

# PRIVATIZATION IN ĐỒNG NAI SITUATION AND SOLUTIONS

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## 1. Privatization in Đồng Nai in recent years

The privatization is a major policy, one of important contents of the program to rearrange, innovate and improve performance of state-owned companies in order to mobilize more sources of finance from the public in development of production, enhance corporate competitiveness and get more prepared for the international integration.

In Đồng Nai, the privatization has been carried out for nine years, and after Resolutions 44/1998/NĐ-CP and 220/2002/QĐ-TTg and Decree 187/2004/NĐ-CP, regulations and guidelines on the privatization have become clearer and more specific, which make the privatization make good progress. Up to 2007, some 40 state-owned companies in Đồng Nai have been privatized. This effort gains many achievements and also reveals some shortcomings.

- The privatization gives birth to companies of joint ownership. Some 40 privatized companies were owned by the state in the past, and now they belong to the state, laborers of the companies and shareholders outside the companies. After the privatization, the state still holds some 40% of legal capital, laborers of the companies 40% and outside shareholders 20%.

- The privatization attracts more capital needed for importing new technologies and

expanding the production. By privatization, the state capital is estimated more exactly and private sources of capital are put in production. Up to the end of 2006, all privatized companies have attracted outside sources of capital: they laborers bought some 36% of total value of shares issued while outside shareholders control some 33% of the legal capital. Some privatized companies have increased quickly their capital, such as Đồng Nai Honey Joint Stock Company (VND20,018 million increasing by 5.1 times); Sodanezi (VND21,504 million increasing by 2.8 times); and Đồng Nai Construction Joint Stock Company (VND13,975 million increasing by 2.3 times). Part of capital held by the state in these companies are preserved and increases well, instead of decreasing, due to better business performance

- The business performance of these companies is improved. A survey of 19 privatized companies has found that their sales rose by 61.55%; profit 111.82%; payments to the provincial budget 5.63%; laborers' income 44.9%; dividend 15% - 22% (and 43.9% in the most successful company); and the average labor force increased by 2.3%.

- The management machinery of privatized companies, after some reforms, has become neater and more effective. The labor force and production lines are better organized. Most of them succeeded in practicing thrift, doing

market researches, increasing their sales, and improving their market share. The said survey also showed that these companies cut their overheads by 30% in comparison with the pre-privatization period.

Many companies have studied and established their by-law on financial issues, labor discipline, recruitment, and promotion; and clarified responsibility of the management, shareholders and laborers; and introduced reasonable mechanism for distributing the profit.

- The labor force in most privatized companies has been re-organized according to some new model and funds prepared for redundancy payment. Statistics gathered from over 40 privatized companies showed that their labor force fell from 7,394 to 6,738; and 656 laborers were treated as redundant employees. Some 30 privatized companies have spent VND16,964 million on this redundant labor force: the labor supporting fund paid VND13,162 million and corporate funds paid VND3,802 million.

When estimating strictly, we can see many shortcomings in the privatization.

Firstly, many civil servants, managers of state-owned companies and laborers didn't understand nature and benefits of the privatization with the result that they are reluctant to take part in, or support, the privatization. Although the provincial government has worked out a plan to privatize state-owned companies, worries and reluctance are common among authorities and civil servants when asked to take part in this program.

Secondly, the policy on privatization fails to cover all complicated aspects of state-owned companies in Đồng Nai.

- Companies to be privatized and persons allowed to buy share are limited, and ways of selling share are not appropriate. Shares from privatized companies show a downward tendency on the stock market with the result that newly privatized companies find it hard to sell their shares. The Government is right to allow of auction of shares by privatized companies, but the minimum time of 40 days for auction is still long, which affects unfavorably

the speed of privatization in Đồng Nai.

