

**D**evelopment projects are managed on the macro- and micro-aspect. Both two aspects should be combined with each other to attain good results.

## I. MICRO-MANAGEMENT OF PROJECTS

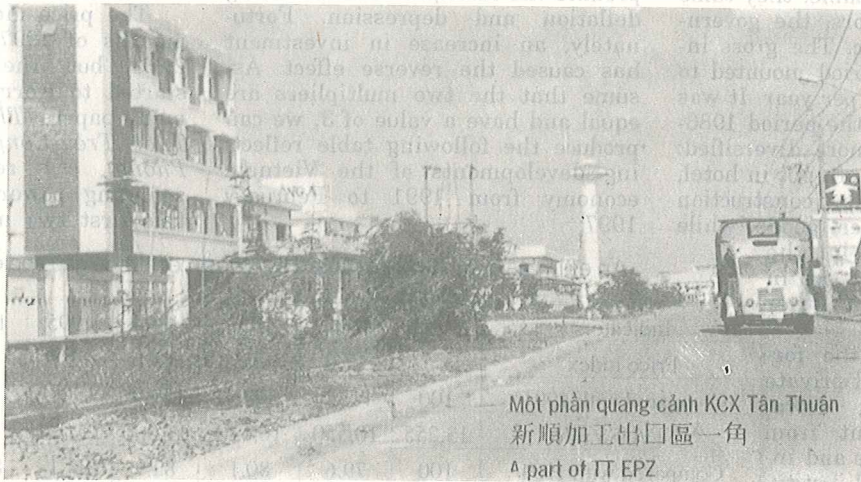
Micro-management is based on individuals, units, enterprises (investors) or banks (for considering investment applications, loans). An investor sees on the market the price of a commodity X (eg cement, steel in 1991-1993) is high due to shortage. This item can be made with a cost much lower than the market price, sold well and produce high turnover and profit. Therefore, he forms a project on making item X and submits it to a bank for loans.

### 1. The investor works out investment project:

The investor can work out a project technically, but normally he has prestigious and experienced technical experts form a project technically. At first, what are products? The economists usually distinguish between the current items, made with a technique stable and not complicated, such as: steel, cement, fabrics, etc. from new products (Schumpeter called them reform goods, eg computers 286 in 1988 and then 386, 486, 586, 686 or softwares Windows 3.1 and then Windows 95 and now Windows 97...) produced in the condition of new, complicated technique, resulting in high efficiency and attracting more customers. Producers always find how to introduce new items which have more advantages than old ones, sell them at high prices and compete successfully on the market. Even when turning out traditional items: coffee, steel, cement...the investor also depends on a certain advantage, for example, coffee trees grow very well in the Central Highlands, home made steel sells at low price owing to importing coke and deposits from Australia, a distance

# HOW TO MANAGE DEVELOPMENT PROJECTS

By Lê Tiến Hùng



Một phần quang cảnh KCX Tân Thuận  
新順加工出口區一角  
A part of TT EPZ

shorter than that of Japan, Taiwan, Korea; low Vietnamese labor cost, cheap price of electricity...The location of factories is also paid special attention, for instance, steel mills are built near deep water ports (Phú Mỹ, Cần Thơ) to import deposits and coke conveniently, Phú Mỹ Port will be provided with cheap natural gas, cement plants of Hà Tiên, Bìm Sơn, Hoàng Thạch...are located in areas containing clay and limestone with convenient roads for transportation...After specifying construction site, technical experts will work out production plan (applying what technique, vertical or rotary kiln for cement, electricity or coke kiln for steel production...), drawings of the plant, machinery suppliers and their prices, duration of building the plant, using locally made or foreign machinery, modern or refurbished equipment, building costs in Vietnamese đồng or foreign currency. The investor will benefit from reduction of payment in foreign currency if Vietnam can supply some machinery to them. The experts also put forward what materials and components will be imported annually upon the completion of the factory and determine the plant's capacity, products and their net prices, estimate how many products will be used on the home market and their prospect of export.

