

## I. REALITY

In addition the two HCMC-based state-owned enterprises (SOEs), the Refrigeration Engineering Enterprise and the Honey Company has gone public in the pilot stage, after the Government's Decree 28/CP dated May 7, 1996, until the end of 1997, the equitization was performed in the 1996-1997 period as follows:

a. Completing their process of equitization: 5 enterprises:

1. Saigon Hotel (February 1997)
2. Cosmetics Research and Production Center (June 1997)
3. Bạch Tuyết Paint Enterprise (November 1997)
4. Bạch Tuyết Cotton Wool Company (December 1997)
5. Southeastern Pharmaceuticals Processing Enterprise (under District 5 authorities) is preparing to sell its shares.

b. Being in the process of equitization

- In the stage of business value estimation, 4 entities:

1. Coviphar Pharmaceuticals Enterprise
2. Cultural Services Company (under Tân Bình District authorities)
3. Saigon Optic Glasses Enterprise
4. Garments Export Enterprise (under Phú Nhuận District authorities)

- In the stage of submitting projects and preparing for business value re-estimation, 2 concerns:

1. Gia Định Housing Services Company
2. Long Bình Roof Tiles Company

- In the stage of formulating projects, 15 businesses of which one was allowed by the Government and the Central Steering Board for Equitization to go public and sell shares to foreigners (Savimex Company).

## II. GENERAL REVIEW

So far, there are 6 equitized SOEs in HCMC operating in compliance with the Company Law and another SOE preparing to sell shares. This is an encouraging result. Although the number of SOEs already equitized is not large, so it's hard to make a comprehensive review, but equitized SOEs, on the

whole, made better business performance than previously (not yet equitized).

The city's equitization is still at a slow pace against requirement although the task force and the Central Steering Board for Equitization have made great efforts to accelerate the work, the main cause is:

# EQUITIZATION OF STATE - RUN ENTERPRISES IN HCMC

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- Documents guiding the implementation of Decree 28/CP on equitization was slowly issued while in reality, there are vague articles which the entities had to consult ministries and branches to settle, so the plan and the pace of equitization were impeded.

Current troubles are:

- Some enterprises did not yet have enough legal documents proving the ownership of fixed assets such as buildings and workshops because after April 30, 1975 they took over and managed the enterprise but they did not pay attention to legalizing the possession or so far the enterprise have changed many directors and transferring minutes were not adequate...

- Many enterprises leased buildings and warehouses from other entities, afterward they expended large funds on erecting new buildings or upgrading the former ones, so before equitization, the ownership of these assets need be settled.

Besides:

- In the process of equitization, the enterprise has to deal with outstanding loans, unfinished investments; seek information, trade advantages; and plan production and business in the time to come.

- Some other enterprises, when going public, have to move to new location due to local plans or environmental protection. Therefore, their production projects are not stable, causing difficulties in assessment and share sales.

- Some enterprises have not yet comprehended the significance and target of equitization and the management, party unit, trade union and workers did not reach a consensus. So the devising of their equitization plan was slow, especially the studies on increasing long-term investment capital or working capital for production and business, eco-

nomic efficiency, market research and planned turnover, production cost and business performance were still limited.

- To date, many firms have not yet visualized the whole process of equitization, the procedures are so strange to them and moreover some authorized bodies, intentionally or not, want to show their power, the enterprises to go public are thus afraid of the road to equitization.

- The businesses' first worry when already equitized is the discrimination although the Government advocates every economic sector has equal rights. Will they face new troubles in making relations with SOEs and applying for quotas because they are no longer SOEs? What are their workers' benefits after equitization? A series of problems which companies cannot solve have hindered the process of equitization.

## III. SOME TROUBLES IN EQUITIZATION TECHNIQUE

### 1. Business value estimation before equitization

- The values of the company's houses and buildings are based on the percentage of depreciation and building cost in accordance with decisions of the local People's Committee. However, concerns have encountered difficulties when assessing the percentage due to technical norms of construction. In case buildings are the real estate company's commodities, are they subject to the same regulations as fixed assets?

- The land value is not included in the equitized company's value, only the compensation for farm produce is taken into account. But what is the estimate in case the company is granted land for real estate dealing?

- What method will be used for valuating the enterprise's technological know-how?

- What is the assessment of the asset (land use right or rented land) contributed in joint ventures?

- How can the enterprise settle the capital previously pooled by the private sector or workers to turn into shares for them if a person's shares exceed 5% of the business value?

- As guided, the advantage value



is the value of the enterprise having no advantage multiplied by the difference coefficient between the average after-tax profit ratio in three successive years before equitization with that of other enterprises in the same industry. However, that coefficient is based on the enterprise's assets not yet revaluated, but multiplied by the re-accessed value of the company. So it is not logical.

