

Vietnam Corporate Governance Project

NEWSLETTER NO. 1 - SEPTEMBER 2010

In Partnership with:



Assisting

Companies and banks in implementing good corporate governance practices

Establishing

Effective corporate governance regulatory frameworks

Increasing

Training capacities of educational institutions

Raising

Public awareness of corporate governance issues



**International
Finance Corporation**
World Bank Group

Dear Reader,



I would like to welcome you to the inaugural issue of IFC's Vietnam Corporate Governance Project Newsletter.

The Newsletter serves to spotlight the ongoing efforts to create a more open, accountable, and transparent business sector in Vietnam. By drawing attention to specific issues currently facing Vietnam's corporations, we hope these pages will supplement greater knowledge-sharing activities amongst our friends and partners in both the public and private sectors, so that we may further support the adoption of good corporate governance standards and practices in this dynamic, developing economy.

We are also very pleased to highlight viewpoints and contributions from the many important project stakeholders who share the belief that sound governance contributes to sustainable economic development and growth. In this issue, interviews with the State Securities Commission (SSC), the Central Institute for Economic Management (CIEM), and Dragon Capital give valuable professional insight to how corporate governance is perceived in different sectors and what needs to be done now to secure international standards and practices in Vietnam's business culture.

As an international development finance institution, we know from firsthand experience how vital good corporate governance is to the shareholder, the company, and the national economy. Our experiences in similar projects in Central Asia, the Middle East, Africa, and Central, Eastern, and Southeast Europe now serve to complement our understanding of Vietnam's unique context. We hope you will enjoy learning more about our activities through this Newsletter and that you will take it as an invitation to participate in future Newsletters, events, and products.

We would also like to thank our donor partners including Finland, Ireland, the Netherlands, New Zealand, and Switzerland for their generous support to the advisory services that IFC is delivering in Vietnam.

Sincerely,

Simon Andrews
IFC Regional Manager,
Cambodia, Lao PDR, Thailand, and Vietnam

About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. We create opportunity for people to escape poverty and improve their lives. We do so by providing financing to help businesses employ more people and supply essential services, by mobilizing capital from others, and by delivering advisory services to ensure sustainable development. In a time of global economic uncertainty, our new investments climbed to a record \$18 billion in fiscal 2010. For more information, visit www.ifc.org.

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Table of Contents

The Irresistible Case for Corporate Governance	3
Investors Will Pay for Good Governance	
Better Governance Can Have a Positive Impact on Cost of Capital	
Good Governance Helps Operations, Too	
Interview: Dr. Vu Thi Kim Lien, Vice Chairwoman, State Securities Commission	
Awareness Raising	6
Media Training on Corporate Governance Reporting	
IFC and LexisNexis Host Corporate Governance Forum	
Education & Training	10
Demand Growing for Corporate Governance Coursework	
Training of Trainers on Corporate Governance Board Leadership	
Work with Companies	12
Development of the Private Sector Fuelling the Need for Corporate Governance Services	
Interview: Mr. Dominic Scriven, CEO, Dragon Capital	
Regulations & Guidelines	16
Interview: Dr. Nguyen Dinh Cung, Vice President, Central Institute for Economic Management	

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” (OECD, 2004)

— *OECD Definition of Corporate Governance*

The IFC Corporate Governance Project

As Vietnam integrates into the global economy, Vietnamese companies are facing up to the need to compete in a global market place where investment criteria are increasingly being scrutinized. The volatility that shook the global economy and the subsequent impacts on global finance and investment behavior has amplified the value of good corporate governance for Vietnamese companies and for sustainable economic development.

IFC is implementing the Vietnam Corporate Governance Project with the overall goal of improving corporate governance (CG) practices in Vietnam. Specific project activities are administered through a spectrum of governance interventions, including:

- Advising companies and institutional investors and banks to implement good CG practices
- Working with relevant government organizations to improve the regulatory framework on CG
- Strengthening capacities in educational and training institutions to provide CG training
- Raising public awareness of the importance of CG.