The investor should know the total capital to build the plant and the working capital needed yearly to buy materials, pay workers' salaries;

the plant's capacity; the total earnings from selling its products on the home and foreign markets. The investor will compare two amounts of money: one is yearly expenditure (repayment to banks for debts when due, production cost, tax...) and another turnover: money gained from selling the plant's products. If the turnover is higher than the spendings, the project is feasible. The larger the difference (revenue-expenditure), the higher

the enterprise's profits.

Regarding traditional items, any enterprise can also produce and the competition on the market is very fierce, if the selling price is lowered, the difference (revenue-expenditure) will be small. On the contrary, for new items, such as computers of new model, new softwares (if not copied!), the investor can hold a monopoly to price his product, so the selling price is usually very high. Schumpeter said profit is attached with new products.

Now, back to necessary capital, for example, US\$1.2 billion for the Dung Quất oil refinery, some millions of US dollars for a steel mill, how can the investor mobilize these funds? Initially, he must have his own capital. That's very difficult for Vietnamese. Fortunately, the Vietnamese party has land, worth about 30% of the capital. The investors are Vietnamese or foreigners. How much is the capital in cash, land, machinery, spare parts? Certainly, if there are many people contributing capital, there are more capital. As a result, many groups of entrepreneurs usually cooperate with one another to set up companies including those who have very close relations such as relatives, friends...But the capital mobilization is limited because the number of investors is small. In Vietnam, this kind of small-size business is still popular. Foreign countries have formed stock markets and the founders usually



attract capital by selling shares on the stock market. Obviously, every person, even the rich, pours only a part of his money, eg some millions or tens of million dongs, but thousands of people can contribute a huge amount of money. It was said that there would be no railroads, steel mills if there were not joint stock companies and security markets to mobilize necessary capital for these companies.

The private capital of entrepreneurs or proceeds from selling shares (obligatorily kept in banks) is the enterprise's own capital. The enterprise's shareholders elect the Board of Management and the Management will select the Board of Directors. These persons will submit the investment project to the bank for consideration.

## 2. The bank considers investment projects

Normally, the bank lets investors set up investment projects on their own. They will prove their business capability by their logical formation of investment projects. The bank evaluates the project through the following factors:

- Evaluating investors: Are they prestigious business people? Have they ever violated law, issued dishonored cheques? What are their qualities? etc.

- Evaluating the investors' total capital: How much is it? What forms is it under? (cash, land, goods, foreign currency, machinery...). What is the real value of their land? Are their machinery old or refurbished? Have their above assets been mortgaged in any banks? What is the difference between the above capital and the funds needed for the project?

The bank and the investor pay special attention to the ratio of the investor's capital to the loan. In Saigon in 1970-1975 this figure ranged from one third to one fifth. This means if the investor possesses one dong, he can borrow 3 to 5 dongs. In Japan, this ratio is one tenth. In Vietnam, for State-run businesses, these ratios are surpassed many times, causing corruption, loss of the bank's capital. The low ratio is unfavorable for the fast development since Vietnamese investors often lack capital, but the high ratio will raise the bank's risk and make advantages for corruptible officials.

Technically evaluating the project: Investment banks have technical experts to appraise the project to see whether it is feasible or not.

- Financially evaluating the project: Is the total investment capital very high? Some projects on building cement plants proposed by provinces have the investment capital tens of millions US dollars higher than old Bim Son or Hoang Thach cement plants. Are prices of land, buildings, machinery, labor very high? Especially, will the enterprise's products be acceptable by the market and sold at high prices?

- If the bank works impartially, hardly can false investors deceive the bank. However, investors usually give under the table money to those who consider lending, so senior officials of the credit department should be checked because this is a decisive department of the bank.

- Evaluating the project in comparison with the country's investment and development plan: Is the project suitable for the country's development plan? While Mr X has applied for investment in the cement industry, do Mr Z, Y...also want to invest in cement production? Does the total designed capacity exceed the domestic demand? What about the export of cement?