## 2. Process of equitization

Although the Steering Board for Equitization's Decision 01/CPH dated September 4, 1996 defines 4 steps for the equitization process, but the reality shows many steps and procedures, for example, estimating the enterprise's value must go through 3 steps: (i) auditors examine the value on paper, (ii) the enterprise verifies its asset for valuation, (iii) the assets will be re-examined by an authorized level; although this work consumes time but the value is still fixed by the seller (the State), it is not the real value which both of the seller and the buyer accept.

## 3. Preferential policies for workers of equitized SOEs

- At SOEs, the shares given to workers are still restricted. Only those staff with three years of seniority can buy shares on credit. The value of the shares given to one employee is not more than six months of basic salary.

- The regulations lead to a situation where people, especially from the management, who have access to financial resources will hold more shares, and poor workers will stand to lose much of their previous benefit.

In addition, at equitized SOEs, the worrying problems are what agency will be responsible for unemployment benefit and whether the workers continue to be given preferential treatment after equitization.

## 4. Other Issues

- Over the past years, there was no uniformity in fixing the time of auditing, estimating and examining the business value, because if the last steps were implemented earlier, then the entity could not be valued at the time of equitization. Moreover, this would complicate the settlement of final accounting and issues concerning the entity's budget, assets, and debts between the time of recognizing the entity value and the time of shifting into joint stock company. Therefore, enterprises quickly

had their assets audited, but due to troubles in the equitization plan, they had to prolong the process and they were required to have their assets re-audited. This consumed time and energy.

- The necessity for auditing should be reviewed because in small-size concerns (under VND5 billion):

- + Auditing cost is still high;
- + Auditing duration is rather long;

- + If the locality has no auditing company, how can the entity deal with the work?

- The decentralization based on the capital of VND10 billion have not been pinpointed and uniform between central and municipal authorized bodies. Is this amount figured out before or after the entity value estimated and what sources does it include?

- The concrete criteria and methods to plan production and business in the studies on increasing capital or transferring ownership are insufficient, so most enterprises feel perplex, especially in the light of economic slowdown.

## IV. SUGGESTIONS TO OVERCOMING TROUBLES IN EQUITIZATION

### 1. Estimating the company value before equitization

- Regarding the auditing step in the process, it is not necessary to audit enterprises whose capital is under VND5 billion, not mentioning those partly equitized or special enterprises which must be audited. The time of auditing, assessing and examining the entity value should be directed uniformly.

- The Government should regulate the state-owned capital totaling VND10 billion which is a ground for decentralization is the value not yet re-estimated (including grants-in-aid and funds originating from the State budget) but based on the enterprise's accounting books before equitization. At the same time, it should decentralize the recognition of the company value before equitization, and have no need to assign this work to the Ministry of Finance as at present.

- The Government should give more details to pinpointing criteria and calculation methods for the estimation of the firm's trade advantage.

### 2. Preferential policies for workers at equitized SOEs

To make favorable conditions for workers to buy shares, narrow the gap between the number of the management and workers' shares and create enthusiasm of workers, the priorities offered to workers at equitized SOEs should be adjusted as follows:

- Increasing the number of shares given to workers.

- Expanding share sales on credit to narrow the gap between the number of the management and workers' shares.

In addition above-mentioned proposals about priorities given to workers in SOEs before equitization, the Government should reconsider the continuation of preferential policies for the entity's workers after equitization (the entity already equitized).

## 3. Other Issues

- The Government should issue basic guidelines to the studies on increasing capital and planning production and business.

- Regarding the money earned from selling shares, returning capital to the state budget and selling other state-owned assets and currently kept in the Treasury, the Ministry of Finance should guide the city authorities to use it for innovating technologies of enterprises, especially equitized SOEs or establishing new SOEs in important areas.

## V. PLANS OF EQUITIZING HCMC SOEs IN 1998

By means of classifying SOEs, the SOEs Reforming Committee in coordination with services, branches, and district authorities to map out the list of SOEs eligible for equitization and submit it to the city People's Committee for approval. Those having justifiable reasons such as changing the location due to the local plan can delay their equitization temporarily. Loss-making SOEs will be examined for dissolution or bankruptcy in compliance with law.

In the equitization plan in 1998, through reviewing and re-arranging, some large SOEs may go public. The city will make great efforts to equitize 20 enterprises this year. The central government should consistently help the city remove troubles as mentioned above.

Speech delivered at the International Workshop on Equitization of SOEs held by the Ministry of Finance and the World Bank on Feb 19-20, 1998 in Hà Nội.