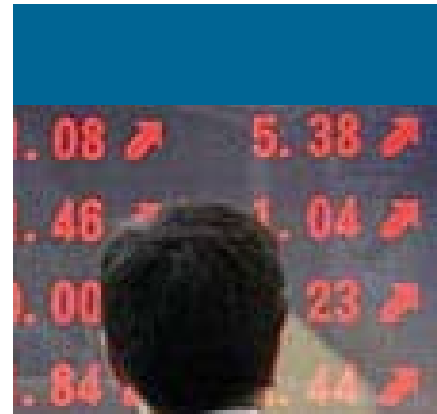


IFC Executive Vice President and CEO Lars Thunell at the launch of the IFC Vietnam CG Project

The Irresistible Case for Corporate Governance

Knowledge drives investment. The willingness of international and domestic investors to explore and commit to developing markets comes with a reciprocal demand for information and disclosure. However, not all have been quick or ready to embrace the notions of self-monitoring and accountability. Such hesitation lends credence to the supposition that boards tend to behave differently when actively observed. And while government regulations are necessary to enforce corporate requirements, such safeguards are less efficient if unaccompanied by a culture of self-policing.

At the same time, the prevailing view on shareholders is that their greater vigilance tends to result in greater economic, environmental and social value. Furthermore, companies are discovering that they can create better products more efficiently when they enable greater participation from their employees. Thus the demand for transparent, timely, standardized practices and information sharing is steadily shaping the understanding of 'corporate culture' while simultaneously being entrenched as an integral part of a company's (and a country's) product,



Investors Will Pay for Good Governance

Investors say they highly value CG. And they're backing their words with their money. According to a number of studies, well-governed companies attract premium valuations in both OECD and emerging market countries:

- In Korea, well-governed firms traded at a premium of 160% to poorly-governed firms, according to a study by Korean and US researchers.¹
- In Brazil, poorly-governed companies could increase their market capitalizations by 85-100% by overhauling their governance activities and shifting to good governance, according to two recent studies using broad CG indices.²
- A study of S&P 500 firms by Deutsche Bank showed that companies with strong or improving CG outperformed those with poor or deteriorating governance practices by about 19% over a two-year period.³
- In a 2002 McKinsey survey, institutional investors said they would pay premiums to own well-governed companies. Premiums averaged 30% in Eastern Europe and Africa, and 22% in Asia and Latin America.⁴

¹ Black, Bernard S., Jang, Hasung, Kim, Woochan. "Predicting Firms' Corporate Governance Choices: Evidence from Korea." University of Texas Law School Working Paper No. 39, August 2004.

² Global Corporate Governance Forum, "Practical Guide to Corporate Governance - Experiences from the Latin American Companies Circle", 2009.

³ Grandmont, Renato, Grant, Gavin, and Silva, Flavia. "Beyond the Numbers - Corporate Governance: Implications for Investors." Deutsche Bank, April 1, 2004.

⁴ McKinsey's Global Investor Opinion Survey, 2002.

