japanese Government	Financial Services Agency
	13:30 - 14:15	Preparation for the presentation in Hanoi	JERI
	14:15 - 15:00	Closing ceremony	JICA /JERI
29 Jan	Left Tokyo and arrive in Hanoi		



Lecture at JICA's Tokyo International Center

7.3 Participants

(1) From SCIC

Name	Title	Department
Mr. Tran Ha Nguyen	Deputy Director	HR Department
Mr. Lai Tran Dong	Manager	Financial Investment division, Investment Department
Ms. Le Thi Hoai Diem		Project Development division, Central Branch
Ms. Dinh Thi Hong	Associate	Internal Audit division, Risk Management Department
Mr. Truong Dinh Tuan		Partnership Development & PR division, Executive Office
Ms. Pham Thanh Hoa		Portfolio Department No.1
Ms. Do Thi Phuong Lan		Portfolio Department No.2
Mr. Phan The Thanh		Portfolio Department No.3
Mr. Hoang Anh Trung		Portfolio Department No.4
Ms. Mai Thi Thanh Thuy		Portfolio div., Southern Branch

(2) MOF

Name	Title	Department
Mr. Tran Xuan Tung	Deputy Manager	Corporate Finance Department
Ms. Nguyen Thi Thu Phuong	Officer	
Ms. Nguyen Ngoc Phuong		



Participants with a lecturer and JICA Experts

7.4 Topics covered and lecturers for each subject

Subject	Lecturer (Topic)
Enterprise value enhancement	<ul style="list-style-type: none"> ● Ministry of Finance (government ownership & privatization) ● Financial Services Agency (enhancing competitiveness) ● Institutional Shareholder Services (voting policies) ● Governance for Owners Japan (engagement by shareholders) ● Nishimura Asahi Law Firm (corporate governance) ● Japan Exchange Group (promotion of ROE & open BOD)
New investment	<ul style="list-style-type: none"> ● Ministry of Finance (investment by Japanese Government) ● Innovation Network Corporation of Japan (policy target for investing government fund) ● Development Bank of Japan (minority investment) ● IDI Infrastructure (power infrastructure investment in ASEAN)
Others	<ul style="list-style-type: none"> ● Development Bank of Japan (function and purpose of industrial research) ● Tokyo Metro (change from government agency to JSC)

7.5 Main points discussed

(1) Subjects on state-capital management and Corporate Governance

[Ministry of Finance, Financial Bureau on state capital management]

- Under the capitalist economic system, government holding of business entity is limited to those with clear policy objective. (Out of 233 entities that the Government owns, there are only 24 profit making entities)
- Japanese government respects the management of each institution and tries not to intervene too much.
- Divesture is carried out with careful planning and dialogue with the market. [Book building method for large IPOs]

- d. Ministry of Finance is in charge of administration of state assets and line ministries are in charge of setting operational strategies for each entity. They consult with each other frequently.

[Financial Services Agency, Corporate Accounting & Disclosure Division]

- a. Corporate governance reform is a part of “Japan Revitalization Strategy” or “a third arrow of Abenomics, a package of economic policy initiatives under Prime Minister Abe” and aimed at improving competitiveness of the Japanese companies.
- b. To pressure reluctant corporate executives, Japanese Government adopted a combination of inter-ministerial policy tools and cooperated with Japan Exchange Group.
 - i. Stewardship Code (to urge institutional investors engage more with their investee companies)
 - ii. Corporate Governance Code (“CG Code”, to urge corporate executives reform BOD to include more outside directors and raise ROE)
 - iii. GPIF reform (to support Stewardship Code and JPX400)
 - iv. JPX 400 (To urge investors invest in companies with good corporate governance and high ROEs, through formulation of CG Code and JPX 400 index)
- c. Japanese CG Code is “growth oriented”
- d. Principle Based Guideline is good for proposing high level standard, since the law stipulates the minimum standard that everybody has to observe, and it is difficult to amend the law once enacted.

[Governance for Owners Japan]

- a. CG Code was created in response to change in shareholder composition and growing demand from foreign and institutional shareholders for open and more shareholder oriented BODs at listed companies.
- b. The purposes of the CG Code include;
 - i. To define corporate governance structure for **transparent, fair, timely and decisive decision-making**
 - ii. To have the management free from restrictions against **decisive decision-making** and companies business activities and to establish an environment where **healthy entrepreneurship can flourish**
 - iii. **To attract mid-to-long term investors**
- c. **Principle based standard. Comply or explain. (The judgment on the validity of the presentation is up to the shareholders / investors)**

[Nishimura Asahi Law Firm]

- a. There are three typical corporate governance structures, Horizontal, Vertical and External (depending on the size and nature of each company, business environment in each country, etc.).
- b. Many of listed Japanese companies moved from External Governance (governance provided by banks) to Vertical Governance (ratio of foreign shareholders increased).
- c. Japanese JSCs can choose from three types of corporate structure below. New systems have been adopted to urge Japanese companies increase the number of outside directors.
 - i. BOD + Audit & Supervisory Board (Kansayaku-kai, a Japanese original system and still dominant)
 - ii. BOD + Three Statutory Committee system (audit, compensation and nomination committees, introduced in 2003 but less than 100 companies adopted so far)
 - iii. BOD + Audit Committee (effective from May 2015)

[Institutional Shareholder Services, ISS]

- a. Important issues concerning corporate governance are different from one country to another. ISS voting policy for each country is tailor-made to resolve such unique issues.
- b. The small number of outside directors and low ROE are the biggest problems for Japan, but not high compensation for top executives as in the case for US.
- c. Voting policy is an effective tool for quick decision making, communication with the investee company and other shareholders, and to defend its position against the pressure of BODs.

[Japan Exchange Group, JPX]

- a. Promoting ROE oriented management and increase in outside directors (measures include formulation of new stock index, JPX400)
- b. JPX jointly developed CG Code with Financial Services Agency, in order to foster mutual trust between shareholders and top managements
- c. Principle based standard is more flexible and less costly, while the effective implementation of such requires high levels of company managements and investors.

(2) Subjects on new investment

[Ministry of Finance, Financial Bureau, on industrial investment]

- a. Industrial investment by the Japanese government is only for areas with both long-term profitability and policy importance but difficult for purely private investors.

- b. Make use of private capital and utilize private expertise, as much as possible.
- c. Performance is judged by the portfolio, not by individual investment. (No criminal punishment for the loss)
- d. MOF is in charge of administering the state assets and line ministries are in charge of setting operational strategies for each investment companies sponsored by the government. They consult with each other frequently.

[Innovation Network Cooperation of Japan, INCJ]

- a. INCJ is a public-private investment fund aiming for the promotion of “innovation”, which is also an investment screening criterion.
- b. While 95% of funds are provided by the government, INCJ is run by experts from private sector and receive supports from private shareholders.

[Development Bank of Japan (DBJ), Growth / Cross-border Investment Dept.]

- a. The purpose is to support the growth of Japanese companies in and out of Japan. For investment in Vietnam, try to connect investee companies to Japanese market and Japanese companies for collaboration.
- b. Team up with private players to source the transaction and increase corporate values. (Co-establish investment fund)
- c. Utilize DBJ’s client base for the bringing additional businesses and expertise to investee companies.

[IDI Infrastructure]

- a. Investing in ASEAN, focusing on the energy sector, but not succeeded in Vietnam so far.
- b. Lack of generous Feed-in Tariffs and project finance has been a major obstacle.
- c. However, IDI is still considering Vietnam as an important market and continues to explore investment opportunities.

(3) Other Subjects

[Development Bank of Japan (DBJ), Economic and Industrial Research Department]

- a. Purpose is to expand and support DBJ’s business and raise profile of DBJ through media exposures and policy proposals.
- b. Research theme is decided by DBJ based on its business needs and prospects, not instructed by the Government.
- c. Research usually starts from statistics / existing researches by third parties and move to interviews of market players and academics. (SCIC can use its portfolio companies for

interviews and information collection)

[Tokyo Metro]

- a. In the construction phase, the government was a better implementation body. Once the construction is complete, a private entity was considered be a better model to maintain and operate subway systems.
- b. Even during a construction phase, Teito Rapid Transit Authority was borrowing 10% of funds for construction from banks to maintain fiscal discipline.
- c. Constructions of some stations were supported by the real estate developers (a subway station at the premise increase the value of the property).
- d. Making profit is important for investing in safety and comfort and paying good salary for employees to maintain motivations.

7.6 Presentation by the program participants

Time; 8:30-10:30, 11:30-12:30, Friday, February 6, 2015

Venue; SCIC Auditorium

Topics to be presented;

	Topics	Presenters
Group 1	Industrial Research at DBJ	Mr. Tran Ha Nguyen Ms. Do Thi Phuong Lan
Group 2	Equity holding & industrial investment by Japanese Government	Mr. Phan The Thanh Ms. Dinh Thi Hong
Group 3	Implementation of Corporate Governance Reform in Japan & Corporate Governance Code	Mr. Truong Dinh Tuan Ms. Le Thi Hoai Diem Ms. Pham Thanh Hoa
Group 4	Voting guidelines services by Institutional Shareholder Services	Mr. Lai Tran Dong Mr. Hoang Anh Trung Ms. Mai Thi Thanh Thuy



Presentation made by Japan trip participants at SCIC head office

7.7 Feedback from participants

To the question in the participant survey on the satisfactory level to the original expectations for the training, 6 participants marked “5”, the highest scale, and the remaining 7 marked “4”. As for the question on the appropriateness of training course objectives to the needs of SCIC and the Government of Vietnam, 7 marked “5”, 4 marked “4” and 2 marked “3”.

As general comments, 9 out of 13 participants mentioned the importance of improving the Corporate Governance (CG) in Vietnam and 4 out of 9 expressed their strong will to have another opportunity for deepening their understandings in CG. They admitted the need for Vietnamese enterprises to pay much attention to CG for enhancing their value and expressed their will to study more into detail of CG concept and the concerted action taken by Japanese Government (Financial Services Agency), JPX, and other stakeholders in Japan.

