

# Arising Problems in HCMC SOE Equitization

by ĐOÀN NGỌC PHÚC

## 1. Operations of HCMC equitized SOEs

Under Vietnam's restructuring of state-owned enterprises (SOEs), the equitization of HCMC-based has been launched since 1992. Until December 31, 2004, as many as 180 HCMC SOEs had gone public. The HCMC Authority for SOE Restructuring shows the statistics of these enterprises as follows:

- Total state-owned capital in books: VND1,775,308 million.

- Total state capital after reassessment: VND2,552,951 million (up 43.8%).

- Total chartered capital: VND2,860,420 million.

- Additionally mobilized capital: VND307,468 million.

- Average chartered capital stock:

- + State: 28%

- + Workers: 54%

- + Outside shareholders: 18%.

In 2004 alone, the city People's Committee signed a decision to transform 43 SOEs into joint stock companies (Four of equitized companies had a chartered capital of VND100 billion), attaining 100% of the Government plan with total chartered capital of VND1,028,062 billion. In these enterprises, the State holds a stock of VND392.815 billion (accounting for 38.2% of chartered capital); workers VND404.002 billion (39.3%); auction VND231.244 billion (22.5% of chartered capital, up 3 times as compared to 2003). The average capital of an equitized enterprise reached VND24 bil-

lion (VND17 billion in 2003); the ratio of auction to chartered capital was higher than that of 2003 (22.5% compared to 15%).

Out of these 180 equitized SOEs, 120 enterprises had chartered capital of more than VND5 billion; 9 listed their stocks on the HCMC Securities Trading Center (REE, SGH, TMS, SAV, GIL, KHA, SFC, BBT, PNC) and 41 had state controlling shares (accounting for 22.78%).

According to the HCMC Authority for SOE Restructuring's survey at 69 equitized SOEs which have done business as joint stock companies for more than one year under the Enterprise Law, their performance was as follows:

Their sales increased 27.5% per year, each of them implemented sales of VND115 billion on average

as compared to VND85.835 billion before equitization (up 1.34 times). Some enterprises attained very fast growth in sales, typically the Binh Thanh Jewelry Company (sales increasing around 4 times after one year of going public), Hàng Xanh Auto Service Joint Stock Company (up 20 times after five years).

Their profits swelled 88% per year, each producing an average profit of VND4.589 billion (up 2.77 times as compared to the period before equitization), many enterprises reaped a profit growth of tens of times, including the Saigon Wool Trading Company, Linh Xuân Paper Joint Stock Company, Hàng Xanh Auto Service Joint Stock Company, etc.

Their annual dividends posted 14% on average, especially some enterprises

shared high dividends, 2-4 times as compared to the bank deposit interest rate, for example, Saigon Netting Joint Stock Company 22.6%; Phú Thọ Pharmaceutical Joint Stock Company 23.5%; Bình Chánh Investment and Construction Joint Stock Company 35%; and Saigon Kim Đan Rubber Joint Stock Company 36%. In 2004, state shareholders earned total dividends of VND37.469 billion.

Labor force in equitized SOEs also experienced good progress. After equitization, the number of workers saw a growth rate of 0.14% per year, even 14-15%/year in couple of enterprises. In the Binh Thanh Production - Business Joint Stock Company, the working population amounted to 2,123 as compared to 1,477 at the time of equitization (November



Photo by Huỳnh Thọ

24, 2000); the Saigon 2 Garment Joint Stock Company had 2,688 employees at equitization (June 15, 2001) and this figure increased to 2,900 four years later. Along with employment generation, the workers' income rose significantly, 31% per year on average, even up two times in many enterprises, for example, the Binh Chánh Investment and Construction Joint Stock Company, Hàng Xanh Auto Service Joint Stock Company...

Equitized enterprises' payment to the National Treasury soared 22% per year or VND7.036 billion for each enterprise.

After equitization, each enterprise had a capital of VND17 billion (as compared to VND15 billion before equitization, up 13.3%).

Some findings:

- The business performance of SOEs after equitization was enhanced significantly.

