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**The Role of Policy Finance and An Analysis of Its Effectiveness in Vietnam:
A Case Study on the Development Assistance Fund**

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Abstract:

With the recognition that the underlying problem facing transitional economies is the inadequate institutionalization of means for correcting market failures, in this paper we have explored the potential of policy finance for playing an adequate role in correcting this inadequacy in Vietnam, as in other Asian countries, using Development Assistance Fund designed to tighten the SBC through a shift from fiscal investment to policy finance. We intended to examine and analyze, from the perspective of borrowers, the DAF's loan portfolio, lending decision criteria, the fund's credit risk management system by a survey.

The results suggest that DAF has closely institutionalized the credit screening and risk management functions. However, its inadequate establishment and the insufficient legal environment makes it unavoidable that credit will be granted on the back of state guarantees. Consequently, DAF cannot shake itself free from the bias toward state-owned companies. For non-state-owned companies without state guarantees, DAF is taking steps to protect itself from risks by more strictly checking the repayment ability of potential borrowers, demanding collateral more strongly, and setting out more complex procedures. Under the credit rationing, non-state-owned companies are increasing their dependence on financing with personal borrowings from the informal sector or delayed payments using accounts payable.

Key words:

Policy Finance, Vietnam, Development Assistance Fund, SOE/Non-SOE,
Institutionalization, Credit Rationing,

Introduction

One of the serious problems facing the economies in transition, in addition to the immaturity of markets, is the inadequacy of “institutionalization” as a means for correcting “market failures.” What can be done to rectify these failures in correction? In Asian countries, this role was supposed to be played by governments, and the weight of policy finance as a means of correction in the financial sector has been significant. Of course, this is a different question from whether it has been successful in performing the expected function.

In this paper, we focus on Vietnam, one of Asia’s transitional economies, and attempt to elucidate its efforts to use policy finance as a means to make up for failures in the (institutional) correction of “market failures,” and analyze the effectiveness of policy finance in performing that function. Vietnam established the Development Assistance Fund (DAF) in 2000 by integrating the policy finance functions that up to that time had been undertaken by several governmental investment institutions and state-run commercial banks. It carried out the consolidation with the purpose of modernizing the financial system and fostering private-sector enterprises in order to help facilitate the transition. Neighboring Asian countries, including Japan, are watching, with great interest, the extent to which DAF is able to perform its intended role in solving problems and encouraging the development of the economy in transition. Despite statistical constraints, we conducted a questionnaire survey on companies that borrowed funds from DAF, and on the basis of the data collected in the survey, attempt to examine the fund’s performance. Though there are some previous research reports on DAF (IMF 2006, JERI 2002), to the best of our knowledge, few empirical analyses have been conducted for the purpose of examining the real micro aspects of DAF’s functions and its institutionalization to ascertain whether credit rationing in the private (non-state-owned) sector is being eliminated.

In Section 1, we describe the current state of Vietnam’s financial sector and market failures (however perfect a market is, failures do occur, but the immaturity of the market makes them more serious), or more specifically, the problem of the asymmetry of information and the role of policy finance. In Section 2, we examine the purpose of DAF’s establishment, its internal mechanism, functions and institutionalization, and on the basis of results of our analysis, attempt to determine whether DAF is playing its intended role properly in correcting market failures. Section 3 looks into informal means of fund procurement by non-state-owned enterprises subjected to credit rationing. This is followed by a conclusion.

I. Market Failure Correction Failures and Policy Finance

1. The Current State of Vietnam’s Financial Sector

The Vietnamese economy weakened temporarily in 1998 and 1999 in the aftermath of the Asian currency crisis, but recovered in 2000 and has since maintained

a growth rate of about 7% (Table 1). The growth of the industrial sector has been stronger than the 3.4% registered by the agricultural sector, with the manufacturing and construction industries driving the country's economic expansion.