Participants also expressed their interests in the selection criteria for investee companies and practical methodology applied by Japanese public funds, as well as establishment of efficient methodology of using research outputs and analytical information collected from investee enterprises.

8. Workshop on “SCIC’s role in SOE reform”

8.1 Purpose

To share our findings with relevant government offices, international organizations and JICA officers and experts in charge, so that they can properly understand the function and potential of SCIC and continue to support SCIC realizing its full potential to contribute for SOE reform.

8.2 Time and Venue

Time; 2:00 PM to 4:30 PM, Wednesday, February 4

Venue; Windsor Room, Grand Plaza Hanoi Hotel

8.3 Participants

Organization Name	Participant name	Title
JICA SOE and Banking Sector Restructuring Project	Mr. Takashi Sakakibara	Chief Advisor
	Mr. Kazuyuki Saito	Expert
	Mr. Hiroyuki Maruoka	Expert
	Mr. Yusuke Kawano	Expert
	Ms. Saori Ushimi	Expert / Coordinator
	Ms. Van Nguyen	
	Mr. Daigo Orihara	
	Mr. Tran Phu Son	
JICA Vietnam Office	Ms. Kumiko Kasahara	Representative
	Ms. Hoang Thi Tuat	
SCIC	Mr. Le Son Lai	Deputy CEO
	Mr. Nguyen Hong Hien	Deputy CEO
	About 30 officers	
IFC	Ms. Nguyễn Nguyệt Anh	Program officer
National Steering Team of SOE Restructuring and Development (Office of the Government)	Mr. Pham Trong Lân	Deputy Director
	Mr. Mai Xuân Thái	Official
State Securities Commission	Mr. Lê Minh Tiến Đạt	Official
	Mr. Ngô Minh Hữu	Project Officer
MOF, Corporate Finance Dept.	Mr. Trần Xuân Tùng	Deputy Division Head
	2 officials	



8.4 Contents

- (1) Opening remark by Mr. Le Son Lai, Vice CEO of SCIC
- (2) Remark by Mr. Takashi Sakakibara, Chief Advisor, JICA SOEs and Banking Sector Restructuring Project



- (3) Presentation by Mr. Hiromasa Kondo, Team Leader, JICA experts for SCIC project
Please refer to Attachment 6 for the presentation material.
- (4) Comment to presentation made by Office of Government
- (5) Comment to presentation made by Corporate Finance Department, MOF
- (6) Comment to presentation made by Vice CEO Lai, SCIC
- (7) Comment to presentation made by IFC
- (8) Question and answers
- (9) Closing remarks by Vice CEO Lai.

8.5 Gist of Presentations by the JICA experts



- (1) Outline of the project
- (2) Reasons why SCIC can be a key player in SOE reform
 - i. There is a need for centralized holding company of commercial/industrial SOEs in Vietnam
 - ii. SCIC is supposed to perform as above and has been acting as an “effective state capital manager”
 - iii. SCIC can improve corporate governance practice in Vietnam
- (3) Outline of SCIC
 - i. SCIC has two main functions of “managing” and “investing” the state capital. SCIC has been focusing on “state capital manager” role, which centers on management and divestiture of state capital. Investment activity is in its initial state.
 - ii. SCIC’s track record of effectively managing state capital has not been appropriately recognized as many mistake SCIC as a pure investment company and criticize for low return on capital.
 - iii. Due to the slow progress in equitization and successful divestiture of over 600 companies, the number of companies under SCIC portfolio was reduced to 315 (as of October 2014).
- (4) Potential of SCIC
 - i. As more SOEs are to be divested under the direction of Decision 929, the role of SCIC is expected to grow.
 - ii. The most serious threat is unfounded criticism toward SCIC, which have been used by line ministries and provincial people’s committees not wanting to transfer their SOEs.

- (5) SCIC's track record in managing state capital
 - i. SCIC has been taking hands-off approach as a shareholder
 - ii. Hands-on supports for enterprises in trouble
 - iii. Divesture supports
 - iv. Record keeping by Capital and Portfolio Management System (CPMS)
- (6) Our suggestions for operational improvement
 - i. Promotion of modern corporate governance within SCIC and for Vietnam
"Voting Guidelines", "Corporate Governance Code", "Institute of Directorship"
 - ii. Reinforce portfolio company database
 - On demand retrieval of financial and non-financial data
 - On-line based reporting and decision making
 - iii. Reorganization of portfolio departments for accumulation of expertise
 - Strategic industry team with industry research functions
 - Specialized divesture team for different status of companies
 - iv. Formation of functional teams to support portfolio departments
 - Corporate governance team ; support companies establishing internal control
 - Restructuring team; support companies carrying out restructuring

8.6 Comments to the presentation

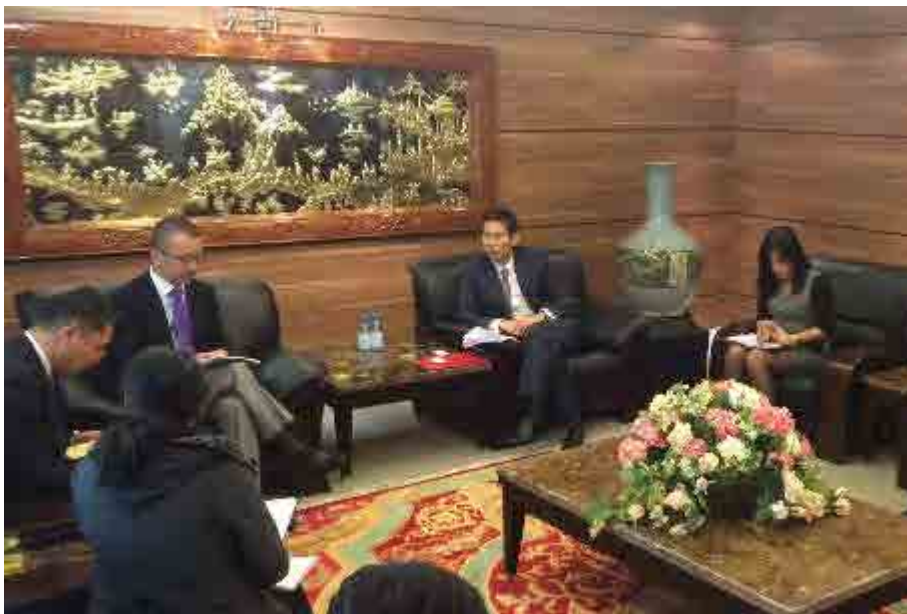
- (1) Appreciate realistic suggestions for SCIC's operational improvement (Office of Government)
- (2) Practical recommendations to address issues confronting SCIC. Especially, voting guidelines and industry research functions should be introduced. (MOF)
- (3) Agree with most suggestions but human and other managerial resources needed to implement them. Also, appropriate performance measures should be established for SCIC's unique function. (Vice CEO Lai)
- (4) Corporate governance is weak in Vietnamese companies in general and especially equitized SOEs. Separation of state ownership and regulatory functions is an important first step to attract foreign investors. SCIC should establish a "champion team" on corporate governance to work with IFC. (IFC)

9. Wrap-up meeting

- (1) Wrap-up meeting was held on February 6 at SCIC head office, from 10:30 am through

11:30 am.

- (2) SCIC delegates were Mr. Hien, a deputy CEO, and he was accompanied by Ms. Nga, International Relations manager.
- (3) JICA was represented by Mr. Takashi Sakakibara, a chief advisor on SOE reform project. Also, Ms. Kumiko Kasahara from JICA Vietnam office was present.
- (4) Mr. Hien expressed his gratitude for JICA's support and mentioned that the project for SCIC's operational improvement was considered very successful by many of SCIC directors and officers.
- (5) Mr. Hien also mentioned that SCIC would like to consider implementation of some of the suggestions made by JICA team and expect JICA to continue its support on SCIC on the following subjects, as well.
 - Assistance on drafting short/mid-term plan to implement a long-term strategy
 - Assistance on establishing mechanisms for enhancing SCIC's representatives power over the state capital (corporate governance issue)
 - Capacity development for carrying out new investment in near future
 - Assistance on establishing Key Risk Indicators (KRI)
- (6) Mr. Sakakibara mentioned that he would discuss JICA head quarter on how to proceed with the 2nd phase, including implementation bodies.
- (7) Mr. Sakakibara also expressed his intention to continue discussing with SCIC's management on concrete measures for future supports.



10. Challenges, contrivances and lessons in project implementation

10.1 Contrivances in effective implementation

Since the project centered on the research on the current status of SCIC, we had to collect wide range of information. We had achieved this objective through contrivances mentioned in (1) through (3) below, as well as assistance from JICA SOE reform project team on information sharing and making appointment.

(1) Swift information disclosure by winning the project owner's understanding

We could receive smooth cooperation by SCIC because we briefed Vice CEO Lai on the project goals at the kick-off meeting and won his understanding. Since most governmental organizations are reluctant to disclose information, another important measure was a confidential treatment of information, in that all the information provided by SCIC was to be governed by the confidential agreement signed at the beginning of the project, to be used exclusively for the operational improvement and to be returned to SCIC at the end of the project.

(2) To have as many interviews as possible by establishing a permanent office at SCIC

We tried to set up as many meetings with SCIC directors and officers as possible by securing a permanent office space at SCIC head office, where a team leader and members were staying throughout the business hours. This method allows for utilizing SCIC staff's "spare time", by asking "please come by whenever you have time". Compared to the conventional method of "making prior appointment for interview", we could carry out much larger number of interviews and collected sufficient information both qualitatively and quantitatively.

(3) Appointment of local partner with deep understanding of SOE reform

We appointed a local financial information provider, StoxPlus, who accumulates and disseminates information on SOE reform. We could receive an appropriate English translation and interpretation, from assistants with expertise in accounting and finance, as well as valuable information for the research. We consider that it would have been very difficult to carry out the project without local assistants with professional knowledge and high English proficiency because all of the internal documents at SCIC and financial statements of SCIC and model companies were all in Vietnamese. On top of that, only a small number of relevant laws and regulations had English translation and more than half of SCIC staff could not communicate the complicated matters in English.

