

**THE IMPLEMENTATION AND REASONS FOR SLOW PACE OF REALIZATION IN COMPLIANCE WITH DECISION 202/CT DATED JUNE 8, 1992**

**I. POLICIES ON EQUITIZATION:**

Equitization of state enterprises is a key policy of the Party and the Government with the aim to mobilize idle capital in the society, give new impetus to management, help restructure enterprises in the whole national economy.

The Resolution of the second conference - the Party Central Committee, Term VII stated: "To transform some competent state enterprises into joint stock companies and establish some new companies whose

major share is owned by the State, to make a pilot scheme, direct 'tightly, draw complete experience before expanding to an appropriate extent'.

The Resolution of the Party Mid-term Conference affirmed: "In order to attract more capital sources, create dynamic, prevent negative activities, force state enterprises to do good business, we should carry out equitization forms with appropriate scale in the sector of production and trade; of which state ownership is predominant".

The Politburo's Resolution No 10-NQ/TW on March 17, 1995 said: "To perform firmly step by step the equitization of part of state enterprises which do not need 100% state-



# EQUITIZATION OF STATE ENTERPRISES IN VIETNAM OBSTACLES AND SUGGESTIONS TO OVERCOME

The Prime Minister Võ Văn Kiệt convened the leaders of 53 provinces and cities across the country on Jan 5-8, 1995. In the meeting, Prof. Phan Văn Tiệm, Minister, Head of the Central Steering Committee for Renovation of Enterprises has put forward the past implementation of equitizing state enterprises and suggestions to keep on expanding pilot scheme of equitization in the immediate future. EDR would like to introduce to you the first part of his report, the continued content will take place in the next issue.

owned capital. Based on characteristics, form of the enterprise, some part of shares will be sold to the firm's staff with a view to giving an internal impetus to the firm's development and some to organizations or individuals outside the firm in order to attract more capital for boosting production".

So the Party's Resolution has pointed out the target of equitization: To attract more sources of capital, create dynamic, prevent negative activities, force state enterprises to do good business, at the same time, outlined the form, scale, and range of pilot state enterprise equitization.

The Resolution of the National Assembly, Session IV, Term IX stressed: "To reform basically the organization and managerial mechanism of state enterprises; to apply appropriate equitization forms in order to lure more capital source, create more dynamic, stop negative activities, make enterprises produce profit...".

Implementing the advocation of

the Party and the National Assembly, the Government has issued documents on the equitization of state enterprises.

- Decision No 143/HĐBT dated May 10, 1990 by the President of the Council of Ministers (presently named the Prime Minister) on the summing up of the implementation of Decision 217/HĐBT.

- Decision No 202/CT dated June 8, 1992 by the President of the Council of Ministers on continuing to pilotly transform some state enterprises into joint stock companies.

- Decision No 84/TTg dated March 4, 1993 by the Prime Minister on the promotion of state enterprise equitization and solutions to diversifying ownership forms toward state enterprises.

The Ministry of Finance promulgated Circular No 36-TT/TCCN on May 7, 1993, the Ministry of Labor, War Invalids and Social Affairs issues Circular No 09-TT/LĐTBXH on July 22, 1992 on the guidelines and details for policies in decisions of the Prime

Minister.

## II. IMPLEMENTATION

Based on the above-mentioned decisions, ministries, branches have informed every firm to register, voluntarily transform into joint stock company. Following the number of registration, the President of Council of Ministers (presently named the Prime Minister) has issued Decision 203/CT dated June 8, 1992 on the selection of 7 State enterprises as pilot units transformed into joint stock companies. The Ministry of Finance announced the list of 19 State enterprises pilotly equitized.