The rate of investment (relative to GDP) also declined in 1998 and 1999 in the wake of the Asian currency crisis, but then began to increase in tandem with the progress in industrialization. The ratio of deposits to gross domestic product (GDP) has been rising since 1999, boosted partially by the introduction of the deposit insurance system. The ratio of credit to GDP remained low in 1994-1998 as a result of lending restrictions to curb inflation, but has continued to rise since the restrictions were removed for causing economic stagnation. The breakdown of investment funds in Table 2 shows the rising ratio of policy finance following its separation from the state budget, the expansion of the state enterprise sector from 1998, and the slowdown in foreign direct investment.

Financial regulations have been gradually relaxed along with the growth of the Vietnamese economy and the invigoration of the financial sector. Interest rates were deregulated in stages. First, in 2001, interest rate regulations on the lending of dollar funds were removed, followed by the removal of interest rate restrictions on VND (Vietnamese dong) loans. After commercial operations were separated from the central bank in 1988, private-sector banks (joint-stock banks) were given the green light to enter the market in 1991, and Vietnam began allowing the opening of branches of foreign banks and the establishment of joint ventures between foreign banks and local banks in 1992. Since then the financial institution has increased its number and diversified owing to an inflow of foreign capital and the entry of the private sector. There are 4 state-owned commercial banks (SOCBs): Bank for Foreign Trade of Vietnam (VCB), Bank for Investment and Development of Vietnam (BIDV), Industrial and Commercial Bank of Vietnam (ICB), Vietnam Bank for Agriculture and Rural Development (VBARD), 39 joint stock banks, 4 fully licensed joint-venture banks: Indovina Bank, Vinasiam Bank, First-Vina Bank, and Vietnam Investment and Public Bank and 27 foreign branches banks. Moreover, banking institutions also includes small-scale credit institutions that provide financial assistance focusing on agricultural areas through 942 People's Credit Funds. As non-banking institutions there are 7 stock companies and 8 leasing companies nationwide. In the stock market started in 2000 there listed 21 companies, and has not much prospect of success because of the limited and unbalanced sales so far. There are providers of preferential credits such as Development Assistance Fund for SOEs and other enterprises, Social Policies Bank for personal housing.

Amid the growing trend toward diversification, the private sector remains feeble and lacks an environment conducive to stronger competitiveness. The business operations of private-sector banks are largely limited to ones catering to specific industrial sectors or certain regions. Limited partnership banks are small and

undercapitalized and a consolidation process has been under way since the minimum level of capital was raised in 2001. Joint-venture banks and branches of foreign banks face disadvantageous regulations, including a ceiling on domestic deposits. Against the private sector SOCBs make up a major market share in the commercial credit system, which accounted for around 44% of total banking assets and 75% of outstanding loans, also supplied almost 90% of all granting credit to the state-owned enterprises.

2. The problem of Information Asymmetry

Information is absolutely necessary for the optimal allocation of funds, and naturally, the need for that information to be spread widely and evenly is emphasized. But, however infallible the market, it is highly unlikely that information can be fully and symmetrically shared by all parties. This is because there is a disparity in personal incentives concerning information between entities with surplus funds and those that are short of funds and also because the flow of funds through financial intermediaries takes place intertemporally. It is well known that the asymmetry of information arising in this way can lead to moral hazards, higher costs of services and constraints on credit accommodation. Finding ways to deal with these problems is a fundamental task of financial institutions.

Economies undergoing the process of transition to market economy are particularly affected by this asymmetry of information. The solution aimed at reducing effects of asymmetric information, that new institutional economy suggests, is lending on collateral and improving information data on borrowers [Williamson, 1998]. However, the efficiency of these steps in the process of transition is very limited. Especially, in a transition country like Vietnam, where government officials are still very powerful, the information concentration in the central government and her weak disclosure function cause the supply demand imbalance of information. The financial data of the state-owned enterprises are owned jointly only among the affiliated institutions such as general cooperation, taxation office, Ministry of Finance, etc.. ¹⁾In the case of non state-owned enterprises the most of them do not run full accountancy ledgers, do not process all the necessary information (cash flows in particular) or the information provided by them is unreliable, not be able to provide the required information (in particular those that do not run full accountancy ledgers) because of the lack of competence²⁾.

