

ON THE FINANCIAL BURDEN OF THE SUGAR BUSINESS ON THE BANKING SYSTEM AND NATIONAL BUDGET

by Dr. NGUYỄN ĐẮC HÙNG

At present, many state-owned commercial banks are facing a dilemma in which they are so short of medium-term credit, especially for major development projects, that they have had to raise the bank rate to attract more money from the public while very big loans supplied to various state-owned companies have become overdue.

According to the latest reports from four state-

come burdens on state-owned commercial banks.

According to the banking report at the last session of the NA by the end of 2002, the total loan, principal plus interest, owed by the sugar industry was VND4,200 billion. Most of it was supplied by the Bank for Agriculture and Rural Development (BARD) and considered as bad debts. It is really a worry for the banking system and governments of

In the 2002-03 crop, there are 315,000 hectares of sugarcane and sugar refineries have invested in and secured produce from 157,827 hectares. The total sugarcane output was estimated at 15.7 million tonnes.

Up to mid-April 2003, the sugar industry has produced 812,000 tonnes of sugar and the total output after the crop is finished is estimated at 900,000 tonnes.

billion. Their total debt on Sep. 30, 2001 amounted to VND6,423.35 billion (6.132 billion was capital investment and the rest was used as working capital). At the end of April 2003, the total debt was estimated at over VND7,000 billion. The Quảng Nam Sugar Refinery lost VND2.3 billion, Sơn Dương Refinery 11.2 billion, Nông Công Refinery 10 billion, Bình Thuận Refinery 19 billion, the



owned commercial banks, the total loan they supplied to five industries (sugar, steel, fertilizer, paper and cement) has amounted to VND9,281 billion and the sugar's was the biggest (VND3,881 billion). All of the five industries have poor competitiveness because of obsolete technology and management and have be-

come provinces with sugar refineries.

At present, there are 44 sugar refineries in Vietnam with a total installed capacity of 82,950 tonnes of sugarcane a day, or 1.2 million tonnes of sugar a year. Forty provinces have large areas of sugar. Some provinces, such as Khánh Hòa and Thanh Hóa, have from two to three sugar refineries.

Of these refineries, only six foreign-invested and three state-owned ones make some profit, the rest of 35 refineries (15 belonging to two state-owned corporations and 20 run by provincial authorities) are suffering losses.

According to the Ministry of Planning and Investment, the accumulated loss of these refinery up to the end of 2001 was VND2,376

Vietnam Corporation of Sugar I 22 billion. As for joint ventures with foreign parties, three gained VND22.5 billion while three others lost VND68.3 billion.

These numerical data, however, aren't complete. The loss of the Sơn La Sugar Refinery was VND3.2 billion according to the Ministry of Agriculture and Rural Develop-



ment but the BARD Son La Branch reported that the total loss of this refinery amounted to VND154 billion and it was suffering a 28-billion loss a year. Two BARD branches at district level in this province have stopped supplying more credit to this refinery because they owed the BARD provincial branch VND195 billion in principal and 34 billion in interest, and owed the Provincial Fund for Investment 90 billion.

The Cam Ranh Sugar Refinery has stopped operation and has to pay interest to the BARD branch billions of dongs a year, not to mention expenses on guardians and maintenance.

Main causes of the situation are as follows:

- Many refineries haven't balanced investment fund with their governing bodies, couldn't run at full capacity and failed to reduce production cost and enhance their performance. Because of the lack of a master development plan, many refineries have been built without considering the supply of raw materials. In the 2002-03 crop, the industry was short of some 30% of the volume of raw materials needed, some refineries could get only 30% of what they needed while some others enjoyed a surplus of

sugarcane. The shortage of raw materials has existed for years and most refineries could only operate for three or four months a year.

- Capital investment of most refineries is big and most of it is loan capital. In addition, borrowings in foreign exchange to import machinery, mainly from China, under deferred-payment terms became heavier because of inflation. In addition, bad management and embezzlement during construction work made expenses skyrocket.

- Technology employed by most refineries is obsolete, of low capacity and causes waste of raw materials. The production line isn't modern enough to make by-products. Many refineries have to borrow more to invest in their production lines and waste treatment.

- In the crop 2002-03, the waste of raw materials of the whole industry amounted to 2% and selling price fell by 3% for sugar from centrally-run refineries and 2% for locally-run ones. Amortization and bank interest accounted for some 50% of the production cost.

- There is no common governing organization for the industry. Of refineries run by provincial authorities, they could be under

management of local service of agriculture and rural development, service of industry or the provincial people's committee as well.

Other causes of losses of the industry are: inconvenient location of refineries, large overheads, high risks involved, falls in sugar price on the world market, natural disasters, and high production cost.

Although the industry help create new jobs in rural areas and ensure the supply of sugar to the domestic market, it has become a burden on the national budget because hundreds of billions have been spent in giving price support, paying bank interest or cutting taxes on local sugar. State-owned commercial banks also suffer bad consequences because they have guaranteed the payment for machines and equipment imported under deferred payment terms by these refineries.

Monthly interest on over VND4,000 billion owed by sugar refineries amounts to some VND26 billion causing a lot of difficulties for commercial banks, and as a result, the banks couldn't cut the lending interest rate and other industries miss the chance to get cheap credit. In other words, the existence of loss-making sugar refineries causes harm to

the bank's financial situation and competitiveness.

It's necessary to emphasize that loss-making sugar refineries not only default on loans from banks, Investment Support Funds, provincial budgets but also fail to pay electric bills, taxes, or contributions to the social security scheme. Financial authorities must pay full attention to this problem when implementing the financial and monetary policies. If the money used for supporting loss-making refineries is used for helping sugarcane planters to grow other plants or do animal husbandry, the socioeconomic effects will be certainly much better.

Besides the sugar refineries, many state-owned companies in industries with poor competitiveness will certainly make losses because their production cost is higher than foreign counterparts' and they will add more burdens on the national budget and state-owned commercial banks. At present, the BARD has decided to stop supplying credit to loss-making sugar refineries because all loans supplied to them will become bad debts. The Government had better dissolve these refineries as soon as possible to avoid further losses and waste of money. ■