Better Governance Can Have a Positive Impact on Cost of Capital

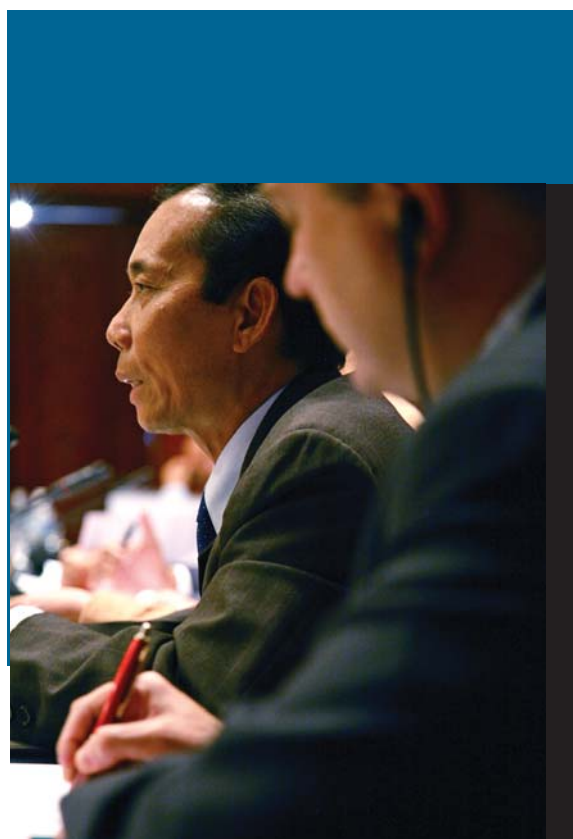
Better CG standards make banks and rating agencies see companies in a better light. This means lower borrowing costs for well-governed firms. For example:

- In Romania in late 2004, FitchRatings upgraded the individual credit rating of Banca Comerciala Romana from D to C/D. Standard & Poor's raised the bank's long-term counterparty rating from B+ to BB-. Both agencies cited improvements in CG and risk management as the major reasons for the upgrades.
- In Brazil, Credit Suisse raised its valuation of Brasil Telecom in May 2006 from 'hold' to 'outperform' directly because of improvements in the CG practices by the firm.
- PREVI, Brazil's major pension fund, compared a portfolio of five investee companies that adopted good governance practices against a group of eight companies with poor governance, by credit rating and costs. The good governance group received a significantly better rating, with improvements achieved after adopting governance best practices.

Good Governance Helps Operations, Too

Investors point out that those companies in compliance with CG standards tend to perform better as well:

- A study of the 100 largest emerging market companies by Credit Lyonnais Securities Asia (CLSA) in 2001 showed that companies with the best CG in each of a large number of emerging market countries had eight percentage points higher measures of EVA (economic value added) than firms in their country average.⁵
- A Harvard/Wharton survey found that U.S.-based firms with better governance have faster sales growth and were more profitable than their peers.⁶
- The ABN/AMRO study showed that Brazilian firms with above-average CG had Returns on Equities (ROEs) that were 45% higher and net margins that were 76% higher than those with below-average governance practices.



⁵ "Saints & Sinners: Who's Got Religion?" CLSA CG Watch, April 2001

⁶ Gompers, Paul, Ishii, Joy, and Metrick Andrew. "Corporate Governance and Equity Prices." *Quarterly Journal of Economics* 118(1), February 2003, 107-155.

An interview with

DR. VU THI KIM LIEN

VICE CHAIRWOMAN, STATE SECURITIES COMMISSION



The State Securities Commission (SSC) is an organization under the Ministry of Finance, whose purpose is to develop capital markets, regulate securities activities, license market participants, and enforce regulations. On October 24, 2008, IFC and SSC signed a Memorandum of Understanding with an intention to cooperate to improve CG practices in Vietnam. A number of key activities of IFC's Vietnam Corporate Governance Project have been carried out in collaboration with SSC.

"Effective implementation and enforcement depends not only on the detail and clarification of legal documents, but also on the awareness and understanding of the concepts at all levels."

What progress has been made towards creating an awareness and appropriate environment for CG standards and practices?

Not so long ago, the concept of corporate governance in Vietnam was unfamiliar to the general Vietnamese business community. Many people confused the terms of "corporate governance" and "corporate management" or thought that both terms referred to either lower level decision making or executive control of a company's business operations. Over the past five years, Vietnam has introduced significant milestones in the corporate governance legal framework, including the Enterprise and Securities Laws, the Corporate Governance Regulations for listed companies, the 2007 Model Charter of listed companies, and the new Circular on company disclosure of information for the stock market. There are still a number of key issues to work on, both in the regulatory framework and the actual practices, but this is significant progress.

