

(continued from the last issue)

**PROPOSALS TO KEEP ON  
EQUITIZATION OF STATE ENTERPRISES**

**T**hrough ten years of implementation of the Party's economic renovation line, the public sector has made good progress. The number of state enterprises reduced from 12,297 to 6,240, the growth pace went up annually, the GDP increased continually from 1991 to 1995, the revenue of the State budget accounted for 70-72% securing to meet the essential requirements of production, living, and the economy. State enterprises still played a leading role in the national economy.

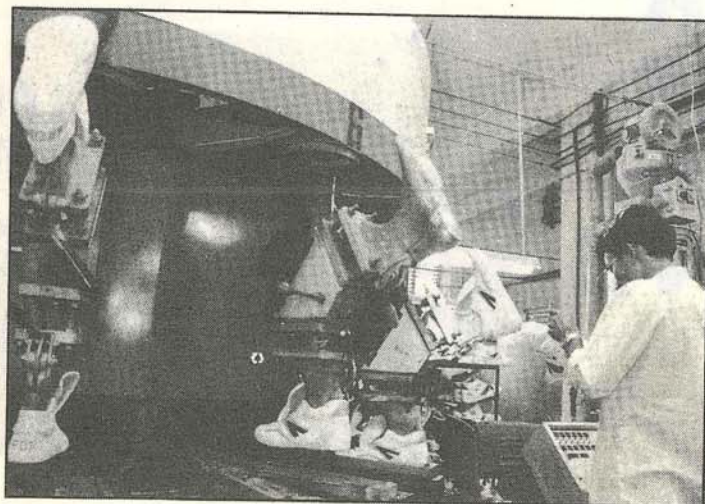
However state enterprises has been still dispersed, most of them are now badly in need of capital, their production lines are too obsolescent,



the labor productivity are very low, the product quality is poor, product design is still bad, so the competitiveness is weak. The management of enterprise has been slowly reformed, the roles of cadres and workers have not been clarified yet, the internal dynamic in every enterprise has not been strongly stimulated, the mind of waiting for state subsidy and depending passively on the Government is rather popular. Lack of capital, obsolescent technology and ineffective management are the key factors leading to low competitiveness and poor business performance. This is a big and common shortcoming of state enterprises, having bad effect on their leading role in the economy. By initially evaluating, some 50% of state enterprises (3,000) are facing with great difficulties in technology, market; their loss have been lasting, or

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

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their low return made them hardly gain firm footholds in the market.

This status quo shows strong measures must be taken to restructure the public sector, change the managerial mechanism in each enterprise, give impetus to attracting capital from inland and outland sources for the modernization of enterprises. One of these measures is to continue the equitization of state enterprises in compliance with the Resolution No 10/NQ/TW dated March 13, 1995 by the Party Politburo: "...Provinces, cities and ministries should have detailed plans on equitization of their affiliated enterprises and submit them to the Prime Minister for approval, must not carry them out in a casual and rushing way, producing bad effects on the economy, politics and society". To implement this above-mentioned resolution, the sug-



gestions about policies and solutions to keep on equitization in the time to come are as follows:

1. While there are not legal documents of the National Assembly yet (Law, Decree...), specialized resolution of the Party Politburo, the Central Committee on this matter, the Government should give green light to the pilot expansion of state enterprise equitization in 1996 and the next years with the number of 150-200 enterprises, an average of 2-4 enterprises for every ministry, sector, province and city direct under the central government.

2. On the target of equitization:

According to resolutions of the Party and the National Assembly, through the implementation of pilot scheme in the past couple of years, the target of equitization should be reaffirmed:

a. To mobilize capital, initially from workers, and the society including capital from foreigners and foreign organizations to invest in the innovation of technology and development of business.

b. To create condition for workers in the enterprise to become shareholders, improve business management, change managerial method; heighten the role of workers and contribute to beating down negative activities.

If the above target is achieved then the equitization will push up state enterprises' production and successfully transfer part of state ownership to shareholders, especially workers of the enterprise.

3. Classification of enterprises:

The Government should determine clearly and minutely the classification of state enterprises for equitization such as the ratio of shares hold by the State in each kind of enterprises, the shareholders: nationals, foreigners, overseas organizations...to avoid troubles in the implementation.

