

SOME PROBLEMS ARISING FROM THE EQUITIZATION OF STATE COMPANIES

by TRẦN TÔ TỬ

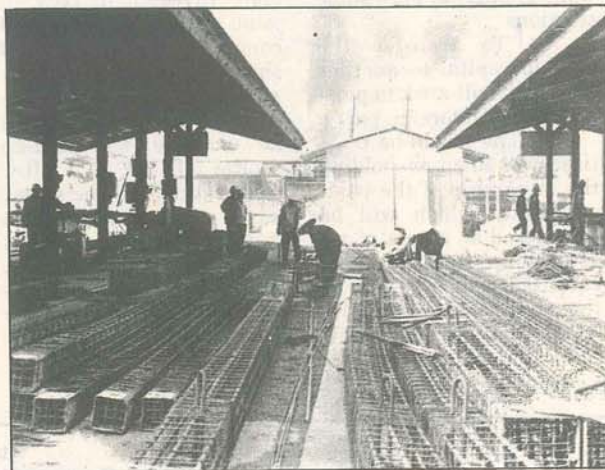
After months of neglect, the problem of equitization of State companies (SCs) became the center of attention again when the Government issued the Decree 28/CP deciding on changing some state companies into limited companies. However, many problems of equitization in the past haven't been solved yet.

I. THE PAST EQUITIZATION PROCESS: SLOW OR FAST?

Many experts said that the equitization of SCs in the past few years had taken place at the highest speed in HCMC than in any other provinces, but in fact, this speed was very low if we set it against a background of policy set forth by the Party and the Government since 1987.

In reality, it's difficult to assess the equitization as slow or fast, because we had no master plan for this process which enables us to make correct assessments.

In present conditions when both policy-makers, managers and the public have just begun to get accustomed to the limited companies and stock exchange, when the Companies Act hasn't been complete and we have no experience of selling a company then we can consider equitization of several SCs within some years as fast enough. On the other hand,



if we take the demand for rapid equitization of SCs with a view to restructuring the system of SCs, making the public sector financially strong enough to play the leading role in the economy into consideration, then the speed of SC equitization in the past few years was too slow.

Thus, the speed of equitization isn't the problem when the Government hasn't set forth a master plan for equitization with clear-stated targets. What we should pay attention to are how this equitization process was carried out, and what lessons could be drawn from this process. Unfortunately we haven't summed up the pilot scheme to equitize some SCs in the past while the Decree 28/CP wants to introduce equitization at a larger scale.

For example, up to now, the pilot scheme to equitize SCs in the past provided no experience needed for the equitization of SCs in finance-banking,

tourist, foreign trade, agriculture... businesses. So there is no surprise when the equitization of SCs in HCMC met with a lot of difficulties which require the central Government to find out appropriate solutions.

II. WHY DID EQUITIZED COMPANIES MEET WITH DIFFICULTY IN SECURING BANK LOANS?

Many equitized companies met with this difficulty although the Article 10 of the Decree 28/CP affirmed that: "Equitized companies are allowed to borrow money from state commercial banks enjoying the same status and the same interest rate as state-run companies". But state commercial banks are bound also by banking principles.

This fact causes no surprise, because in the past all debts owed by state-run companies were guaranteed by the Government and this guarantee was unlimited, that is why

state commercial banks are always ready to supply loans to these SCs. When these companies become joint-stock companies which are limited by guarantee, banks will certainly consider the borrower's solvency before supplying loans. At present, the State-run Companies Act and the Decree 59/CP affirmed that SCs are limited liability companies. This is why both SCs and equitized companies met with difficulty in borrowing from banks.

Then where the problem is? In the market mechanism, limited companies are those which have the biggest ability to attract money from the public by issuing bonds and bills. Then, if equitized companies can only secure its much-needed capital from bank loans, we have to re-examine the equitization of these companies.

