

The equitization has been considered by the Government and VCP as an important measure to reform the system of state companies, increase their legal capital and improve their business performance. To carry out this program, the Government has issued many decisions and other guidelines (Decisions 143/HĐBT on May 15, 1990 and 202/CT on March 8, 1992, Directive 84 TTg on March 4, 1993,

that equitization would cause harm to socialism. Most laborers in the public sector are afraid that equitization will deprive them of jobs, interests and position.

- Certain conditions (methods of revaluing assets, stock market, etc.) needed for equitization aren't available. The revaluation of assets is based only on account books and no attention is paid to intangible assets. It's hard to trade in stocks and

Companies to be equitized meet with difficulties in dealing with existing bad debts and dead stocks.

- Many companies have no legal documents that prove their ownership of fixed assets (because they were transferred to new authorities after the Liberation Day, or they were lost as successive directors come and go) and this situation makes it difficult to revalue these assets.

- Some companies rent factory buildings and ware-

ferent governmental bodies although the Decree 44/CP has helped to settle some of them. Anyway, many problems arising from the equitization process need to be studied and satisfactory measures to solve them should be worked out.

2. Urgent problems to be solved

a. Control of proceeds from the sale of shares: The rule that equitized companies should pay proceeds from the sale of shares to bank accounts is unreasonable because these sums of money will lose their value if the equitization is time-consuming and inflation rate is high. So the Government had better allow these proceeds to be deposited with commercial banks for interest and take other measures to control the use of these proceeds.

b. Control of the proceeds from the sale of state-owned shares: Be-

OBSTACLES TO EQUITIZATION OF STATE COMPANIES

by NGUYỄN TẤN HOÀNG

Decrees 28/CP on May 7, 1996 and 44/CP on June 29, 1998. However, the equitization is no easy task because we lack experience and knowledge of policy making process, necessary techniques and legal formalities. That is why after eight years, only a handful of state companies have been equitized and most of them are small ones.

1. Obstacles to the equitization in recent years

- Policies on equitization aren't consistent and detailed enough. Many problems, such as equitization procedures, method of evaluating company assets, preferential treatment to equitized companies, use of proceeds from the sale of shares, aren't clarified. That is why the equitization seems unwelcome to many managers and was prolonged unnecessarily.

- Argument over equitization hasn't yet finished. Many people even thought



shares when there is no stock market. Financial information isn't disclosed regularly enough to attract investing public.

- Certain policies relating to the equitization (interest rate on savings accounts, limit on bonuses, treatment to workers, etc.) aren't suitable to market mechanism.

houses from other organizations and rebuild them but they have no documents certifying their ownership. Some factories, according to new town development plan, have to be removed, so they seem unattractive to investors.

Solving these problems will take a lot of time and require efforts of dif-

cause many laborers are afraid that the equitization will harm their interests, so the use of these proceeds (for providing training courses to laborers, making payments to redundancies, buying shares from well-managed companies, etc.) should be publicized with a view to helping laborers in companies to be equi-

tized get rid of their worries.

c. Preferential treatment to laborers: Decree 44/CP gave more benefits to laborers of companies to be equitized than previous Decrees did, however, this preferential treatment isn't really attractive because companies differ from one another in their capital, labor force and seniority, so laborers in different companies won't get the same benefit from this Decree which gave laborers no more than 20% of total value of the state capital put in the companies and allowed laborers to buy 10 shares at most for each working year. Thus, laborers in companies which had assets of low value and just come into operation for a short time will get less benefit than laborers in other companies will. So the government's preferential treatment must be set on case-by-case basis. In our opinion, the Government had better allow laborers in question to buy shares on credit, or get bank loans to buy shares or get a fixed amount of shares for free.

As for laborers who are considered as poor, Decree 44/CP allowed them to buy shares at preferential prices and pay for them in 10 yearly installments but this Decree didn't define what a poor laborer is. It will be unreasonable to classify them according to standards set by the Ministry of Social Affairs and War Invalids which consider persons with monthly income of VND144,000 as poor, because such income isn't enough for them to make both ends meet, not to mention buying shares, even at preferential prices. So the Government should make this definition clearer and suitable to reality with a view to ensuring equal opportunities for all laborers.

In short, the policy to give preferential treatment

to laborers of equitized companies should be flexible enough to be suitable to all situations in the socio-economic life.

d. Information about the equitization program: It's necessary to make a plan to publicize information about the equitization of state companies with a view to raising interest from the public. Experience from the equitization program in HCMC in the past few years shows that just because of efforts to publicize this information day after day, this program has attracted not only the business circle but also small savers as well. Some experts from Taiwan have observed that while the Government was facing shortage of funds, most members of the public tended to spend their savings on consumer goods instead of turning them into productive investment. Therefore, if the Government succeeds in helping the public learn more about the equitization, dead money will be mobilized in large quantities.

e. Evaluation of company's assets: Decree 44/CP has facilitated the equitization by introducing new regulations about the evaluation of company's assets, some of them are:

+ Expenses on equiti-

zation will be covered by the state.

+ The Ministry of Finance and the Vietnam State Bank, by their Interministerial Circular 102 dated May 18, 1998, tried to settle all accounts payable and receivable of the company.

+ Advantage value of the company (or value of all intangible assets) is determined by the profit ratio in the 3-year period before the equitization and only 30% of this value is credited to the real value of the company.

These regulations will certainly encourage the public to buy shares from companies under equitization and accelerate this program. However, as we know, the value of a company is not only a grand total of all assets values, it also depends on its financial structure, the usefulness of these assets and the ownership of these assets as well. To facilitate the evaluation of company's assets, in our opinion, the Government should deal with the following matters:

+ Legal documents for assets allocated to companies just after the Liberation Day.

+ Value of real assets allocated to companies and then repaired or upgraded by companies.

+ Value of assets al-

located to companies and then, no longer used for their original purpose (being turned into houses for company's workers for example).

In addition, when evaluating company's assets, the Government should bear in mind that all assets will be of interest to certain buyers. So the Government had better put assets under the state ownership out to tender in order to make better proceeds. When selling part of these assets, prices offered should be reasonable or slightly low, instead of offering a high price and then reducing it and thus causing damage to the public image of the company.

As for the advantage value of the companies, it's not necessary to credit only 30% of it to the real value of the company. This percentage is acceptable when most shares are sold to workers of the company. When shares are sold to the public, the total advantage value should be taken into account.

f. Assets originated from company's retained profit or loan capital: This is an urgent problem that causes a lot of worries to the labor force of the company because the value of these assets differ over companies and this value is the fruits of all workers of the company. It's unreasonable to allow only 30% of the value of shares under the state ownership to be sold at reduced prices to laborers of the company whose retained profit equals 40% of the company's value, while such companies (as compared with loss-making ones) are deserving of better preferential treatment. One of solutions to this problem is to divide part of the retained profit among laborers to help them buy shares.

We believe that solving these matters will make the equitization produce intended results.

