

# SOME PROBLEMS WITH THE EQUITIZATION OF STATE ENTERPRISES

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**T**wo years have passed since the Decision No 2NQ/HNTW dated Dec 4, 1991 on pilot equitization of some state enterprises (SEs) was issued. However, the process of equitizing was developed very slowly. Certainly, this is a completely new field and was carried out for the first time in Vietnam. So the sluggishness, willy-nilly, has become a significant carefulness. But the present conditions of the public sector and the request of economic development forced us to accelerate the equitization but not surpass the necessary carefulness as required.

## I. SITUATION OF THE EQUITIZATION OF SEs

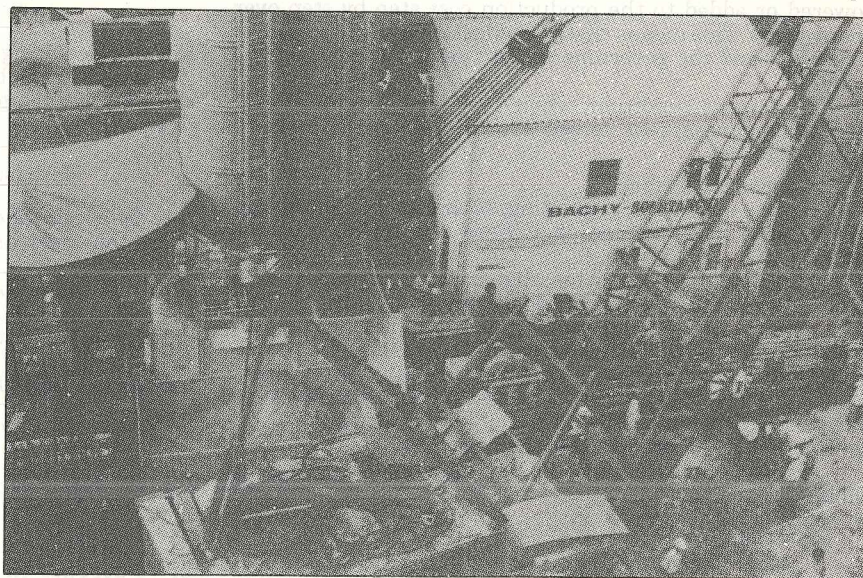
### 1. In the whole country

Up to May 1994, only 21 of over 7,000 SEs have registered for transition to joint-stock company. The government estimated that only nine projects of equitization were considered as feasible and they are being carried out at various stages:

- Three enterprises have completed the equitization and officially operated as joint-stock companies: Transport Agency Company (under Ministry of Transportations and Communication), Refrigeration Engineering Interprise in HCMC (commonly known as REE), and Hiệp An Shoe Factory (Ministry of Light Industry).

- One enterprise has just issued shares: Legamex in HCMC.

- Five enterprises have just evaluated assets and completed experimental projects of equitization: Thạch Bàn Brick Factory (Ministry of Construction), Hải Phòng Bus Joint-Stock Company, Bình Minh Plastics Factory (Ministry of Light Industry),



Construction Factory No3 (Ministry of Construction) and Long An Export Processing Enterprise.

According to estimation, the projects to equitize these enterprises will be completed basically in 1994.

### 2. In HCMC

In October 1992, the Equitization Guiding Board was established and up till now, two enterprises have been selected to carry out the pilot equitization:

- Legamex (under HCMC Service of Industry)

This is the first HCMC-based SE that was selected by the government in the list of first seven enterprises carrying out the pilot equitization. The Legamex equitization project was approved by the government in 1993. Ministry of Finance has evaluated the assets of Legamex and permitted it to issue the first lot of shares. However,

the equitization of Legamex has been postponed in order to re-examine its financial situation and debts.

- Refrigeration Engineering Enterprise (HCMC Service of Industry)

This is the second SE implementing equitization and the first experiment of HCMC. The process of equitizing this enterprise went according to instructions of Central Equitization Guiding Board. REE was equitized completely now and has operated as a joint-stock company since October 1993. Some information about REE are as follows:

- + Capital:
- Subscribed capital: VNĐ 16 billion
- Issued shares: 160,000
- Face value: VNĐ 100,000 per share
- + Structure of share ownership:

- The government (30% of subscribed capital): VNĐ 4.8 billion.
- REE workers (50%): VNĐ 8 billion.

- The public (20%): VNĐ 3.2 billion.

- + Payment of REE workers for share:

- In cash: VNĐ 4,163,700,000
- On credit (at low interest): VNĐ 3,518,300,000

- By money borrowed from the government (interest-free): VNĐ 318,000,000

Up till now, over 10 billion from selling share had been returned to the national budget.

Two next would-be equitized enterprises are:

- Honey Company (HCMC Service of Agriculture): This enterprise is perfecting its equitization project and its assets are being evaluated by an audit-



ing company.