3. The Role of Policy Finance

Generally speaking, in Asian countries (such as Japan, South Korea, Taiwan, and Singapore), where government officials are very powerful and policy finance plays a large role, the preferential allocation of funds was adopted for the development of strategic industries. It is difficult to say that policy finance in these countries has succeeded in disciplining governments and securing incentives for it, but it is understood that the information effect and monitoring functions of policy finance have

been at least partially responsible for the economic growth (World Bank,1993) .

For instance the policy finance of ex-Japan Development Bank(JDB) was characterized by its function inducing the capital flow of private financial institutions toward the politically preferential industry and enterprises(Higano, 1984). The function means that the granting credit of JDB itself was a way of information disclosure of its preference, moreover it was supported by the credibility for its evaluation of investment projects and enterprises' economic performance based on its competence at the information production and management.

The existence of policy finance can be justified by the pump-priming role it plays in stimulating the private-sector finance business, since it guarantees the safety of investment projects through the production of information. In particular, in the case of a transitional economy such as Vietnam, where there is inadequate institutionalization despite the supply-demand gap in information, as with other Asian countries, governments are expected to have a proper involvement in the development of the financial system through policy finance.

II. Survey on the Development Assistance Fund

1. Development Assistance Fund

The establishment of the Development Assistance Fund through the integration of the policy finance functions of state-owned commercial banks and several government-affiliated policy finance institutions, is part of a financial sector reform designed to transfer the function of allocating funds to state enterprises away from the fiscal sector and toward the financial sector, thereby institutionalizing budgetary constraints. DAF, which is wholly owned by the government, was launched under Decree No.50/1999/ND-CP (July 8, 1999) with following purposes: i)to move away from the directly state-funded subsidy system, ii)to build up business-like consciousness and the rational management system, iii)to strengthen the international competition, macroeconomic stability, and iv)to develop industrialization and modernization. One of its main tasks is to independently raise necessary financial resources. In FY2004, 18.2% of its total financial resources came from postal savings and borrowings from the social security account, with proceeds from bond issuance accounting for 33.5%, and official development assistance (ODA) contributions for 46.1%. The share of government capital contributions has declined remarkably compared with the funding composition at the time of its establishment in 1999. DAF's second task is the supply of funds in the following modes: i) medium- and long-term loans with preferential interest rates; ii) interest subsidies for projects already under way, set at 50% of total interest payments; iii) debt guarantees no larger than the amount of lending; iv) short-term loans for the promotion of exports, at a preferential interest rate ; and v) lending of official development assistance (ODA) funds. Actually, DAF funds were allocated respectively

56.86%, 0.42%, 0.02%, 17.09%, and 25.58% for the above each. DAF is one of Vietnam's largest financial institutions in terms of chartered capital and outstanding loan portfolios, ranking second, after VBARD, among the four state-owned commercial banks.

As shown in [Table 3](#), projects eligible for DAF loans are classified into five areas under Decree No.12/2000/Nd-CP, and are further categorized into groups A, B and C according to lending amounts. The entities that screen investment projects and determine the advisability of lending differ for each group. According to a hearing survey conducted by the Japan Economic Research Institute (2003), large-scale projects in Group A are screened by DAF head office and approved by the Prime Minister, while medium-scale projects in Group B are screened by DAF branches and approved by the fund's board of directors or DAF director general. Small-scale projects in Group C are screened and approved by DAF branches³⁾. Thus, DAF is authorized to make independent decisions only on medium- and small-scale projects. The groups, ownership modes, and DAF fund allocation quotas for each sector are shown in [Table 4](#). The ratios are high for Group B, the state-owned sector, and the construction and industrial sectors.

2. Survey Results

From 2004 through 2005, we conducted a field survey on DAF and borrower companies to ascertain the mechanism of DAF credit granting, criteria used for lending decisions, credit risk management system, and problems in loan collection and borrower bankruptcy procedures. As direct interviews with the DAF staff⁴⁾ proved inadequate for understanding the inner workings of DAF, we attempted to examine the situation by means of a questionnaire survey with a total of 279 its borrower enterprises from 2000-2003 under the cooperation with National Center for Social and Human Sciences, Institute of Economics in Vietnam. Out of 279 valid data was obtained from 263 companies, among which 119 state enterprises, 144 non-state; collectives 30, private 92, joint ventures or joint stock companies 22⁵⁾. Sampling enterprises covered mostly all industries and areas (north, central, and south)⁶⁾. While sample companies were selected by the above center, there were various limitations and the selection was not based on precise criteria. As such, it should be noted that there is some unavoidable bias in the results.