It's worth noting that one of objectives of the equitization is to attract investment from the public when the source of finance from the Treasury is too limited to supply more subsidies to SCs. Thus, in making plan to equitize a SC, proper attention must be given to the task of making the best business strategy and financial structure (relation between assets and liability) in order to attract investment, repay old debt,

secure enough capital for new projects. In equitizing SCs in the past, we seem to pay only a little attention to this task and concentrate too much on revaluation of assets of would-be equitized companies.

III. HOW TO SETTLE DEBTS AND PAID-UP CAPITAL AFTER EQUITIZATION?

This is one of worrisome problems to would-be equitized companies although they recognize that equitization will help improve the financial situation.

All companies before equitization, have financial problems needed to be solved. Settling debts is also a problem to the process of making financial plans. Companies have to negotiate with debtors and creditors about ways of settling debts, except for the cases in which existing

assets aren't big enough to repay debts. In these cases, assets of companies are too small to be equitized.

As for paid-up capital in joint ventures, the three following problems must be dealt with in equitizing an SC:

1. To making a plan to settle paid-up capital in joint venture: Up to now, there is no solution to this problem, therefore we want to suggest here some solutions:

a. To transfer the paid-up capital to another SC which will work in partnership with foreign party.

b. The would-be equitized will keep on holding the ownership of the paid-up capital which will be considered as a part of assets being equitized. The equitized company will be the new owner of this paid-up capital, and the new

partner in the joint venture.

c. To equitize this paid-up capital, that is, the Government had better carry out a pilot scheme to equitize a joint venture, a new way to diversify ownership in joint ventures with foreign partners.

2. To open negotiation with foreign party about plans to settle this paid-up capital. According to Foreign Investment Law, a joint venture is a limited company, the transfer of share capital must be agreed on by related parties. Taking the solution (b) for example, the paid-up capital of the SC, after equitization, will be under joint ownership, so this transfer must be accepted by other parties in joint venture, because these parties will decide whether they want to work in partnership with the new party or not.

3. To evaluate the paid-up capital: Value of this capital will increase or decrease depending on business performance and prospect of the joint venture. This value will be taken into consideration when assets of the SC is revaluated, if we take the solution (b).

What mentioned above are only some problems discussed by the conference of equitization of SCs held by the Ministry of Finance in HCMC in last October. These problems show that equitization of SCs is a center of public attention which is worth of further discussion until the Government succeeds in making a master plan for equitizing SCs from now to 2000.

EPCO AND THE TASKS OF PAYING TAXES AND IMPLEMENTING THE LABOR ACT

by NGUYỄN TRƯỞNG

In the conference on "Legislation on Tax Obligation and Implementation of Labor Act" held by the HCMC Public Prosecution in Nov. 29, 1996 in HCMC, Epco is introduced as a company completing the tasks of paying taxes and implementing the Labor Act.

As for tax payment, in the period from 1993 to November 1996, Epco has made a total tax payment of VNĐ356 million with an increase of 70%-100% on average every year.

The company also implemented correctly the Labor Act with a view to ensuring its laborers all interests. Besides attempts to increase the average wage of its laborers (the per capita average monthly wage increased from VNĐ350,000 in 1991, to 500,000 in 1992, 650,000 in 1994, 800,000 in 1995 and 1,100,000 in 1996), the company has signed a group labor contract which ensures all of its laborers a basic wage rate, social insurance, annual incentives and bonus, health insurance and industrial injuries insurance. As for the health insurance, the company has made great contributions to

the health and social authorities every year: VNĐ144,500,000 in 1993; 193,705,600 in 1994; 30,249,000 in 1995 and 35 million in 1996. As for industrial injuries insurance, the company contributed VNĐ22,484,000 in 1993; 28 million in 1994; 30.240 million in 1995 and 32 million in 1996.

The company also received an award from the HCMC Customs in 1995 because it has paid all customs duties on time.

The Epco Trade Union, because of its efforts to protect interests of laborers, has received a lot of awards from the Trade Union of District 3, HCMC Association of Trade Unions and Vietnam Association of Trade Unions, and particularly, the Labor Order of 3rd class from the President.

Because of its great achievements, Epco, in spite of its status as a non-state company, was requested to present its experience in the said conference.