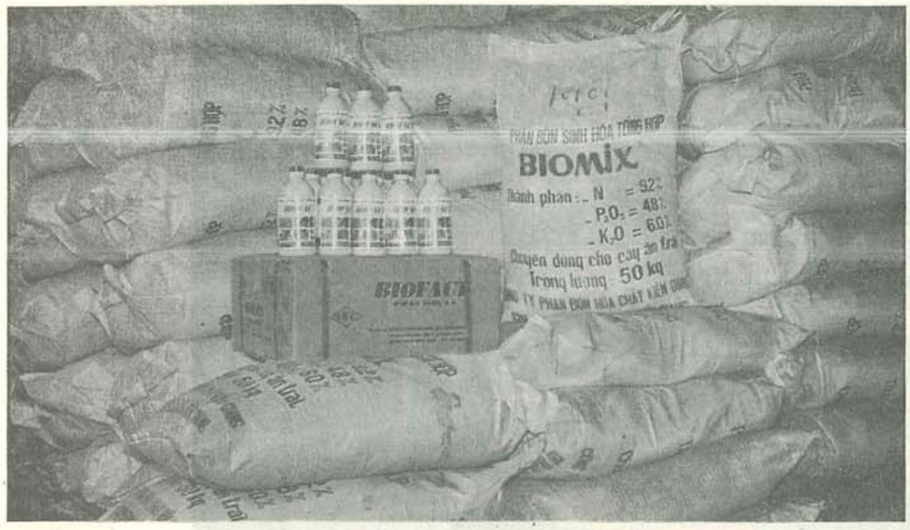

CAPITAL FOR BUSINESSES AN UNSOLVED PROBLEM

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To carry out and develop a business, a company must secure four factors: entrepreneurial skills, capital, human and natural resources, and market. In Vietnam, all state-run companies have been supplied with capital by the Government, but in fact, there was a great difference between their allocated capital and registered capital, not to mention the fact that the allocated capital was too small to run well their businesses. As for non-state companies, their capital is also small too, and in some cases, doesn't exist because certain companies had to borrow money from different sources to open a bank account in order to get permission to establish the company, and then withdraw money from banks to do business. Many companies coming into operation for a length of time had difficulty in maintaining their modest working capital because they couldn't receive payments from customers when due, their business didn't run well or they suffered losses. Moreover, all local companies are badly in need of capital to modernize their equipment and production lines, therefore the capital for businesses is still a problem of great urgency in Vietnam today.

To solve this problem, the PM issued the Decree 85/CP on July 11, 1997 setting forth measures to provide state companies with needed capital. But up to the end of November, 1997, by different measures, especially by turning short-term debts owed by state-run companies to state commercial banks into subsidies supplied by the Treasury, only VNĐ300 billion have been allocated to state companies. This amount, only a drop in the ocean, was very small in comparison with the demand for some thousands of billions of working capital and the total debt of some VNĐ14,000 billion owed by state companies to state commercial banks.

Another measure approved by the Government and the Governor of the State Bank is to allow state companies to get fiduciary loans from state commercial banks if they can present business projects approved by their managing bodies (ministries controlling central enterprises, and provincial authorities controlling local ones), however this measure, in fact, didn't produce intended results.

All bank managers think that the demand for banks to supply fiduciary loans to state companies will put state commercial banks at risk from bad loans. If these companies make losses, it's the banks who suffer all damage because they get no security from these companies. Realities in recent years show that many business projects approved by all authorized bodies have ended in failure because these projects employed obsolete technology and produced badly-designed goods, and as a result, all fiduciary loans became bad loans.

As for authorized bodies responsible for estimating and approving business projects, they weren't forced to bear full responsibility for what they had done but it's state commercial banks that pay the penalty for it. In legal aspect, the decision on supplying fiduciary loans to state companies was made by the Government and all state banks had to carry it out, but the Banking Ordinance approved by the National Assembly rules that state banks must insist on collateral for all loans supplied and mustn't loan a customer more than 10% of the bank's working capital.

In addition, getting a project examined and approved isn't the end of the story. Many business projects that were made carelessly are also given the seal of approval by authorized bodies. A manager of a Bank for Development and Investment in a Central Vietnam province told that some multi-billion business projects had been made by photocopying other projects and sending them to banks for loans, but the makers had forgotten to change the names of the projects. For example, a multi-billion project submitted by a Phú Yên-based organization to the bank had had the name of Bình Thuận province.

Another example is the project to build a sugar refinery in Kontum province. After estimating the project and carrying out necessary market researches, many bank managers had decided against supplying loans, but the provincial People Council made a demand for banks to invest in this project (the Council, of course, also made a lot of promises).

As for state companies, they always complain about the bank's stern and mechanical way of doing business. Many companies with well-prepared business projects and feasible plans had met with so many difficulties in securing bank loans that they decided to ask branches of foreign banks or joint venture banks for help.

In a meeting of the State Bank and representatives from major state corporations held recently in Hà Nội, many representatives (from the Vietnam Post and Telecommunications, Vietnam Coal, Vietnam Oil and Vietnam Shipping Corporations) have expressed regrets about their being forced to say goodbye to local commercial banks who were their partners over years and a lot of ups and downs because their business projects required big loans of long- and medium-term, especially loans in foreign exchange, and they couldn't wait for help from local commercial banks whose hand and foot were tied by the old mechanisms. A representative from the Vietnam Post and Telecommunications Corporation said that his organization had once spent two months on waiting for one project to be approved by a state commercial bank.

However, commercial banks also have worries of their own, at the above-mentioned meeting, Lê Đắc Cù, Chairman of the Vietnam Bank for Foreign Trade had to remark bitterly that it's the absurdity of the current mechanism that made local commercial banks lose a lot of important customers to foreign rivals. The mechanism he referred to here is a regulation made by the Banking Ordinance requiring that a bank mustn't loan a customer more than 10% of its working capital. In the case of the Vietnam Bank for Foreign Trade, this limit is VNĐ110 billion (or US$10 million) while an average project proposed by a corporation usually needs some ten million dollars. Foreign banks in Vietnam, on the other hand, aren't subject to this restriction and they have been able to loan US$30 million to the Vietnam Coal Corporation or US$15 million to the Vietnam Aviation Corporation without difficulty.

One of strong points of foreign banks in Vietnam is their cooperation. Many banks can pool their capital to finance a multimillion project presented by a local company if this project proves to be feasible. Moreover, foreign banks, instead of requiring collateral for loans of that size, can decide to loan after studying the business project, finance statements of the last three years and credit rating of the customer. Most local banks lack these management skills, especially the ability to evaluate the business project, that is why they always insist on collateral for loans.

The problem of credit supply between companies and state commercial banks seems to be left unsolved, but the Government has to realize that what can be corrected must be corrected as soon as possible: adjustments must be made to old regulations, governmental bodies authorized to examine and give approval to business projects must be forced to bear full responsibility for what they do, the program to equitize state-run companies must be accelerated. And above all, state commercial banks have to innovate their ways of doing business and take lessons from foreign banks: looking for customers instead of waiting for companies to ask for loans, looking for and getting ready to invest in feasible projects, and cooperating with other commercial banks in financing them■