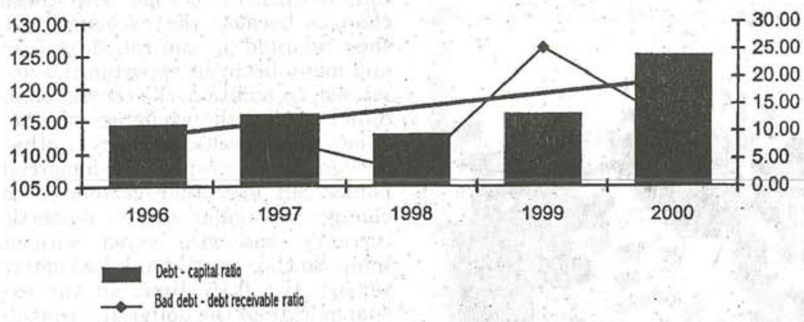
DEBTS IN STATE-OWNED COMPANIES
REALITY AND SOLUTIONS

by MEcon. PHAN THỊ BÍCH NGUYỆT

The shortage of capital facing state-owned companies (SOCs) forces them to borrow from any lenders, and they even get short-term loans or import goods of bad quality to sell off for some cash. And as a result their shortage of capital becomes more serious. This becomes a great danger to SOCs and a great obstacle to the reform in the public sector and the privatization program.

Figure 1: Debts in SOCs



Statistics show that debts in SOCs have affected badly the reform of SOCs and efficiency of capital employment. The Government has taken many measures to deal with this problem (in the years 1997-99, the Government wrote off VND1,088 billion of bad debt, exempted VND540 billion of debt service, and froze VND3,392 billion of overdue debt) but the situation saw no improvement.

Most of the debts are bank loans and foreign debts. In 2000 alone, the overdue debt was VND11.145 billion, equaling 5.5% of the total debt of 202,635 billion. SOCs with big debts were Vietnam Electricity Corporation (VND32,507 billion), Vietnam Oil and Gas Corporation (VND10,554 billion), etc. In some others, the debt was many times higher than their capital: Vietnam Sugar Corporation I (six times), Vietnam Ceramics and Glass (3.5 times) and Vietnam Coal Corporation (two times), etc.

Table 1: Debts in SOCs in 1996-2000 (*)

Indicator	1996	1997	1998	1999	2000
Total debt (VND billion)	110,656	122,299	123,193	127,000	202,635
Debt-capital ratio (%)	114.5	116	113	116	125
Debt receivable (VND billion)	64,141	53,715	67,993	105,602	86,269
Bad debt (VND billion)	4,223	4,500	1,658	26,629	9,858
Bad debt- debt receivable ratio (%)	6.6	8.4	2.4	25.2	11.4

(*) Debts owed by state-owned commercial banks aren't included.
Source: Plan to rearrange and reform state-owned companies in the years 2000-2005)

Debts in locally-run SOCs is also a worrying fact. The total debt of HCMC-based SOCs by the end of 2000 amounted to VND10,761 billion. Of this sum, VND509 billion, or 4.73%, was overdue.

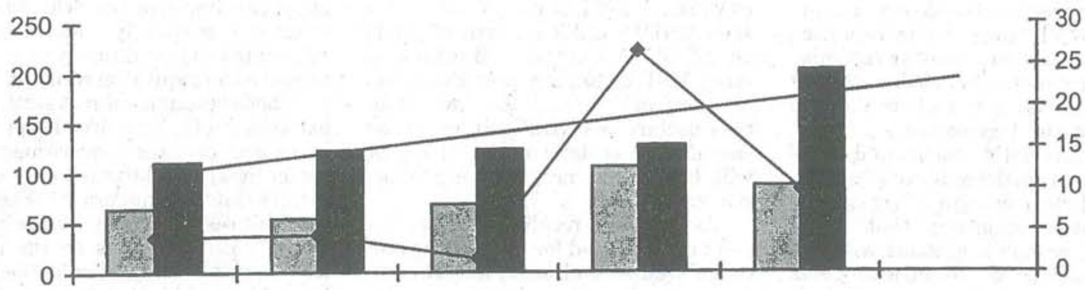
These data show that the financial situation of many SOCs, especially their bad and overdue debts, is very serious. Many of them have had to borrow short-term loans at high interest rates. With loan capital, they will default on debt and interest if they fail to improve their business performance. In fact, many SOCs have made wrong investments with the loan capital or failed to employ it effectively. And as a result, debt defaults become widespread.

