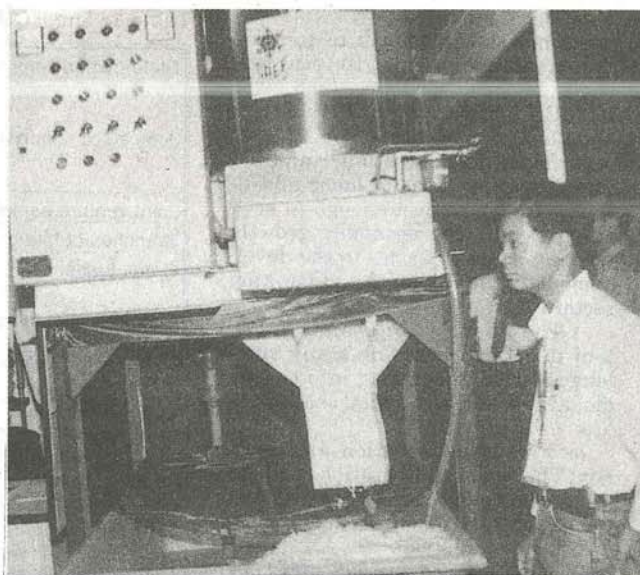


Why is the Privatization in Vietnam So Slow?

by Dr. HÀ THỊ SÁU



In recent years, the privatization has been considered as an important measure to reform the public sector and produced encouraging results. In a short period, a wide range of companies has been established by all sectors. Looking back on the privatization in the past 10 years, we saw that after a slow start because of various obstacles, this process began to gain speed from 2003 on, as shown in the following table.

The number of privatized companies, however, is still small as compared with the planned target

while this has become an urgent task because of the poor financial situation of the public sector as a whole.

According to statistics from the Ministry of Finance in 2003, the total sales by the public sector was VND464,204 billion increasing by 10% compared with 2002; and the total profit of some state-owned companies reached the VND20,428-billion mark while others made a total loss of VND1,077 billion increasing the aggregate loss to VND2,728 billion. The public sector paid VND86,755 billion to the national treasury in cus-

toms duties, land lease, fees and surtaxes, representing 66.5% of the budget income. The ratio of profit to capital granted by the State of state-owned companies was 10.87% (11.3% in centrally-run companies and 9.6% in locally-run ones.) The ratio of profit to total capital was 4.0%. The total receivable was VND96,775 billion equaling 51% of the total capital and 23% of the total sales; the total payable was VND207,789 billion. The main creditor to companies is state-owned banks who accounted for 76% of the payable. State-owned companies should pay some VND3,000 billion in interest equaling some 15% of the generated profit.

Of 4,789 state-owned companies, 77.2% made profit (more exactly, 80.4% of centrally-run companies and 75.2% of locally-run companies made profits), and 13.5% made losses. Total capital held by state-owned companies was VND189,293 billion (144,179 billion in centrally-run ones and 45,114 billion in locally-run ones.) Thus, the average capital of a company was VND45 billion (88.5 billion in a centrally-run

and 17 billion in a locally-run company.)

Although the business climate is not as favorable as expected, most privatized companies are making profits, their average pay is on the increase and their labor force feel sure about the privatization policy. Procedures for the privatization have been improved and standardized, which reduced waste of time and money for privatized companies.

The privatization has helped estimate more exactly assets of companies and introduce better ways of mobilizing capital from the public. During the privatization, the value of estimated assets rose to some VND3,000 billion increasing by 14% compared with the estimate made before the privatization and equaling 2% of total capital of state-owned companies. In addition, the privatization has attracted some VND3,000 billion from the public.

According to reports from privatized companies one year after the privatization, their sales rose by 140%, profit by 200%, payments to the treasury by 120%, average pay by 22% and labor force by 5.1%.

Table 1: Increases in privatized companies in 1992 - 2003

Year	Privatized companies
June 1992 - December 1998	116
1999	249
2000	212
2001	258
2002	217
2003	535
Total	1,587

Source: Central Commission for the Public Sector Reform

Dividend paid by these companies varied from the lowest of 6% a year (Saigon Hotel) to some 35%. Particularly, certain companies could pay a 60% or 70% dividend.

According to the plan approved by the PM, the number of state-owned companies will be reduced from 4,789 by the end of 2003 to 1,866 by the end of 2005. This means that 2,923 will be restructured, and it's planned that 2,143 (or 73.3%) will be privatized.

