

# ON IMPROVEMENT AND INNOVATION OF STATE ENTERPRISES' PERFORMANCE

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**I**n the present market economy, the business performance of Vietnamese enterprises is low. This makes them less competitive and adaptable to the market mechanism. The number of loss-making enterprises is on the increase. Insolvency becomes widespread. Only a few of them could accumulate enough capital needed for replacement of machines and other assets and become more competitive. In short, the financial situation of local enterprises is unhealthy. We want to discuss here some problems which could help to improve their business performance:

## 1. To raise initial working capital of state enterprises

In order to keep the financial situation of a state enterprise healthy, it must be allowed to hold at least 70% of approved working capital (at present, the Treasury can only provide certain state enterprises with

30% at most of their required working capital). The approved working capital is the minimum working capital needed for running an enterprise. To secure necessary capital, the enterprise can depend on many sources, but it must get enough minimum working capital on the first day of its operation, because it's hard for a newly-formed enterprise to borrow money from banks in large amounts. At its first stage of development, the enterprise can only gain a little profit, sometimes it gains no profit or even suffers losses before it can improve its public image. At this stage, the enterprise meets with difficulties in borrowing money (from finance companies, financial institutions, or from the public by issuing shares or bonds). Moreover, the lender usually requires security or has to make sure that the financial situation of the borrower is healthy before deciding

on supply of loans. The shortage of funds of the enterprise usually makes lenders reluctant to supply credit because they are aware of high degrees of risk involved.

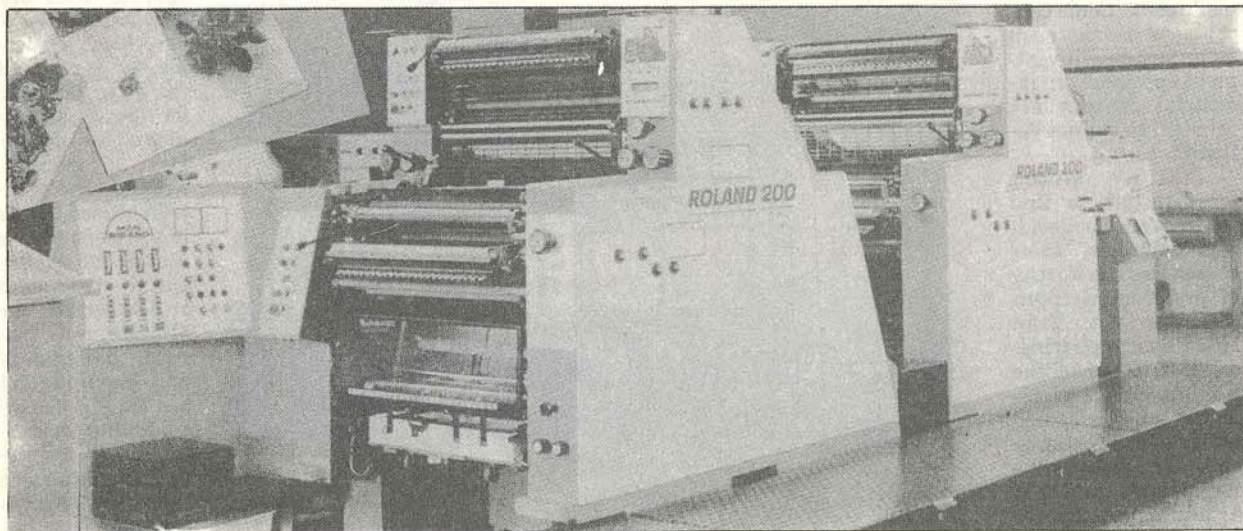
So if its initial working capital is low, the newly-formed state enterprise can't secure loans from other sources and can't operate normally.

Moreover, the state enterprises must get enough working capital because there are a lot of conditions made by the lender to the enterprise before loans are supplied such as maturity, interest rate, credit limit, inspection carried out by the lender, etc. and the enterprise can't always meet the requirements. In addition, interest payments could become a threat to the enterprise and lead to its bankruptcy or insolvency. Interest payments could also make the production cost higher and competitiveness lower. Therefore, the Government had better allocate the minimum working capital to the state enterprise in order to help it operate well and maintain a healthy financial situation since its establishment day.

In my opinion, the following are bases for calculating the initial working capital of a state enterprise:

- In the past, the Ministry of Finance ensured that 50% of the approved working capital would be supplied to the state enterprise. However, realities show that this percentage is too low to ensure the newly-formed enterprise good operation, therefore most of state enterprises have met with shortages of funds in recent years.

- According to the Institute of Finance Research and experience of businesspersons, an enterprise must secure 70% (or at least 50%) of needed capital to do business at a profit.





Otherwise it's very easy for it to run into debt.

