

Kon Tum, a border province on the Western Highlands, was established in October 1991. Its area is 961,450 hectares comprising 92,783 hectares of farming land; 633,381 hectares of forest; 20,995 hectares of unused flat land and 185,307 hectares of unused mountainous land (2005 Statistics Yearbook).

In recent years, its budget income has covered only some 27% of its expenditure with the result that it has to depend on grant-in-aid. Regarding the regular expenditure, the provincial government has succeeded to a certain extent in reducing expenditures on the administrative machinery and expensive assets in order to spend more on education, health care, scientific researches and social welfare. The regular expenditure rises by 10.8% a year and the education accounts for some 20% of it because of failure to encourage private sector to engage in this service.

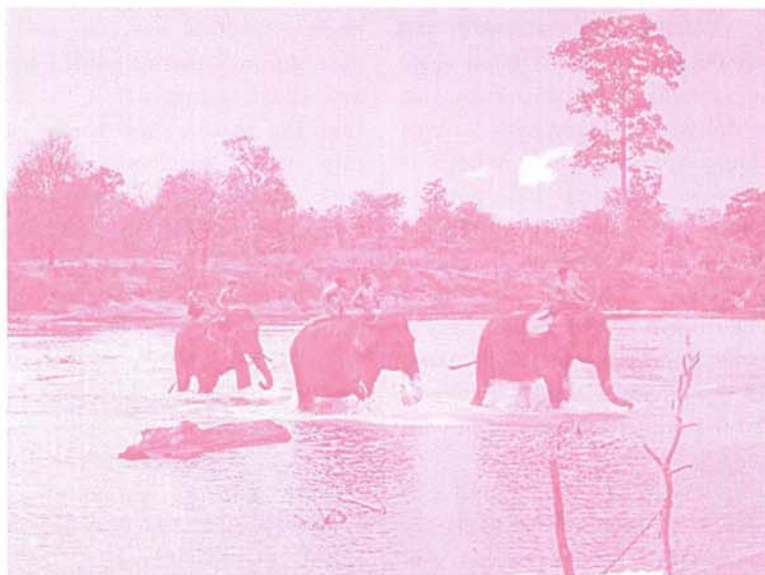
The local public investment in 2001-05 amounted to VND1,348 billion aiming at supporting the agricultural production (with projects to develop rubber and coffee planting, manioc and wood processing, equipment for planting and caring coffee trees, to build irrigation system; rural roads; and Plei Krong hydro power plant, etc.), improvements in transportation service and provincial printing factory, building of the Đông Dương Hotel, etc.

Beside these achievements, there are many shortcomings in efforts to generate investment in local economy.

- Limited source of capital: local governments failed to attract idle money from the public although it is a potential source

On Possible Sources of Investment for Kon Tum

by TRẦN CƯỜNG



that could be mobilized locally for development.

As for the ODA source, Kon Tum can only rely on the central government for this support, and sometimes it is turned into some budget income and used for reducing budget deficit.

Investment in development projects increases very slowly because it only comes from the provincial budget. This source is distributed among too many projects instead of being concentrated in major ones with the result that it didn't produce intended efficiency, especially projects to supply clean water and build irrigation systems that are easy to estimate their efficiency.

Kon Tum is a remote province that is far from coastal regions and developed provinces. It lacks good communications and telecommuni-

cations, so it can't attract investment from other provinces or foreign partners. To deal with this situation, the provincial authorities must take the following measures:

- Allowing BOT agreements for projects to build rural roads, irrigation systems, hydropower plants and other public works in order to encourage investment from other sectors.

- Calling for investment in infrastructure of industrial estates by offering tax and credit incentives because good performance of the private sector in the building of infrastructure will encourage companies to invest in industrial estates.

- Cooperation between the people and the State: This is a useful model for various public works in which the provincial

government covers part of total investment and the public (private persons and organizations) fill the gap, either in cash or labor and they will be beneficiaries of these projects. The mobilization of capital from the public must be based on a voluntary and transparent basis.

- Building of residential and administrative areas: Land could be exchanged for works. In this model, pieces of land with detailed plans approved by authorities could be sold to private persons who will undertake the building of the works. To assist long-term projects, the provincial government could issue project bonds to ensure sources of finance for the projects. Contractors who fail to complete the works on time must be fined properly.

- Development of supplies of credits: All fees relating to credits for peasants could be cut and lending procedures must be simplified in order to facilitate the supply of credits to peasants. The supply of credit to groups of peasants proved effective in the past few years and it could be introduced in larger scale.

The supply of fiduciary loans turns commercial banks into charity organizations while the supply of credit based on mortgage make them pawn shops. Both of these practices seems unsuitable for rural areas and force peasants and private companies to depend on informal and dear supply of credits with the result that their business performance is poor and their potentials are untapped.

- Better use of public investment: The use of the public investment must be transparent. The local communities must be given rights to take part in and supervise the building of works for

their benefits. Roles of authorities responsible for estimating and approving development projects must be beefed up with a view to preventing corruption, waste and embezzlement.

- Equal opportunities to secure credit from state-owned banks: Non-public companies meet with more difficulties than state-owned ones do in securing bank loans. The situation comes from the fact that the state-owned banks can rely on the government to deal with insolvent state-owned companies while they could face law suits if they fail to retrieve loans from insolvent private companies.

- More credit for rural areas: The banks should take measures to supply more medium- and long-term loans to peasants because their production usually has long cycles, especially forestry and fishery businesses.

- Access to bank loans for individual families: In remote areas where communications are poor, the state-owned banks could open offices at commune, or inter-commune, level to help peasants to get access to formal banking, or banks could cooperate with civic organizations in supplying loans to local peasants.

- More favorable lending conditions: The current lending policies adopted by state-owned banks are usually too strict to meet diverse demands of the peasants. The banks had better gather information about their clients, including their track record, in order to offer different policies to different classes of clients, thereby supplying more credit to rural residents.

- Reasonable structure of loans: Proportion of long- and medium-term loans to private

persons must be increased in order to help them modernize their businesses.

- Symmetrical information between banks and businesses: At present, banks didn't accumulate much information about businesses, especially newly-established ones, although these businesses have feasible plans. It's the shortage of information that prevents them from getting access to formal banking services, which causes harm for them and losses to the budget income. Thus, a bank of data about companies is necessary to help them secure loans from state-owned banks.

- Support for companies in registering their businesses: Would-be companies need help to have their businesses registered. An agency responsible for helping them in this matter can get necessary information about them and family businesses and at the same time, keep a close watch on their operations.

- A fund for investment: The provincial government can form such a fund to supply medium- and long-term credits to companies in order to help them modernize and expand their businesses. Moreover, this fund can also be used for giving incentives to make investments in remote or depressed areas or projects to make the best use of local comparative advantages.

In short, the demand for investment in Kon Tum is on the increase, and to meet it is no easy task for the provincial government. The above-mentioned measures can produced more effective results if they are carried along with others relating to taxation, land leasing, credit supply and social development ■