



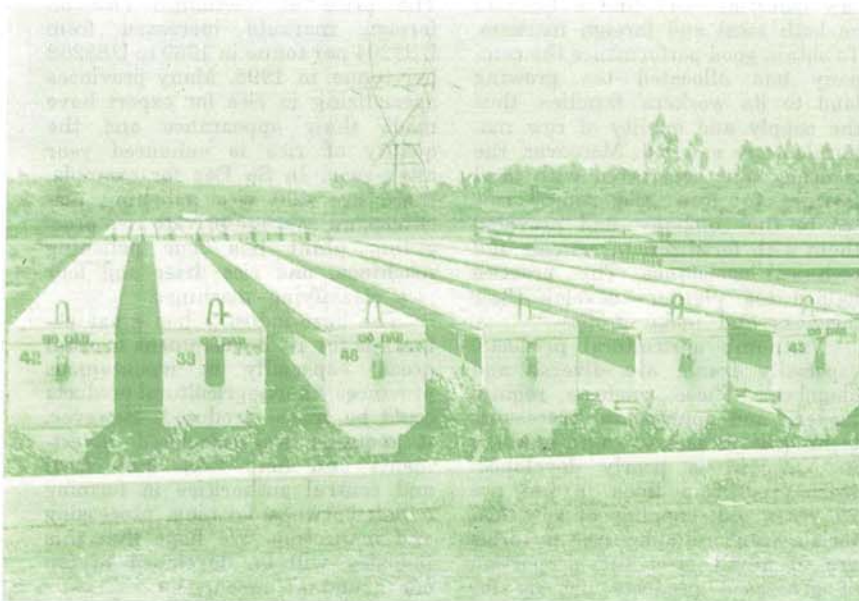
An economy has to essentially mobilize huge investment capital to grow fast. The problem is how organizations and individuals with dead money and entrepreneurs with business projects but short of money can meet, cooperate and seek the most profitable opportunities together. To link the two parties, many intermediate financial institutions have come into being. One of them is the investment fund which affects greatly investment activities in the economy.

The investment fund is a kind of joint stock enterprise. It issues and sells stocks to generate its working capital. It is a special business. It does not spend money on buying machinery and equipment and other production inputs but on direct and indirect investments.

It implements direct invest-

# APPLICATION OF INVESTMENT FUND INSTITUTION TO VIETNAM'S ECONOMY

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ments by purchasing founder shares and indirect investments by dealing in stocks in the stock market. It uses its capital to buy securities as investments, hoping to produce a profit from dividends and interest received and from capital gains on sales of securities. However, the investment fund is not a member of the concentrated stock market. It can offer loans to the businesspersons under particular agreements.

The sources forming investment funds are abundant; giants, companies and the population having dead money can become the owners of investment funds by buying securities issued by them.

The experience from many countries in the world shows investment funds are the "pipes" bringing savings to investments, linking between capital surplus places to capital craving ones. Through investment funds, the public savings generate



effective investment channels. In turn, these funds create favorable environment benefiting savers and having substantial effects on the development investment policies.

There are many kinds of investment funds, each has its own characteristics and operational orientations. But they, on the whole, can be sorted into two categories:

- Close investment funds: According to their charters, they generate capital by selling stocks to the public just one time. They can issue ordinary shares, preference shares or bonds. They must not issue any stocks of other kinds to mobilize more capital and must not purchase the stocks already issued. These stocks will be traded in the stock market like other enterprises' stocks. To deal in the close investment funds' stocks, the buyer or seller must contact brokers and pay a commission in each transaction like other stocks. The close investment funds invest their capital in other businesses and the stock market. As such, the size of these funds increase only from capital gains.

