



EQUITIZATION OF STATE - RUN COMPANIES: REALITY AND PROSPECT

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On May 7, 1996, the Government issued the Decree 28/CP on the equitization of certain state - run companies. This Decree, thus, has put an end to the pilot scheme and started the equitization on a larger scale.

Of 100 state - run companies to be equitized in 1997 according to the plan, only 9 have been equitized and come into operation so far. These equitized companies have achieved good performance and won the trust of shareholders.

However, these results are very modest regarding the planned targets and possibility of achieving them. That is why the equitization program is considered as an urgent and long - range task which could provide a basic measure to restructure the economy or reorganize the public sector to be precise.

1. Business performance of state - run companies

First of all, we must see that there is an unsolved problem in state - run companies. It is the conflict between the right to run the company held by businesspersons and the right to inspect the business performance held by government bodies. The relation between those bodies isn't well - defined with the result that many state - run companies have missed a lot of opportunities and furthermore, their assets have been used wastefully. This situation has existed for a long time and it has enabled authorized persons to benefit from badly - managed subsidies and grant - in - aid given by the Government: state - run companies' directors could easily connive with suppliers to mark up prices of raw materials or sell companies' products at cut prices to speculators. These manœuvrings are common knowledge but the mechanism for controlling state - run companies isn't efficient enough to detect and prevent them. The Gov-

ernment and the Party can only appeal to directors (who are usually Party members) not to use public funds wrongly. And when those directors fail to resist temptation of easy money, they lose their human dignity and the Government loses a lot of money.

Secondly, in state - run companies nowadays, there is a paradox that the Government faces a permanent budget deficit, while state - run companies employ grants - in - aid wastefully, and as a result, the budget deficit becomes larger and larger.

Reality shows that the mechanism for giving grants - in - aid isn't strict enough to force state - run companies to increase their capital and use subsidies effectively, although the Article 22 of the Decision 217/HGBT has allowed state - run companies to mobilize capital from eight different sources, including the source from the Treasury.

Thirdly, delinquencies are increasing among state - run companies because they delayed their payments to one another. This state caused a lot of difficulties to their activity. After the first convention of debt settlement, we learned that delinquencies among state - run companies had reached VND10,000 billion. In addition, the part of companies' assets held in unsalable finished goods (because of bad quality) and in other kinds of frozen assets have reached thousand billions.

This also revealed a paradox that in many years, state - run companies possessed a lot of assets but were permanently and badly in need of capital. In fact, the better part of their contributions to the Treasury didn't come from their profits, but from their working capital. That is why their capital kept on decreasing and what they possess now are mainly debts.

Fourthly, although state - run companies hold a large part of national resources, employ some 90% of trained labor force, and 90 - 95% of credit supplied by state banks, but around 40% of them are suffering losses, and some 25% are on the verge of bankruptcy. According to the conference on the equitization program held by Tuổi Trẻ in June 6, 1996, the better part of 713 state - run companies operating in HCMC could only make small profit on capital employed as shown in the following table: (see next page)

The business performance of state - run companies in all industries is the same. Regarding after -

Profit on capital employed	% of 713 companies
1-5%	47.3
5-10%	12.8
10-25%	29.2
25-40%	7.4
over 40%	3.3

tax profit, only companies in trading and construction businesses have been able to make profit higher than the bank rate (21% a year). Companies in other industries could make only small profit which is even lower than the inflation rate (13.2%). Another alarming fact is that contribution made by state - run companies have decreased year after year: from 75% of their income in 1992 to 68% in 1993, 63% in 1994 and 52% in 1995 and 1996.

This situation shows that if the system of state - run companies sees no change, or it is restructured slowly and carelessly, the Treasury and public finance will collapse irreversibly with the result that the economy will come to a crisis and the political regime will stop receiving the public support (what happened in the former USSR and East European countries is a valuable lesson to us). Thus, looking at the problem from different aspects, the equitization program will be one of the best measures to strengthen and develop the public sector.

2. Prospect of the equitization program

Studying operation of equitized companies, we could make the following remarks:

Firstly, the equitization has brought in a large budget income needed for new development projects, but more important, it has enabled workers to become shareholders by buying shares and this will encourage them to work harder, that is, the equitization will change their attitude to their work and company performance.

As a joint stock company, the equitized company will interest not only the Government (as one of founders of the company) but also the public as a whole, so the equitized company can easily attract investments from these potential shareholders.

Thus, by buying shares, workers of equitized companies and the public in general, have become real owners of companies besides the Government, and the profit motive has made them interest in their work and the company performance.

Secondly, the aim of making as much profit as possible has helped to improve the company performance. The following facts will justify this remark:

The United Transportation Agency was equitized in July 1993 and up to now, the return to shareholders has increased by 30% in comparison with the face value of share, its sales and tax payment increased by 150% as compared with 1993, its equity capital increased by 280% and average personal income of its workers reached VND2.4 million a month.

The Refrigeration and Electric Engineering Company was equitized in September 1993. Its dividend at present is 3.07% (twice as high as the interest paid to savings account), profit on share and average personal income reached VND700,000 a month.

In the Bạch Tuyết Paint Company, its sales in 1996 increased by 23% in comparison with 1995. The Bạch Tuyết Cotton Wool Company with its sales increasing by 15%, has invested VND8.2 billion in a new production line to produce high - quality sanitary napkins. In the Đô Thành Plastic Company, sales increased by 10% and VND5.8 billion were spent on replacement of

their market shares and business scale, those joint stock companies had to eliminate middlepersons and middle management with a view to coping better with changes in the market. Down - sizing is considered as a measure to increase income of laborers and the company as well. This practice has produced intended results because workers attitude towards their work and company performance has changed basically and positively. This is also what state - run companies lack.

Fourthly, equitization is the best way to mobilize enormous sums of dead money held by the public and put them in production. After equitization most equitized companies have overcome difficulties which seemed to be unsolvable to them when they were state - run companies, and they have made good progress over time.

However, the equitization isn't the only solution to the problem. It depends a lot on various factors, such as tax policy, interest rate and the national strategy for economic development. The equitization program requires a new mechanism which can stimulate the creativity of laborers and managerial skills of administrative bodies.

The bright future of the equitiza-



machinery. In the Saigon Cosmetic Company, sales reached VND105 billion and VND4.4 billion were spent on a new production line.

Personal income of laborers working in those equitized companies has increased remarkably: in 1996 it varied from VND2.4 to 3.9 million a month.

Thirdly, in organizational aspect, the managing machinery in joint stock companies is more efficient as compared with state - run companies. In order to survive and expand

tion program has justified the Government's policy to "keep on equitizing state - run companies firmly and actively" as stated in the Official Statement 63 - TB/TW made by the Politburo. This policy is suitable to present conditions of the Vietnam economy and the Marxist outlook which considers the equitization as a transitional stage from private ownership to socialized ownership.