

PROCESS OF EQUITIZATION OF STATE COMPANIES AND ITS PROSPECTS

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I. GOVERNMENT AND PARTY DECISIONS ON EQUITIZATION

The policy on equitization of state companies was first introduced in the early 1990s:

-Resolution of the second conference of the VCP Central Committee of the 7th term (November 1991) said: "to change certain state companies in good condition into joint stock companies and form some state-run joint stock companies, it's necessary to carry out carefully a pilot scheme and draw much-needed lessons before introducing it on a larger scale".

-Resolution of the mid-term conference of the VCP National Congress of the 7th term (January 1994) decided to equitize certain state companies in order to attract more capital.

-The politburo's Decision 10-NQ/TW (March 17, 1995) on the task of enhancing the leading role of state companies read: "a proportion of shares of state companies of specified kinds will be sold to their workers, and individuals or organizations outside the companies".

-Announcement 63-TB/TW on April 4, 1997 of the politburo affirmed the firm and active continuation of the equitization of state companies in the future.

-Resolution of the 10th session of the 8th term National Assembly on Dec. 26, 1991 on the five-year plan for socio-economic development 1991-95 said: "to pilot the equitization of certain state companies in order to mobilize possible sources of finance and draw necessary lessons".

To realize these resolutions and decisions made by the VCP and the National Assembly, the Government has issued the following documents:

-Decision 202/CT issued on June 8, 1992 by the Chairman of the Council of Ministers (the PM now) on the continuation of the pilot scheme to change certain state companies to joint stock companies; and Decision 203/CT (June 8, 1992) to select seven state companies to be

equitized under the direction of the central government and order ministries and provincial governments to make pilot schemes to change one company or two under their management to joint stock company.

-Directive 84/TTg (March 4, 1993) of the PM on the realization of the pilot scheme to equitize state companies and measures to diversify ownership of state companies.

-Decree 28/CP (May 7, 1996) of the Government on the task of changing certain state companies to joint stock companies.

-Decree 25/CP (March 3, 1997) of the Government on adjustments to the Decree 28/CP.

-Directive 658/TTg (Aug. 20, 1997) of the PM on the task of carrying out firmly the equitization of state companies.

II. PROCESS OF REALIZING THE EQUITIZATION PROGRAM SINCE 1992

1. In realizing the Decision 202/CT, all ministries directed state companies under their control to register for equitization. Consulting this list, the Chairman of the Council of Ministers made the Decision 203/CT to select the following seven state companies to be equitized under the direction of the central government:

(1) Vietnam Detergent Factory (Ministry of Industry)

(2) Thống Nhất Match Factory (Ministry of Industry)

(3) Hà Nội Raw Materials for Animal Feed Factory (Ministry of Agriculture)

(4) Long Bình Wood Processing Factory (Ministry of Agriculture)

(5) Hải Hưng Materials Company (Ministry of Trade)

(6) Packing Company (Hà Nội municipal government)

(7) Legamex (HCMC municipal government)

After a while, all of them asked to withdraw from the program for one reason or another.

Over 30 companies have registered with the Ministry of Finance for equitization and other three

asked to be changed to limited companies according to the Directive 84/TTg. Four years after the Decision 202/CT, the following five state companies have been turned into joint stock companies:

(1) Transportation Union Agency (Ministry of Transport)

(2) Refrigeration Electrical Engineering - REE (HCMC municipal government)

(3) Hiệp An Footwear Company (Ministry of Industry)

(4) Long An Manufactured Goods Export Company (Long An government)

(5) Animal Feed Processing Company (Ministry of Agriculture)

Two state companies changed to limited companies were Hồng Bàng Trading and Service Company (Hải Phòng) and Đức Tân Floor Tile Company (HCMC).

Lessons drawn after these four years have helped to make adjustments to the equitization program. On May 7, 1996, the Government issued the Decree 28 with more detailed regulations as a replacement for the Decision 202/CT.

2. In realizing the Decree 28/CT, the ministries and local governments have paid more attention to the equitization program and have carried out the following tasks:

a. Beefing up the organization by assigning more officials to the Central Equitization Direction Board, and forming local equitization direction boards: Up to now, the equitization machinery includes:

-The Central Equitization Direction Board consists of the Minister of Finance as its chairman. Membership of this board consists of reps of Ministries of Planning and Investment, and Labor-War Invalid and Social Affairs; Central Management Board for Companies Renovation; Central Economic Commission, VCP Central Personnel Commission and Vietnam Confederation of Trade Unions.

-There have been local equitization direction boards in 30 out of 61 provinces and cities. In the rest, this task has been assigned to local management boards for companies

renovation or newly formed task forces.

-Equitization Direction Boards have been established in 16 ministries and state-run corporations.