10.2 Challenge toward the 2nd phase; inconsistency between SCIC's operation and PDM Project Purpose

Right from the start of the field work, we asked SCIC to provide information required to achieve Component 1 of PDM Output, which is comprised by the following two items.

- 1-1 To develop and improve the mechanism on selling, purchasing, disposing debts of SOEs and restructuring SOEs
- 1-2 To formulate a mechanism to support State-owned economic groups and corporations to divest from non-core businesses

However, we could not obtain any information due to the following reasons:

- i. In Vietnam, there have been very little instances of bankruptcy so far and SCIC has not experienced any bankruptcy procedure for its investees yet.
- ii. SCIC's core function is to accept active enterprises, to increase the corporate value and to divest in the market. The turnaround of near bankrupt enterprises is not their main task.
- iii. While there are several portfolio companies that are in financial difficulty, most of them are very small and SCIC's ownership ratio in such enterprises may not be very high. Considering limited resources at SCIC and the limited financial impact from the failure of such small companies, SCIC does not appropriate much resource for restructuring supports.
- iv. While SCIC is expected to function as a potential investor in spun-off non-core businesses of large SOEs, its involvement is passive because SCIC is asked to consider the investment only when the sale to private sector fails. Because of this role, SCIC has no involvement in divestiture planning had no knowledge of the problems.

In order to verify what SCIC officers asserted, we carried out the web-based research and interviews to the local experts. However, we could find neither any bankruptcy case of SCIC investee enterprise nor any clue on SCIC's involvement in the planning for divestiture of non-core business by other SOEs at this point.

Primary reason that we could not carry out the tasks assumed in PDM is considered to be the inconsistency between PDM Project Purpose, "with focus on the development of SOEs debt disposal mechanism" and the operation of SCIC as mentioned in the Chapter 3 of this report. While the "Objectively Verifiable Indicators" for PDM Project Purpose, "More than X enterprises of SOEs improve their management through investment by DATC and SCIC respectively", seems to treat DATC and SCIC in the same manner, it is suitable only for DATC

which purchases bank loans but not for SCIC which does invest in any debt. We consider that a separate project objective be established for SCIC, apart from the current one targeted for DATC.

10.3 Challenge toward the 2nd phase; inappropriate readiness by SCIC

While JICA was requested by SCIC to provide support on the 3 matters as below, through a letter dated August 14, 2014, signed by Vice CEO Lai, we realized from interviews to the sections in charge right after the start of our field work that there was not much room for assistance. We consider that this problem was caused by a lack of detailed discussion on request for JICA within SCIC and establishment of accepting environment for JICA experts. The sections in charge of matters requested by the letter all appeared to the interview in very passive manners, saying “I was ordered to come here to see JICA experts”.

We could carry out the current missions, mainly by JICA experts alone, because they are mainly the research on the current status and the proposition of general measures for operational improvement. However, concrete results to be achieved in the 2nd Phase cannot be achieved only through close cooperation with the relevant sections at SCIC. Clear agreements on goals to be achieved, division of roles between SCIC and JICA, and detailed co-working schedule should be made before the start of the 2nd Phase.

Matters requested by August 14 and SCIC’s responses after the start of our field work are as follows.

(1) Formulate business strategy focusing on the investment strategy

Draft strategy had already been completed and submitted to MoF before the start of our field work. We analyzed the draft strategy and made comments to the Strategy and Planning Department but received no response.

(2) Establishment of Key Risk Indicators (KRIs)

Deloitte has been working on this issue since early 2014. In order to avoid confusion at operational departments, we consulted with the Risk Management Department and decided to restrict our activity to the support to Deloitte by sharing our findings and analysis. More concretely, we participated in the seminar hosted by Deloitte and made comments and suggested to include New Investment Department, the main target of risk management, to their pilot project. Deloitte originally targeted only the Portfolio Management Department 3 in their pilot project but adopted our suggestions.

(3) Drafting of guiding documents to implement Decree 151 on the following two matters;

- ✓ Transfer of the owner’s representative for state capital in the enterprises to SCIC.

- ✓ Pilot mechanism to implement the owner's representative in the way to increase the responsibility of the representative.

On both subjects, we presented the letter dated August 14 and asked for the concrete request for assistance; no request was made.

10.4 Challenge toward the 2nd phase; establishment of co-work scheme with the sections in charge

As shown in the chart below, "Implementation Scheme for the current phase", SCIC's counterpart to JICA team was the International Relations Group at the Executive Office, not a department responsible for carrying out specific tasks, such as the Strategy and Planning Department and the Risk Management Department. While it was possible to carry out the research on the status quo and make general propositions under this scheme, accomplishing a specific target is considered to be difficult.

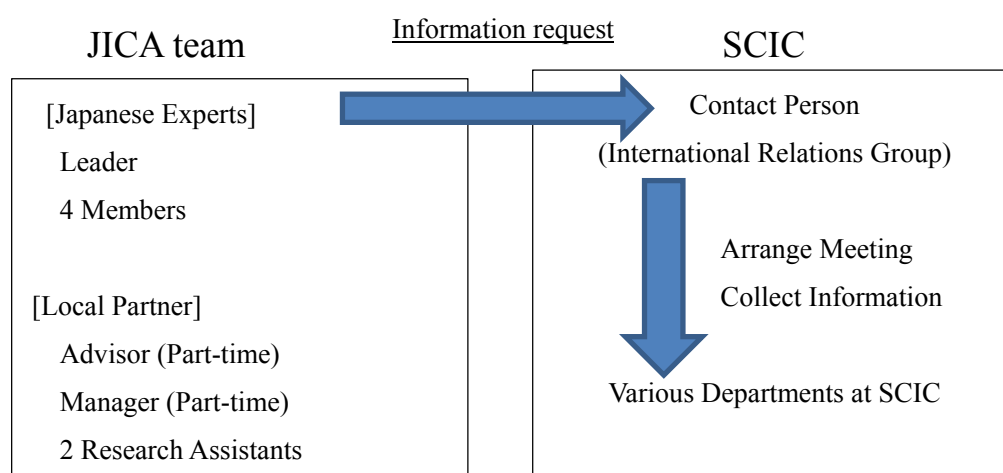


Chart 10.4-1 Implementation Scheme for the current phase

Interaction between JICA team and SCIC should be changed to the form below, because the specific outcomes are expected after the 2nd phase and establishment of joint working scheme with departments in charge is essential.

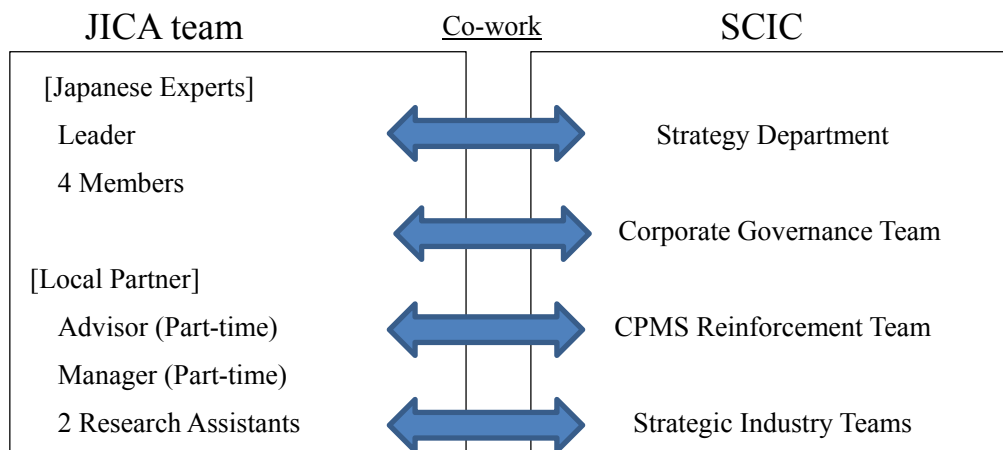


Chart 10.4-2 Desired implementation Scheme for the 2nd Phase and onward

A for a joint working scheme, a consulting service provided by Deloitte for SCIC ERM Project can be used as a reference. In this project, the Risk Management Department (RMD) has a clear sense of ownership and Deloitte team is working jointly with officers of RMD. This sense of ownership may arise from the fact that SCIC is bearing the cost of consultancy services and RMD may be pressured within SCIC to achieve benefits which outweigh costs. On the contrary, there is a risk that SCIC expresses its desire to start the 2nd phase without identifying any specific goals because JICA's assistance is free of charge for SCIC. To avoid such, JICA and SCIC should clearly agree on the joint-working scheme, under which SCIC commits certain personal resources and identify the responsible managers, before starting the 2nd Phase.

11. Propositions for fulfillment of PDM Overall Goal

For the fulfillment of PDM Overall Goal, "Restructuring of SOE is accelerated through accomplishing sound and efficient management of SOEs", SCIC has a potential to significantly contribute by (1) separating state ownership and regulatory functions, and (2) improving corporate governance at equitized SOEs. JICA's assistance should focus on the acceleration of SOE transfers from ministries / provinces to SCIC, through enhancing political position of SCIC, improving corporate governance of portfolio companies and capacity development for administering a larger number of enterprises.

On the other hand, the support on the realization of new investment, as requested by SCIC at the wrap up meeting, seems to have little connection to PDM Overall Goal.

(1) Separation of state ownership and regulatory functions

The most significant contribution of SCIC's operational improvement toward PDM Overall Goal is

to accelerate the transfer of SOEs not serving for public-policy purposes and in direct competition with private companies. If those SOEs are managed solely under the economic considerations, it will revitalize the whole economy not only by improving the management of SOEs but also by providing a level playing field for private competitors. However, while SCIC was established to perform such task, its role is still limited because ministries / provinces have resisted giving up their vested interest.

As new transfer of major SOEs to SCIC had gradually been resumed after the issuance of Decision 929, JICA should provide supports that further accelerate this process. More concretely, JICA should emphasize the importance of separating regulation / ownership functions to the government of Vietnam, and carry out projects that further improve SCIC's state capital management function, such as reinforcement of computer systems and supports on establishing internal regulations and reorganizations.