- Evaluating the estimation of the project's revenue and expenditure: Are these figures feasible? Can the enterprise refund its principal and interest to the bank?

After looking into these above matters, the bank responds to the investor as follows:

- a. Rejecting the application for loan because...

- b. Requesting amendments to and supplements of the dossiers

- c. Accept the application for loan.

When saying "yes" to the application, the bank is bound to the enterprise and it has to offer loans; if the project goes smooth, the fast development will take place, if dishonest projects like Tamexco type were approved, both the enterprise and the bank will certainly suffer loss. Just because of the above reason, the bank plays an extremely important role in the country's economic development.

## II. MACRO-MANAGEMENT OF PROJECTS

### 1. After the bank approves to lend the investor

If the company is a newly-founded one, the capital is compulsorily deposited in the bank, not announced only. Its fixed assets must be accessed in accordance with the market price. If these conditions

are respected, after the bank's approval, the investor has some advantages: the enterprise's own capital and loan capital. These advantages are taken to realize the investment project.

The bank monitors the process of implementing the investment and gradually allocates funds according to the pace of realization. The investor has to use their own capital at first, then the bank offers loans suitable for stages of the project realization. Since the bank checks strictly as above, it can hardly be deceived; it can be tricked only when its officials in charge of lending take bribes of false investors.

### 2. Difference between planning and implementation

The project includes some estimations, and the project implementation shows in practical accounting. There are certainly differences between real figures and estimations due to changes of markets and prices. If these gaps are narrow and within an acceptable range, the project may be well managed. Otherwise, if they are large, the project management will not meet the requirement.

The following cases are considered good or bad:

**Good:** When the plant construction is as fast as possible because if the longer the duration, the more interest the enterprise has to pay to the bank. So the plant should be built round the clock, even on Sundays and holidays, material and financial facilities and labor should be preferentially granted to the plant which is under construction. The prices of materials, machinery, components, labor are lower than expected. The products made by the plant are good, sold well on the market at high prices, the enterprise attains high turnover and profit, therefore it can pay debts to the bank, adequate taxes to the State. Especially, due to high profit, the plant can run at full designed capacity, employs more workers and self-finance for its development. This kind of capital derives from profit not paid to raising incomes of workers, sharing more profits to the investor. As such the enterprise will certainly expand its production.

**Bad:** when the plant construction is prolonged, interests paid to the bank will step by step eat the enterprise's own capital and loan capital. If the prices of materials, machinery, components, labor are higher than expected, the enterprise will pour more money in the plant con-



struction. The enterprise's products are bad, not sold well on the market, stockpiled and the enterprise has to reduce the prices to sell them off. As a result, the enterprise has low turnover and profit, cannot pay debts to the bank and adequate taxes to the State, the factory will run under its designed capacity, the enterprise has to fire workers and eventually goes bankrupt, since if it continues to operate, it has to petition the Government for compensation but the Government will not satisfy its requests as before.

**Bankruptcy with bad intention** (Tamexco type), this case happens when the investor is dishonest, and some officials of the bank do not fulfill their responsibilities. If the bank does right things, nobody can deceive the bank because it has checked mortgaged assets, offered loans only to real investment, secured the technical and financial conditions of the project...

**True bankruptcy:** The enterprise's products are increasingly depreciating, causing great loss to the enterprise. So it must apply for true bankruptcy.

Both the two above cases have a similar feature. That is the bank and creditors lose a part of their credit offered to the bankrupt enterprise. They can retrieve a part from the liquidation of the enterprise's assets. If the enterprise is granted large loans, its bankruptcy will lead to the collapse of its creditors, then the domino effect will happen, causing a cycle of crisis.

**Conclusion:** the cement, steel projects in the period 1991-1993 are mentioned above. In this period, due to the former USSR's collapse, no longer has Vietnam been provided with steel at cheap prices, it was also short of cement, so there are large projects on producing cement and steel. At the same time due to the low exchange rate, a great quantity of steel, cement was imported into Vietnam. At the end of 1996, the investment in building industry came in depression and consequently the steel, cement supply exceeded the demand.