By the end of 2000, the total debt receivable in SOCs was VND86,269 billion, equaling 53% of capital granted by the state to SOCs and increasing by 4% as compared with 1999. Of this debt receivable, bad debt amounted to VND2,858 billion. In HCMC-based SOCs, the debt receivable was VND5,131 billion, equaling 49.6% of capital granted by the State. This means that the working capital of many SOCs was held and employed by their trading partners who refused to repay debt when due. By the end of 2000, the bad debt suffered by HCMC-based SOCs amounted to VND242 billion, accounting for 4.7% of the total debt receivable.

In Bà Rịa-Vũng Tàu by the end of 2000, the total debt receivable of locally-run SOCs was VND1,153 billion, 309 billion of which was bad debt, equaling 26.7% of the debt receivable. The most debt-ridden SOCs in this province are Bà Rịa- Vũng Tàu Trading and Service Company, VIECO and Vũng Tàu Tourism Company. Generally, the situation is also as gloomy as in other provinces.

Data show that bad debts are usually found in SOCs with poor financial situation and business performance. Some debts were generated in the past, some others have been gen-

Figure 2: Debt Receivable and Debt Payable in SOCs



erated recently but all of them weren't handled properly with the result that most SOCs met with difficulties in dealing with bad debts. And of course, these companies become an obstacle to the reform of the public sector and rearrangement of SOCs.

To improve the situation, the Chairperson of Council of Ministers (now the PM) made Decision 104/CT on April 16, 1991 to start the first phase of SOC debt settlement. From April 1992 to July 1992, a total debt of VND2,542 billion (1,262 billion of which was debt receivable) in 4,524 SOCs was settled. After that, however, debts and overdue debts in SOCs kept on increasing. On Aug. 15, 1998, the PM issued Decree 95/QĐ/TTg on the second phase of SOC debt settlement. As required by this decree, all SOCs had to declare all debts that weren't declared and declared debts that haven't been settled in the first phase. Statistics in the second phase showed that the total debt had amounted to VND16,408 billion in which debt receivable was VND8,204 billion equaling 50% of the total debt. In this phase, local governments and ministries, as ordered by the Government, settled 18% of the debts declared in the second phase.

Table 2: Debt-ridden SOCs in HCMC (Dec. 31, 2000)

SOCs	Overdue debt (VND billion)	As % of debt payable
Industrial Building Company	14.965	24.7
Lâm Hà Joint Venture	60.253	100.0
IMEXCO	59.805	62.4
Arts Company	15.000	60.0
Lam Sơn Lacquerware Company	30.529	67.9

Source: Report on SOC financial situation in 2000

Results of those two phases of SOC debt settlement weren't encouraging, many debts weren't settled well because of many reasons:

- Many debts existed for a very long time, documents of these debts have been lost.

Table 3: HCMC-Based SOCs with Big Bad Debts up to the End of 2000 (VND billion)

SOCs	Debt receivable	Bad debt	%
Engineering and Sand Exploitation Company	6,205	6,205	100.0
State Plantation for Export No.7	2,625	2,625	100.0
Shipping Service Company	24,977	24,977	100.0
Bù Chính Company	96	96	100.0
Nhà Rồng Transportation Service Company	2,418	2,418	100.0
Service Company of District I	1,103	1,103	100.0
Saigon Clock Company	1,615	1,582	97.96
Trading Company of District V	4,512	3,829	72.97
Lâm Hà Trading Company	22,815	16,649	72.97
Việt Phước Seafood Processing Company	7,594	5,493	72.97
Total	73,960	64,977	87.85

- Many debts are never to be paid because debtor companies have been dissolved, declared bankrupt or sold.

- New directors, when replacing the old ones, refuse to bear responsibility for debts generated under the old management or include them in the profit and loss account.

- Ministerial decisions and circulars on debt settlement aren't consistent and clear enough. They are administrative measures that aren't based on economic grounds with the result that they fail to settle all debts in SOCs. Debts are still an obstacle to the reform of SOCs and improvement in their business performance.