(2) Improvement of the corporate governance in equitized SOEs

As mentioned in the section 3.6 of this report, SCIC is not directly managing businesses but managing enterprises as a shareholder through hands-off approaches. In order to enhance the state capital management by SCIC, it is necessary to improve the corporate governance framework at portfolio companies and JICA should provide assistance on this area.

SCIC has been maintaining the goal of “promoting modern corporate governance in Vietnam” since its establishment and hosted seminars on this subject jointly with IFC and HNX. However, SCIC does not have any officer specializing on this issue and had hardly implemented any concrete measure to date. On condition that SCIC shows commitment by establishing a specialized unit for improving corporate governance, JICA should implement a series of measures including those suggested in the section 5.1.

(3) Capacity development for new investment

SCIC had been analyzing multiple real estate development projects, such as office buildings and multi-purpose complex featuring TV broadcasting tower, as well as a factory for new drugs and a hospital. It is not clear if such investment strategy is consistent with the policy direction of Decision 929, which calls for SOE activities to be limited to the essential products/services and security / national defenses.

Also, JICA needs to consider the technical problem of securing experts who can teach practical lessons on real estate and/or equity investment in Vietnam. While the classroom lectures on general theories of cash flow or risk analysis, such as the ones that we provided in November, can be

provided by JICA experts within ordinary technical assistance projects, it is doubtful if the assistance on finding investment opportunities can be carried out as a part of TA program.

(4) Assistance on establishing Key Risk Indicators (KRI)

It is important for SCIC's operational improvement to establish appropriate risk management systems and organizations. However, SCIC had already retained Deloitte in early 2014 to carry out Enterprise Risk Management System and the long-term roadmap for six years, from 2014 through 2020, has already been submitted to SCIC's management.

We received the same request before the start of this project but could not do much as the Deloitte project had been progressing.

Should JICA decide to take up this request in the 2nd Phase, JICA needs to agree with SCIC beforehand on how to cooperate with Deloitte.

[End]

Attachment 1; Project Design Matrix (PDM) (No change was made from the original version)

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>[Overall goal]</p> <p>Restructuring of SOE is accelerated through accomplishing sound and efficient management of SOEs</p>	(TBD)	(TBD)	(TBD)
<p>[Project Purpose]</p> <p>Strengthening capacity of MOF in corporate finance management, with focus on the development of SOEs debt disposal mechanism which are closely connected to SOE restructuring</p>	More than X enterprises of SOEs improve their management through investment by DATC and SCIC respectively	Questionnaire survey	Active cooperation to the interview survey and appropriate and timely disclosure of information by MOF, SCIC and investee enterprises
<p>[Output] Component 1: Improvement of the institutional framework</p> <p>1-1 To develop and improve the mechanism on selling, purchasing, disposing debts of SOEs and restructuring SOEs</p> <p>1-2 To formulate a mechanism to support State-owned economic groups and corporations to divest from non-core businesses</p>	Recommendation based on the findings of the survey are made	Progress report	
<p>[Output] Component 2: Strengthening capacity in implementing SOE restructuring</p> <p>2-1 Strengthening capacity in corporate management,</p>	Guiding documents for the implementation of Decree 151/2013/ND-CP, business strategy and internal regulations are	Progress report	

supervision and governance for officials at MOF and SCIC	designed and appropriate approval procedures are developed		
	Training is provided to officials of MOF / SCIC and top managements of investee SOEs on corporate governance, supervision and assessment of corporate efficiency, risk management and capital investments	Progress report Training report	
Narrative summary		Inputs	Important Assumptions
[Activities] 1-1-1 Review the current legal documents on SOE's debt selling / purchasing and disposing (including Bankruptcy Code) 1-1-2 Develop the assessment report on current situation and necessity to develop regulations/guidelines 1-1-3 Develop recommendations on draft decree on debt selling, purchasing and disposing of SOEs based on the current situation of SCIC 1-1-4 Develop recommendations for revision of Bankruptcy Code connecting the restructuring of SOEs 1-1-5 Develop recommendations for making new regulations/guidelines on voluntary liquidation of SOE and for establishing policies/principles to facilitate debt selling, purchasing, and disposing of SOEs 1-2-1 Review the legal documents and the current situation on divestment of non-core business of		Vietnam <ul style="list-style-type: none"> ● Counterpart person ● Office space and basic facilities Japan <ul style="list-style-type: none"> ● Experts ● Training in Japan ● Office equipment 	Active cooperation to the interview survey and appropriate and timely disclosure of information by MOF, SCIC and investee enterprises

<p>SOEs to find out the existing obstacles and challenges in divestment process</p> <p>1-3 Develop a report providing recommendations on mechanism to accelerate the divestment process</p> <p>2-1-1 Review and/or develop the institutional structure, mandate, business strategy and related internal regulations concerning SCIC to identify the business opportunities and the needs of capacity development</p> <p>2-1-2 Review/develop guiding documents for the implementation of Decree 151/2013/ND-CP</p> <p>2-1-3 Conduct training and seminar necessary for strengthening the capacity of MOF and SCIC Staffs and top management of investee SOEs</p>		
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Attachment 2; Work flow

Work plan flow chart

Year/Month Activities	2014				2015			
	9	10	11	12	1	2	3	4
1 Initial work in Japan								
1-1 Preparing the operational plan & work plan								
2 Initial work in Vietnam								
2-1 Inquire MOF/SCIC management on SCIC's roles and mid-term issues								
2-2 Research the actual business situation and issues of SCIC & SOEs								
2-3 Draft business strategy								
2-4 Incorporate opinions on draft business strategy and HRD plan								
2-5 Coordination meeting, workshop								
2-6 Training in Vietnam (theoretical)								
3 Secondary work/training in Japan								
3-1 Drafting the progress report								
3-2 Training: preparation								
3-3 Training: implementation								
3-4 Wrap-up training, draft business strategy & mid-term HRD plan								
4 Secondary work in Vietnam								
4-1 Presenting business strategy & mid-term HRD plan, wrap-up								
5 Tertiary work in Japan								
5-1 Project completion report								
Deliverables								

Work in Vietnam
 Work in Japan

Attachment 3; Work plan

1. Guiding principles

1.1 Establish joint Project Management Unit (PMU) with SCIC

JICA experts will work daily with SCIC's counterpart at SCIC office to facilitate smooth communication and promote mutual understanding.

1.2 Not to be involved in individual investment or restructuring decisions

1.3 Avoid duplication with existing research / TA projects

- Information Collection on NPL Disposal and Business Restructuring in Vietnam (JICA)
- Research Report: Situation of SOE Restructuring in Vietnam (World Bank)
- SOE Reform and Corporate Governance Facilitation Program (ADB)

1.4 Cooperate closely with concurrent SOE-related projects

- Strengthening SBV's Bank Supervision Functions as the Central Bank
- Establishing NPL Disposal/Retrieval Systems
- Establishing Systems to Reduce Debt and Revitalize Renewable Enterprises
- Establishing Systems to Promote SOEs' Business Restructuring and Equitisation
- Strengthening the Functions of VAMC / DATC

2. Methodology of the Project

2.1 Kick-off Meeting

Explain the basic policy and action plan of the project to MOF and management / senior officials of relevant departments at SCIC.

2.2 Review of Current Situation

Review and analyze the items in the table below through examination of internal rules and regulations, as well as interview with SCIC's managements and senior officials and so on.

SCIC operational improvement project / issues to be surveyed

Subject Target	Corporate Governance		Value	Divesture of state capital			New Investment		
	SCIC	Investee SOEs	enhancement of long-term investee SOEs	Excellent Enterprises	Enterprises needed to be improved	Enterprises necessary to be liquidated	SOEs	Projects instructed by the Government	Independent Investment
MOF	Status quo of SOE reform (sale & purchase of claims / disposal, bankruptcy procedure, corporate divestiture, sale of subsidiary enterprise, etc.)								
	SCIC's role in general and in SOE reform. Critical business issues for mid-term strategy and time schedules for tackling them								
	Daily correspondence with SCIC and SCIC investee companies (items requiring MOF approval or reporting, frequency and mode of communications)								
SCIC Management	SCIC's role in general and in SOE reform. Critical business issues for mid-term strategy and time schedules for tackling them								
	Deficiency or obstacles for achievement of mid-term goals? (knowledge on any specific issue, business infrastructure such as IT system, capital, larger discretion, human resources)								
	<u>Disclosure of rules and regulation, including organizational charts, guidelines and manuals, as well as staff directory, to understand SCIC works and authority of each section</u>								
	Profile of current SCIC staff and track record of training programs, as well as issues and challenges for human resource development								
			Institutional/regulatory issues on SOE restructuring (debt trading, bankruptcy procedure, company split, sale of subsidiary, etc.)						
	Frequency of reporting to MOF	Policy on guiding investee SOE's management	Measures for improving primary investee SOEs	Priority in divesture (swift disposal or higher price?)	Main options for improvement (reduction in work force?)	How many enterprises? Any measures for employees?	Investment policy on non-core business of EG & GC	Priority fields currently instructed by the Government	Policy on portfolio management and individual investment
	SCIC Departments in Charge	Review of operational policy, internal regulations, manuals and other guiding documents, as well as level of officers' understanding of such							
Current situation of business infrastructure (qualification of officers, internal LAN, database, information service, etc.)									
Monitoring of business implementation, internal/external reporting formats and frequency of reporting									
Matters requiring reporting to MOF and its frequency		Existence of any voting guidelines for exercising the rights under state capital					Investment policy on non-core business of EG & GC	Priority fields currently instructed by the Government	Policy on portfolio management and individual investment
		Institutional/regulatory issues on SOE restructuring (debt trading, bankruptcy procedure, company split, sale of subsidiary, etc.)							
		Measures for improving primary investee SOEs	Priority in divesture (swift disposal or higher price?)	Main options for improvement (reduction in work force?)	How many enterprises? Any measures for employees?				

2.3 Drafting of operational strategy and the capacity-development program

Assist SCIC in formulating the strategic direction and the capacity-development program by presenting the issues identified in the survey of current situation and providing guidance on possible solutions.

