

# BENEFITS OF AND PRECONDITIONS FOR PRIVATIZATION OF EVN AFFILIATES

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Since the 6<sup>th</sup> five-year plan (1986-1990) the VCP and Government have raised the question of reforming the economic management mechanism in order to get the country free from poverty and backwardness. From then on, many administrative and economic measures have been taken to turn the centrally-planned economy into a "socialism-oriented market economy," and of these measures, privatization of state-owned companies is considered as an important and urgent one that aims at restructuring the public sector, and improving the business performance of state-owned companies in order to help them play well the leading role in the economy.

The privatization program, at its pilot stage, included five companies as suggested by Decision 202/CT made by the Chairman of the Council of Ministers on June 8, 1992. In 1996, this program was carried out nationwide in some light industries as proposed by Decree 28/CP issued on May 7, 1996, and 25 state-owned companies were privatized according to this Decree. The privatization process up to then was considered as too slow because it fell short of expectations of authorities and the public as well.

To accelerate the program, many obstacles in terms of procedures have been removed by replacing the Decree 28/CP with Decree 44/1998/NĐ-CP. From the issue of this decree to Dec.31, 1999, 340 state-owned companies were privatized. To keep on reforming administrative procedures, the Government issued Decree 64/2002/NĐ-CP on Sep. 19, 2002 as replacement for the Decree

44/1998/NĐ-CP and now it is replaced by Decree 187 providing more measures to accelerate the privatization program. At present, the program includes not only light industries but also some key ones, such as power industry.

Since 1998 as required by Directive 20/1998/CT-TTg, the Corporation of Electricity of Vietnam (EVN) has reorganized its affiliates. According to a plan approved by the Government, certain EVN affiliates will be privatized in the years 2004-2010.

To ensure successful privatization of these affiliates, it's necessary to evaluate exactly difficulties in order to prepare preconditions for the program and ensure good results.

Firstly, the privatization is an important measure to restructure the EVN, encourage affiliates to improve their performance and attract more capital to the privatized ones. Moreover, it also supplies more commodities to the finance and stock markets and helps them integrate into regional ones.

Secondly, the privatization allows more business autonomy for privatized affiliates. Each affiliate usually has many branches and subsidiaries and some of

them may earn VND1,500 billion a year. However, they have to get permission from the superior before carrying out any task, which makes their productivity and performance very poor.

Thirdly, the privatization of affiliates brings about many benefits:

- Allowing the EVN to accumulate capital from proceeds of shares, which are estimated at VND6,239 billion (15 affiliates of the HCMC Electricity Company alone can bring about VND1,024 billion), in order to invest in new development projects.

- Allowing privatized concerns to enjoy reduction in corporate income tax, land use fee and land lease according to the Domestic Investment Encouragement Law when they are privatized according to the Decree 64/TTg and list their shares according to Decision 39/2000 by the PM.

- Improving the EVN financial statement when the proportion of assets to liability is better:

- Allowing privatized affiliates to enjoy legal entities that help them improve their business performance and overcome shortcomings of power suppliers.

To ensure good results for the privatization of EVN affiliates, the following preconditions based on existing organization of the EVN must be developed:

- + Business autonomy for EVN affiliates.

- + Responsibility for business performance by individual affiliates after the privatization.

- + Reform in relations between the EVN and its affiliates.

- + A plan to improve the productivity and handle redundant workers.

- + A better mechanism for managing privatized companies. ■