After a period of trial, 7 governmentally selected units has asked for withdrawal; the ministerially selected enterprises either did the same or did not meet requirements of effective equitization (Legamex, Vietnam Soap Company). To date, only 5 State enterprises has been equitized as follows:

1. The Transport Agency Company (under the Ministry of Transportation and Communication) having operated according to Company Law since July 1993

2. The Refrigeration Electrical Engineering Corporation (under the HCMC Department of Industry) equitized since September 1993

3. The Hiệp An Shoe Factory under the Ministry of Light Industry, equitized since August 1994

4. The Animal Food Company under the Ministry of Agriculture and Food Industry, equitized since July 1995

5. The Long An Export Processing Enterprise, equitized since July 1995

In addition there are 3 State enterprises whose values have been recently assessed to prepare for equitization such as the Bình Định Ship Repairing and Manufacturing Enterprise, the Honey Company under the HCMC Department of Agriculture, and the Woodwork Enterprise under the Hà Nội Department of Trade. The other ministries, provinces and cities has not carried out equitization yet.

The five equitized enterprises are of small size, with small capital, most of them are involved in service, trade or trivial fields. The enterprises have operated in accordance with the Company Law only for a short time, so they have not enough conditions to make the summing up. But they on the whole have attained good achievements.

By April 1, 1994 the State still owned 6,240 enterprises, of which the concerns being able to change into joint stock ones represented a major ratio. So far, only 5 firms have been

equitized, 49 out of 53 provinces and cities and other ministries have not listed any business to pilotly equitize yet. This proves the implementation of state enterprise equitization has dawdled and not achieved desired requirements.

In the meantime, due to shortage of capital, some state enterprises, both central and local, in the road and river transport sector have attracted capital from their employees so as to buy new means and the contract of using means was very popular; 12 out of 15 state enterprises under the Department of River and Alongshore Transport has applied the form of contract and capital contribution. Through a survey of the trade sector in 47 State enterprises at the end of 1994, 46 had performed contract mechanism, of which 30% had mobilized capital, borrowed money from people inside and outside the enterprise and paid interest rate higher than banks, the rest also attracted loans but irregularly, only for seasonal and specific operations. The agriculture sector has assigned land and forest, some state farms sold gardens, herds to groups and farmers on a trial basis. The households and groups poured their capital into their land and carried out intensive farming according the enterprises' guidelines...All of this shows the requirement of capital mobilization by means of share, stock is very urgent, reasonable but still spontaneous in every concern. These activities should be supported to make the Government's concrete policies, especially ones applied for equitization of state enterprises.

## III. CAUSES

### 1. In the concept and advocacy

a. The equitization of State enterprises is a major policy but the steering documents are not clear, not effective on the legal basis. To implement this policy on a large scale, there should be law, ordinance on ownership transfer or specialized resolution of the Party Poliburo, the Central Committee, but these documents are not available.

b. The documents directing equitization are not systemized, have some contrary contents, the time of issuance is long, many matters are not definitely affirmed.

Example: Is land assessed in business value? What is the percent of business share the State need maintain and how much can the other sectors buy?...There are still argues in the concept and the implementation of concrete policy.

c. Every branch, level of govern-

ment bodies and social organizations have not fully understood the necessity to equitize part of state enterprises. Additionally, some argue improperly that to change into market mechanism is to privatize capital goods...and there are still different opinions: equitization is the loss of state ownership of capital goods which will cause the threat of being off socialist orientation. Therefore they are afraid and reluctant in the process of reforming the state enterprise structure including the policy of transforming state enterprises into joint stock ones.

Every ministry, branch, province, city dare not pilotly equitize enterprises which produce profit or need not keep 100% state-owned capital. They still feel like to use equitization to support loss-making enterprises and maintain the state ownership of firms contributing large payment to the Treasury (tobacco, beer, liquor...). As a result, the Government pilot scheme of equitization have not received warm response of leaders of government bodies yet.

The propagandization, publicization of pilot equitization have not been performed completely in the people and staff of state enterprises, even in which are planned to equitize.

