

Selling State-Owned Companies

a Measure to Reform the Public Sector

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1. Sale of state-owned companies in recent years

From the issue of Decree 103/NĐ-CP to the end of April 2005, only 122 state-owned companies were sold.

Table 1: Sale of state-owned companies in 1999-2005

Year	1999-2001	2002	2003	2004	April 2005	Total
Sold state companies	48	17	24	27	6	122

Source: Board of Reform and Development of State Companies

The most remarkable result of this measure in the past few years is to avoid dissolving some state-owned companies that suffered losses and bad debts for years, thereby relieving the their burden on the State. Others targets were not achieved as expected. For example, the number of companies sold is small as compared with the number needs to be sold; this effort fails to attract private investment and help restructuring and beefing up the public sector.

2. Problems with the sale of state companies

Firstly, the biggest problem with the program to sell state-owned companies is the fact that it includes only small and loss-making ones, which fail to attract the public attention. According to Decrees 103 and 49/2002/NĐ-CP, companies to be sold are independent affiliates of state-owned corporations that are worth under VND5 billion and suffering losses for years and not necessarily under the state control and able to be privatized. In fact, many companies that are worth more than VND5 billion but suffering losses and not able to be privatized or dissolved should be sold.

Secondly, many companies for sale are in debt. In recent years, handling companies' debts is a time-consuming process. Payables are even harder to solve. In some companies, the book value is high but the real value of assets is very small because their market value is low or the payable is bigger than the receivable

plus the assets value. In addition, regulations on debt handling fail to facilitate the processing of handling debts when selling the company.

The third problem is the limit on classes of buyers. Although most

According to the Decree 103, the selling price of the company is based on: the real value of the company accepted by both parties; and some discount for buyers who give a pledge to maintain the business to ensure jobs for laborers and accept other conditions agreed upon by both parties.

The value of the company estimated according to the Decree will not reflect its real value because many factors of the real value are not taken into account, such as the land use right and intangible assets (good-will, brand name, skilled labor force, list of customers, etc. One of examples is the case of Sport Equipment Company under the HCMC Service of Sports and Gymnastics. The audit report made on June 30, 2004 shows that the company still holds a capital of VND352,642,363 while the book value of the company, not including payables, is estimated at VND455,540,974. This means that it has a negative capital (-VND102,898,611). This company, thus, has nothing to transfer, that is, nothing to sell. Relevant authorities, however, keep completing procedures for selling it because a groups

companies for sale hardly attract potential investors because of their great losses and obsolete machines, Decree 103 still set limits on classes of buyers. It only accepts workers of the company, other companies (not including foreign-invested one) and nationals with full ability to bear responsibility for their civil acts (not including those who are prevented by law from establishing and running businesses.) It's this regulation that makes the program fail to attract foreign investors.

Fourthly, the value of the company for sale isn't evaluated exactly.



Photo by Huynh Tho

of it employees and creditors want to buy it. This unreasonable fact means that it's intangible assets of the company that make potential investors decide to buy it.

3. A breakthrough in the sale of state-owned companies?

Facing difficulties in selling state-owned companies, the Government, on June 22, 2005, issued Decree 80/2005/NĐ-CP on granting, selling and leasing of state-owned companies as a replacement for Decree 103/1999/NĐ-CP. We can say that the Decree could solve many obstacles to the process of selling state companies in recent years. The Decree introduces the following new regulations.

(1) As for state-owned companies to be sold, the Decree allows the sale of companies and their affiliates, regardless of their size, that the State need not hold under control and couldn't be privatized. This means that more companies of various kinds will be offered for sale, which will be more attractive in the eyes of investors.

(2) As for potential buyers, the Decree allows foreign-invested companies, foreign investors, and foreign financial and economic organizations, whether operating in Vietnam or not, to buy state-owned companies for sale. This regulation could attract more foreign investment. For example, Temasek Holdings from Singapore is fulfilling procedures for acquiring 30% of equity of Pacific Airlines at US\$50 million.

(3) As for the evaluation of companies for sale, the Decree requires that the land use right granted to the companies for sale must be taken into account according to the following principles:

- If the buyer wants to lease the land, the value of the land use right will not be included in the company's assets.

- If the buyer wants the land to be granted, the value of the land use right will be included. The value of the land use right will be decided by the provincial government based on the market price accepted and publicized on the first of January every year by the central government.

(4) Purchase terms: According to the Decree, the company will be put up for bidding (if the buyer wants to buy both company and its labor force) or auction (if only assets are bought). Companies whose book value is under VND30 billion need not require official evaluation by pricing authorities under the Ministry of Finance. Information about the sale of each state company must be carried in mass media for 45 days before the sale takes place.

4. Some suggestions

- It's necessary to affirm that the sale of state companies is an important policy of the economic reform. It should be considered as a consistent policy based on researches on socio-economic and legal matters, instead of a shotgun or temporary solution.

- At present, the sale of the company is a bottom-up process that requires approval by both the manage-

ment and labor force. This regulation aims at ensuring rights of laborers to determine their future, but this process is not reasonable because:

- Laborers could take part in decision-making process but they are not the owner of the company. If the National Assembly, as representative of the people, including all laborers, decides to sell loss-making companies, the government, as the owner of the companies as approved by the people, should carry out this decision instead of assigning this task to the labor force of the company.

- In most loss-making companies, the labor force is not trained properly and their skills are very poor. They face unemployment when the company is sold, that is why they will try their best to prevent this process. Realities show that only a handful of managers, instead of the whole labor force, could hinder or destroy this process.

- The labor force should be provided with information and knowledge about this policy (its meaning and necessity for example) and with chances to get new training so they can find job after the company is sold.

- Experience of the sale of state companies must be summarized and disseminated within the public sector with a view to facilitating this process in all provinces in the future.

- Besides selling loss-making companies, other solutions could be applied with a view to ensuring good results for the reform in the public sector. ■



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