

FINANCIAL SOLUTION TO NON-STATE BUSINESSES' DEVELOPMENT

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1. Achievements in the process of development

Since the introduction of *đổi mới* policies in 1990, the Vietnam's private economy has recorded a lot of achievements and made significant contributions to the national economic growth. The private sector includes private enterprises, limited liability companies, and joint stock companies (non-state businesses in short).

The greatest achievement of the private sector development is indicated by the record growth in the quantity of non-state businesses over the past ten years. In 1991, the country had 414 non-state businesses and this figure increased to 39,501 in 1999, or up 32% annually.

In particular, as many as 46,185 non-state businesses have been newly established with total registered capital of VND54,737 billion since the Companies Law took effect (January 1, 2000). This volume is much higher than the total enterprises established in the previous nine years (1991-1999) with 39,501 businesses capitalized at VND40,960 billion.

The non-state businesses' GDP growth rate is higher than that of state-owned enterprises and the country (see Table 1).

competition in the market economy. Previously in the centrally planned economy, most of industries were controlled by state-owned enterprises. At present, in addition to some industries under the state monopoly, the rest has involvement of other sectors. This has strong impacts on state-owned enterprises, forcing this sector to restructure its organization, innovate its technologies and renovate its business method. The development of the private sector on the whole and non-state businesses in particular has stimulated the competition between economic sectors and generated more dynamic to the economy. As a result, the Government had to change its management mechanism soon to meet economic sectors' requirements for renovation.

2. Obstacles to be removed

Although they have made the above progress, non-state businesses still encounter obstacles which restrict full utilization of their resources and their contribution to the national development.

The first problem is the working capital of non-state businesses. The enterprises with capital less than VND500 million account for 51.6%, more than VND10 billion 1.4% and tens of businesses own over VND100

ties to 0-5% in 2006 following its commitment to CEPT when joining AFTA, then local enterprises will face extremely fierce competition with rivals from other ASEAN countries. Therefore, the investment capital for technological innovation is urgently needed.

Second, the management skill of non-state businesses remains low and some of them do not acquire enough knowledge and experience in the market economy. Their capacity of access to high quality information is also limited. In our survey of private enterprises in HCMC, we see many businesses were established from family production units due to liberal provisions of the Companies Law and incentive policies of the Government. However, their managerial method has not been changed. These businesses have not implemented the accounting system as regulated and their financial figures are not transparent. This is one of reasons that most of non-state businesses' financial statements are not believable making them hard to take loans from credit institutions.

The contradiction arises here: non-state businesses are badly in need of capital for investment but how can they find the finance? The first source may come from family, relatives and friends but it is still modest. The second channel is the stock market, but it is hardly accessible for small-sized businesses. Furthermore, the Companies Law rules that only some of business forms are permitted to issue securities. The highly expected source of non-state businesses is mainly bank loans. The advantages of bank loans include their high flexibility in terms of time, volume of loans, interest rates... This source is accessible for every business provided that they meet sufficient conditions for borrowing and the bank has enough deposits for loans.

The evidence shows bank loans given to non-state businesses are increasing. In 1991, more than 90% of banks' outstanding loans were offered to the State and collective sec-

Table 1: GDP growth rate of non-state businesses (%).
(The previous year's figure is 100%).

Economic sector	1995	1998	1999	2000	2001
National growth rate	109.5	105.8	104.8	106.8	106.8
- State businesses	109.4	105.6	102.6	107.7	107.8
- Private businesses	109.3	107.9	103.2	108.1	112.9
- Mixed businesses (*)	112.7	104.1	106.2	111.0	115.8

Source: 2001 Statistics Yearbook, p.59.

Mixed businesses include limited companies, shareholding companies and joint venture companies.

Another success of non-state businesses is that they have boosted the process of economic restructuring, reform of management system and

billion. As a result, their intensive investment is limited and most of non-state businesses find it hard to make access to advanced technologies and finally their competitive edges are not sharpen. Moreover, Vietnam has to slash its import du-

tors, but by 2000 they accounted only 50%. This indicates there is a great move of credit from the state sector to the private one. The survey of commercial banks' loans granted to non-state also shows it is a common trend. The great changes in bank credit structure are totally compatible with the evolution of non-state businesses and this is an important factor for this business form's development.

Nevertheless, the credit distribution to various business forms currently remains many problems to be solved. According to HCMC statistics, the credit institutions' lending is displayed in the following table:

More than 48% of short-term out-

April 4, 2000, non-state businesses are subject to other requirements: they must be audited annually and their business performance and financial situation certified by the auditor... (State enterprises are not subject to these regulations).

While non-state businesses' contribution to the economy is extremely significant, financial obstacles will be great challenges. They hamper not only development of the private sector but also banking reform because the reform programs will see no success if they lack a dynamic private sector and a great quantity of clients like non-state businesses.

3. Financial solutions for non-state

Table 2: HCMC-based credit institutions' outstanding loans in July 2002 (%)

Economic sector	Short term loans	Medium and long term loans	Total
State enterprises	48.7	38.3	45
Non-state businesses	30.3	22.8	27.4
- Limited and joint stock companies	23.9	17.5	21.4
- Private businesses	6.4	5.3	6
Others	21	38.9	27.6
Total	100%	100%	100%

Source: State Bank of Vietnam - HCMC Branch

standing loans and 38% of medium and long-term loans were allocated to state enterprises while the non-state loans accounted for only 27.4% of the total, especially the private sector only 6%. The number of non-state businesses is highest but their loans least.

As mentioned above, non-state businesses find it hard to make access to bank loans. However, they also face other obstacles to their borrowing. It is discrimination. The banks feel assured when giving loans to state enterprises because they know there is an "invisible guarantee". Frankly saying, legal documents recently issued by the Government and the central bank (Government Decree 178/1999/NĐ-CP on guarantee of credit institutions' loans, State Bank's Decision 1627/2001/QĐ-NHNN on credit institutions' lending regulations...) shows no discrimination between economic sectors. The bias lies in the mind and the process of loan consideration.

For example, in the guidelines on free-collateral loans given to non-state businesses, in addition to conditions provided in State Bank's Circular 06/2000/TT-NHNN1 dated

businesses

The Government's Decision 94/2002/QĐ-TTg on the Government's action plan to implement the Resolution of the fifth plenum of the Party Central Committee (Term IX) confirms again the Party's determination to renovate mechanism and policy, encourage and facilitate the private sector's development. To continue improving credit relations between credit institutions and non-

state businesses, importance should be attached to the following solutions:

- The policy on equality in credit relations between banks and businesses in all economic sectors must be combined with the banking system restructuring with a view to reducing bad loans, improving liquidity and then moving all preferential loans to the policy bank. All discrimination, even in consciousness or action, must be cancelled. To give loans depends upon businesses' financial capacity and solvency regardless of state or non-state businesses.

- The bank expands services of financial leasing and informs non-state businesses of this credit channel. The projects requiring medium and long-term loans face a lot of risks, so they must have collateral. As a result, access to this source is a challenge to small-sized businesses. In such a circumstance, taking loans in the form of financial leasing is especially useful to these businesses.

- The Government should soon establish the over-the-counter market so that medium and small sized shareholding companies are able to take part in the market. This also generates one more capital mobilizing channel and reduces lending pressure over banks.

- The accounting system should be reviewed and changed in line with requirements and managerial capacity of medium and small sized enterprises and they should be given conditions for financial disclosure per annum with the aim to consolidate their partners' confidence.

- Non-state businesses are required to enhance their management capacity, fully utilize their internal resources and create confidence by their own good business performance. ■



Photo by Hoàng Tuấn