2.4 Coordination meeting and workshop

Hold coordination meetings with JICA and workshops with MOF, other relevant ministries, World Bank, ADB and other donors.

2.5 Training in Japan

Discuss with experts on government relations, new investment, revitalization and value-up:

Table 2 Tentative Schedule

February		Morning	Afternoon	
1	Tue	Vietnam → Japan		
2	Wed	Opening ceremony	Ministry of Finance	Wrap-up of the day
3	Thu	Governmental bank	Public-private fund (1)	Wrap-up of the day
4	Fri	Public-private fund (2)	Privatized enterprise	Wrap-up of the day
5-6	Sat/Sun	Weekend (free)		
7	Mon	Asset management company (1)	Asset management company (2)	Wrap-up of the day
8	Tue	Revitalization Fund (1)	Revitalization Fund (2)	Wrap-up of the day
9	Wed	Revitalized company	Wrap-up of the whole training Closing ceremony	
10	Thu	Japan → Vietnam		

Purpose of the Visits and Possible Recipients

	Purpose of the visits	Possible recipients
Japanese government	To study the government's view on purpose / governance of governmental banks and public-private funds	Financial Bureau, Ministry of Finance
Governmental bank, public-private funds	To study the governance, investment policy, organization, operation, etc. to achieve both the political objectives and market mechanism	DBJ, Innovation Network Corporation of Japan, Agency for the Promotion of the Private Finance Initiative
Asset management company, Revitalization fund	To study the governance, investment policy, organization, operation, etc.	Nippon Mirai Capital, New Horizon Capital, etc.
Revitalized company	To study the experience of revitalization	To be selected after understanding the situation of enterprises under SCIC
Privatized ex-SOE	To study the experience of privatization	To be selected

Attachment 4; Manning plan and actual working records

[Initial manning plan]

	Role	Name	FY2014							2015
			9	10	11	12	1	2	3	4
In Vietnam	Team leader/public finance 1	Kondo								
	Corporate finance	Oba								
	Public finance 2	Komori								
	Turnaround 1	Furukawa								
	Turnaround 2	Adegawa								
In Japan	Team leader/public finance 1	Kondo								
	Corporate finance	Oba								
	Public finance 2	Komori								
	Turnaround 1	Furukawa								
	Turnaround 2	Adegawa								
	Training operation	Harada								
Outputs			△Operational plan △Work plan		△Progress report		Project △ completion report			

[Actual Working Record]

	Role	Name	FY2014							2015
			9	10	11	12	1	2	3	4
In Vietnam	Team Leader/Public Finance 1	Kondo								
	Corporate Finance	Oba								
	Public Finance 2	Komori								
	Turnaround 1	Furukawa								
	Turnaround 2	Adegawa								
In Japan	Team Leader/Public Finance 1	Kondo								
	Corporate Finance	Oba								
	Public Finance 2	Komori								
	Turnaround 1	Furukawa								
	Turnaround 2	Adegawa								
	Training Operation	Harada								
Outputs			△Operational Plan △Work Plan		△Progress Report		Project △ Completion Report			

Attachment 5; Training program in Japan

1. Program purpose

With the aim of gaining practical knowledge, create a chance to directly interact with the top practitioners in the field of corporate governance, new investment and other fields that are relevant to SCIC's operation

2. Participants

(1) From SCIC

Name	Title	Department
Mr. Tran Ha Nguyen	Deputy Director	HR Department
Mr. Lai Tran Dong	Manager	Financial Investment division, Investment Department
Ms. Le Thi Hoai Diem		Project Development division, Central Branch
Ms. Dinh Thi Hong	Associate	Internal Audit division, Risk Management Department
Mr. Truong Dinh Tuan		Partnership Development & PR division, Executive Office
Ms. Pham Thanh Hoa		Portfolio Department No.1
Ms. Do Thi Phuong Lan		Portfolio Department No.2
Mr. Phan The Thanh		Portfolio Department No.3
Mr. Hoang Anh Trung		Portfolio Department No.4
Ms. Mai Thi Thanh Thuy		Portfolio div., Southern Branch

(2) MOF

Name	Title	Department
Mr. Tran Xuan Tung	Deputy Manager	Corporate Finance Department
Ms. Nguyen Thi Thu Phuong	Officer	
Ms. Nguyen Ngoc Phuong		

3. Schedule


[First week]

Date	Time	Topic	Lecturer
19Jan	Left Hanoi		
20Jan	Arrived in Tokyo		
21 (Wed) Jan	9:00 - 10:00	Program introduction Status quo and future role of SCIC	JERI
	10:00 - 12:30	Program orientation by JICA	JICA
	13:30 - 15:00	Industrial Research Function of Development Bank of Japan	Economic & Industrial Research Dept., Development Bank of Japan
	15:30 - 17:00	Wrap up session	JERI
3 (Thu) Jan	10:00 - 11:30	Equity and industrial investment by the Japanese Government	Financial Bureau, Ministry of Finance
	13:30 - 14:50	Outline of corporate investments by public/private investment fund	Innovation Network Corporation of Japan
	15:15 - 16:45	Japan's Corporate Governance Code	Representative Director, Governance for Owners Japan
	17:00 - 17:45	Wrap up session	JERI
23 (Fri) Jan	10:30 - 12:00	Corporate Governance	Nishimura & Asahi Law Firm
	14:00 - 16:00	Infrastructure fund focusing on Japan & ASEAN	IDI infrastructures
	16:00 - 17:00	Wrap up session	JERI


[Second week]

Date	Time	Topic	Lecturer
26 (Mon) Jan	9:30 - 11:00	Change from to government agency to JSC	Tokyo Metro
	13:30 - 15:00	Equity investment and engagement with investee companies	Growth & Cross Border Investment Dept., Development Bank of Japan
	15:20 - 17:00	Wrap up session	JERI
27 (Tue) Jan	9:30 - 11:00	Enhancement of corporate value through engagement	Institutional Shareholder Services
	13:30 - 16:00	Recent development of Japanese securities market	Japan Exchange Group
	16:30 - 17:30	Wrap up session	JERI
28 (Wed) Jan	10:00 - 11:30	Competitiveness enhancement measures of the Japanese Government	Financial Services Agency
	13:30 - 14:15	Preparation for the presentation in Hanoi	JERI
	14:15 - 15:00	Closing ceremony	JICA /JERI
29Jan	Left Tokyo and arrive in Hanoi		

Attachment 6; Presentation material for the workshop on Feb. 4, 2015



Japan International Cooperation Agency




SCIC

JICA project on Operational improvement of SCIC

SCIC' s role in SOE reform

February 2015



Japan Economic Research Institute Inc.

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2. Reasons why SCIC can be a key player in SOE reform (p.12)
3. Outline of SCIC (p. 20)
4. SCIC' s track record in managing state capital (p.26)
5. Potential of SCIC (p.36)
6. Our suggestions for operational improvement (p. 45)

Japan Economic Research Institute Inc.

1

Outline of the project

The project

"The Project for Enhancing Corporate Finance Management Capacity to Implement SOE Restructuring"

To formulate a mechanism to support State-owned economic groups and corporations to divest from non-core business.

To develop and improve the mechanism on selling, purchasing, disposing debts of SOEs and restructuring of SOEs.

Strengthen capacity for DATC

Strengthen capacity for SCIC

- ✓ Identification of strategic opportunities
- ✓ Identification of capacity development needs
- ✓ Conducting training and seminar

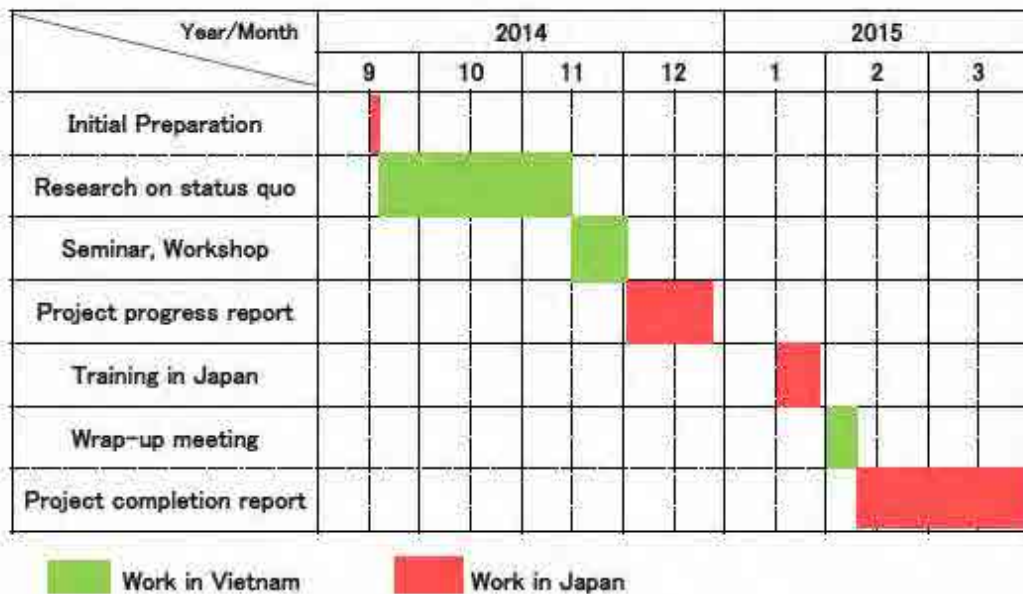
Project team



Japan Economic Research Institute, Inc.

4

Work plan



Japan Economic Research Institute, Inc.