What is the situation regarding regulatory and practice issues?

There are two main issues for the regulatory framework. First, there are still inconsistencies between different regulations. Second and more importantly, there is a lack of detailed guidelines on areas such as annual shareholders' meetings, accumulated voting, related party transactions, and shareholders' rights. These shortcomings have made it difficult both for companies and for regulators. Effective implementation and enforcement depends not only on the detail and clarification of legal documents, but also on the awareness and understanding of the concepts at all levels. The importance of adopting good practices must be made clear and encouraged. At present, a number of managers of listed companies are not fully aware of the benefits of adopting good CG principles.

How are SSC and IFC cooperating to improve CG in Vietnam?

We are working in close coordination with IFC to develop and apply a score card system to assess the corporate governance practices of listed companies on both the Ho Chi Minh and Hanoi Stock Exchanges. We also have further plans to work together on other areas such as developing CG codes and the establishment of an training institution for directors. Our recent cooperation has included the publication of a CG manual for Vietnamese public (and listed) companies, and sending six staff members to participate in IFC's recent Training of Trainers on international CG best practices and training skills.



Awareness Raising

RAISING PUBLIC AWARENESS OF CORPORATE GOVERNANCE ISSUES

CG is a relatively new concept in Vietnam. There is no equivalent term for CG in Vietnamese. It is, therefore, critical to improve the general level of understanding and raise awareness of the benefits of sound CG practices through activities including public seminars, forums, and training sessions.

“Corporate governance is a more common phrase these days, but until this workshop, I was not clear on the concept and its importance to companies, the economy, and society in general.”

Nguyen Cac Ngoc
The Saigon Businessman

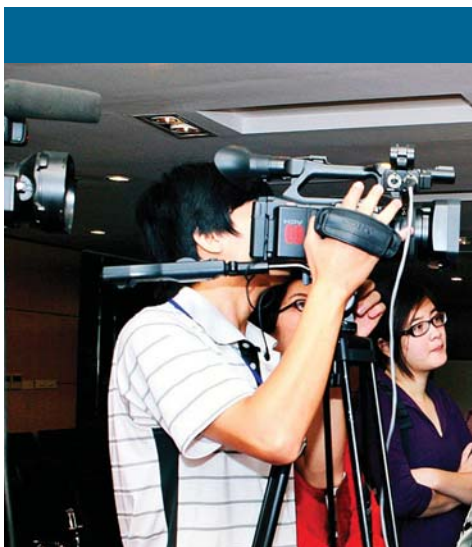
Media Training on Corporate Governance Reporting

A three-day training workshop co-organized by IFC Corporate Governance Project in Vietnam and the Global Corporate Governance Forum offered 20 local journalists an opportunity to better understand CG and gain an insight into its best practices. This was the first workshop of its kind in Vietnam, with more planned in order to address the media’s general lack of familiarity with financial and CG concepts. “Reporters are not well trained in covering financial issues, and often have to learn themselves,” said Nguyen Van Phu, Managing Editor of the Saigon Times. “This workshop helps journalists improve their knowledge of corporate governance issues and provides them with tools to do their jobs better.”

In order to sharpen their abilities to disseminate information to the business community and the general public, participants were required to actively participate in discussions, writing exercises, and lectures hosted by the Vietnam’s State Securities Commission, the Ho Chi Minh Stock Exchange, the Agence France Press, the Saigon Times, IFC, Sinclair Capital LLC, and Deloitte. After one such session, Pham Hoang Nam of Vietnam News stated, “The workshop challenges my understanding of corporate governance and brings up new ideas for stories. The information we are receiving is very helpful for our reporting and our understanding of corporate governance as a subject. A solid grasp of the issues is necessary to deliver factual information.”

The workshop also emphasized financial report reading and comprehension, and lessons on investigative business reporting that can help journalists more accurately convey how company activities can impact society.

