SOME ISSUES ON EQUITIZATION OF STATE-OWNED ENTERPRISES IN THE TIME TO COME

by VŨ BÁ ĐỊNH

The roadmap to renovate and reorganize state-owned enterprises (SOEs), mainly equitization and ownership change of SOEs, is established on the basis of SOEs classification following the Prime Minister's Directive 20/1998/CT-TTg applicable to ministries, local governments, *ninety-one* corporations (established under the Prime Minister's Decision 91). This blueprint is also based on financial criteria such as capital for production and business, owner's capital, total debts, bank loans, profits, losses, return on capital, feasibility as well as the experience from the SOEs' restructuring, equitization, consolidation, disbandment, and bankruptcy in the past years and the next policies.

According to that roadmap, as many as 1,498 SOEs will be equitized and their ownership form diversified, accounting 65.3% of total 2,280 SOEs which must be reorganized in this period. Five hundred and eight SOEs will be equitized and have ownership changed in 2000, 337 of which will go public and 171 transferred, sold, and leased. The respective figures are 481, 345 and 136 for 2001 and 500, 374 and 126 for 2002. In the next three years (2003-2005), it is planned to equitize, transfer, sell, and lease more than 900 SOEs. With other forms of business, the total number of SOEs to be restructured in six years from 2000 to 2005 amounts to 3,280. By the end of 2005, the Government will maintain 2,000 enterprises with 100% state ownership, focusing on public utility enterprises, enterprises engaged in those fields which need the State monopolistic business, large corporations and those large-size enterprises which are important to the national economy.

Based on the general roadmap and specific conditions of each ministry, province and *ninety-one* corporations, these organizations will map out and implement the master plan of restructuring and reforming SOEs under their control, including annual blueprints on this field.

The number of workers in SOEs to be equitized in the 2000-2002 period totals 311,977, representing 72.7% of their total personnel but only 1.9% of the total employees in 5,280 SOEs at present. The specific number of laborers for each year is indicated in the following table.

Form	2000	2001	2002	Total
Total workers in SOEs to be equitized, transferred, sold, and leased (person)	102,899	105,100	103,978	311,977
Including:				
- Equitization	87.245	90,122	93.183	270.550
- Transferring, selling, and leasing	15,654	14,978	10.795	41,427

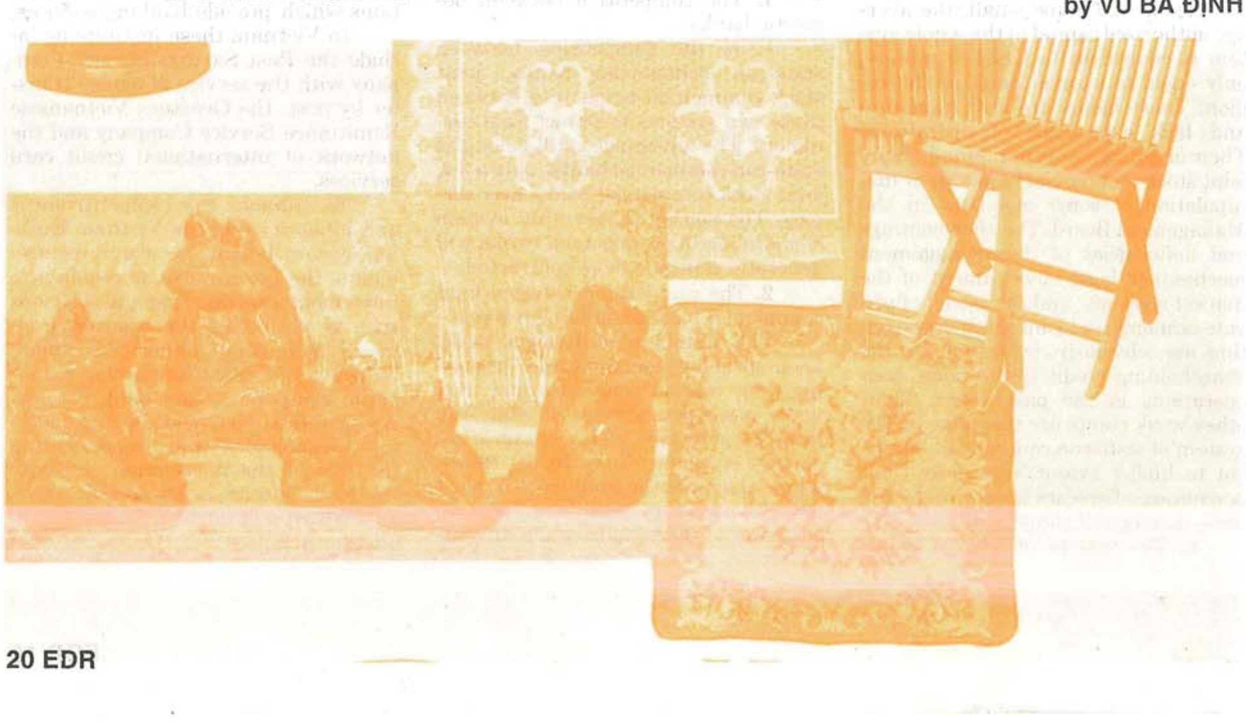
With respect to scale, most of SOEs to be restructured are of medium and small size. The number of SOEs having state capital of less than VND 10 billion accounts for 75%. They are engaged in the sectors which State need not to hold 100% stake.