- Gia Định Trading Company (HCMC Service of Trade): This company has just registered for equitization.

## II. SOME PROBLEMS AND SUGGESTIONS

At present, there are two law documents stipulating the equitization of SEs.

- Decision No 202/CT signed by Prime Minister on June 8, 1992 on "Pilot transition some state enterprises to joint-stock companies".

- Directive No 84/TTG dated March 4, 1993 on "Pilot equitization and way of diversifying ownership of enterprises".

By experience from realization of the pilot equitization of SEs in HCMC and from public opinions stated on newspapers or various meetings and seminars, we saw the following problems:

1. The government's policy on equitization of SEs has won public support and has been considered as one of the urgent measures to reform and restructure the public sector.

However, one of the most popular opinions about the equitization of SE is that the sluggishness has made one wonder what its obstacles were.

May be the causes of this sluggishness are as follows:

- The equitization of SE is still in pilot stage, it hasn't been introduced on a large scale, therefore it has only a weak effect on the system of SEs.

- The task of classifying SEs with a view to selecting which ones to be equitized hasn't been done yet. So this policy can't be executed on a large scale.

- Selecting SEs as candidates for the pilot equitization based largely on the willingness of directors of SEs, so

only a few SEs registered for equitization and they were not typical ones of SEs in various branches. Therefore, it's hard for us to draw any conclusion.

- As for SE directors, they have got only a limited knowledge of the policy on equitization of SE. Furthermore, this policy is being carried out at pilot stage and based on willingness of directors of SEs, so the number of willing directors is very small.

- As for SE employees, they worry about a lot of questions: Will they be fired easily when working in a joint-stock company? How about their income if there is a new way of profit distribution in a joint-stock company? Where can they get money to buy share from the would-be equitized SEs? After equitization, how can they play the role of real owners of their enterprises?

The public opinion about the equitization of SEs is many-sided:

- They doubt that there is no difference between a SE and a joint-stock company which is an equitized SE, because the government will keep on playing a decisive role by holding between 30 and 50 per cent of subscribed capital. Therefore, could there be any innovation in mechanism of management?

- They wonder whether the transfer of SE ownership from the government to private persons could be made legal or not. For example, the right of land using (with or without buildings on it) seems like timeless to newly-formed joint-stock company, thus can the right of land using be considered as a right of ownership?

They wonder whether the government's evaluation of SE assets before equitization is correct or not. These assets could be over or underes-

timated.

Some economists also worried about the fact that when equitization is introduced to big SEs, 50 per cent of subscribed capital will be sold to the employees. Can they buy all of these shares (even if they are financed by the government)?

And when the equitization program is introduced on a large scale, has the government got enough civil servants to supervise the execution of equitization in every branch and locality? Has the government got enough cadres to take the government's representative places in the board of directors of these joint-stock companies?

## 2. Some other undecided problems

### a. Objectives of the equitization

According to Decision 202/CT, the objectives of the equitization are defined as follows:

- Transferring part of the state ownership to shareholders to enhance the business efficiency.

- Mobilizing sources of capital (domestic and foreign) to invest in businesses.

- Making workers the real owners of the enterprise.

However, in the process of equitization of certain SE, one main objective could be stressed on, and the others would be additional ones.

For example, a SE is making profit and has no need for additional capital and it holds no important role in the economy, the government needn't hold 100 per cent of its capital and could equitize it in order to make its workers the real owner. In this case, the government can sell shares on long term credit to the workers in order to help them keep as high percentage of issued capital as possible. Isn't it a good solution?

On the contrary, another SE will be equitized but need increase its capital to finance development projects, the government may equitize this SE and issue another lot of shares in order to form a new company of bigger capital. In this case, it's necessary to restrict the amount of shares sold on credit to the workers in order to raise enough capital for development projects.

### b. Subjects of the equitization

One opinion argued that we should equitize only profitable SEs, because in this case, potential investors will agree to buy shares. If it is the case, the rest of SEs will comprise loss makers only. So how can we restructure the public sector with them?

We think that it isn't necessary to equitize only profitable SEs, the potential investors could buy even the loss makers if they are sold. The problem is

## ERRATUM

Please correct the Financial Statement chart on Economic Development Review No 3 (November 1994) page#2 as follows:

Input : Expenditures				Output: receipts			
Materials	20	25	30	Sales	63	63	63
Wage	25	30	34	Others	2	2	2
Amortization	3	3	3				
Bank Loan Interest	0,5	0,5	0,5				
Tax	1,5	1,5	1,5				
Profit (+) Loss (-)	15	5	-4				
Total	65	65	65	Total	65	65	65

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what price they are sold at. If it is low enough, there will come buyers. They are real investors holding big venture capital and managerial skill and ready to buy a large percentage of shares in order to take managing power and restore the business. Our economy is in need of such investors, regardless their nationality.