Generally, the formation of Equitization Direction Boards in ministries and provinces has taken place slowly and lacked working plans. Many provincial governments have had tendency to wait and see what would happen in other provinces.

b. Some ministries and provincial governments have held meetings to communicate the policy on equitization to high-ranking officials; but many others haven't paid full attention to this task. This was one of the causes that slowed down the equitization process.

c. Equitized state companies

Up to now, over 200 state companies (equaling 3% of the total amount of state companies) have registered for equitization. After the Decree 28/CP, 13 companies have been equitized, 30 ones are in the process of revaluation and auditing. At present, 18 equitized companies have started their business according to the Companies Act.

-Equitized companies distributed among industries:

- + Transport: 4
 - + Manufacturing: 7
 - + Construction: 1
 - + Agricultural products processing: 3
 - + Service: 3
- Equitized companies distributed among provinces:
- + HCMC: 10
 - + Hà Nội: 1
 - + Hải Phòng: 1
 - + Long An: 1
 - + Ninh Bình: 1
 - + Bình Định: 1
 - + Cà Mau: 1
 - + Đà Nẵng: 1
 - + An Giang: 1

-Of these 18 equitized companies, there is one that the Government held no share: Hà Nội Investment and Trading Company. Of the rest, the Government held from 18% to 51% of shares issued, workers in these companies held from 18% to 50% of shares and the remains were sold to the public.

- Rough estimate of the equitized companies: of these 18 equitized companies, 11 come into operation for at least one year; two companies (REE and Transportation Union Agency) have had favorable conditions (good performance, high profits, etc.) before being equitized; many state companies such as Vifoco, Long An Manufactured Goods

Export Company, and Bình Định Shipyard Company have had poor performance, bad profits and reduced capital before equitization.

After equitization, the business performance has been improved and been of great benefit to the companies, the Government and the labor force as well:

+ Regarding equitized companies:

- . Capital increased by 45% a year on average
- . Sales by 56.9%
- . Profits by 70.2%
- . Payment in tax by 98%
- . Employment by 46.8%
- . Workers' wage by 20%
- . Return on sales by 14.1%
- . Return on capital by 74.6%

+ Regarding the Government:

Because of higher sales and profits, equitized companies could pay more income taxes. In addition, the government also received:

. VND30,207 million from selling the shares

. VND6,995 million worth of dividend for shares it held.

. VND522 million of interest paid by workers who bought shares on credit (not including a total loan of VND14,749 million to workers of equitized companies payable after five years)

. Value of share held by the Government increased from VND28.005 after the equitization to VND47.044 at the end of 1996.

In 1997, equitized companies had better performance as compared with 1996:

- . Sales equaled 63.6%
 - . Profit equaled 60.6%
 - . Retained profit increased by 15%
 - . Workers' wage increased by 9%
 - . Return on capital reached 28%
- + Regarding the labor force

After equitization, workers' income was 1.5 - 2 times higher, not to mention dividend of 22-24% a year. Besides the old labor force, the equitized companies also created 1,000 new jobs.

Investment in equitized companies produced more income than bank deposit and capital contributed by workers was 1.5-2 times higher than what was used for buying shares. Because of high dividend, the value of shares issued by REE and Transportation Union Agency has increased by 400-500%.

d. Besides equitized companies, some ministries and local governments have established some 200 joint stock companies of various forms: they could be formed by dif-

ferent state companies, by state companies and private persons, or by two or more private persons.

e. Up to now, the number of equitized companies is small and they haven't operated long, but from their initial achievements, we could draw the following remarks:

-Capital mobilized from the public has been used by these companies to make intensive investment or import new equipment, thereby improving labor efficiency, business performance and profit.

-Interests of workers (or shareholders) were identified with those of the company and this fact encourage them to work harder and put forward new demands for the management to obtain better performance.

-Equitized companies could develop strong point of the old style management mechanism, overcome shortcomings and adjust themselves to the market mechanism.

-Equitization is a process of changing the ownership from the government to shareholders, it isn't the privatization. This process aims at helping laborers control the company, making the best use of available sources of finance and increasing social assets.

f. Besides achievements, there are also many problems to be solved. It's necessary to make the following amendments to regulations on equitization:

-Method of valuing assets of state companies before equitization.

-Interests of state companies after equitization.

-Interests of shareholders and workers of equitized companies, especially workers with low income.

-Official mechanism for controlling joint stock companies.

-Rights and duties of reps of the government in equitized companies.

-Amendments to Companies Act and necessary subordinate legislation.

-Procedures for equitizing state companies are complicated and need to be simplified.

g. Why the equitization was carried out slowly?

-Ministries and local governments didn't understand well the equitization policy.

+ Some local governments were afraid that the equitization could cause damage to the governmental control and the role of the public sector, therefore they were reluctant to support this program.