(1) Lending Decision Criteria and Disparities in the Granting of Credit

The DAF interview survey by the Japan Economic Research Institute found that the credit screening consisted of (a) project feasibility studies and (b) examinations of individual borrower companies. The examination items in (a) include markets (market size, demand, etc.), technology levels, environmental impact, basic infrastructure at points of investment, funding plans and investment efficiency, while those in (b) include the legal status of borrowing companies, financial conditions, the industry situation, managerial capabilities and collateral⁷⁾.

Based on the basic data collected from the surveyed companies (Table 5), we examined the characteristics of companies that received DAF funding by type of ownership in an attempt to estimate the criteria for lending decisions by looking at how the examination items are applied to reach decisions.

Data collected shows that successful state-owned enterprises had long histories, had high average numbers for total fixed assets, payrolls and gross sales, while non-state-owned companies tended to have high rates of profit and productivity. The combination of these data and information indicates that state-owned enterprises, when applying for loans, are positively evaluated for the length of years since their establishment, meaning the duration of their business relationships with (state-run) financial institutions, and their size, while for non-state-owned companies, high operational performances is a favorable condition for receiving credit, in line with the interview surveys cited earlier.

With regard to collateral, the ratio of companies saying that they absolutely must meet collateral requirements at the time of credit application is high among non-state-owned companies⁸⁾, particularly so, at 64.1%, for private companies, against only 26.9% among state-owned enterprises. If we include those who replied that they were required to put up collateral, though not all the time, the ratio would exceed 80% for private-sector companies compared with less than 30% for state-owned enterprises. Depending on the length of the business relationship and the size of the business, state-owned enterprises appear to be highly rated in terms of their capacity to offer sufficient collateral to cover their borrowings. However, it is difficult for private-sector companies to obtain legal papers that can be used as collateral, such as certificates of land-use rights and of property ownership rights, and they are required to go through complex bureaucratic procedures or to “pay fees equivalent to about 25% of the value of the property.”⁹⁾ When an applicant for credit does not own assets with value, the objects to be financed by the credit for which the application is filed are supposed to be treated as the collateral. However, there is an unrealistic legal provision that such objects cannot be recognized as collateral until the extension of the credit is decided.

As seen above, state-owned enterprises are evaluated on the basis of their size, and on the value of their collateral. At the same time the web of personal connections built up during their histories and their information superiority resulting from it work in their favor. This system is not very different from the less costly conventional method of screening, with the backing of state guarantees. On the other hand, more objective criteria, including business performance, productivity and collateral, are used to consider the advisability of granting credit to non-state-owned companies. Thus, DAF maintains stringent lending criteria and imposes tough borrower qualifications, which few non-state-owned companies are capable of satisfying. The extremely cumbersome loan application procedures, coupled with hard-to-meet qualifications, are making it essentially impossible for non-state-owned companies to gain access to DAF's credit, or

discouraging them from even filing applications for loans altogether.

As table 4 already shows, our survey summary in [table 6](#) also tells that state-owned enterprises borrowed far larger amounts of funds on preferential terms, in comparison to non-state-owned companies, from DAF and state-run commercial banks. While DAF, unlike state-run banks, does not introduce interest rate differentials, there is discrimination against non-state-owned companies in medium- and long-term lending, with discernable differences in the duration of lending.

