

The Resolution 4 of the VCP Central Committee made recently has set forth a strategy to develop as more internal resources as possible. Of six major policies and measures proposed, there is a measure to "accelerate the economic reform, develop and control effectively all kinds of companies". The Conference of the VCP Central Committee also remarked that at present, many well-equipped state companies in key industries obtained poor performance so they had to be rearranged and their management had to be altered, and one of measures to do it was to equitize them.

As we know, the equitization of state companies hasn't just been considered as a matter of great urgency recently. This problem has been brought out in the 8<sup>th</sup> VCP National Congress, and the Government issued the Decree 28/CP on May 7, 1996 to provide main guidelines on this task.

According to the plan for the years 1997-2000, of 6,000 state companies all over the country, some 150 ones will be equitized annually. The Government also ordered all ministries to decide how many companies under their control would be equitized every year, that is, the equitization will stop to be left to directors' own choosing.

However, two years after adopting the policy, this program was carried out too slowly. In 1996-97, some 120 state companies, 25 of them were in HCMC, registered for equitization. After some adjustments, only 18 companies were in this list, and up to the end of 1997, only four companies finished their equitization (Saigon Hotel, Cosmetics Research and Manufacturing Center, Bach Tuyet Cotton Factory and Bach Tuyet Paint Factory).

Causes of this slowness are:

-Ownership and assets of the company aren't assessed clearly.

-Many companies didn't know how to work out business strategies.

-Many workers and directors didn't realize the importance of the equitization program.

-Procedures for equitizing state companies are complicated. Officials responsible for this task didn't have enough knowledge of equitization.

-Policies on workers' interests after equitization aren't satisfactory.

To accelerate this program, in my opinion, it's necessary to form a specialized body that can supply better equitization and investment

gram

As we know, most directors of state companies lack experience of dealing with equitization process, therefore they meet with difficulties in making their equitization plans or completing equitization procedures with the result that it took a long time for them to complete their equitization plans. The IEAC will help them to solve these problems and speed up the equitization program in HCMC.

## 2. Increasing the budget income

In the equitization process, the most difficult and complicated task

is company's asset valuation, especially their competitive advantages.

The current method of valuing pays almost no attention to the market value of company's assets. The IEAC will help to estimate exactly the market value of the assets, both tangible and intangible ones.

This means that the company's shares will be of higher prices and more money will be put in the budget

when the company is equitized. Of course, the assets must be valued reasonably with a view to making shares saleable.

## 3. Helping the public make investments

One of the aims of the equitization program is to encourage small investors, but there is no organization that brings potential investors to the equitization program. Potential investors don't know how to make the best use of their small funds and what shares to buy. The IEAC will provide them with professional services, thereby turning dead money held by the public into useful investments.

Most small investors are worried about the liquidity of commodities

# THE FORMATION OF AN INVESTMENT AND EQUITIZATION SERVICE COMPANY A MEASURE TO ACCELERATE THE EQUITIZATION

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advisory services. As we know, there is an advisory center organized by the HCMC Economics Institute, however this center supplies mainly advice on equitization plan, not on investment. Moreover in the near future when the amount of equitized companies increases, this center will fail to meet the market demand. The Ministry of Finance has also made plan to form an Equitized Investment Fund. In HCMC, we suggest forming an Investment and Equitization Advisory Company (IEAC) with the aim of helping with speeding up the equitization program.

## 1. OBJECTIVES

### 1. Speeding up the equitization pro-



they bought. At present, buyers of shares and stocks meet with difficulties in resell them. If the IEAC is formed, it will help them sell these commodities, thereby making them more sure about their investment.

Many individuals with dead capital didn't know where to invest in when the bank interest is low and they didn't know anything about equitized companies. The IEAC will act as their investment advisors, and moreover, offer them more diversification and liquidity.

#### 4. Expanding company's operation

Equitization means not only selling a certain part of company's value, but also mobilizing more capital need for expanding company's operation or modernizing equipment. This is a difficult work now because there is no organization acting as a bridge between potential investors and companies. Most state companies equitized recently, in fact, could only sell a certain part of companies value. The IEAC will help state companies not only sell their shares at reasonable prices, but also get access to potential investors.

#### 5. Cooperating with foreign financial institutions

At present, many foreign finance companies are interested in the equitization. They want to take part in this process and invest in companies that will be equitized. The IEAC will help to channel their capital to local companies. When foreign direct investment shows sign of stagnation, opening a new channel of indirect investment is a matter of great importance. Moreover, the IEAC can help sell shares to foreign buyers according to policies adopted by the government.

### II. FORM AND CAPITAL OF THE IEAC

The IEAC will be formed according to the Companies Act. Its founders include certain mutual funds, some commercial banks, insurance companies, businesses and potential investors.

To carry out its main jobs (making financial investment and supplying investment advisory services), the IEAC needs a starting capital of VNĐ100 billion. In operation, the IEAC can issue shares to increase its working capital if need be. After a span of time when the securities act is promulgated, the IEAC will change into a joint stock company trading in securities.

### III. OPERATIONS

To meet its objectives, the IEAC will supply the following services:

#### 1. Equitization service

The IEAC will make the equitization plan for its clients as a package service that includes:

- Communicating with equitization authorities.

- Drafting articles of incorporation.

- Preparing financial statements for auditing.

- Making a preliminary valuation of company's assets before submitting it to the State Company Valuation Committee.

- Making business strategy.

- Undertaking other tasks relating to the equitization process.

At present, the equitization process includes dozens of steps through many governmental bodies and complicated procedures. Most state companies in the equitization process usually meet difficulties in valuing their assets and making business



strategy after equitization. Especially, the business strategy must be made feasible enough to persuade potential shareholders. Realities showed that time-consuming procedures had made many state companies get discouraged.

#### 2. Share Issuing service

The IEAC will make all preparations to market shares at reasonable prices. These preparations include:

- Preparing the prospectus.

- Informing potential investors of the share issue.

- Selling share under auction.

At present, shares issued by equitized companies are highly saleable because most of them are famous and profit-making ones and

their shares are bought up by the workers and traditional customers. In the near future when the amount of companies to be equitized increases, this service offered by the IEAC will be much more useful.

#### 3. Investing in securities

This will be the main operation of the company. The company will invest funds of small investors in a wide range of securities in order to reduce risk. Dividend paid to shareholders will be the average profit from all shares bought from equitized companies. This operation will help the company take part in the future stock exchange in Vietnam.

#### 4. Money-broker's service

If a potential investor needs short-term loans to put in securities, the company can arrange short-term loans by commercial banks to this investor. This operation can help equitized companies expand their business.

#### 5. Management advisory service for equitized companies

After equitization, many companies under new mechanism will meet with difficulty in managing their business. The IEAC can offer advice on finance and production management or advise them on methods of mobilizing more capital. Because the business strategy of the equitized company could be worked out by the IEAC in cooperation with the company client during the equitization process, the IEAC can easily offer useful advice.

The close relation between the IEAC and the company will be a precondition for helping the company get listed in the coming stock exchange.

#### 6. Services relating to shareholders

After equitization, the IEAC can help the company with many things relating to shareholders, such as holding annual shareholder meetings, making lists of shareholders, dividing profits among shareholders, etc. The IEAC can undertake these task, saving the company from unnecessary expenditures.

In short, the IEAC can be of great service to companies in the equitization process, thereby speeding up the equitization program. Its operations also help to creating preconditions for a future stock exchange. When the amount of state companies in the waiting-list for equitization increases, the presence of the IEAC in HCMC will be a matter of urgency.