

# WHY DOES THE EQUITIZATION PROGRAM SLOW DOWN?

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In the mid-1980s, facing poor performance of state-run companies, the Government decided to restructure the public sector and took equitization as an important measure to change the ownership of companies, attract investment from private sector, enhance worker participation (by turning them into company's shareholders) and improve business performance.

After a pilot scheme was carried out carefully, the Government decided to launch an equitization program at national level, by issuing Decree 28/CP dated May 7, 1996 and Decree 44/CP dated June 29, 1998 on transformation of state-run companies to joint-stock companies. The introduction of Decree 44/CP has accelerated the equitization program at both national and provincial levels. Quantitatively, the number of companies equitized in 1999 was 287, 270 ones higher than the amount of companies equitized in previous years. This was really an encouraging number.

Up to Jan. 13, 2000, 370 state-owned companies have been equitized. In addition, falls in interest rates on savings account in 1999 also pushed savers into investing in shares or stocks issued by equitized companies, creating a new atmos-

phere over the equitization program, especially in the first months of 2000.

Up to May 2000, however, the number of equitized companies only reached 400 while the target set for the year 2000 was 1,200. It became apparent that the equitization program was slowing down.

What is the cause of this situation? Although Decree 44/CP provides a legal basis for the program, realities still pose a lot of problems that make the equitization process time-consuming.

## 1. Difficulties in evaluating company assets

Although Decree 44/CP made many changes to the process of evaluating company assets with a view to making it simpler, its implementation faces the following difficulties.

a. Debt settlement: Many state companies included in this program have a long history with many directors and chief accountants and experience many mergers and splits with the result that a lot of accounting documents were lost. Of current debts owed by the company, no document or creditor could be found and this situation hinders the equitization process because it takes a lot of

time and energy to settle these debts.

b. Land use right and ownership: Many state companies have bought land to build their factories or offices but the Land Law requires that they should rent the land use right from the State when starting the equitization process. They are now in a dilemma in which they will either discourage potential share buyers if they add the amount of money spent on land to the value of company assets or will be in disagreement with the Ministry of Finance if they do otherwise, because the Ministry wants to preserve state investment. A good example is the case of YTECO (Medical Equipment Export and Import Company) which spent VND1.6 billion on a land lot and added this sum to the value of its assets in 1993 and had to rent the right to use that land lot in 1997 when it wanted to enter the equitization program. Up to now, this problem hasn't been solved and this company couldn't go public.

Some companies have had their factories built on land rented from other companies, and they couldn't evaluate their assets when carrying out their equitization program because land owning companies didn't want to sell or rent the land any longer.



In certain state companies, ownership of some capital assets couldn't be determined and this job will take a lot of time. All of these troubles make the evaluation of company assets more complicated and unnecessarily time-consuming.

## **2. Changes in town development plan**

Some companies in their equitization program are forced to move to suburbs. This change in the town development plan makes it difficult for the company to evaluate its assets and prepare long-term business strategy after equitization (HCMC-based Liên Thành Fish Sauce Company is a case in point). That is why

trol of equitized companies (their former subsidiaries). That is why the management of corporation are reluctant to choose and make lists of their subsidiaries to be included in the equitization program as required by the Commission for Rearrangement of State Companies.

As for companies run by local governments, their formation is usually due to the need to increase income for local budgets and that is why they enjoyed preferential treatment from local governments such as soft loans and convenient building sites. When they are equitized, local governments want to take back the convenient sites, and as a result, their equitization program couldn't be carried out as planned.

tization process is accelerated there will be problems raised by the public. Some of them are as follows:

## **5. Inappropriate treatment to laborers**

When the value of shares sold to laborers at a preferential price is limited to 20% of the capital held by the State, laborers of different companies will not be treated equally. In addition, not all laborers could afford the amount of shares offered to them at preferential price (ten shares for one year's seniority). As for preferential treatment to poor laborers, the Decree 44/CP provides no criterion for defining a poor laborer, therefore it's difficult to ensure equal treat-



these companies couldn't sell out their shares because potential buyers don't trust in company's future development.

## **3. Hesitation about equitization**

Many managers of companies, or directors of corporations with their subsidiaries, included in the equitization program don't want to have their companies equitized. This is also an important reason for slowness of the program.

As for corporations, official regulations require that proceeds from the sales of shares held by the State, and dividends of state-owned shares, will be put in the Fund for Rearrangement of State Companies, so directors of corporations know that their working capital will be reduced after the equitization. In addition, equitized companies will operate according to the Companies Law while corporations are still regulated by the State Companies Law. This means that corporation will lose con-

trol of equitized companies (their former subsidiaries). That is why the management of corporation are reluctant to choose and make lists of their subsidiaries to be included in the equitization program as required by the Commission for Rearrangement of State Companies.

## **4. Shortage of fund for bonus and benefits**

In some state companies in their equitization process, balance of their funds for benefits and bonus is negative and there is a controversy about whether this debt is added to the company assets or not. Causes of this situation are numerous but everybody is waiting for decisions from the Government and as a result the equitization process slows down.

What we present above are causes of slowness of the equitization program. Equitization authorities are studying them and we hope that they will be solved soon. It's worth noting that, however, when the equi-

ment to all laborers.

## **6. Lack of mutual funds**

Mutual funds are professional investing organizations that could help small investors avoid risk because mutual funds tend to diversify their investment. In addition, mutual funds could allow investors withdraw their money when necessary, thereby making small investors get accustomed to financial investment. This factor can help with accelerating the equitization program and developing the stock market.

As for equitized companies, mutual funds can provide them with advice on equitization, help them issue shares and buy their shares in large quantity, thereby allowing companies to secure working capital soon.

What mentioned above are causes of slowness of the equitization. We hope that the Government will soon find out measures to solve them and carry out this program successfully. ■