(2) Ability to Deal with Credit Risks

An interview survey of official of DAF indicates that borrowing companies, whether state-owned or non-state-owned, tend to submit inaccurate investment reports, possess only low levels of management and marketing capability, lack the willingness to engage in proper economic activities, frequency change management strategies and policies, and lack long-term development strategies. Some companies with deteriorating financial conditions resort to near-sighted and impulsive actions in total disregard of their obligations to creditors, such as borrowing from other banks or disposing collateral without the consent of existing creditors. It seems unlikely that DAF's functions and abilities are fully able to cope with the risks brought by these potential borrowers with a total lack of entrepreneurship. From the survey outcome, it appears that DAF does not rate borrowing companies. As for access to reliable information on borrowing companies, DAF does not collect information, as foreign-affiliated banks do, from a variety of sources and means, such as information on related industries, organizations and customers provided by the mass media, and networking with the Credit Information Center (CIC) and business guarantee registration and notarization services.

The survey result shows that as a means of monitoring borrowers' financial condition and repayment regulation after implementing the contract, the information collection and periodical visit have been made for most of the sample enterprises by DAF. When the violation of contract is disclosed, loan contract do have provisions for its cancellation before maturity, or progressive payment. At present, however, this system is not functioning effectively. Given the need for improvement, a risk prevention and management center was established within the Fund in September 2004.

Many of loan officers at DAF are university graduates who majored in economics, finance, corporate finance and accounting. As they have few skill development and training opportunities other than on-the-job training, it is said the level of expertise of the staff leaves much to be desired. Each loan officer is assigned to handle only 10 or so loan cases. Since each officer is supposed to look after the whole spectrum of loan processing for the cases under his or her jurisdiction, from the acceptance of the loan application to the conclusion of the loan contract, he or she should be able to provide precise responses to loan applicants and actual borrowers. However, DAF has no system in place under which loan officers face penalties or otherwise have to take responsibility in the event of a default by a debtor or other

breach of a loan contract.

(3) Guarantee of the Powers of Creditors

For creditors, the recovery of claims is an important work process. However, recovering claims requires complicated procedures and a long period of time, and since the recovery process lacks legal force, the rights of creditors are not guaranteed.

In order to find out who has the authority to dispose of the assets of failed borrowers, we asked borrowing companies the following questions. The questions were intended to specify which organizations have the power to decide, supervise and seek information regarding surveyed companies' financial conditions, investment plans, ex post facto actions such as asset disposal, and assistance necessary for the reconstruction of borrower companies: administrative entities such as the Prime Minister's Office, Ministry of Finance, Ministry of Investment Planning, other ministries with jurisdiction over companies, local administrative entities, public corporations to which borrowing companies belong to, political party organizations, financial institutions with business with the DAF, stakeholders such as company heads, management executives and shareholders, and other related organizations. Replies to the questions are summarized in [Table 7-1,2](#) in which DAF has a power on both SOEs and Non-SOEs borrowers to supervise and seek information regarding surveyed companies' financial conditions, investment plans, and asset disposal, as well as to decide concerning the reconstruction. The fact that no authority to decide the asset disposal of failed borrowers is given to DAF revealed that creditors are not in a position to be sure of the recovery of their claims, and must contend with the risk of losses. In the case of state-owned enterprises, there were many instances of political settlements under which the state, rather than DAF, ultimately shouldered the bad debts, indicating that the system of the state taking on losses is ultimately not much different from that that existed at the time of the planned economy. In contrast to soured loans to state-owned enterprises, DAF cannot evade the responsibility for covering nonperforming loans to non-state-owned companies. Thus, DAF has a risk aversion motivation for selecting less risky borrowers through a costly selection and screening processes.

DAF, which was created with the purpose of developing a robust financial system for Vietnam's transition to a market-oriented economy, has yet to develop sufficient institutionalized mechanisms or capabilities for effectively dealing with asymmetric information. A legal environment that protects creditor rights is also not in place. Therefore, the advisability of extending credit to non-state-owned companies, unlike state-owned enterprises that are backed by state indemnification, is decided on the basis of standards that objectively evaluate borrowing companies' debt service capacity, by looking at factors such as business performance, productivity and collateral, as a way to compensate for the lack of state indemnification. Thus, the lending terms of DAF are more stringent and requirements are tougher, and conversely, the ability of non-state-owned companies to respond to these terms is low. DAF also shields itself

from risks through extremely cumbersome credit application procedures that make it essentially impossible for non-state-owned companies to apply for credit, or discourage them from considering the use of funds provided by DAF.