If the roadmap of SOE reformation in three years (2000-2003) is implemented successfully, then the achievements will include: (1) To increase the SOE capital from an average capital of VND18.425 billion/company to VND 27.177 billion/company; (2) To reduce 18.5% of total debts and 21% of bank loans; and (3) The SOE business performance will be promoted substantially, the proportion of SOEs, which produce profits and survive firmly in the process of integration, will jump from 21% to 50% by early 2003.

To carry out the aforesaid roadmap, the Government draws up the following solutions and policies for the next stage as follows:

1. To understand thoroughly decisions, policies and solutions to SOE reform

First, to organize the implementation of the above roadmap of the Government resolutely just in 2001. At the same time, to help the people, especially workers in SOEs, know the targets of SOE reform and development which are to make this sector stronger, more competitive and higher efficient and to secure the workers' incomes by expansion of production and business and the State assistance policies. As a



result of this, the employees and investors have opportunities to obtain shares of the enterprise. Moreover, the authorities should make the people understand the équitizing, transferring, selling, and leasing of SOEs aim at their development and attraction of more capital from outside sources for business expansion, technological modernization, generation of new jobs, labor restructuring, production growth, enhancement of competitiveness, asset accumulation, payment to the national budget and workers' increased incomes.

The diversification of ownership is the major and decisive task. The Vietnamese practice is far different from that in Eastern European countries or others. That is privatization of part of SOEs so that many people can own the enterprise in accordance with the proportion of their shares. Only with deep consciousness, the central government and local ones, as well as policy makers and enterprises can undertake uniform task. Based on the national program, ministries, branches, localities and *ninety-one* corporations are required to fulfil their programs on equitizing, changing ownership and restructuring SOEs under their control, which have been approved by the Prime Minister.

2. To well resolve the employment problem so as to make preconditions for successful implementation of the program on SOE equitization, transferring, selling and leasing

When SOEs are equitized, transferred, sold and leased, their plan of investment and business efficiency must be overseen in order to make the best use of investment capital and attract more workers to the enterprise.

Regarding those workers who are willing to quit jobs, the enterprise may apply the Government's policy on labor reduction and use the assistance fund for SOE equitization and reorganization. The redundant workforce when changing SOEs' ownership will be given training and retraining courses with this fund so that they can continue working in their enterprise or find new jobs in other companies.

As a result, the Labor Code should be amended so as to allow the redundancy pay given to redundant laborers at the time of SOE equitization.

3. To actively settle the debts of SOEs to be equitized, transferred, sold and leased

- The SOEs' bad debts include those which the borrowers have been dissolved, bankrupt, running away, put in prison and going in the red and insolvent, and other debts which are three years or more overdue. The bad debts will be calculated in the business result for profit making enterprises or deducted from the enterprise value for loss-making enterprises which will have ownership changed. In addition, the enterprise is permitted to sell its debts to the debt trading companies. These companies can also supervise and recover debts for the State.

- If the enterprise has already taken loans from the national budget in order to invest in its fixed assets, these loans should be regarded as the State capital in case of ownership change or forgiven in case the enterprise suffers losses and becomes insolvent.

- Regarding the loans from state-run commercial banks, the way of settlement is as follows:

+ Those SOEs facing difficulties in payment of overdue debts are entitled to write off these debts at the time of ownership change with the two to three-year term of writing off debts if that SOE continues to operate.

+ If the SOE incurs losses and is insolvent, then its bank loans will be forgiven; if it continues to incur losses, its principal relative to the loss will be considered for settlement after settling the budget debt. With respect to the remaining overdue principal, the enterprise should coordinate with the lending bank and its debt trading organizations to sell debts before equitization.

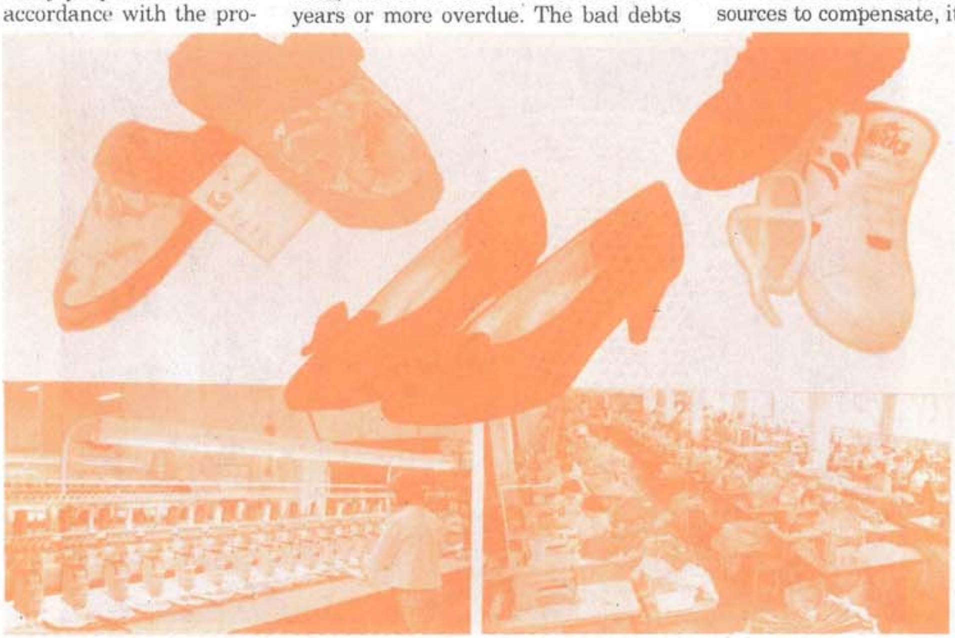
- The losses of state-run commercial banks caused by writing off or forgiving SOEs' debts before ownership change will be calculated in the bank's business costs and risk compensation fund. They can be deducted from the bank debt to the central bank. When the commercial bank have insufficient sources to compensate, it will be partly financed from the state budget.