“I hope that IFC will bring us together again soon to keep discussing how the media can contribute to promoting good corporate governance,” said Huynh Thi Truong An from the Financial and Business News Channel.



IFC and LexisNexis Host Corporate Governance Forum

The Vietnam Corporate Governance Forum held in Ho Chi Minh City last October, underscored the importance for Vietnam of fortifying its reputation as a safe haven for investment capital by enhancing its reporting standards and levels of disclosure. Speakers noted the impact of the global credit crunch and the repercussions felt by U.S. and European companies in being more prudent about their investment decisions by researching CG standards in emerging markets. They also illustrated how the crises had revved up competition for FDI, and that Vietnam would now be competing effectively with China and India for a piece of considerably reduced global FDI capital. Close links were made between FDI attraction and CG, in that the greater risks and costs to investors that come from a lack of transparency could be partly mitigated by Vietnamese companies adhering to good CG standards and practices.

Speakers also used the Forum as an opportunity to call for the government to redress incomplete regulations and sanctions in the legal framework, and for state-owned enterprises (SOEs) and Board Members to welcome greater corporate accountability. Alongside these recommendations, joint ventures, mergers and acquisitions were spotlighted as underdeveloped means for attracting foreign investment into Vietnam.





In response, government representatives noted that 2010 would see amendments to CG regulations and sanctions to penalize listed companies for any violation. CG will also be a necessary condition for any company wishing to be listed on the stock exchange. In addition, by 2011, the State Securities Commission will have a special unit responsible for overseeing corporate governance matters.

The speakers and panel hosts represented a wide range of international, regional, and local experts from both private and public sectors, including IFC, the Australian Trade Commission, KPMG Vietnam, Dragon Capital, World-Check Asia, Vietnam's State Securities Commission, Hanoi and Ho Chi Minh Stock Exchanges, and the Ministry of Planning and Investment. Discussions covered a broad canvas of related issues ranging from topical ('Corporate Governance in Times of Crises'), to structural ('Update on the Regulatory Efforts to Improve CG Practices in Vietnamese Companies'), to practical ('Building a Better Board of Directors', the 'Practical Application of Governance Principles in Vietnam', and 'Implementing Governance Risk and Compliance Systems in Vietnamese Companies'), and strategic ('The Relationship between Trade, Investment, and Corporate Governance', and 'Efforts to Attract Local and Foreign Investors to Vietnamese Companies').





Education & Training

BUILDING TRAINING CAPACITIES IN EDUCATIONAL INSTITUTIONS

Educating and training the current and next generation of business leaders in Vietnam are crucial to having a long term and sustainable impact on improving CG practices in Vietnam. There is a need to build CG training capacity for universities and training institutions in Vietnam.

Demand Growing for Corporate Governance Coursework

The demand for CG training is growing exponentially, owing to the rapid growth of the private sector and the Government's acceleration of the equitization process. Moreover, in order to compete successfully in a globalized market, Vietnamese companies need to come prepared with international good governance practices. The rise in qualifications, both for the company and for the managers, has prompted directors and senior managers of joint stock companies - many of whom were former managers of SOEs - to seek out trainings that can help accustom them to modern CG concepts and practices.

“We invited IFC to deliver a CG module to our executive and full time MBA program,” said Mr. Ha Nguyen, Director for the Hanoi School of Business' Graduate Programs. “The module was overwhelmingly well received, with many participants expressing an interest in more in-depth CG training. We are currently discussing how CG can be inserted into our MBA programs and into executive training. With the equitization acceleration, we are seeing a number of managers of large companies, some of which may have up to 100 daughter companies, who need to know how to be good board members.”

To meet this need, and to ensure that future demand will be accommodated, IFC is organizing trainings for lecturers in CG and CG related subjects and working with selected educational institutions to develop and introduce CG into their teaching programs.

