CAPITAL MANAGEMENT FOR STATE ENTERPRISES

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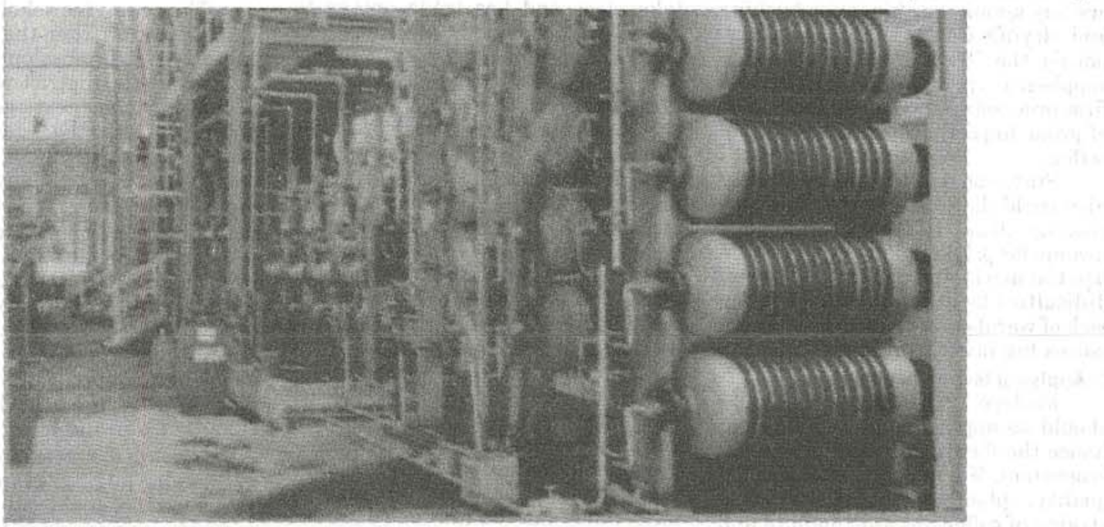
In Vietnamese economy, State-owned enterprises (SOEs) has many potentials but bring not high incomes. Moreover, their capability of integration and competition remains poor. One of problems affecting greatly these capabilities is the poor financial management, especially SOEs' use of capital. In fact, SOEs' capital management requires different and uniform solutions.



Capital management is theoretically not new but never old. It is always a thorny problem for executives. An urgent problem is to manage SOEs' outside investment capital in the forms of joint venture and stock purchase. This is a common investment form in the market economy with a view to reducing risks and improving capital use of companies. SOEs operate in compliance with the Law on State Enterprises, Decree 59/CP, Decree 27/CP...but their money invested in other companies is affected by the Enterprise Law and financial management policies for joint venture companies and joint stock companies...As such, there should be an appropriate mechanism for the SOEs' capital invested in other enterprises in order to improve performance and secure the capital growth. However, this problem has not been paid full attention to for a long time. Therefore, the SOEs' outside investment capital has not been properly reflected in their financial statements.

On Dec 6, 2000, the Government promulgated Decree 73/2000/NĐ-CP concerning regulations on SOEs' capital invested in other enterprises. The legislation helps executives remove obstacles to the management and use of the investment capital. According to the regulations, state capital includes money, land-use right value or land rent, and state-owned asset value invested in other enterprises.

Vietnamese SOEs usually contribute about 40% of total capital, mainly by value of land - or resource-use right. As a result, SOEs cannot have the right to control the company due to lower number of shares. This will affect decisions concerning the maintenance and growth of the pooled capital. The pricing of capital contribution of local partners (commonly land use right) is under its real value. Foreign partner usually contribute capital by machinery, equipment, intellectual property... The local partner cannot yet specify their value exactly.

Regarding SOE equitization, a problem to be posed is to determine the company value. However, Vietnamese SOEs have been established and operated for a long time. Their assets have been derived from different sources with various prices. If based on their market value at the time of equitization following the Government's regulations, the local partner will face losses because the company intangible value is ignored. If the SOE's value is determined too high, its shares will be hardly sold. If it is valued too low, the State will suffer losses. Most of SOEs have not yet made adequate analysis and evaluation when purchasing shares from other firms.

From the above facts, we see the SOEs' capital losses still continue due to shortcomings in management and legislation. The following measures are proposed:

- When contributing capital in joint ventures, the land-use right value should be publicized. The foreign partner's contribution by machinery and equipment needs proper evaluation of real value.
- Before equitization, the company value should be determined by the bid under the supervision of the owner and relevant bodies, avoiding the partial decision of the Assessment Committee as at present.
- The state-owned financial investment company should be set up to manage state capital not only in SOEs but also in other joint stock enterprises.
- Those SOEs which buy stocks from other enterprises are required to establish a department in order to evaluate and build an optimal portfolio for risk minimization ■