+ The leadership of certain state companies didn't realize the need

for equitization. Most of them worried about their interests and positions. Laborers worried about their jobs and income. So they weren't interested in equitization.

-Many state companies had poor performance. The laborers didn't want to risk buying shares. There is no stock market.

-The government direction was slow and ineffective.

+ There is no legislation on equitization (law, act, or ordinance).

+ Documents dealing with equitization didn't provide clear answers to many problems, such as:

What are responsibilities of ministries and local governments in equitization?

Is equitization a right or an obligation?

Which companies will, or won't, be equitized?

What are percentages of shares distributed to the Government, the labor force and the public?

Shares are allowed to be sold to foreign buyers, but how will they be sold? There is no clear guidelines on this issue and most authorities didn't pay full attention to this source of finance.

+ Legal procedures for equitizing a state company are complicated and time-consuming: such as procedures for transferring the ownership of land, factory buildings and capital, especially in companies under control of many authorities.

-Most officials working in central and local equitization direction boards undertake at least two tasks concurrently, so they couldn't concentrate on the equitization. The Central Equitization Direction Board isn't authorized to decide on equitization plans of each state company. It is only responsible for giving advice and keeping a close watch on the equitization carried out by ministries and local governments.

-There is no incentive scheme to encourage state companies to take part in this program.

If they stay state companies, they will enjoy preferential treatment from the government (import and export licenses, bank loans, etc.)

In valuing assets of the company, there is no scientific basis for assessing advantages enjoyed by the company; an equitized company enjoys only a tax exemption of 50% for the first two years while foreign-invested and local companies enjoy a higher percentage.

-One of the main objectives of

the equitization is to attract dead money held by the public but the proportion of shares sold outside is small. The equitization policy wasn't communicated to the public and even to the laborers of the companies that would be equitized.

III. EQUITIZATION PROGRAM IN THE COMING YEARS

The 8th VCP National Congress affirmed that: "(we should) carry out actively and firmly the equitization program in order to attract more capital, encourage state companies to improve their performance, and increase the public assets. This is the cooperation between the Government and the people, not a privatization process. Besides state-owned companies, there will be companies in which the Government holds the better part of their shares or sell some to laborers or the public if need be. The money received from sales of shares will be used for expanding the business."

The report on the Government Work Program at the 1st session of the 10th term National Assembly said: "As for medium- and large-scale state companies with good performance and potentials for development, it's necessary to diversify the ownership through equitization in order to increase working capital; proportions of shares held by the Government and shares sold to the labor force or the public will be determined depending on the ability to attract capital of each company."

To carry out these directions, the following tasks must be done:

(1) To study and master governing ideas of the equitization of state companies presented in Documents of the 8th VCP National Congress, Politburo's Announcement of the continuation of the equitization program and the Decree of the Government on the task of rearranging state companies in preparation for equitization and ownership diversification.

(2) Ministries and provincial governments should rearrange state companies under their control and divide them into three groups:

-Companies under the state control (by holding all, or most of shares issued) in certain industries that private persons don't want or have ability, to invest in.

-State companies with capital of under VNĐ1 billion and poor performance could be rented out, sold, merged into the others or declared bankrupt.

-The rest will be equitized through suitable plans regardless of their size or business.

(3) All ministries and provincial governments must establish the Equitization Direction Board immediately. In big cities such as Hà Nội and HCMC and certain ministries, the Board must be made specialized. Government officials and leadership of state companies must get right understanding of the policy on equitization, and then, communicate it to the labor force of state companies and the public as well.

(4) Subordinate legislation on the equitization must be adjusted, and new document could be issued if need be, with a view to making them suitable to major problems arising from the equitization in the past. These problems are: policies on equitized companies and their laborers, the relationship between companies and farmers who supplied raw materials, preferential treatment to low-income laborers.

(5) The Central Equitization Direction Board must pay full attention to the equitization in important ministries and provinces, such as Ministries of Industry, Agriculture and Rural Development, of Transport, of Mariculture, of Trade and of Construction; and in HCMC, Hà Nội, Hải Phòng, Bình Dương, Đà Nẵng, etc. and concentrate on companies and industries mentioned in the Politburo's Announcement 63-TB/TW and the PM's Directive 658/TTg.

(6) In 1998, some 150 state companies must be equitized, and the Government will set forth targets for each ministry and local government.

(7) The Government will delegate ministries and local governments to solve problems arising from the equitization, instead of waiting for direction from the Government.

(8) Responsible authorities must communicate the policy on equitization with all adjustments to the public and state companies with a view to raising public interest in this program.

To carry out well these tasks will help speed up the equitization program, and the industrialization and modernization as well.

(This is a speech delivered at the international workshop on the equitization of state companies held by the Ministry of Finance and the WB on Feb. 19 and 20, 1998 in Hà Nội)