Training of Trainers on Corporate Governance Board Leadership

As a first step in building capacity for CG training, IFC and the Global Corporate Governance Forum organized a four-day Training of Trainers (TOT) workshop in July in Hanoi. A core group of 20 participants from selected institutions representing Vietnam's educational and capital markets sectors were given the opportunity to strengthen their skills for conducting interactive training sessions designed to replicate the boardroom environment. Training resources included the Experiential Learning Cycle methodology, a comprehensive curriculum, with PowerPoint presentations and case studies, and a modular curriculum design allowing for quick customization.

“These trainings are very useful, both from an interaction standpoint and from a knowledge acquisition standpoint. They provide an active setting, where we learn from the speakers and coursework, and from constant feedback from everyone in the room. It is also an opportunity to establish networks across business, capital markets, and finance circles and to see how corporate governance is evolving in Vietnam”, said Mr. Ha Nguyen, of the Hanoi School of Business.

According to Mr. Nguyen, one of the areas CG can help improve is the provision of company information. “Generally speaking, we are seeing an increase of pressure from shareholders on directors to provide more information in a more timely and regular manner. There is clearly a growing demand for pro-active disclosure of information - not only from the shareholders, but also from the employees. They need information at the right time.”

Mr. Tang Van Khanh, Director of the Organizational Capacity Development Company (OCD), a training participant, sees a growing need for CG in management consultant services, particularly in the field of remuneration systems. “What we can see happening is that during a period of downturn, there are more financial issues because there is closer scrutiny of how a company uses its money. Management, therefore, needs to have the necessary expertise and this leads to opportunities for consultancies that can provide such services. This training course is a good introduction to CG knowledge and methodology, and we hope to see more from IFC and more trainings on specific CG topics in the near future.”



Work with Companies

INSTILLING GOOD CG PRACTICES IN VIETNAM'S BUSINESS CULTURE

Companies can improve their CG practices through accessing specialized CG advisory services. CG advisory services can be in many forms and at different levels ranging from issue specific consultations, workshops, advice on company's documents, to full CG assessment with detailed improvement plans. CG advisory services are common in more developed markets. In Vietnam, the demand is growing.

Development of the Private Sector Fuelling the Need for Corporate Governance Services

CG is relevant to all types of firms. However, the need for improving CG practices is particularly pertinent to firms that need to attract capital to grow, or firms with complicated and diverse ownership structures. In Vietnam, the need for CG is particularly evident for those equitized firms that still maintain pre-market reform systems of management and governance.

Vietnam's economic reform and business liberalization process has resulted in rapid development of the private sector. More than 3,000 SOEs have equitized and many once-small private enterprises have evolved into more complicated ownership structures. These include more than 100 securities firms, nearly 50 investment funds, and around 40 growing joint-stock banks.

In tandem with the evolution of Vietnam's private enterprises has been the development of the country's capital markets. In June 2006, only 47 companies were listed on the stock exchange, with a total market capitalization of 3% of GDP. Today there are nearly 600 companies listed on both the Ho Chi Minh and Hanoi Stock Exchanges, and a total market capitalization of nearly 40% of GDP. The number of non-listed public companies (companies with 100 or more shareholders and paid-up charter capital of VND10 billion or more) now reaches 1,000. All these developments combine to create an accelerating demand for Vietnamese companies to seek out CG advisory services to bolster their performance and value.



An interview with

MR. DOMINIC SCRIVEN
CEO, DRAGON CAPITAL



As an important participant in Vietnam's business and capital markets, and a keen observer of the country's developments from both an international and local vantage points, how do you see the evolution of Vietnamese companies and the need for corporate governance, particularly with reference to the increased challenge in securing investment capital?

First and foremost, the job of investing here cannot be separated from the need to commit to governance. To be an investor here and to expect that governance will happen on its own is a little unrealistic, so we have a hard-wired commitment to governance in our investment process. We get involved in advocacy and national policy level issues of templates for specific issues we see across companies that we invest in, and then also individual problem solving and addressing of issues. So it is a good part of what we do.

