

PRODUCTIVITY GROWTH OF SOEs THROUGH SOEs REFORM

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1. Equitization of State-owned enterprises, current state and challenges of government divestment①

■ Current state

- ✓ Amendment of regulations on equitization and government divestment in enterprises (Decision No 58/2016, Decree No 126/2017, etc.)
- ✓ Each State-owned enterprise sets out equitization plans and announces the plan for government divestment in those enterprises having completed equitization (Decisions No. 991 and No. 1232 of the Prime Minister).
- ✓ Public bidding is conducted for divestment in large enterprises such as Vinamilk, Sabeco.

➔ Vigorous measures of Vietnamese government to promote government divestment are highly appreciated

■ Challenges

- ✓ Is the public bidding price too high? (for those bidders of minor amount or when the bidding shares are less than the number of shares sold)
- ✓ Would restrictions on foreign equity (limits of foreign equity proportion of 49% for conditional investment sectors) discourage foreign investors?

➔ The initial goal “to improve the business performance of SOEs using private capital“ is not achieved.

1 . Equitization of State-owned enterprises, current state and challenges of government divestment ②

■ Necessary solutions

- ✓ Relaxing or abolishing regulations on foreign equity
- ✓ Modifying the pricing method, improving the liquidity of the security market (p3)
- ✓ **Powerful measures to improve State-owned enterprises' productivity including:**
 - ① **The government continues to hold the majority of equity in enterprises of strategic sectors**
 - ② **For enterprises where the government keeps the power of veto over key issues, policies and guidelines to enhance corporate value and improve productivity in the medium and long term (p4,p5)**

➔ **(parallel with valuation of government equity divested) raising the value of state-owned enterprises and value of shares should be focuses (= turnover and growth rate)**

2. Modifying the pricing method, improving the liquidity of the security market

- **Before listing: it is important to review the method of equity valuation upon IPO (how to set the selling price for public bidding and to price a divestment for a strategic investor)**
 - ✓ Under the new regulation relating to equitization (Decree No 126/2017), the consultancy unit determined that a variety of equity valuation methods must be applied including the Asset Method.
 - ✓ However, in fact, the price as defined by Asset Method, which is the lowest price, is the base for determination of the IPO starting price. Then the SI divestment price will be decided based on IPO bid results. (Article 22 of Decree No 126/2017)
 - ✓ **There is not any sound explanation for the price defined by asset method being the lowest. This method would lead to a conflict between the valuation of the seller's shares and share of the buyer. The above regulation should be reconsidered.**
- **After listing: it is necessary to improve the mobility and fairness of the security market**
 - ✓ Stocks of many enterprises which were formerly state owned enterprises have low liquidity thus easily causing stock price volatility. The listing standards should be reconsidered so as to improve the share mobility.
 - ✓ The listing standard of Ho Chi Minh City Stock Exchange (quoted): "At least 20% of the voting shares of a company shall be held by at least three hundred (300) shareholders who are not major shareholders, **except for cases where a State-owned enterprise is successfully converted into a joint stock company under the Prime Minister's regulations**"(Articles 53-1d of Decree 58/2012)
 - ✓ It is necessary to **strengthen the mechanism of detection and supervision of unfair trading activities such as underground stock price agreements.**

3. Powerful measures to improve State-owned enterprises' productivity ①

■ Cooperating in investment with "strategic partners" to enhance the corporate value in the medium and long term

- ✓ Improving business performance of SOEs and productivity by investment cooperation with potential business partners (with skills of management and technique, capital, etc.)
- ✓ "Strategic partner enterprises" will invest in a) state-owned enterprises of strategic sectors where the government still holds the majority of shares, b) enterprises where the government still holds a portion of shares (e.g. 36%) for a certain period of time.
- ✓ **Government divestment is carried out after the corporate value is raised**
- ✓ To promote investment of the "strategic business partner", it is important **to respect international M & A practices and to protect the interests of minority shareholders**. Public bidding can hardly take into account the above points. It is essential to conduct limited bidding or direct appointment for implementation of the followings.
 - ✓ **Due Diligence**
 - ✓ **The business partner is in principle a business**
 - ✓ **To protect the interests of minority shareholders through contractual activities between shareholders or change of charter**

➡ **First, it is necessary to concretize (guiding documents, etc.) the content of Decree No 126/2017 relating to the equitization of state-owned enterprises, stipulating the divestment method for "strategic investors" (Decree No 126/2017)**

- ✓ **To prepare guiding documents in relation to Article 6.3 and Appendix 1**

4. Powerful measures to improve State-owned enterprises' productivity ②

■ **Strengthening state management through the State Equity Management Committee (tentative)**

- ✓ The Government has decided to set up the above-mentioned Committee in 2018 to remove the hindrances against the regulatory unit, which is also the owner of the shares.
- ✓ This new Committee is expected to strengthen state management of state-owned enterprises and former SOEs, so as to boost the business performance.
- ✓ However, the specific function of the new Committee has not yet been made public. Some concerns are raised about the assurance of human resources and budget for the Committee's function and Commission's abuse of power.
- ✓ The following measures (for example) should be taken for the new Committee (including Committee's office) to work effectively:
 - ✓ **To make dynamic use of outsourced manpower (manpower from private sectors and foreign experts)**
 - ✓ **To establish KPI (Key Performance Indicator) to promote the productivity of each SOE and monitor the performance**