- Regarding the evaluation of companies, Decree 187/2004/NĐ-CP dated Nov. 16, 2004 stipulates that companies with total assets whose book value is VND30 billion or higher should be evaluated by intermediate financial institutions. In reality, however, after the financial institution evaluates the companies, its valuation must be checked by the provincial board of corporate development and reform before being sent to the provincial people's committee. This process is time-consuming and prone to contradictions between these organizations.

- The regulation on estimating the corporate advantage based on business performance in the previous three years is not reasonable because many companies could gain good performance in the previous three years and at present and in future, their operations may contract because of shortage of raw materials, such as the ones in mining, construction, and infrastructure development, etc.

Thirdly, most privatized companies are facing difficulties in securing bank loans because they can't mortgage their factory or office buildings (their privatized assets) to bank. Circular 09/2006/TT – BTNMT issued by Ministry of Natural Resource and Environment on Sep. 25, 2006 about changes in land rent contract and grant of certificate of land use right to state-owned companies that is turned into joint stock ones after privatization requires that the joint stock company should produce a business strategy and send it to the people's committee for approval, while the Companies Law 2005 points out that the right to approval of the business strategy belongs to the board of directors of the company. This contradiction makes it difficult for local authorities to make decisions on the grant of a new piece of land or rent the same piece of land the company has been used to the company.

Fourthly, cooperation between provincial authorities in carrying out the privatization is not good enough. They may disagree about many problems with the result that the privatization takes a longer time. Many problems with the companies to be privatized, such as bad debts,



unused assets, and financial obligations, can not be solved easily. Statistics show that the bad debt held by privatized companies was equal some VND3 billion in 2006.

These shortcomings come from various causes but the main ones are: wrong concepts of the privatization, unreasonable mechanism for privatizing state-owned companies, poor cooperation between provincial authorities, difficulties in dealing with financial issues in the companies to be privatized, and competence and work ethics of official involved in the program.

## 2. Some measures to promote the privatization in Đồng Nai

To accelerate the privatization in Đồng Nai in 2007 – 2010, the following measures can be taken.

a. Enhancing and establishing right concepts of the need for privatization: Authorities must actively disseminate information to help managers, officials and laborers understand the policies and official viewpoints on the privatization, thereby reaching a consensus among officials and VCP members about the reform in the public sector in which the privatization with its encouraging results proves to be a right policy and the basic solution to improvement in the performance of the public sector and support of the public to the program in Đồng Nai.

b. The state control over privatized companies should be clarified and separated from the corporate autonomy in business. The provincial government should make regulations on responsibility of provincial agencies for controlling the privatized companies with a view to avoiding duplication of functions and intervention in business management of the company. The state control over privatized companies must aim at making development plan and developing the human resource for the company in order to preserve the state capital and see to it that the company observes laws and regulations.

c. Financial problems, especially debts, with the companies to be privatized must be solved definitely in order to ensure a healthy corporate finance before the privatization. Full attention

is also paid to post-privatization problems, such as equal opportunity for privatized and state-owned companies to get access to formal loans, export and import, and official support, etc.

As for state-owned companies that are included in the privatization program and are facing financial and business difficulties, their problems must be solved definitely before the privatization.

d. Training courses in rights and duties of shareholders, management, methods of running a joint stock company, need for transparency and financial disclosure, etc. must be given regularly to officials and laborers (as shareholders) in order to help shareholders understand legal issues and avoid industrial disputes.

e. The mechanism for privatizing the state-owned companies must be perfected, especially in evaluating the land use right and brand name; and market price and instruments could be used for dealing with financial issues of the company to be privatized. Uniform policies should be adopted to handle labor problems, especially redundant workers after the privatization, with a view to increasing the redundant payments and enhancing responsibility of employers.

In short, the privatization is one of important solutions that can cause a breakthrough in improvement in business performance of the public sector. This is a difficult and complicated task that requires a consensus about the policy and a determination to carry it out successfully. These are preconditions for an effective and successful implementation of the program in Đồng Nai according to the approved plan ■

### Reference

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