### 2. Policies

- Equitization needs concrete policies for targeted enterprises in order to create dynamic in realization. The existing policies are not attractive enough in terms of benefits for the persons who take part in equitization.

- As for ministries, branches ruling over enterprises: The proceeds from stock sales are not encouraged to use effectively for production expansion. At present the proceeds from equitization are kept in the Treasury and not used to increase capital turnover.

- Regarding directors: The directors of state enterprises are assigned by the ruling agencies, their qualification and level are not clarified. Not a few directors cannot adapt to market mechanism yet, do not have independent operations in competition, equitization may not secure their position so they do not want to favorably respond to the government's plan since they enjoy the State subsidy and do not suffer risks as in joint stock companies.

- As for employees: the employees in State enterprises do not contribute capital and suffer risks in doing business, moreover in profit making enterprises they also receive other incomes (much bigger than salary) via profit distribution. When

changed into joint stock company, these benefits will disappear. In the subsidization conditions for state enterprise, the policy of profit distribution and income is slowly improved, the managers and employees do not grasp fully policy and still long for jobs for life. When the state-owned business makes loss, it is still subsidized, no one has to take charge of the business performance. On the other hand, they are not accustomed to investing capital by stocks due to risk, whereas forms of attracting capital through bank deposit, sales of bonds...both secure safety and have interest rate far higher than dividend.

The policy on land use between state enterprises and joint stock companies still has discrimination; state enterprises are entitled to use land and office comfortably, additionally to lease their properties for more incomes, joint stock may pay land rent, however the land lease policy is not stipulated minutely, causing many troubles in the process of equitization.

3. The process of equitization is still very complicated with many doors, many stages from selecting firms, making equitization scheme, to assessing business value, approving the implementation, The registration in compliance with the Company Law is still time-consuming. The cost of equitization is still large with annoying procedures which have not been timely changed yet.

4. The agency assigned to perform equitization has not enough authority. The Ministry of Finance currently take charge of it. The Ministry of Finance also assigned a specialized department including experts to carry out. The obstacles in the process of settling policy and technique in equitization between ministries, branches, localities...have not been informed to the authorized level for breaking through; there are plans which are submitted to higher level but slowly dealt with, having

bad effects on the promotion of equitization.

5. Some policies are already made but not put into operation yet:

a. The procedure of transferring state ownership to the equitized company's one is not carried out completely and uniformly.

b. The equitized company (excluding one company) have not transferred real stocks to shareholders. These shareholders received only certificates or stocks issued by the company.

c. The administrative procedures of equitization is not minutely defined such as the charter content, establishment licence, business regis-



mechanism; the current determination mainly depends upon account books, although applying advantage coefficient, but bearing subjectiveness of the assessor. When applying advantage coefficient, there are also different opinions and implementations.

b. The stock market, the secondary market, and the Security Exchange has not been formed, so the stocks cannot be transferred legally according to the market mechanism.

8. The inflation rate is high, depositing in the bank is safer than buying stock due to risk and dividend which may be lower than interest. Moreover stocks cannot be trans-

ferred to form the market price of stock. These are objective causes of the economy initially changed into the market economy.

In the above causes, the top one is viewpoint, advocacy have not been clarified, there are too many different opinions from various levels. The fear that equitization will cause the decline or loss of state ownership

ship, not keeping to the socialist orientation makes the ministries, branches, localities extremely cautious, and wait for more affirmation toward state enterprise equitization which is considered as a matter of political line and viewpoint. This situation has seen an upward trend from 1994 until now. In the two years 1994 and 1995 the pilot scheme has been almost stopped. The lack of consistency and unanimous approval led to different opinions in policies to implement equitization and perplexity of various leaders.

Otherwise, economic policies are not attractive enough to the employees in the concern, do not force them to buy stocks even in the concerns having necessary conditions for equitization. Therefore, the process of equitization has dawdled, not met requirements of target, pace, quantity and time as well.

( to be continued )