

RESULT OF REINVESTMENT IN THE UNION OF VIETNAM SERICULTURE ENTERPRISES



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According to Notice No 09/TB dated Feb 2, 1994 of the PM on handling unsolved problems in the Union of Vietnam Sericulture Enterprises (UVSE), an inter-ministerial commission comprising Ministries of Finance, Agriculture and Food Industry, Central State Bank, National Planning Committee and some other commercial banks has been formed to solve some problems relating the future of UVSE. Until now, the following were solved by the commission:

1. Re-examining the assets and capital sources of each sericulture enterprise up to Dec 31, 1993.

2. Providing commercial banks who have invested in sericulture industry with appropriate capital in compensation for short-term loans they

have lent to sericulture enterprises (these enterprises have used these loans for building factories and buying fixed assets). Some other assets which aren't related to producing and trading sericultural products will be dealt with separately.

3. When all of debts of sericulture enterprises were settled, Vietnam Agricultural Bank will provide loans to these enterprises in order to help them maintain the supply of raw materials and stabilize the production.

The Bank has to inspect these enterprises and collect debts step by step without upsetting their production and trading.

4. Besides these measures, the management task of the government and heads of these enterprises should be revised in order to help sericulture industry operate according to the law.

What remains to be discussed is the industrial efficiency of the UVSE.

According to initial estimate of Lâm Đồng branch of the State Bank of economic efficiency of four silk plants belonging to the UVSE, the total cost of 1 kg of finished silk is VND 60,000, while the selling price is 20,000. The more they produce, the bigger loss they suffer. This situation didn't encourage the state bank to invest. But in my opinion, this matter should be reconsidered.

Sericulture industry was seen as an important industry of Lâm Đồng, and Lâm Đồng is the center of national sericulture industry. The problem with the UVSE recently is the inefficient capital employment. This could lead to

the bankruptcy of Lâm Đồng sericulture industry and affect badly mulberry planting and socio-economic life in Lâm Đồng, and especially commercial banks who invested in this industry.

Solving problems of the UVSE and helping this industry stabilize and develop are government's right advocacy but that will take time to realize it. Therefore, we should know how to take steps to do it, and the most important stepping stone is to affirm the economic efficiency.

As we know, the total cost of a product comprises the fixed cost and variable cost, and when selling price is higher than total cost, we can make a profit and it is a loss if we sell it at a price lower than total cost.

However, it's known that the producers will only close down their business when they could only sell their products at a price less than or equal to variable cost. If selling price is higher than variable cost and they see that their business could be recovered, they will continue to invest in the business, because in such a situation, they will still collect the variable cost and a part of the fixed cost. But if they close the business down, they could miss opportunity to develop their business when the economy sees a boom.

Theoretically, businesspersons are allowed to choose a way of amortizing their assets suitable to actual situation of their business at a given time.

Returning to the case of the UVSE, we saw that although the total cost of 1 kg of finished silk is VND 60,000, and the UVSE suffers a loss of 40,000 selling it, but the UVSE can collect the variable cost and VND 20,000 per kg finished silk in order to repay long and medium debts owing to the banks (because the fixed cost represents a high percentage in the total cost of VND 60,000 per kg of silk).

From said point of view, the banks can still invest in the UVSE because they can collect both new and a part of old debts.

As for the UVSE, it can sell assets which aren't related to producing process in order to reduce debts, and it has to try hard to work at full capacity in order to reduce percentage of amortization in total cost per unit, reduce losses and try to break even or make profits in future.

In recovering sericulture industry, in my opinion, the rate of amortization needs to be revised periodically by Ministry of Finance, Ministry of Agricultural and Food Industry and the UVSE in order to make it suitable to the development of sericulture industry. This will encourage silk factories to produce and banks to invest in this industry ♣