On July 9, 1999, the Government issued Decree 8/1999/NĐ- CP on the restructuring of SOCs. According to this decree, SOCs before privatization if facing financial difficulties are allowed to write off bad debts, be exempt from debt payable to the state-owned banks, include debt payable in the profit and loss account or reduce the value of the company when being privatized. In an effort to solve this problem entirely, on Jan. 5, 2000, the PM made Decision 05/2000/ QĐ-TTg allowing SOCs to write off bad debts. These decisions by the PM aim at freeing SOCs from debt obligation but they didn't produce intended results. The Table 1 shows that the total debt by SOCs by the end of 2000 amounted to VND262,635 billion, equaling 125% of the capital granted by the State; the debt receivable was VND86,296 billion and bad debt was 9,858 billion representing 11.4% of the debt receivable. In such a situation, SOCs couldn't use their capital more effectively, improve their business performance and financial standing, and engage in the privatization program. Thus, debts and frozen assets in SOCs become a burden to the public sector, and the economy as a whole. Stronger measures should be taken to solve this problem. These measures should aim at two targets:

- Perfecting the mechanism for settling debts and frozen assets in SOCs according to existing laws, and

- Creating suitable instruments for SOCs to deal with debts and frozen assets.

1. A mechanism for settling debts and frozen assets

In the past few years, debts in SOCs have been classified according to nature (bad debts, debt to the Treasury, bank loans, debts due by companies, debts due by other creditors, etc.), but analyses needed for determining real debtors when they owe to one another hasn't been done properly. That is why statistics make us worried. For example, Company A sells VND10 million worth of goods on credit to Company B who sell other VND10 million worth of goods to Company C; and the total debt they declare is VND20 million. If the real debtor is determined, the debt will be settled properly and effectively.

As for debt receivables that haven't been settled for a long time and considered as bad ones, the Government can allow the company to write them off and accept the loss of this sum just for once with the company that really caused loss, not with those suffered losses when operating as intermediaries. It isn't reasonable to treat debts as losses because it will be a practice in which the Government allows SOCs to generate more debts and cause damage to the Treasury. This practice won't reflect the SOC financial situation and won't encourage the SOC to improve its business performance.

Regarding debts owed by SOCs to the Treasury, most of them are tax payments and usually from loss-making SOCs, These debts are only to be handled when these SOCs are in the list of SOCs to be sold, privatized or declared bankrupt. If inspections show that the SOCs still have the debt ability, they are under obligation to pay these debts. The debts will be writen off only if the SOC proves unable to repay debts with a view to facilitating the restructuring of the SOC.

Settling debts owed to state-owned banks requires cooperation between the banking authorities and SOCs. As for debts the SOCs have no ability to repay, many officials are of the opinion that they could be exempt from debt service or frozen (left unrepaid). In our opinion, this solution is only a temporary one because it will make the financial situation of the SOC less healthy and everybody knows there is no possibility of collecting these debts from the SOCs. The final solution is to write them off if the SOCs prove to have no debt ability. Of course, different sources of finance could be used as bad debt reserves:

- Assets allocated to the SOC: Of these assets, the most important one is the stock of land. SOCs had better re-examine the use of buildings, warehouses and areas of land under their management and seek permission from land authorities to transfer the land use right to get money needed for repaying debts.

- Grants –in-aid: This solution will exert pressure on the Treasury but it can improve the SOC financial situation positively. Moreover, it stimulates the banking system to accelerate the capital movement.

Those solutions aim at settling all existing debts. To solve the problem more actively, the Government had better make regulations that force directors and managers of SOCs to bear full responsibility for their decisions, especially ones on the use of loan capital. They should obey the law and should be taken to court over their wrong decisions.

2. Instrument for dealing with debts

Besides a mechanism for settling SOC debts, instruments for helping SOCs deal with their debts and frozen assets are also needed. One of useful instruments is a debt management company. Such a company, with expertise in financial analysis and debt collection, can help restructure debt-ridden SOCs, save them from bankruptcy and settle debts effectively.

A debt management company has many strong points:

- Having no relations with banks and SOCs, the debt management company can apply all possible methods to collect debts.

- Saving the banks from bad debts thereby helping them do business more efficiently.

- Creating favorable conditions for the reform of the public sector and the economic development strategies.

- Having legal authority to handle and collect debts.

But such a company also meets with difficulties and weaknesses:

- As compared with banks, debt management companies find it difficult to gather information about debtors.

- After debts and frozen assets are transferred to the company, if the company fails to handle and settle them actively and properly, value of frozen assets will fall and the existence of the company become meaningless.

- Without help from the law and courts, the business performance of the company isn't good enough because of various external pressures.

The financial situation of SOCs and foreign experience prove that the formation of debt management companies is necessary. They will be a useful instrument for reforming the public sector and improving the use of sources of finance.■