- Open investment funds, or mutual funds: Unlike close investment funds, the mutual funds always issue additional stocks to increase their capital as well as rebuy the stocks already issued. To buy the mutual funds' stocks, we need not contact brokers, not pay any commission and we can write a letter or make a phone call directly to the fund. Therefore, anybody can take part and become the fund's owner. All stocks issued by the mutual fund are ordinary shares. In comparison with the close investment fund, the mutual fund has more advantages in mobilization capability, capital scale extension, as a result, it will be more flexible in selecting projects to invest.

- Based on the nature and operational objectives, investment funds are often divided into three kinds:

- + Long-term stock investment funds: The investment objectives to these funds are relatively diversified, including direct investments in enterprises, projects and indirect investments in the stock market. These funds, on the whole, have a high risk percentage, but to compensate this, it can reap excess profits from investments.

- + Short-term stock investment funds: This kind of fund targets mainly at short-term stocks such as treasury bills, corporation bonds

because its investment objective is short-term stocks in the money market, so this fund is also called money market fund. It has an advantage of high safety, good liquidity capability and low costs of transaction.

- + Mixed investment funds: This kind makes both investments in short-term and long-term stocks. This fund targets at the diversification of investments and secures high safety.

- Based on territories: The investment funds are classified into four categories:

- National investment funds: allowing investments in a single nation. There are countries restricting foreign individual investors. The national investment funds can attract overseas investment capital for domestic projects.

- + Regional investment funds: clustering in main regions such as Europe, Latin America, Northeastern Asia, Southeastern Asia and the Pacific Rim. These funds are set up to make investments in highly profitable regions with promising developments.

- + International investment funds: These funds invest mainly in the markets of foreign shares and bonds with a view to moderating risks.

- + Global investment funds: Making local and overseas investments.

In Vietnam, the economy is bearing a pressure of economic growth in three aspects: GDP growth rate should range between 9 and 10% from 1996 to 2000; the growth should be sustainable and effectively as well. As a result, if we wish to speed up the economic growth rate, we shall have huge capital sources for investment development. Therefore, the appearance of investment funds will generate channels to attract savings from the public outside the existing system of commercial banks. In addition, they also give positive supports to the Government's programs to equitize state-owned enterprises and establish the Vietnam's stock market. To help the investment fund institution take shape and operate effectively in our country, some following issues should be taken into account:

- Firstly, the investment fund is a kind of non-banking intermediate financial institution, it shall be legalized with detailed provisions concerning particular areas and objectives.

- Secondly, the investment fund is established and operates on the

condition that market factors must run well and the fund's performance depends mainly on market signals.

- Thirdly, the investment fund make its appearance along with the integrated developments of component factors of the financial market as well as with the profitable joint stock companies and feasible investment projects in the economy.

- Fourthly, the fund must obtain particular potentials in capital when it starts its operations with a view to attaining the diversification, effectiveness and compatibility when it seizes precious opportunities to invest its capital in the stock market as well as implements direct investments in enterprises and feasible capital-intensive projects.

Finally, the investment fund is established only when it has an army of economic and financial and project professionals and the public should reach particular understanding about investments and investment funds.

In brief, the investment fund is an intermediate financial institution suitable to the mobilization of small and scattered capital sources into huge capital flows with the aim to meet the demand for long-term investment capital, especially those projects in need of huge capital in the national economy. This is really a useful model to contribute to resolving the problem with capital for the Vietnam's economy. The foundation and performance of the investment fund have interactive relations with the establishment and operation of the stock market. This is a challenge to the development of investment funds in our country. The foundation of domestic investment funds will help settle difficulties and conflicts between savings and demands for capital in business and production at present which the system of commercial banks can not yet have any satisfactory solutions. The population can voluntarily contribute their capital in line with particular terms and business seasons with appropriate interest rates introduced by the investment fund. Those enterprises in need of capital for production and business as well as the Government's projects will be financed by the investment fund if these projects are profitable. In its operations, the investment fund will generate both stocks and needs for stock transactions and make the stock activities steady. This implies that the investment fund gives active supports to the establishment and development of the stock market in Vietnam.■