Some enterprises were typical in the process of equitization, for example, the Refrigeration Electrical Engineering Company (REE) went public on October 1, 1993 with the initial capital of VND16 billion, and this figure soared to VND150 billion five years later and VND255 billion at present; Hàng Xanh Auto Service Company was equitized on October 15, and initially capitalized at VND4.5 billion and today it owned VND11.25 billion... After equitization, the organization and management of equitized companies have experienced positive changes due to separation of ownership from management, owners' rights from business administration, and management from inspection. Equitized enterprises have rearranged their organization more appropriately, reduced indirect labor; they are given more rights to decide their operations on their own; responsibilities of managers and workers

have been promoted strongly.

- However, there were enterprises facing business slowdown after equitization. The HCMC Authority for SOE Restructuring's survey at 69 joint stock companies after equitization showed 13 enterprises faced a decline in sales as compared to the figure before equitization (accounting for 18.84%); 8 enterprises with less profits (11.6%). Some enterprises incurred a decline of tens of billion đồng as com-

many enterprises had to use 70-80% of profits to repay debts; disunity and disagreement after restructuring; as well as chronic dependence on the government protection and assistance; so they have not yet positively made the best use of the new business model.

- The payment to the state budget of most enterprises after equitization dropped as compared to the figure before equitization. The number of enterprises with higher pay-

public were not defined clearly. Some enterprises after equitization applied state regulations on SOEs in business doing. After equitization, shareholder companies had to operate under the Enterprise Law and their charter but not a few companies after equitization did not do it. The charter of shareholder companies remains a lot of vague and loose articles and their operational mechanism has been misunderstood, just because of this, their management

Table 1: Business performance of HCMC equitized enterprises

Indicator	Investigated figures		As compared to the figure before equitization (%)	An enterprise on average	
	Before equitization	Until December 31, 2003		Before equitization	Until December 31, 2003
Chartered capital (VND mil.)	822,185	1,046,864	127.32	12,091	15,395
Sales (VND mil.)	5,922,608	7,935,373	133.98	85,835	115,005
Profits (VND mil.)	144,258	316,669	277.15	1,656	4,589
Payment to the National Treasury (VND mil.)	519,266	485,465	93.50	7,525	7,036
Labor (person)	22,860	23,007	100.64	331	333
Per capita income/month	1,350,027	1,667,396	124.25	-	-
Average dividend (%)	-	14	-	-	14

Source: HCMC Authority for SOE Restructuring (2004).

pared to the sales before equitization, including Thiên Nam Export-Import Joint Stock Company with a fall of VND45.7 billion in sales as compared to the figure before going public, Hóc Môn Trading Joint Stock Company down by VND24.8 billion; the enterprise facing the largest decline in profit is the Foreign Trade Forwarding Joint Stock Company (from VND7.517 billion before equitization down to VND12 million after equitization). The failure was attributed to outstanding loans after equitization,

ment reached only 26 among 69 investigated enterprises, accounting for 37.68%. This is because enterprises enjoyed tax relief after their equitization.

## 2. Problems with the HCMC-based shareholder companies after their equitization

First, regarding corporate management after equitization.

Generally, operations of joint stock companies still bore SOE styles. The powers and obligations of enterprises after going

showed many shortcomings and defects; many shareholder companies used the old machine like SOEs before equitization, so their businesses faced no changes. In the other hand, most of shareholders were workers. Their knowledge about powers and responsibilities of shareholders was limited, so they have not yet utilized their powers in the company's policies. Rights and obligations of all management levels were not defined obviously, this resulted to the overlapping and negligence of powers



and obligations. In addition, the system of internal information was not flowing, public and transparent. This has provoked suspects and conflicts and thus caused troubles in management.

Second, state management over enterprises after equitization.

The Government's intervention in equitized enterprises' operations was still prevalent. Party units, mass organizations and government agencies liked to give instructions to equitized enterprises' operations such as voting for the management board, the supervision board, and executive directors. After equitization, shareholding companies no longer had ruling government agencies, however, they could not identify which agency would help them remove obstacles in production and business and guide them to operate lawfully. Enterprises which the Government held controlling shares had to make reports to the holding company or the ruling agency about investment, equipment innovation, business performance, even regular reports like SOEs. Furthermore, these enterprises had to contribute finance to the upper agency. Therefore, the business autonomy of an equitized enterprise has not been strictly respected.