- Commercial banks require enterprises to get enough at least 60% of capital needed for the project offered to banks. Recently, this percentage is reduced by banks to 50%. This percentage is considered as the lowest condition on which the bank can agree to supply loans.

- An increase in the initial working capital of state enterprises can help them not only operate normally, but also meet requirements posed by banks as any private companies else.

With a permanent budget deficit, in my opinion, the Government need not control too many enterprises but can't provide them with enough capital with the result that all state enterprises meet with shortages of capital. The Government had better control only certain key industries, that is, the system of state enterprises needs to be rearranged.

## 2. To rearrange the system of state enterprises

The rearrangement of the system of state enterprises will aim at the following targets:

- To concentrate the limited source of capital from the Treasury in key industries which must be under the control of the Government, with a view to helping state enterprises operate effectively, become more competitive and grow into big groups.

- To equitize a limited number of state enterprises in order to increase their equity capital, reduce their loan capital and at the same time, innovate the management of these enterprises.

- To dissolve loss-making and insolvent state enterprises.

- To innovate the mechanism for managing state enterprises by affirming the public ownership and building the legal basis for equal opportunities for all enterprises. In this aspect, what we suggest are as follows:

- + To affirm the real legal entity who holds the ownership of the enterprise by transferring this ownership from different government bodies controlling state enterprises (such as ministries, general departments, people's committee at provincial or lower levels, provincial services or offices, etc.) to a government-created institution specialized in investment business. This institution will be, on behalf of the State, the owner of all state enterprises and state-owned assets put in joint ventures (this institution could be a General Department of Public Assets with its own status).

- + Functions of this public institution as a owner of public assets are:

managing all investment made by the State in the economy effectively; making investment plans; holding and employing credit or outlay supplied by the Treasury to investment plans; making guarantee and handling debts owed by state enterprises if need be.

- + This public institution acts as the controller of state enterprises in order to:

- . Manage strictly and make careful investments in state enterprises, thereby keeping the state-owned capital from being divided into too small parts leading to a shortage of capital in each enterprise, and helping these enterprises prevent bad debts and be independent of bank loans.

- . Control operation of state enterprises and ensure that the government intervention in state enterprises will be more rational and necessary.

- . Stop acting as a governmental body in working with banks and other economic concerns, and save these banks and economic concerns from being intervened by administrative orders.

- . Under certain conditions, this public institution can act as guarantor for state enterprises in signing economic agreements or borrowing money from banks.

- . Form the relation between the owner of public assets and managers of state enterprises in the form of delegacy, that is, to form the same board of directors as what was seen in joint stock companies (although in state enterprises, there is only one owner). This mechanism has been realized in some state enterprises and has worked well.

- + Impact of the mechanism for delegating:

- . The owner and manager of public assets, along with their rights and duties, are identified.

- . The autonomy of state enterprises is assured.

- . Managers of high competence and profound experience and knowledge were trusted, therefore the business performance could be enhanced and this factor will ensure a healthy relation between state enterprises and banks and other economic concerns.

## 3. State enterprises' responsibility towards public assets

The responsibility of state enterprises towards public assets must be made clear because it's a basis for settling their debts and preventing bad debts or insolvency.

To deal with this problem, state enterprises could be divided into two

groups:

- Key enterprises: They are enterprises which the Government has to control and maintain in order to realize socio-economic strategies. Besides operating for a profit, these enterprises must realize various socio-economic targets, or orient the economy towards planned targets, so they will receive subsidies from the Government and all their debts will be paid by the Government.

- Minor enterprises: These enterprises operate for a profit only, so they will receive the same treatment as other companies do, no subsidy and no preferential treatment. They must bear full responsibility towards public assets and debts they owned to banks or other economic concerns.

The separation of state enterprises into two groups aims at forcing them to take care of their businesses and helping the Government take appropriate policies on them. The identification of state enterprises' responsibility towards public assets also requires the implementation of the Bankruptcy Act and Business Dissolution Act.

## 4. The right to make mortgage and the Law of Property Act

The Government's Decision 315/HDBT providing ways to handle property mortgaged by state enterprises has come into effect for a long time, however the property mortgaged by state enterprises could only be handled upon a decision on liquidation made by the government body controlling the enterprise. In addition, there is no law on mortgage or Property Act, therefore it's hard to handle mortgaged property according to the Decision 315/HDBT.

In my opinion, it's necessary to make Mortgage Law (or more generally, the Law of Property Act) and recognize the right to make mortgage because of the following reasons:

- To help state enterprises secure necessary funds from banks

- To force managers of state enterprises to consider carefully before securing loans, and then, employ loans more effectively in order to form good relations with banks and other economic concerns.

The right to make mortgage must be considered as a normal practice in the market economy. The Government had better recognize this right and issue detailed guidelines on this matter.

To enhance the business performance of state enterprises, different policies and measures must be adopted at the same time to deal with problems or difficulties arising from this process ■