5

Research on the status quo of SCIC and the surrounding environment

● Document Review

- ✓ Relevant laws, decisions, decrees and circulars
- ✓ SCIC's internal documents
- ✓ Rules and regulations
- ✓ Financial statements of SCIC and 5 portfolio companies

● Interview

- ✓ SCIC officers and management of 5 portfolio companies,
- ✓ MOF (CFD officers in charge of SCIC and SOE reform)
- ✓ Central Institute for Economic Management (CIEM)
- ✓ Officers in charge of SOE reform at World Bank and ADB
- ✓ Officers in charge of corporate governance at IFC

Source: Vietnam Investment Limited, 2016, 2017

6

Lectures in Hanoi

- Venue; Auditorium at SCIC head office (televised to Central & Southern Branch)
- Date; from 17th through 21st and 25th of November
- Lecture subjects

Strategy	1 Observation of SCIC operations and strategic directions
Corporate Governance	2 SCIC's corporate governance: lessons from overseas experiences (development finance institutions and Temasek)
	3 Supervision of investee companies through representatives: talent pool management of Temasek and overseas corporations
New Investment	4 Evaluation of project feasibility study for infrastructure and healthcare projects
	5 Guiding principles for SCIC officers' on new investment operations
Business Restructuring	6 Conceptual study on new steel projects in Vietnam for Investor
	7 Restructuring of portfolio companies (lesson from Vinaconex)
Industrial Research	8 Recent development on legal framework for corporate restructuring
	9 Industrial research function for industrial reorganization and proactive policy proposals to the government

Source: Vietnam Investment Limited, 2016, 2017

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Lectures in Hanoi



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Field Trip to Japan; Overview

- **Purpose;**
Create a chance to directly interact with the top practitioners in the field of corporate governance, new investment and others.
- **Participants;**
10 people from SCIC and 3 people from MOF
- **Date;**
From January 19 through January 29

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Field Trip to Japan; Lecturers	
Subject	Lecturers (Lecture Topic)
Value enhancement of enterprises	<ul style="list-style-type: none"> Financial Services Agency (enhancing competitiveness) Institutional Shareholder Services (voting policies) Governance for owners (engagement by shareholders) Nishimura Asahi Law Firm (corporate governance) Japan Exchange (promotion of ROE & open BoD)
New investment	<ul style="list-style-type: none"> Ministry of Finance (investment by Japanese Government) Innovation Network Corporation of Japan (policy target) Development Bank of Japan (minority investment) IDI-Infrastructure (Investment in infrastructure)
Others	<ul style="list-style-type: none"> Development Bank of Japan (Industrial Research) Tokyo Metro (Change from government agency to JSC)

Source: Economic Research Institute of Japan

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Field Trip to Japan	
	
	

Source: Economic Research Institute of Japan

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Reasons why SCIC can be a key player in SOE reform

1. There is a need for centralized holding company of commercial/industrial SOEs in Vietnam
2. SCIC is supposed to perform as above and has been acting as an "effective state capital manager"
3. SCIC can improve corporate governance practice in Vietnam

The need for centralized holding company of commercial/industrial SOEs in Vietnam

- a. There remain a large number of SOEs not engaging in the "provision of essential products and public services for society, security and national defense", and the companies that the State does not need to control are to be divested (Decision 929/2012/QĐ-TTg, Article 1)
- b. Divestiture of state capital in a large number of industrial /commercial SOEs takes a long time, because of insufficient investor appetite to absorb them within 2-3 years
- c. During the divestiture period, commercial/industrial SOEs should not stay with line ministries/provinces who are in a position to regulate them.
They should be transferred to the centralized holding company, who manages state capital based on economic considerations.

Benefit of having centralized holding company for commercial/industrial SOEs

1. Separation of regulatory and ownership functions
Eliminate unfair benefit to SOEs directly owned by regulator/policy maker and create a level playing field for private competitors
2. Standardization in exercising rights over state capital
3. Creation of a pool of experts on key matters in State Capital Management such as financial reporting or board nomination
4. Suitable for managing SOEs not pursuing public policy purposes as decisions by shareholder can be made solely based on economic considerations

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OECD Guidelines on Corporate Governance of State-Owned Enterprises

Chapter II. The State Acting as an Owner

D. The exercise of ownership rights should be clearly identified within the state administration. This may be facilitated by setting up a co-ordinating entity or, more appropriately, by the centralization of the ownership function.

“Centralization of the ownership function could also allow for reinforcing and bringing together relevant competencies by organizing “pools” of experts on key matters, such as financial reporting or board nomination.”

“Centralization of the ownership function in a single entity is probably most relevant for SOEs in competitive sectors and is not necessarily applicable to SOEs that are mainly pursuing public policy objectives.”

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SCIC as “Centralized holding company of commercial/industrial SOEs” reaffirmed

No.929/QĐ-TTg (July 17, 2012) ; Decision on approval of scheme “Restructuring of State-Owned Enterprises, focusing on Economic Groups and State-owned Corporations, Article 1

State-owned enterprises have a more reasonable structure, concentrating on key sectors and areas, providing products, essential public services for society, security and national defense

Decree 151/2013/ND-CP on duties and operational mechanism of the state capital investment corporation

Article 7. Taking over the right to represent the state ownership in enterprises

1. The corporation shall take over the right to represent the state capital in the following types of enterprises (excluding enterprises mainly engaging in provision of public services, good, or directly serving national security and defense and other cases that are assigned to other agencies by the Prime Minister)

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SCIC has been acting as an “effective state capital manager”

SCIC has been effectively performing this duty by providing;

1. Autonomy and market-based guidance for high performers
2. Tight financial control and restructuring support for companies in distressed situations
3. Transitional support for SOEs by establishing efficient internal control and organizational framework
4. Divestiture support by assisting companies preparing financial and non-financial data, hiring auction agencies and holding presentations for potential investors

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SCIC can contribute for improvement of corporate governance in Vietnam

- SCIC has been promoting corporate governance since its inception
Article contributed by Mr. Le Song Lai, then Deputy Director at SCIC,
to Business Issues Bulletin No.18 (21) February 2007
"It is worth emphasizing that the SCIC will not infringe on the day-to-day operations of its managed SOEs, but focus on improving their corporate governance and structures. ... We believe that the SCIC, through this process, will actively promote the application of best practices in corporate governance in both SCIC-managed firms and all other firms"
- SCIC has been sponsoring several seminars on corporate governance, jointly with IFC and HNX
- SCIC holds capital in more than 300 enterprises in various industries and sectors and in a great position to speak from the view point of a shareholder

Source: Economic Research Institute (ERI)

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Corporate Governance Seminar jointly sponsored by IFC and SCIC in May 2013



Sought to clarify issues including;

- Composition of the Board of Directors, Supervisory Board and Audit Committee
- Conflicts of interest
- Related party transactions
- Governance issues in State-Owned Enterprises.

Source: Economic Research Institute (ERI)

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Status quo of SCIC

Current state of SCIC

- SCIC has two main functions of “managing” and “investing” the state capital.
 - ✓ SCIC has been focusing on “state capital manager” role, which centers on management and divestiture of state capital.
 - ✓ Investment activity is in its initial state.
- SCIC’s track record of effectively managing state capital has not been appropriately recognized as many mistake SCIC as a pure investment company and criticize for low return on capital.
- Due to the slow progress in equitization and successful divestiture of over 600 companies, the number of companies under SCIC portfolio was reduced to 315 (as of October 2014).

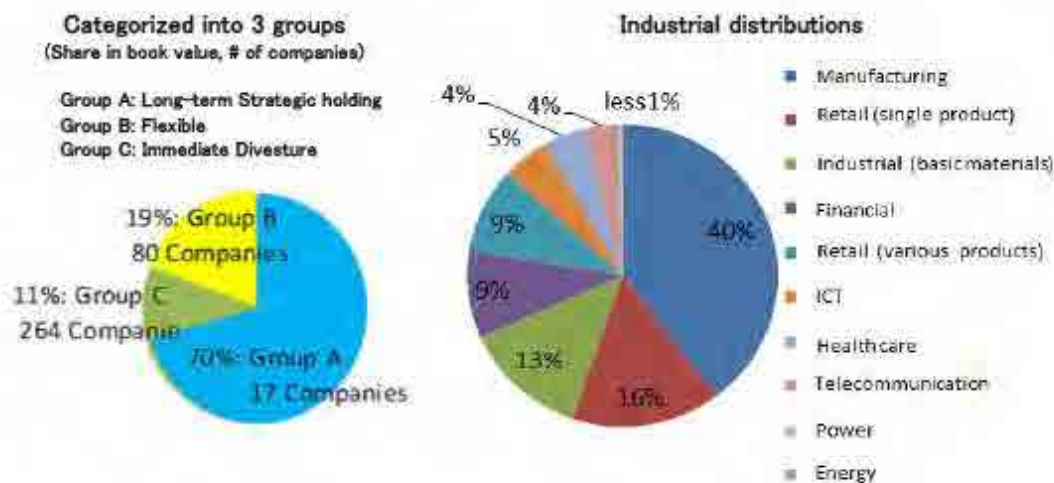
Two main functions of SCIC: Managing and Investing state capital

	Managing state capital			Investing state capital			
	State agency in charge of managing state capital in equitized SOEs			Investment arm of the government			
Mission	<u>SCIC has no discretion over which SOE to accept and can not negotiate for the price</u>			<u>SCIC has discretion over which project/enterprise to invest in and freely negotiate for the price</u>			
	Accept from ministries provinces	Exercise the rights	Divest	Equity in existing enterprise Out-of-core business of other SOEs	Equity in New Project Other	Equity Trading	Bond
Goal	<u>Exercise shareholder rights with market-based considerations</u>			<u>Find a good investment opportunity & Achieve high return on capital</u>			

Source: Economic Research Consulting Inc.

