

# HCMC INVESTMENT FUND FOR URBAN DEVELOPMENT A NEWCOMER TO THE FINANCE MARKET

by TRẦN TÔ TỬ

**F**oreign experience shows that investment funds or investment companies are considered as financial intermediaries that could invest the pooled funds of small investors in shares and stocks issued by joint-stock companies or joint ventures. This kind of fund can help to develop the economy and meet the demand for capital.

The investment fund is considered as one of financial intermediaries specializing in financial investment and acting as a linkage between saving surplus units and capital deficit units.

In developed countries, investment funds take the form of joint-stock companies which use funds pooled by their shareholders to buy securities, thereby becoming a member of a wide range of companies. That is why it is considered as a holding company.

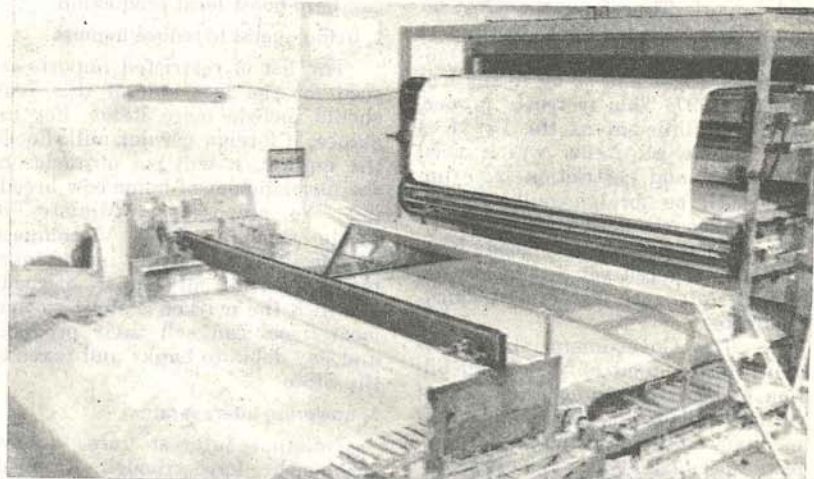
In developing countries, different kinds of investment fund have come into being. They could be formed by governments or private persons but they all take part in major development projects and they sell their shares to the public or other local companies. By doing so, they have helped to return ownership of economic concerns to their compatriots.

As for Vietnam, the formation of investment funds will be of great service to the Government's plans to equitize an amount of state companies and to form a stock market.

## 1. Some features of the HCMC Investment fund for urban development (HIFUD)

The HIFUD was established according to the spirit of the Decision 644/TTg issued by the PM on Sep. 10, 1996 and has the following features:

- It is a state financial institution with the aim of investing funds pooled by the Government and the public in development projects, es-



pecially in projects to develop the infrastructure and key industries in HCMC.

So the HIFUD helps the HCMC government to stop acting as an investor and concentrate more on the task of regulating economic activity, thereby defining responsibility of investors, project managers and organizations that carry out projects.

- The HIFUD is also a financial intermediary specializing in making investments, especially in urban development in HCMC. So it provides diversification of risk, liquidity and management service to its participants (HCMC government and individual savers); offers capital and advisory service to capital deficit units (including project managers); as a big investor, it helps to realize major plans for socio-economic development.

## 2. Main functions of the HIFUD

### (1) Mobilizing medium - and long-term capital:

It attracts deposits and dead money of the public and foreign investors but stays a state-owned institution.

### (2) Making financial and physical investments:

- a. Physical investment: The HIFUD looks for business opportunities and if they are considered as profitable, the HIFUD will make plans to exploit them. The HIFUD is also ready to receive proposals or pre-feasibility studies from other organizations and individuals. After studying and evaluating them, the HIFUD can put them in a list of HIFUD physical investment projects in which it will put its funds or cooperate with other organizations to realize them by:

- Forming a state company owned totally by the HIFUD.

- Forming a joint-stock company, a limited company or a joint venture with foreign partner of which the HIFUD is a founder.

- Cooperating with an existing company.

As for the extend of its participation in these companies, the HIFUD can:

- Buy a certain amount of shares and has its representatives in their boards of directors if it is necessary for it to cooperate with these companies for a long time.

- Resell its shares when the public and other companies interest in these companies.



b. Financial investment: The HIFUD will finance other companies and projects but won't share in their management. To make investments, it can buy shares or bonds issued by these companies or supply loans to them.

After a while, all shares and bonds held by the HIFUD will be sold in the stock market when the HIFUD needs capital to put in new projects.