1. Shortcomings of the privatization process

a. The privatization is rather slow: The speed of the program was slow and it is showing signs of decline. It is not carried at the same speed among provinces and industries with the result that it didn't come up to expectations. It completed 63% of the planned target in 2003 and only 20% in the first half of 2004. One of objectives of this program is to attract idle money from the public, but 40% of privatized companies failed to attract capital from outsiders. Up to now, only 8% of shares were held by outsiders while laborers of these companies held 54% and the State 38%. In other words, the privatization is still a closed program that couldn't attract professional investors, and as a result, there is no improvement in the management methods and business strategy. Most privatized companies are of small scale. Privatized ones where the State holds less than 10% of equity capital accounted for 84% of the number of companies privatized in 2003 compared with 92% in 2002.

b. Problems with the legal entity: After the privatization, most companies had no legal entity to secure bank loans. The State control over companies isn't improved. The mechanism for distribut-

ing interests and benefits is up to individual directors or boards of directors, that is, the State and civic organizations have no role in this matter. The revaluation of assets couldn't be carried out properly with the result that most privatized couldn't list their share and stocks on the HCMC Stock Exchange.

2. Causes of shortcomings

The privatization program is carried out during the transition from the centrally-planned mechanism to the market economy. The program, therefore is affected by many unfavorable factors:

- + The commercial production is only in its first stage of development. The centrally-planned mechanism still have some effects on the social production.

- + Participation of non-public sectors is not strong and active enough.

- + Low public intellectual standard is also an obstacle to the program.

- + Many directors of state-owned companies didn't support this program because they care too much of their own interests. Many provincial governments and ministries

weren't really determined to carry out this program to the planned target. As for the policy makers, they failed to determine whether this program is compulsory or based on willingness, and which companies should be, or shouldn't be, privatized. This situation makes the program less popular.

- + State-owned companies have long got into the habit of relying on subsidies and preferential treatment from the State. Many directors and managers are afraid of losing their power and interests. Some of them even accused this program of supporting the capitalist economy.

- + Policies on privatized companies and their laborers are slow to be made and applied. Many policies are not attractive and appropriate enough. Guidelines on the revaluation of assets, including the value of land used by the company, are not consistent and reasonable.

3. Solutions

The privatization is a right policy and it must be carried out properly to introduce a new dynamic of the economic growth and make the business world more democratic.

The biggest obstacle to the program is the revaluation of assets before priva-

tization. To solve this problem, authorities could assign this task to independent auditing companies or sell shares by auction on HCMC and Hà Nội Stock Exchanges.

Having the assets evaluated by auditing companies is the first important step, but this value must be also determined by market forces, that is, those who want to buy the company. Foreign experts suggest that selling by auction is the best way of evaluating a company. This method, however, could become unrealistic when the better part of shares is sold to insiders and the rest are not saleable. In my opinion, the most suitable method is to sell shares by lots on the stock exchange.

Selling shares by auction on the stock exchange is also a transparent method for the program. This process, however, requires regulations and guidelines so it could be carried out nationwide. The Central Commission on Public Sector Reform had better pay more attention to this approach instead of waiting for more instructions from the PM or more support from directors of state-owned companies and local governments. ■

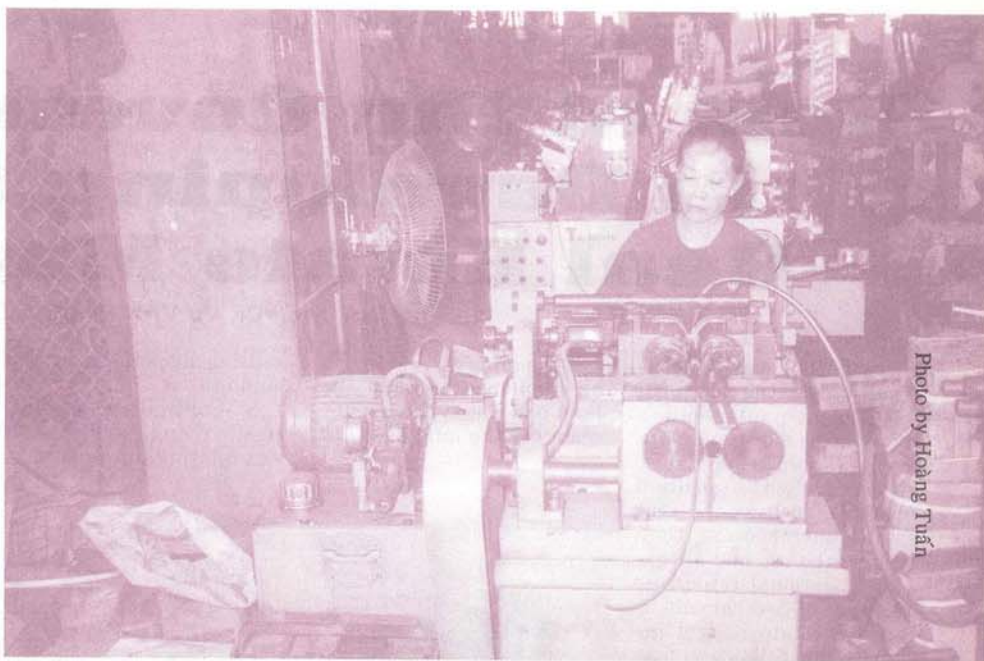


Photo by Hoàng Tuấn