Third, the share transferring of enterprises after equitization.

Shareholders have transferred their shares freely, so some equitized enterprises changed into private ones. Individuals who accumulated controlling shares became the enterprise' actual owner, poor workers who have sold their shares turned into employees. This seemed contrast to one of equitization goals which was to create motivation to workers. Not only registered shares but also preference shares were transferable. The event used to

occur in equitized enterprises having no external shareholders. Therefore, close sales of shares led to both the shortage of strategic investors who were able to change primary policies for development and uncontrollable transfer of stocks causing troubles in corporate performance. Fourth, the government incentive policies for equitized SOEs.

According to regulations in the Government Decree 64/2002/NĐ-CP dated June 19, 2002 and Decree 187/2004/NĐ-CP dated November 16, 2004, enterprises after equitization are allowed to borrow money from commercial banks, financial companies, and state-owned credit institutions with mechanism and interest rates like SOEs. Nevertheless, these enterprises found it too hard to take bank loans. Some banks rule that only enterprises where the State holds controlling shares can apply these regulations; the rest can enjoy these incentives only for the first two years of equitization. The discrimination not only happened in credit activities but also in land leasing. For example, equitized enterprises had to complete complicated procedures of land leasing (some enterprises spent two years, some longer even from 1999 until now but the procedure was not completed with 15 kinds of forms which had to be notarized or copied, in addition, they also paid the rent 1.5 times higher than the old price. In general, equitized companies still suffered discrimination while SOEs enjoyed more preferences. This not only caused challenges to equitized companies but also hampered the process of SOE equitization.

Fifth, settlement of labor redundancy

Until July 2005, HCMC had equitized 59 SOEs and faced the problem of labor redundancy. Enterprises

with high unemployment included Tico Detergent Company 106 workers; Tico Joint Stock Company 104; Nam Hung Printing Company 93; Chợ Lớn Tourist Company 69; Tân Bình Real Estate Company 54.... Also until July 2005, total excessive labor in 59 above enterprises amounted to 1,505 person, each enterprise faced an average labor excess of 25.5 persons. Although the Government has issued a lot of decrees on settlement of labor redundancy and the Ministry of Labor, War Invalids and Social Welfare also promulgated a lot of guiding circulars but a lot of redundant workers have not yet received allowances because the city Service of Labor, War Invalids and Social Welfare did not yet given detailed guidelines of implementation. Many enterprises had to advance allowances to workers. This has badly affected enterprises' performance after equitization.

### 3. Solutions

First, the management should be renovated after restructuring; workers' understanding about shareholders' powers and obligation enhanced; arising problems soon completely resolved after equitization; operational relationship between the general meeting, executive directors and the supervising board perfected and their rights and obligations defined clearly. Second, the common charter should be built for all equitized SOEs with the aim to ensure interests of the company members. After the charter is set up and approved, all remaining problems should be resolved completely. The Government is required to issue documents guiding the modification of charters of shareholding companies in accordance with the Enterprise Law. The asset ownership should be separated from the Government's

macro management rights. The Government should not make interventions in equitized companies' operations

Third, legal documents should be soon promulgated to control and manage closely stocks of shareholding companies, especially those from founders in the early years of operation with the aim to restrict the illegal transferring of shares. Tax should be imposed on share transferring of investors who trade in stocks of equitized SOEs. The regulations on controlling shares (accounting for more than 50% of the chartered capital) should be amended

Fourth, responsibilities of state agencies must be detailed in providing information, diffusing policies on equitized companies, carrying out strict punishment to those agencies which cause troubles to shareholding companies; and abolishing the discrimination between SOEs and equitized enterprises in credit, land, investment, etc.

Fifth, the HCMC People's Committee should force equitized SOEs to submit annual reports to the city Authority for SOE Restructuring or the Corporate Finance Bureau. These agencies must receive files, review and monitor reports and help the Committee understand the performance of equitized SOEs. The HCMC People's Committee should map out criteria of evaluation, classification and decentralization.

Sixth, the Service of Labor, War Invalids and Social Affairs should issue documents to guide the implementation of Government decrees and Ministry circulars on settlement and allowances for labor redundancy after equitization. These excessive workers should be given favorable conditions to take loans from the employment fund to seek new jobs. ■