Equitizing SE in such manner, the government, naturally, should take other measures to attract the real investors instead of SE workers. For example, in this case, if only 5% of share capital at most may be sold to a private person, and 10% at most to a legal entity, the real investors will lose their interest in this issue.

#### c. Evaluation of SE assets

Through the pilot equitization, many SEs suggested the government that the value of advantage (with coefficient over 1) will be excluded from the assets of would-be equitized SE, because there is no stock market to verify this value.

We think this suggestion is unreasonable because both tangible and intangible assets of a SE should be evaluated before equitizing it. The absence of a stock market isn't a reason to put aside any asset regardless of its value.

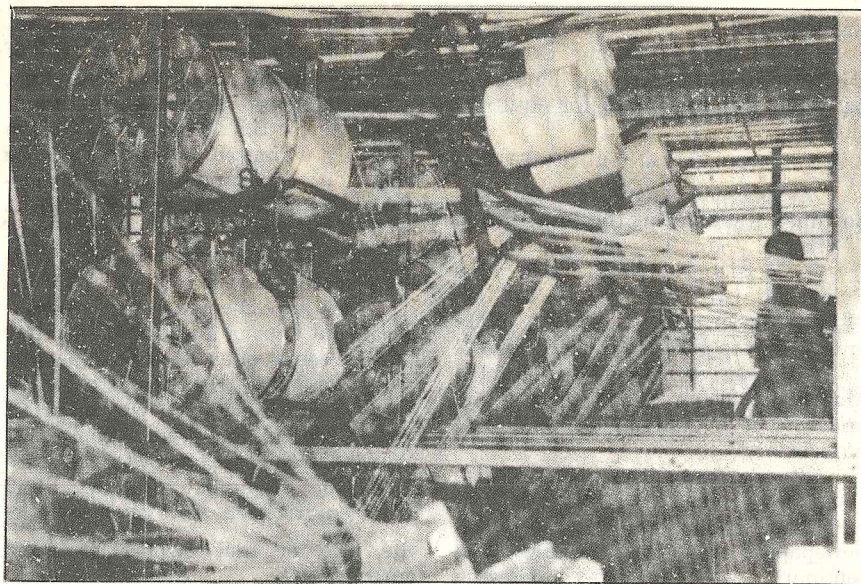
The problem is to find out a suitable method to evaluate the value of the land using right of the would-be joint-stock company. Some said that if we take into account only initial expenditures on obtaining this right (clearing the surface, paperworks, leveling the surface or compensating former residents...) in many cases, these expenditures will be much lower than the market price of land and house (it's cheap as a gift!). If the area occupied by SE being equitized is too large, the government had better take back a part instead of transferring it completely to the would-be joint-stock company.

#### d. Interests of workers in would-be equitized SEs

We agree with the government about keeping the self-complemented capital of SE intact, instead of dividing it among workers, because this capital belongs to the public ownership, the SE has only right to keep it in growing before using it.

#### e. On making regulations of joint-stock company

In the process of pilot equitization, we usually neglect drafting regulations of joint-stock company. Some regulations drafted by Preparatory Board (or Promoting Board) contained some articles differing from Company Law, because this law didn't anticipate forming joint-stock company from equitized SE.



These differences, even unintentionally, may generate doubt among SE workers and potential shareholders. They could think that this Preparatory Board had abused the position of founder to draft regulation favorable for the government in order to take power and profit of the future joint-stock company. Therefore, we should have necessary time to draft, consult and especially, get it approved by shareholder meeting. We mustn't push the shareholders around or consider this as a formal procedure.

#### f. Insider dealing

Some people said that civil servants and members of Preparatory Board may take advantage of confidential information about the equitization, for example, they may know the price of share and decide to buy in large quantities. In different countries, this is the act of insider dealing forbidden by the law. We think that in Vietnam, such a behavior should be brought to court.

#### g. Acceleration of equitizing program

In order to accelerate the equitization of SEs, we suggest the following:

- Accelerating the pilot stage:
  - + Increasing the number of SEs selected to equitize from typical SEs of every branch.
  - + This program shouldn't base on the willingness of the directors. Basing on the classification of SEs, the government and people's committees at city or provincial level would nominate SEs to be equitized according to the requirement of obtaining experience for each kind of business.
  - Preparations for introducing the equitization on a large scale:
    - + Making a list of SEs being equitized of each branch and locality.

+ Selecting and training experts specialized in equitization in order to ensure strict execution of the government policy on equitization.

+ Perfecting the government policy on equitization basing on experience from realization of the pilot stage.

- The government should make plan to train cadres in economics and managerial skill in order to assign them to the job of the government's representatives in joint-stock companies. These cadres should have good qualities and capability to be elected to the Board of Directors of the company.

The above-mentioned opinions are subjective views on the equitization, thus the weaknesses are unavoidable. So any critique will be highly appreciated ♣