My observation would be that generally Vietnam is very open to concepts of governance. There are of course exceptions to that. This reflects the fact that reform is ongoing, that there are elements of a clean page here, that many companies are first generation. As such, there is generally an absence of vested interests that stand in the way of governance concepts, and so therefore as a result, in some areas Vietnam is surprisingly ahead of the pack. An example would be that any CEO who is also Chairperson needs AGM ratification of such.

I would also make the observation that there are difficulties in governance, most of which comes down to how best to implement these principles in reality, where there is a lack of experience or possibly institutional breadth, and some of these concepts which ought to work elsewhere run into implementation problems. An example of such would be independent board members: if one defines an independent board member as one who is not also a shareholder, I question whether any company in Vietnam is able to attract independent board members, as the very notion culturally and in practice is that people who are going to care and commit to the oversight of the company probably need to have a stake in it.

Where is the motivation for implementation coming from – internal (the company) or external?

I think from both, really. The SSC in particular and the MOF and the State Bank and MPI are all moving up with new regulations and drafts addressing areas that loosely fall into governance. Companies are generally open – and many companies have quite diverse shareholding structures and shareholders themselves have quite an interest in putting things in place and protecting minorities. There is also pressure from investors which is also relevant.

Governance is always that something that people are prepared to put on the table in rather vague ways, but here things are moving forward. I am absolutely optimistic. The government sees that this is necessary, as do companies because they do not have anything holding them back, and investors because it is in their interest.



What about the need for capital as a motivating source?

I think governance is relevant to raising capital, but is it the key factor? I'm not sure. Things like the absence of institutional investors, the pricing, the earnings dilution – these are typically more relevant.

What of the notion that CG is popular when the money tightens up, and that this push is more a result of the global financial situation?

Well, there is some truth to that, but some people might ask if this is more that the stable door is being closed after the horses have bolted, so to speak. But that is just the nature of cycles. There are cyclical and structural arguments, and the structural lessons are not all forgotten from cycle to cycle.

Is CG a key standard in your investment criteria?

Absolutely. We have a governance screening as part of the investment process. Applying the broad notion of good governance to individual situations varies, but we try and ensure that we do not make investments where there is not good governance and that we help companies improve their governance to the extent that we can once we become investors.

In your investments, do you see sectoral trends for openness to CG?

We invest across the spectrum. It is a fair observation that finance companies tend to be better regulated and these issues are more often raised there. Frankly, there is more potential for things to go wrong in the financial sector than in other sectors, say Food and Beverage, but there may have better governance because there are fewer risks.

How would you characterize shareholder awareness towards the protection of shareholder rights?

Vietnam's investor base is overwhelmingly retail or individual in nature, so a lot of the heavy lifting that institutions do doesn't necessarily take place. But Vietnamese investors are generally very active and engaged, mostly on things that relate to them as minorities: disclosure of information, investment decision making, not much on succession, yet, though.

“To be most effective, one needs to study the situation on the ground and then pick a few areas where clear governance engagement in real issues and real problems can be achieved.”

Turning towards education: are you seeing more and better educated management that is receptive to CG or is this something that needs to be instilled at the university level?

There is a disconnect between higher education and vocational needs that is only slowly being addressed through things like business schools. The fact that almost every company is first generation means that succession has not yet taken place and succession is one of the big issues that we face: How do companies approach that? Not many, frankly are doing it terribly well.

How can IFC make a greater impact on standards?

We approached IFC because we had specific issues ourselves. There is more work to do, but we have been helped. One of our drivers is that if we could engage with IFC; in our own case we have learned lessons that we could then pass on to other people and maybe this would work in other cases, where IFC can transfer work to one place and it can be passed on in other forms to others. Addressing the subject of CG is so difficult because no one knows where it begins and ends. It needs to be made relevant and comprehensible, and a lot of the work is also in the translation of the concepts into Vietnamese or other languages, where one must introduce new ways of expressing things. So there is a significant amount of practical, basic work that is necessary in order for these things to be successful.