III. Informal Means of Fund-Raising by Non-State-Owned Companies

1. Informal Borrowings by Individuals

Borrowing by individuals from the informal sector has been a very popular means of fundraising in Vietnamese society, and widely utilized even after the Doi Moi reform. The sources of this funding differ, with state-owned enterprises mainly raising funds from insiders such as in-house workers or managers and non-state-owned companies getting funds chiefly from those around them or outsiders, such as relatives of corporate managers and informal individual moneylenders. The duration of borrowing depends.

Since it is a convenient way of raising funds without collateral or management intervention¹⁰, it is frequently used as a means to absorb cash flow fluctuations when borrowers face funding problems due to such factors as rises in the prices of input goods, difficulty in collecting accounts receivable, declines in the selling prices of products, and falls in total sales. As many as 45.8% of non-state-owned companies say they make use of this conduit of funding all the time, or sometimes, particularly in emergencies, with dependence on this method being far higher than the 27.7% for state-owned enterprises. When they need to raise funds, state-owned enterprises, which are bolstered by debt guarantees by the state, first go to banks or policy finance institutions to obtain the necessary funds, and then, if necessary, seek to delay payments of accounts payable. However, the first choice for non-state-owned companies is personal borrowing from the informal sector.

2. Business-to-Business Credit

Business-to-business credit is a unique practice of settlements that has long existed in Vietnamese society. Since under the previous regime, it was institutionally difficult for companies to internally retain profits, they raised funds in the form of borrowings from outside or delays in payments of accounts payable. In particular, when they needed more funds than those available under the government-determined plans, the only methods open to them were informal borrowing, as described earlier, or non-payments of accounts payable, since borrowing from banks was not possible.

McMillan and Woodruff (1999)&Goto (2005) described the credit settlement method called "Gai Dau," a combination of cash settlement and settlement on credit, which is employed by small-scale enterprises in the apparel distribution sector in the south of the country. This method involves the purchase of goods on credit with a partial cash payment as down payment. It is said to be a close-knit and very common form of transaction that can be conducted repeatedly.

Our own survey also found that account settlements on credit were conducted

between surveyed companies. [Table 8](#), which shows the average ratios of accounts receivable and payable (to total sales) at the end of a business year, demonstrates that state-owned enterprises have higher ratios of accounts payable than non-state-owned companies. Since delayed settlements of accounts payable are presumably allowed on the basis of long-term business relationships, state-owned enterprises with a longer history of operations appear more likely to stick with the traditional business practice. It is also possible that state-owned enterprises are in relatively poor financial condition¹¹). However, the ratio of accounts payable has been declining year by year at state-owned enterprises, while it has tended to rise for non-state-owned companies, suggesting that non-state-owned companies have a greater incentive to increase their dependence on accounts payable, as they have only limited fund-raising channels and their access to external financing such as bank loans and policy finance remains difficult.

IV. Conclusion

With the recognition that the underlying problem facing transitional economies is the inadequate institutionalization of means for correcting market failures, in this paper we have explored the potential of policy finance for playing an adequate role in correcting this inadequacy in Vietnam, as in other Asian countries, using DAF as a case example.

Though there were various statistical limitations, we selected a total of 279 companies that had successfully borrowed funds from DAF, with the aim to examine and analyze, from the perspective of borrowers, the DAF's loan portfolio, lending decision criteria, the fund's credit risk management system, and problems discovered in loan collection and bankruptcy procedures.

DAF was designed to tighten the lax budgetary constraints in the transitional economy through a shift from fiscal investment to policy finance. In fact, the results of our survey suggest that it has closely examined the creditworthiness of potential borrowers and is beginning to show a risk-aversion pattern of behavior. However, because of the inadequate establishment and institutionalization of credit screening and risk management functions along with the inadequate protection of credit rights in loan collection, the current situation still makes it unavoidable that credit will be granted on the back of state guarantees. Consequently, in allocating funds, the DAF cannot shake itself free from the bias toward state-owned companies. At the same time, while not explicitly showing the intention to restrict access to credit for non-state-owned companies without state guarantees, it is taking steps to protect itself from risks by more strictly checking the repayment ability of potential borrowers, demanding collateral more strongly, and setting out more complex procedures. These tough requirements are preventing non-state-owned companies from seeking funding from the DAF. Under the credit rationing, non-state-owned companies are trying to cope with

fund shortages by increasing their dependence on financing with personal borrowings from the informal sector or delayed payments using accounts payable. These fund-procurement methods, rooted in Vietnam's unique business practices, indicate that the credit system for most non-state-owned companies is still at a primitive stage.