- The enterprise shall pay completely the social insurance debt to workers before it changes ownership. If it is not able to cover this sum, it is entitled to use proceeds from ownership change to pay, then if the money is not enough, the SOE reorganization and equitization fund will pay.

4. To perfect the policy on equitizing, transferring, selling and leasing SOEs

The equitization policy should be perfected in accordance with the Enterprise Law as follows:

- To eliminate regulations on restricting the amount of shares purchased in the first issue and preference shares bought by the enterprise leadership, which do not allow them to buy more than the average amount of shares of investors inside and outside the enterprise. The elimination aims to



encourage capital mobilization and enhance the enterprise director's role so that everybody is concerned about and supports this decision.

- To change the method to assess the business value by the board's decisions or administrative measures which contains many subjective factors as at present into the auction form which is prevalent in the market economy. In the first stage, the current mechanism is adjusted as follows: (1) As for SOEs having state capital less than VND10 billion in their accounting books, ministers, chairpersons of People's Committees, management boards of *ninety-one* corporations are authorized to decide on the whole business value as regulated in the Government's Decree 44/1998/NĐ-CP with a view to improving their responsibilities in this field and overcoming their nominal decisions as at present; (2) Regarding SOEs with state capital less than 30% as compared with the figure recorded in accounting books, ministers, chairpersons of People's Committees, management boards of *ninety-one* corporations must also make decisions on the company value. This is aimed to eliminate clumsy administrative procedures through the Ministry of Finance as at present.

- To promulgate guidelines on using the SOE reorganization and equitization fund as well as proceeds from share sales and dividends of state ownership at the equitized enterprise in order to collect fast and effectively these sums and overcome remaining problems at the Treasury.

- To raise the value of preference shares for those SOEs having small state capital so as to narrow the difference of preferential purchase between SOEs having more state capital and those with less state capital. Regarding SOEs with capital accounting for over 40% of the company value when they go public, the proportion of workers' preference shares will be raised from current 30% to 50% of the value of state capital. In respect of SOEs with self-provided capital, the percentage will be 70%.

- To soon give incentives to material suppliers which allow them to buy shares from equitized processing plants with a view to combining their benefits and responsibilities. This will secure a firm supply of material to the processing industry because the suppliers will then sell high-quality raw materials for low prices and stabilize material supply.

- To soon promulgate circulars guiding the Government's Decree 103/1999/NĐ-CP dated September 10, 1999 on transferring, selling and leasing SOEs.

- To soon issue policies so as to eliminate discrimination in relations with credit organizations between SOEs and equitized enterprises. At the same time, to issue the regulations on operations of Party units and other mass organizations in SOEs equitized, transferred, sold and leased.

- To strengthen the state management for equitized enterprises, especially in such fields as orientation, strategy, planning, development in accordance with the industry and locality; finance and tax; management of state capital in joint stock companies, and preference shares.

5. To improve organization and direction tasks in SOE equitization, transferring, selling and leasing

To consolidate the steering organizations by improving SOE management reform boards from central to local authorities and *ninety-one* corporations. These boards must be agencies helping the Government, ministries, local governments and ninety-one corporations implement the process of renovating and developing SOEs, the roadmap for SOE equitization, transferring, selling and leasing within the framework of ministry, local government, ninety-one corporations and the Government's uniform program.

To combine responsibilities of ministers, chairpersons of People's Committees and management boards of *ninety-one* corporations with the tasks of SOE reform and development and SOE equitization, transferring, selling and leasing and implementation of state administration in the whole country, locality and industry as regulated by law. The relevant authorities will reward those organizations and individuals which fulfill their tasks and fine those which do not.

To establish a machinery to help the Government with SOE management reform from planning policies, programs and schemes to instructing their realization.

So far, the SOE management reform has entered a new stage, indicating the improvement of quality in the line of developing enterprises on the whole and SOEs in particular with clear roadmap and objectives and economic efficiency to be achieved. As a result, this assistant machinery should be strengthened in terms of functions, tasks, rights, obligations as well as conditions to attain achievements in the course of SOE reform ■