The state enterprises should be classified for equitization as follows:

a. Category 1: those are not equitized including enterprises enjoying monopoly and directly serving the national security and defense.

b. Category 2: state enterprises engaging in sectors which regulate the economy, affect markets in branches, localities or due to political reason...These businesses can be equitized but the state share must represent over 50% of the total capital and the shareholders must be workers in the state enterprise.

c. Category 3: state enterprises involving with service sector whose products are of medium scale and

widely consumed. They can be equitized. The shareholders may be individuals and entities within and beyond the enterprise including foreigners but the state share is still predominant (as stated in the Law on State Enterprise).

d. Category 4: state enterprises being of small and medium scales, engaging in sectors which have less important significance in the society, do not influence markets and the state economic structure in general need not take part in them, other economic sectors can be essentially developed. When they are equitized, the State only owns a small share (from 5% to 10%) or they are transformed into joint stock companies without state share.

In the stage of pilot expansion, the above classification of state enterprises (4 categories) can be performed by ministers, heads of pilot branches, the ministerial task force will consider and submit it to the Prime Minister for approval. In localities, the people's committee selects pilot enterprises and submits them to the Prime Minister after the Party Committee's approval or ministries, branches, localities make comprehensive plans and submit them to the Prime Minister for approval, and based on those plans, pilot scheme will be carried out.

4. Assessing the enterprise:

Assessing the enterprise for equitization have faced with troubles. Commonly, the government officials were afraid of loss of the state assets, so they wanted to overestimate whereas shareholders (especially workers in the enterprise) felt like to underestimate. Therefore many evaluation teams could assess the enterprise only for many times and after a long period. On the other hand, the decision No 202 CT dated June 8, 1992 stipulated: "The enterprise's value must be considered and passed by the evaluation committee including economic-financial experts appointed by competent governmental bodies and consultants specializing in the relevant sector..."

The evaluation committee at ministerial, provincial or municipal level comprises representatives of the Ministry of Finance (acting as chairperson), the State Pricing Committee, the General Department of Statistics, the Vietnam State Bank, the State Committee for Science".

The above stipulation is applied since there is not stock market yet. The establishment of two committees (value assessing committee and another for evaluating) with many members and agencies and there is



no responsible agency, so it is time consuming and wasteful.

It is recommended that the Ministry of Finance (the General Department for Management of State Capital and Assets in Enterprises) coordinate with the State Auditing Department, developer of equitization project and relevant agencies (if need be) to set up the committee for evaluation of enterprise's value. The estimation will be put forward by the pilot business. The evaluation committee may approve and take final charge of the rightness of the enterprise's estimation.

In particular the land value used for business performance is not calculated in the enterprise value. The joint stock company must pay land rent as regulated by the Government.

The detailed tasks of assessing the enterprise value will be designed and assigned for the evaluation committee's uniform implementation in the pilot scheme.

5. Equitization form:

Apart from the equitization form defined in the Decision No 202/CT dated June 8, 1993 by the Prime Minister, some following forms are suggested for application:

a. Like the present application: besides the state share with different influence, the rest can be sold to the enterprise's workers and the outside individuals and entities.

b. On the ground of the well assessed enterprise value, the current

## CORRECTION

The middle name of Minister of Education and Training is HÔNG, instead of HOÀNG as misprinted on p.3, the EDR No 18. The Economic Development Review sincerely apologizes Mr Trần Hồng Quân and readers for the mistake.



state capital must be maintained and the enterprise will sell stocks whose ratio is stipulated with the aim to attract other capital sources to increase the enterprise value. If the additional capital from stock sales does not surpass 50%, the management board won't be formed (small business) or there are no shareholders participating in the management board, the enterprise still operate in compliance with the Law on State Enterprise. If the figure exceeds 50%, the state enterprise will be transformed into the joint stock company whose the management board will be formed with the participation of shareholders and operating in compliance the Company Law.

c. Separating part of the state corporation (workshop, enterprise, production department, transport department...) having condition for equitization to transform into joint stock company in which the corporation whose capital is allocated by the Government is the owner of the state share.

d. Establishing new joint stock company which relies on a current enterprise acting as a founder with a view to realizing a business project, the founder will sell stocks to lure investment from other state enterprises and the enterprise's workers, the shareholders can call for capital from other sources in the country.

e. The state enterprise which need not any state share can sell off shares to those within or beyond the enterprise in order to form the new joint stock company without state share.

f. Pilotly selling state enterprise's shares to foreigners and overseas organizations in competent enterprises under strict direction.