For the time being when there is no stock market and there is only a handful of joint stock companies, the HIFUD can hardly make financial investments but it can buy shares from equitize state companies or from certain newly-formed joint-stock companies.

In the future, the list of financial investments will be longer and when a stock market comes into being and the number of joint-stock companies increases, the HIFUD can resell its shares and bonds in order to invest in new projects.

(3) Supplying professional services:

a. The HIFUD can supply a wide range of services to potential investors with a view to making their work easier and reducing risk. The HIFUD can give advice on business opportunities, credit rating, portfolio optimization, merger... or help customers make feasibility studies, investment plans and market them.

Moreover, the HIFUD, as an investment company, can manage funds pooled by small savers and turn these funds into productive investments; manage other mutual funds and investment projects; or act as a representative of customers in meetings of shareholders and boards of directors.

b. When a stock market is formed in Vietnam, the HIFUD will take an active part in it by acting as a stockbroker, underwriting a new issue and supplying other services to issuers.

(4) Sharing in management of companies:

In order to protect its interests in projects and companies that it has put money in, the HIFUD can keep an eye open for the financial disclosure made by these companies and projects and affect them by playing a role of an advisor. However, in present conditions in Vietnam, the HIFUD can have its representatives in boards of directors instead of bringing them under its total control unless situation calls for its intervention to develop or save these companies.

### 3. Sources of capital for the HIFUD

The HCMC urban development program demands some billion đồngs a year while grants-in-aid are limited, therefore the main function of the HIFUD is to mobilize all potential sources of capital to finance investment projects. The HIFUD will try to secure much-needed capital from the following sources:

(1) Share capital: this source includes starting capital provided by the central Government and annual outlay from the HCMC budget. It's planned that this source will provide some VNĐ500 billion in the first year of operation of the HIFUD and will supply more in the following years.

(2) Funds trusted by the HCMC Government and other investors: The HCMC budget always provides for annual expenditures on infrastructure development. The HCMC government can trust the HIFUD with this fund to invest in infrastructure projects specified by the HCMC government. The HIFUD can make plans to employ this fund within the time limits set by the HCMC budget authorities or put it in development projects specified by the HCMC government.

Local and foreign companies and private person can also trust the HIFUD to invest their money in development projects or securities issued in Vietnam. This source of capital will increase, or decrease, depending on the HIFUD's performance and managerial skills.

(3) Medium- and long- term capital

- Loans from local financial intermediaries: these loans are not plentiful at the moment and the HIFUD has to pay interest on them at current rates, however, these loans are of great help when there is a temporary shortage of funds.

- Loans from foreign financial intermediaries: these loans are plentiful and of both medium and long terms, their interest rate is reasonable and could be supplied by many banks, however, these intermediaries require well-prepared feasibility studies and it's hard to get their approval for suggested projects.

- Issues of bonds in local capital markets: the HIFUD is allowed to issue project bonds in order to secure needed capital for infrastructure projects. These bonds could be sold to insurance companies or national insurance funds where a lot of idle money is held, or sold to small savers who are looking for new in-

vestments when interest rate paid by banks to savings accounts is on the decrease.

- Issues of bonds in foreign capital markets: the Decision 23/CP issued on March, 22, 1995 by the PM allowed issuing bonds in foreign capital markets, so the HIFUD can make plans to do it, however, it must be cautious because these issues require good preparation and cost issuers a lot.

In short, these sources of loans could be employed on condition that interest must be paid on time, so the HIFUD must make plans to employ them effectively.

(4) ODA fund

According to estimates, this source will increase remarkably in the coming years, however, in recent years, HCMC hasn't received much from this source because of procedural problems. Solving them will help the HIFUD secure loans from international financial institutions. These loans will be of great help because of their low interest rate, long maturity and large size.

(5) FDI source

FDI-givers always aim at making profit, so the HIFUD has to mobilize a sum of money big enough to put in joint ventures with foreign partners and prepare projects of high feasibility to attract them.

(6) Capital from equitization programs

To equitize certain state companies specializing in infrastructure building is also a good way to mobilize capital from different sectors.

As for the equitization of state companies, the HIFUD can help HCMC government pick out companies deserving of equitization. All shares issued by these equitized companies will sold to local government and the HIFUD before they are sold in a stock market later. The share capital of these companies must be used to modernize production lines and introduce new management methods.

The HIFUD can also form new joint-stock companies and attract potential shareholders. It had better hold the better part of shares issued and resell them later when these companies develop well.

(7) Other sources:

Besides the above-mentioned sources, the HIFUD can secure help from foreign leasing companies or from consumers of supply services by persuading them to pay in advance for services they consume in a 6-month or 1-year period■