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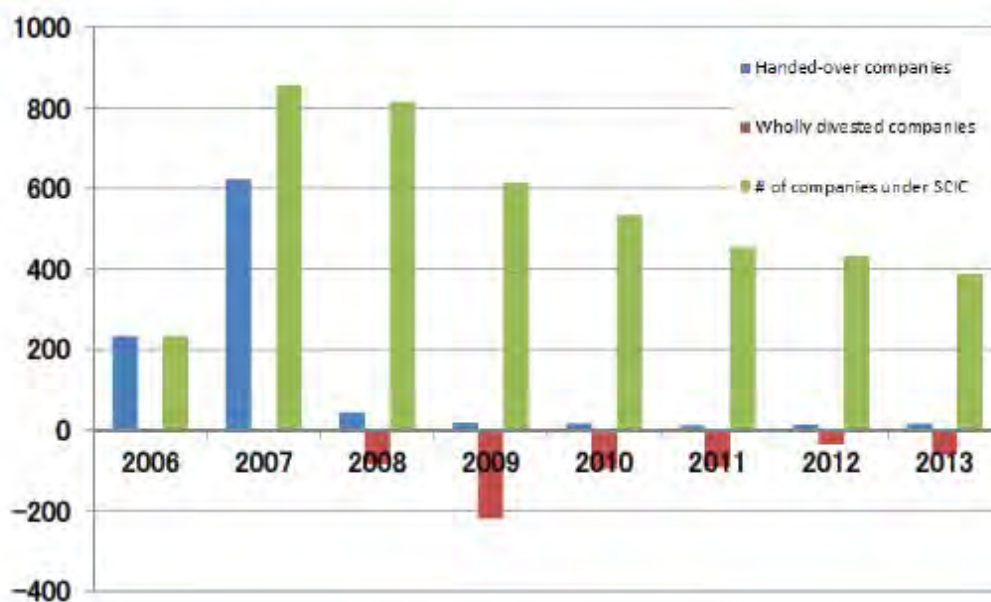
Enterprises under SCIC portfolio (as of December 2013)



Source: Economic Research Consulting Inc.

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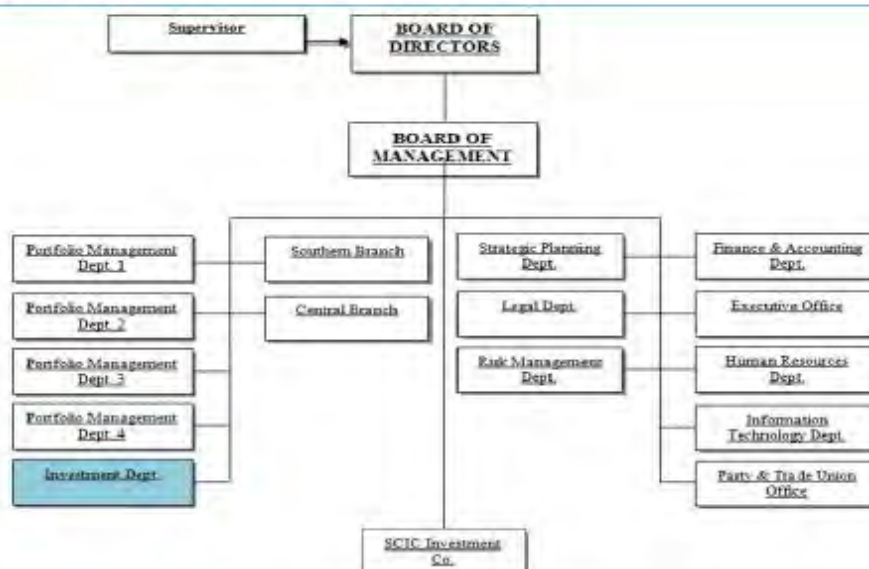
The number of companies under SCIC's portfolio; downward trend



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Organization



SCIC has about 240 staff and SIC about 30. Nearly 50% have post graduate degrees

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SCIC's track record in managing state capital

[Key words]

- Hands-off approach as a shareholder
- Hands-on supports for enterprises in trouble
- Divestiture supports
- Capital and Portfolio Management System (CPMS)

Exercising the rights over state capital; hands-off approach

- SCIC appoints nominee directors, or “state capital representatives”, to protect its interest at the board meeting, regardless of shareholding ratio. Most representatives are incumbent directors, not SCIC employees.
- Except for cases of negligence or wrong doing, SCIC respects the autonomy of portfolio company's management. Many of incumbent CEOs at the time of acceptance by SCIC have been still remaining (not micro managing)
- Hands-off approach is applied not only for the company to which SCIC holds minority stake but also for those with supermajority or 100% ownership

Distribution of the companies based on SCIC shareholding (as of June 2018)

	0-5%	5-24%	25-49%	50-74%	75-99%	100%	Total
Group A: Strategic	1	3	6	3	1		14
Group B: Flexible		11	35	16	6	3	71
Group C: Divestment	9	90	76	51	10	3	239
Total	10	104	117	70	17	6	374
Percentage (number)	3%	32%	36%	22%	5%	2%	
Percentage (book Value)	4%	23%	40%	26%	5%	1%	

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Hands-off approach is in line with global corporate governance practice

OECD Principles of corporate governance (excerpt)

Shareholder	Elect and remove members of the board
	Amend to the statutes, or articles of incorporation
	Authorize additional shares and extraordinary transactions
Board (BoD)	Review and guide corporate strategy, major plans, risk policy, annual budgets, etc.
	Select, compensate, monitor and replacing key executives
Executives (BoM)	No description on the role in corporate governance (manage day-to-day operation, propose to the board business plan, risk policy and future strategy, etc.)

Source: Economic Development Institute

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Hands-off approach; similar to Temasek Holdings of Singapore

[Similarities to SCIC]

- Temasek sends independent/external directors to its investee companies as representatives
 - ✓ Avoid the accusation of *insider trading* by excluding Temasek's own employees from representative candidates
- Respect the investee companies' autonomy and usually do not intervene into daily operation (*hands-off approach*)

[Difference from State-Capital Representative system in Vietnam]

- ✓ Temasek representatives do not seek for Temasek's direction regarding individual agendas of the board meeting
- ✓ Temasek representatives do not disclose any confidential information that are not made public to other shareholders

Source: Economic Development Institute

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Hands-on support for enterprises in trouble

When the portfolio company faces trouble, SCIC stops being a hands-off shareholder and starts providing hands-on supports;

1. **Transitional support for newly equitized SOEs**
 - a. Establishment of efficient internal control and organizational framework
 - b. Preparation of business plan and strategy
 - c. Preparation of financial statements
 - d. Arrangements of board meetings or shareholder meetings
2. **Tight financial control and restructuring support for distressed enterprises**
 - a. Dispatch of SCIC personnel as CFO, controller or a member of supervisory committees
 - b. Directly involved in cash management, search for strategic investors and financial resources
3. **Divestiture support for difficult-to-sell companies**

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SCIC regularly keeps track portfolio companies' performance

Annual financial statements for portfolio companies are stored in the data base.

(Page for "Financial Statements" in "Capital and Portfolio Management System (CPMS)")

Report Type	Audit Status	Quarter	Year	Status	Description
Balance Sheet			2007	Closed	
			2008	Open	
			2009	Open	
			2010	Open	
			2011	Open	
			2012	Open	
			2013	Open	
			2014	Open	
			2015	Open	
			2016	Open	
			2017	Open	

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Hands on support for portfolio companies to hold shareholder meetings properly

Account officers at SCIC keep track of shareholder meetings to be held by their portfolio companies. (Page for "Shareholder Meeting Information" in Capital and Portfolio Management System (CPMS))

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Hands-on support for portfolio companies on planning and executing divestiture

Account officers at SCIC make plans and follow up the divestiture of state capital. (Page for "Divestment Profile" in Capital and Portfolio Management System (CPMS))

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Divestiture supports

- Portfolio officers of SCIC regularly discuss with top managements of portfolio companies on timing/method of divestiture and potential strategic investors
- SCIC also holds seminars for potential investors to introduce the companies to be divested and procedures for the sale of state capital.



Source: Corporate Research Institute Inc.

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Track record of divesting state capital in over 600 companies

The number of state capital divestiture by SCIC

	'06-'08	'09	'10	'11	'12	'13	'14	Total
Wholly divested	84	219	97	92	35	61	72	666
Partially divested	14	19	9	9	3	6	7	67
Total	98	238	106	101	38	67	79	733

Source: Corporate Research Institute Inc.

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Potential of SCIC

SWOT Analysis for SCIC concerning its role in SOE reform

Strength	Opportunity
<ol style="list-style-type: none"> 1. Experience in managing state capital based on economic considerations and modern corporate governance 2. Track record of supporting equitized SOEs on <ol style="list-style-type: none"> a. Establishing internal controls as an independent economic entity b. Restructuring of unprofitable businesses 3. Successfully divested 600+ equitized SOEs. 	<ol style="list-style-type: none"> 1. Prime Minister is carrying out SOE reform which involves the second wave of accelerated equalization 2. SCIC is tasked to accept equitized SOEs not serving public services/products and national security
Weakness	Threat
<ol style="list-style-type: none"> 1. Limited influence on portfolio companies due to weak powers of shareholders in Vietnam 2. Limited political voice to demand ministries/provinces transfer their SOEs 	<ol style="list-style-type: none"> 1. Criticism based on misunderstanding over SCIC's state capital management function 2. Discussion on establishment of a new centralized holding entity is continuing

SCIC's role is expected to grow as the on-going SOE reform proceeds.

No.929/QD-TTg (July 17, 2012) ; Decision on approval of scheme "Restructuring of State-Owned Enterprises, focusing on Economic Groups and State-owned Corporations, Article 1, Task, 2

Divest the state capital in joint stock companies the State does not need to control.