(This point is stipulated in the instruction No 84/TTg dated March 4, 1993 but it has not been implemented yet)

To well perform the pilot expansion, some policies, measures and organizational stages should be amended and supplemented for convenience and efficiency.

**6. Policies and measures need amending and supplementing:**

On the base of maintaining current policies: preferential policies for enterprises and their workers in the pilot scheme should be made as follows:

a. Preferential policies for state enterprises transformed into joint stock companies:

- In addition to enjoying privileges stated in the Law on Encouragement of Domestic Investment, Decree 29/CP dated May 12, 1995, the enter-

prise also enjoys a 50% reduction of profits tax in the first two years, or an exemption of profits tax in the first two years if the paid profits tax is smaller than that of the previous year when changing into the joint stock company, or in the first two years pays profits tax that does not surpass the number paid in the last year when being a state enterprise.

- The state enterprise when becoming the joint stock company is still granted loans at the state commercial bank according to policies and interest rates applied to state enterprises in the period not exceeding 24 months.

- The essential costs for the transformation of state enterprises into joint stock companies are deducted from the capital earned from stock sales at the reasonable level regulated by the Ministry of Finance.

- If the enterprise needs indepth investment and production expansion with its plan approved by competent bodies, it is permitted to use partly or wholly the proceeds collected from stock sales of state capital besides the share which should be kept to meet the requirement of indepth investment in the form of credit loans from the State budget.

b. Preferential policies for workers in the enterprise:

- The profits should be distributed to workers in the form of granting shares to everyone.

Every worker in the enterprise's regular staff should be granted some shares according to their seniority and the nominal value of stocks approved in the plan of equitization. This sum will be taken from the proceeds of stock sales based on the ratio of the permitted workers' share.

- The enterprise's workers are entitled to borrow without interest in the period not exceeding 5 years in the form of buying stocks with the average of VNĐ5 million per capita.

The enterprises having self-provided capital which surpasses 40% of total capital (assigned by the Treasury and self provided) are permitted to lend workers VNĐ7 million each on average, VNĐ10 million at most in the maximum period of 5 years.

When the workers buy stocks by their own money, they still borrow by buying more stocks with the preferential interest rate in accordance with the ratio of capital annual return. These stocks will be possessed, given dividend, inherited but cannot be transferred yet.

- When the enterprise is transformed into the joint stock company, its staff still work in the new concern (if they want) as stipulated in the

Labor Code issued on June 23, 1994.

If there is redundancy due to business rearrangement, the unemployed will enjoy the whole insurance policy for the past working years in the state agencies and jobless allowance regulated in the Labor Code.

Just in the first three months there is redundancy when the enterprise changes into the joint stock company, the state budget and the enterprise's fund is responsible for paying allowance to the employed. After the above deadline, it is performed in accordance with the Labor Code.

**7. Using the proceeds from stock sales and dividend**

The proceeds from stock sales and dividend are called capital returned from stocks of the State; in principle it is kept in the separate account of the State budget at the Central Treasury and used for indepth investment, and development of new concern. It conforms to the Decision No 1256-TC/TCDN dated December 13, 1995 issued by the Finance Minister.

**8. Organization and implementation:**

Drawing from past experience, the staff who help the Prime Minister instruct the Central Steering Committee for Equitization of Enterprise to carry out this pilot expansion include the permanent official of the Central Steering Committee for Renovation of Enterprise acting as a chief, representative of the General Department for Management of State Capital and Assets in the Enterprise under the Finance Ministry as a standing member (the General Department's Committee for Equitization as standing body), representatives of the Vietnam Trade Union and the Ministry of Labor, War Invalids and Social Affairs as members. Each above agency should appoint an expert in the standing body. The Steering Committee assumes responsibility to make plans, submit them for approval, devolve implementation to various levels and set up the process of equitization, directly coordinate with the project developer to carry out in enterprises whose capital is over one billion đồng, watch and inspect ministries, branches and localities to equitize devolved enterprises (having capital of under one billion đồng), consult the Prime Minister about newly arising problems timely in order to well perform this pilot expansion. In the middle of 1997, the Steering Committee will sum up the pilot scheme and outline the plan on continuing equitization in the years 1998-2000■