In the period 1991-1995, the Ministry of Construction planned to speed up production of cement and enter into joint ventures with foreign partners to produce 20 million tonnes of cement by the year 2000. In 1996, the Hoàng Thạch Cement Plant was the first one which brought the second line with capacity of 1.2 million tonnes into operation, raising its annual output to 2.3

million tonnes as from May 12, 1996. But the opening day of the second line was not happy. The reason is from 1994 to the beginning of 1996, there were 24 cement kilns with total capacity of 1.6 million tonnes in operation nationwide. From 1997 to 2000, the plants Hà Tiên 1, Hà Tiên 2, Bim Sơn, Nghi Sơn will produce a total output of 20 million tonnes. On the inauguration day, the director of the Hoàng Thạch Plant said: "How can we sell off 1.4, 1.7, then 2 million tonnes?" That does not include the output of other companies when their construction is completed within 2-2.5 years only.

The Sài Gòn Giải Phóng (SGGP) newspaper on Feb 22, 1997 after presenting the steel industry's achievements, said: "But regarding the recent market practice, we cannot help with being anxious since our country's macro-economic management revealed many shortcomings, creating conditions unfavorable for domestic production. The fact that the Ministry of Commerce wrongly granted quotas to steel importers (under deferred-payment terms) made ten thousands of workers lose their jobs, caused extremely fierce competition on the market and hundred thousands of tonnes of steel stockpiled in Vietnamese steel mills". In general, the SGGP newspaper is right, but it has not yet combined this fact with the low exchange rate. Thereby import was given priorities, so the prices of foreign steel were lower than domestic one; if the fixed exchange rate was high, then even though the Ministry of Commerce offers quotas, importers dare not import steel because they will suffer great loss since the prices of imported steel will be much higher than home made steel.

Micro-economically, the steel, cement projects have been well managed, since many plants have produced high quality steel and cement and the steel mills' total capacity amounts to 1.7 million tonnes in 1997, cement plants 8 million tonnes, they are huge figures Vietnam has never earned before. As a matter of fact, these figures are insignificant as compared with the output of America and China, over 90 million tonnes of steel/year each, and Vietnam's demand in construction. However, based on the practical demand on the market and enterprises' profit, the Ministry of Trade was blamed for importing so much at the end of 1996 and early

1997. Then, it was said that the State Bank's maintenance of the low exchange rate caused domestic goods not to be competitive against foreign ones. When the depression broke out, some opinions said the Government had not made macro-economic policies to carry out full employment. According to economist Keynes, in order to realize full employment, the government should pour money in investment such as building more hydropower plants, cheap houses for workers. This investment will produce good effects on the economy and make it thrive again, such stockpiled products as steel, cement will sell well. In short, along with micro-managerial measures for the project such as securing good technique, finance for the project, the bank's careful consideration of lending, allocating funds only when the project is implemented in line with the plan, the Government should have additional macro-economic measures as the exchange rate is fixed flexibly according to the increase in domestic prices, the Government should plan home goods protection programs, take measures to create economic prosperity and full employment.

However, in the Keynes times (1929-1936) and in Vietnam today, these opinions face with the opposition that the fixed exchange rate must be kept and inflation must be curbed. In 1997, although deflation took place but it was still said that spiral inflation should be prevented, so the fixed exchange rate should be maintained, planned import in 1997 is still 20% higher than export, import of 350,000 motorbikes are permitted this year...

I think it's essential to manage development projects scientifically, business people and banks can attain good results only when they comply with economic laws. If the fixed exchange rate continues to be maintained, imported goods will be cheaper than domestic ones, imports will go on boosting, Vietnamese enterprises' activities gradually become stagnant before the fierce competition of foreign goods which are encouraged to flood domestic markets in case of preferential exchange rate with a view to pulling prices down and preventing inflation. In that circumstance, although a committee for settlement of due international debts have been established, but how can the trade deficit, amounting to billions of US dollars per year, be overcome? ■