To be most effective, one needs to study the situation on the ground and then pick a few areas where clear governance engagement in real issues and real problems can be achieved. For example, I am not sure if succession falls into governance, but it is a very real issue here. The system does not exist for the transfer of power from people who are generally large shareholders and managers, to another group of people who are maybe just managers.



Regulations & Guidelines

IMPROVING THE CORPORATE GOVERNANCE REGULATORY FRAMEWORK

Although the basic regulatory framework for CG is in place, there is still a great deal of confusion and a corresponding need for clarification and adoption of international good practices.

An interview with

DR. NGUYEN DINH CUNG
VICE PRESIDENT, CIEM

The Central Institute for Economic Management (CIEM), a national institute under the Ministry of Planning and Investment, is mandated to conduct policy research, provide advisory services and propose policy solutions to the government on economic, institutional and business environment issues. CIEM is responsible for drafting the Enterprise Law and its implementation guidelines. IFC and the CIEM have signed a memorandum of understanding to cooperate in improving the CG Regulations and promoting sound CG practices.

What role is CIEM taking to improve CG in Vietnam?

Vietnam's private sector has been growing strongly. The number of companies, especially joint-stock companies, has greatly increased. Hundreds of businesses have increased in size and developed towards becoming serious regional and global players. Similarly, Vietnam's economy has also integrated comprehensively, at an increasing depth, into regional and international economies. These have called for the urgent need for Vietnamese companies to adopt modern management and governance good practices to compete and grow in a sustainable manner.



"...the most important activity over the next two years...is to revise the existing Enterprise Law... With this revision, we will certainly address shortcomings in the existing corporate governance regulations."

Improving corporate governance regulations and practices in both SOEs and joint-stock companies is clearly a priority of the Institute. We have contributed to improve CG standards and practices in Vietnam through a range of activities including research, organizing conferences and seminars on CG issues, and drafting business regulations and guiding the implementation of those regulations. The Enterprise Law 2005 and its implementing decrees drafted by CIEM contain some of most important regulations on corporate governance. The Law was a major step in addressing the fragmentation, as it provides a unified legal framework for business regardless of ownership type, and introduces modern corporate governance concepts.

What has been done since the 2005 Law to expedite the regulatory framework improvements?

One example is we recently drafted a new decree replacing Decree 139 guiding the implementation of the Enterprise Law which focuses on addressing pressing issues having arisen during the implementation of the Law for which many are related to or about corporate governance. IFC also provided advice on the drafting of the decree with a focus on the issue of shareholders' rights to sue directors and officers of the company.

How will CIEM improve CG practices?

Although Vietnam has made significant progress in developing a basic corporate governance regulatory framework, the legacy of the old system cannot be removed quickly. We need to continuously improve both regulatory framework and actual practices of corporate governance. Along with awareness raising activities to promote sound corporate governance in Vietnam, CIEM will continue to assess the current legal framework for business both for SOEs and joint-stock and other types of companies in general, and corporate governance in particular, and propose to the government to improve it where appropriate. Perhaps the most important activity over the next two years in this regard is to revise the existing Enterprise Law which is scheduled to be submitted to the National Assembly for consideration in 2012.

What are key issues to be addressed in the revised version?

With this revision, we will certainly address shortcomings of the existing corporate governance regulations. These include insufficiency and ineffectiveness in exercising state ownership in SOEs, shareholder rights and protection of shareholders' rights not meeting CG best practices, ineffective internal controls, and a lack of transparency and information disclosure.

What areas will CIEM and IFC cooperate on in the near future?

CIEM and IFC have already had effective cooperation on this front. Building on our success in the past, we would also expect to continue to cooperate with IFC closely on the revising of the Enterprise Law as well as raising public awareness on the importance of good CG, promoting good CG practices and enforcement of existing regulations and training directors on CG.



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