The qualified conclusion from our analysis under restrictive conditions is that policy finance in Vietnam has yet to perform the role intended for it, of correcting market failures. The following steps seem necessary for improving and expanding that role:

- Introduction of an institutional know-how and operational skills from industrial nations. Proficiency with them should be gained through transactions with other countries, with their support.
- Reform of state-owned enterprises. In particular, recognition should be given to the fact that a policy giving priority to state-owned enterprises would curtail incentives for institutionalization.
- Establishment of a legal environment to better protect creditor rights.
- Review of investment areas that run counter to economic rationality. The segregation of state-owned commercial banks and non-state-owned financial institutions should be pursued.
- Greater cooperation between state-owned commercial banks and non-state-owned financial institutions in such areas as information sharing and syndicated loans.

Notes

- 1) From the interview survey in DAF.
- 2) From the interview survey in VBARD.
- 3) Since March 2003, the DAF has supposedly been placed in full charge of all credit examinations and lending decisions. However, the IMF Country Report on Vietnam for FY2006 states that while large-scale projects in Group A remain subject to screening by the DAF head office (or the Ho Chi Minh City regional office for the southern part of the country) and approval by the Prime Minister, those in Group B and Group C are screened by DAF branches and approved by relevant government ministries and agencies or people's committees (p.15).
- 4) In January 2005 we had an interview survey with the DAF staff: 50 years old, State Economic University graduate, adopted as a manager of the public and private investment credit section at the year of DAF establishment, having 19 staff.
- 5) The share holding companies were previously owned by state, and though it was not cleared, their most head share holders could be easily imagined a state.
- 6) The structures of industry and location of sample enterprises are as follows.

The industrial structure of sample enterprises

	State	Non-state
Agriculture & Forestry	4	2
Fishing & Aquaculture	2	29
Food processing & Beverages	20	22
Rubber, Footwear & Sports goods	3	2
Furniture	2	13
Paper & Printing	5	19

Textile & Garment	26	13
Ceramics & Glass	1	5
Construction & Its materials	15	13
Shipping	9	0
Chemical & Medicine	2	2
Mechanical	12	10
Metals	4	2
Mining	7	3
Transportation & Its equipment	4	4
Trading	3	5
Total	119	144

Locations of sample enterprises

		North	Central	South	Total
SOE		70	20	29	119
Non-SOE	(Collectives)	12	17	1	30
	(Private)	63	6	23	92
	(Share holding companies)	11	7	4	22

- 7) As an adequate collateral real estate, personal assets, and assets to be financed with the potential loans, generally meaning dibs on land are accepted.
- 8) It might be thought that DAF treats share holding companies in accordance with

state enterprise because of its ex ownership.

- 9) Horiuchi, A. & Watanabe, S., "Financial System and Financial Policies in Vietnam", Study on Economics Development Policy in the Transition Toward a Market-oriented Economy in Viet Nam(Phase 3) Final Report, Vol 3, Ministry of Planning and Investment in Vietnam & Japan International Cooperation Agency, 2001,3.p.7. Nguyen Thi Hong," Flow of Funds Between the Banking System and Enterprises in Vietnam,1995-1999," Study on Economics Development Policy in the Transition Toward a Market-oriented Economy in Viet Nam(Phase 3) Final Report, Vol 3, Ministry of Planning and Investment in Vietnam & Japan International Cooperation Agency, 2001,3.
- 10) Based on our survey data, 27.7% of state-owned enterprises and 39.6% of non-state-owned companies are making interest payments on these borrowings.
- 11) As a survey result 36.1% of state-owned enterprises feel they are hard pressed, compared to 23.6% of non-state-owned companies.

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