Resolution No.15/NQ-CP (March 6, 2014) ;Solutions for speeding up equitization and divestment of state capital in enterprises, Article 3

The ministries, sectors and localities are obliged to review and transfer the equitized enterprises to the State Capital and Investment Corporation (SCIC)

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SCIC is cleared to acquire equitized SOE shares at initial offering

Decision 51/2014/QĐ-TT on the divestment, sale of shares, and transaction registration, listing on stock exchanges of SOEs

Article 9. Equitizing enterprises that SCIC acquires initial offering shares

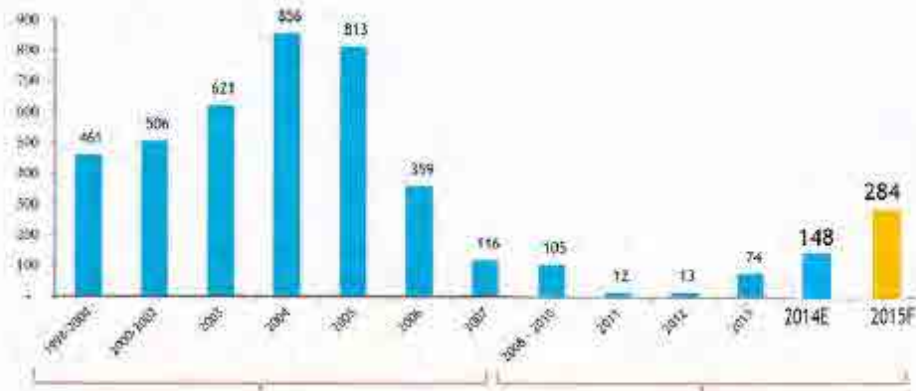
Article 10. Methodology and price that SCIC pays to initial offering shares

Timing of negotiation by SCIC	Existence of Strategic Buyer	
	Yes	No
Before public auction	Lowest successful price	No lower than initial price
After public auction		Par value

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Second wave of equitization is expected

Number of SOEs privatized via IPOs



Economic boom, VN Index got its peak

Economic downturn, SOEs, investing in multi-industries (far beyond their core business), now facing financial loss

Source: StockPlus from MOF, NSCERD, CDEM. The Estimated # of IPOs for 2014 and 2015 are by the Government Plan

Source: Vietnam's Financial Institute Inc.

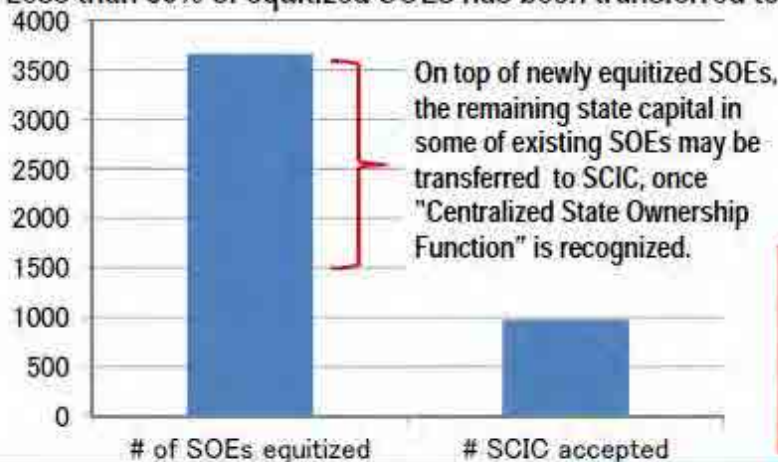
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A large volume and number of SOEs have not been transferred to SCIC yet

- SCIC is currently managing less than 3 % of total SOE equity

SCIC's equity in 2012 / Total SOE equity in 2012 (Government report #460BC-CP, Nov. 25, 2013) = 2.7%

- Less than 30% of equitized SOEs has been transferred to SCIC



On top of newly equitized SOEs, the remaining state capital in some of existing SOEs may be transferred to SCIC, once "Centralized State Ownership Function" is recognized.

of equitized SOEs is from Government report #460BC-CP, Nov. 25, 2013.

SCIC accepted is cumulative through 2013.

Source: Vietnam's Financial Institute Inc.

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Threat ; Criticism based on lack of understanding over SCIC' s function

- "SCIC should be the finance institution which pioneers in making investment in new and risky business fields"
 ➡ Ignoring the SCIC' s contribution to management and divesture of state capital
- "SCIC has not yet demonstrated that their operation is better than other Corporations and EGs."
 ➡ Ignoring the difference between SCIC and Corporations/EGs (Shareholding company vs. Manufacturer/Service provider)
- "SCIC should lend idle cash directly to private companies in financial difficulty"
 ➡ Totally out of SCIC' s mandate

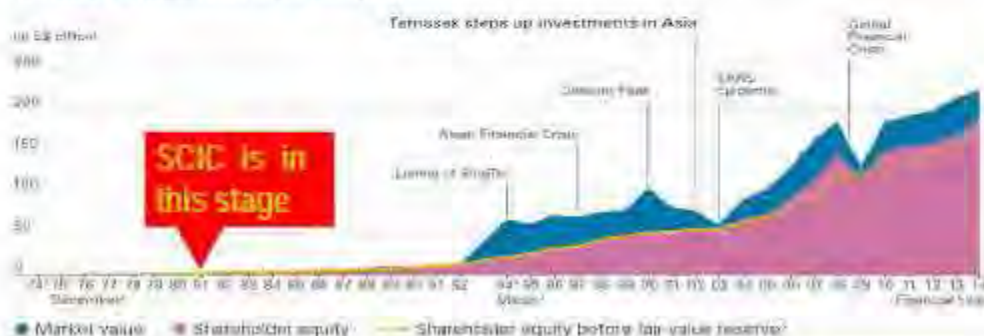
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SCIC' s role should gradually evolve from "State Capital Manager" to "Investor"

On the role of SCIC, the evolution of Temasek Holdings provides useful insight.

1. Started with state capital in start-ups and JVs ('74-' 92, Phase 1).
2. Received former state boards, such as telephony and public utility, which largely expanded its scale and stabilized profit ('92-' 03, Phase 2).
3. Appointed the first non-public servant CEO, reshuffled top management, and increased overseas investments. ('03-present, Phase 3)

Temasek Portfolio/Valuation Expansion



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Evolutionary path for SCIC

Given the current state of SOE reform in Vietnam, the need for the function of “state capital manager” is expected to grow.

SCIC should promote its track record as an “effective state capital manager” and take a step-by-step evolutionary path following Temasek example.

1. Current status; Manage/divest commercial SOEs
2. Next step;
Manage/divest SOEs providing public services, once the sector is liberalized and became open for private companies
3. Ultimate goal; Become a pure investment company

**Our suggestions for
operational improvement**

Suggestions for improving SCIC's function as "state capital manager"

1. Promotion of modern corporate governance within SCIC and for Vietnam
"Voting Guidelines", "Corporate Governance Code", "Institute of Directorship"
2. Reinforce portfolio company database
 - a. On demand retrieval of financial and non financial data
 - b. On-line based reporting and decision making
3. Reorganization of portfolio departments for accumulation of expertise
 - a. Strategic industry team with industry research functions
 - b. Specialized divestiture team for different status of companies
4. Formation of functional teams to support portfolio departments
 - a. Corporate governance team ; support companies establishing internal control
 - b. Restructuring team; support companies carrying out restructuring

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Promotion of modern corporate governance

As a state agency that manages state capital in hundreds of enterprises, SCIC should be **"the pioneer" in promoting corporate governance among SOEs in Vietnam, by establishing:**

1. Voting guideline
A summary of general philosophy and approach to issues that may commonly arise in the BOD or shareholders' meeting
2. Corporate Governance Code
A set of guiding principles for realization of effective corporate governance
3. Institute of Directorship
Educate and accredit those who become a board member of JSC (there is a plan to establish one in Vietnam)

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Voting guideline for SCIC, and potentially be the model for other institutional investors

- By creating guidelines on how SCIC decides on each managerial issues and distribute to both SCIC employees and portfolio companies, communication with portfolio company shall be more efficient and effective.
- It would also speed up the process of decision making within SCIC and enable it to manage more SOEs

Excerpt from "Japan Proxy Voting Guidelines issued by ISS"

□ Approval of Financial Statements

Vote FOR approval of financial statements, unless:

External auditor expressed no opinion, or raised concerns; or

Statutory auditors/audit committee raised concerns; or

There are concerns about the financial statements presented or audit procedures used

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Strengthening Capital and Portfolio Management System (CPMS)

- Financial and non financial information collected from day-to-day contacts with portfolio companies can be a great resource, if systematically stored in database and become readily available for flexible retrieval
- While SCIC maintains database, CPMS, there is a problem with data accuracy, timeliness of data input and not flexible data retrievable. This will be resolved if the internal reporting or decision making are to be carried out on-line through this data base.
- Strengthened CPMS will contribute to better decision making, research and operational efficiency of SCIC and enable it to manage more SOEs.

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Strategic industry team with industry research capability

Sector	Strategic companies	Divestiture
Telecom	FPT Telecom, (Mobifone?)	None
Pharma	DHG, Traphaco, Domesco, TV	Max 10
Food/Beverage	Vinamilk (SABECO?, HABECO?)	Some
Plastic	Tien Phong, Binh Minh	Danang, Rang Don
Construction	Vinaconex	Max 63
	Bao Minh, VinaRe, BaoViet	
Banking/Insurance	Military Bank & others (investments?)	None?

Other important sectors

- Consisted by account officers and industry analysts as "Industry Knowledge Hub"
- For divestiture, those with potential to find strategic buyers should be included.
- Industry analysts collect information from dialogue with investee companies and report periodically to senior management and to general public.
- Accumulated industry expertise can be utilized for voting decisions, new investment, policy advocate and so on.

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Functional teams

1. Corporate governance team

- ✓ To establish effective internal control and business strategy for newly accepted companies
- ✓ By accumulating expertise, this team can be used for promotion of corporate governance, as well as for future consulting services to third parties.

2. Restructuring team

- ✓ To support investee companies in need of financial and business restructuring
- ✓ By accumulating expertise, this team can also be the candidate for future consulting services and new investment in turnaround opportunities.

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Specialized divestiture team for specific purposes

1. Team for financial/strategic investor relations

- ✓ Systematically market to potential investors and host industry/region specific presentations
- ✓ If the company is still operational and either profitable, having brand value or valuable customer base, finding a strategic buyer is possible. Officers dealing with this kind of companies should accumulate skills similar to M&A advisory, such as industry research and corporate strategy

2. Team for marketing land use rights at non-functional companies

Officers should accumulate the knowledge on real estate market and demand from real estate developers active in the company locations

3. Team for marketing other valuable assets (share in JV, etc.)

4. Team for difficult-to-sell companies

(not operational and no valuable assets, etc.) Keep track.

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Thank you

Attachment 7; Equipment Allocation

JICA experts purchased the equipment below.

After the completion of the field work, it was handed over to JICA Vietnam Office.

Equipment	Product Name	Quantity	Place to Use	Year and Month of Purchase	Condition
Printer	HP Laser Jet Pro M127fn CZ 184A	1	Project Office	September 2014	Good