



**I**n many economies, the existence of the public sector is a need. Its role and effect differ over time and countries but it is always of some importance because it helps solve social problems and ensure the achievement of macroeconomic goals. The removal of this sector seems impossible even in countries when the privatization is supported strongly. In many countries such as Vietnam, on the other hand, the public sector plays the leading role in the socioeconomic development, and its performance reflects both success and failure in the economic development.

In developed countries, the public sector has experienced ups and downs and has completed its role, that is why it stopped being a focus of attention. This problem is totally different to developing countries, especially to such economies in transition as Vietnamese one where there has been a big public sector that plays an important role in the national development strategy. The Government has anticipated unfavorable changes in the public finance in the coming years. Some 50% of the budget income comes from crude oil and import duties while the oil reserves aren't endless and import duties will be reduced to 20% by 2003, 5% by 2006 and 0% by 2015 as required by the AFTA rules. That is why it should encourage all sectors to develop and help the public sector play well its leading role. The Government continues to consider this sector as an instrument for regulating and orienting the economy towards the socialism.

Although the public sector failed to achieve good performance, we

importance to the economy because of their small scale (with capital of under VND 1 billion) or bad performance (suffering losses for three successive years); and (4) loss making companies to be sold or dissolved.

To beef up the public sector and improve the performance of state companies, we want to suggest here some measures.

#### **1. General measures for the public sector**

- View on the importance of the public sector: It's necessary to help ministries and local governments change their views on the need for reform in the public sector.

- Formation of new state companies: In the coming years, new state companies aren't necessary. The Government had better invest in

# **FINANCIAL MEASURES TO IMPROVE PERFORMANCE OF STATE COMPANIES**

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couldn't deny efforts by the Government to reform and improve it. These efforts, however, didn't produce intended results because of the lack of an overall strategy that could help each state company determine its own business plan and reform process. In my opinion, the main directions for the reform in state companies in the coming years are as follows:

- perfecting legal infrastructure and management mechanism with a view to allowing more autonomy for state companies while governmental bodies only play a role as supervisors.

- changing the structure of state companies by dividing them into four groups based on the financial situation: (1) totally state-owned companies; (2) companies to be equitized in which the state holds the better part of their shares; (3) companies of no

fields the private sector couldn't undertake because of shortage of capital or low profitability. When forming new state companies, full attention should be paid to the socioeconomic development strategies for the province or zone, markets for their output and available funds from the budget.

- Information for state companies: The supply of information to companies should be timely with a view to creating a level playing field for all sectors, thereby ensuring fair competition between companies from all sectors.

#### **2. Financial measures for state companies**

a. Enhancing the financial situation of state companies: The financial situation of a state company depends on both internal and external forces. The internal force is based on its good performance and ability to in-

crease its working capital and take part in the stock market. Besides such internal factors as managerial skills, facilities for production and competitiveness, the support from the government is also of great importance. The government can support state companies by developing the capital and financial markets, thereby helping state companies to

in key industries where state-owned companies are needed.

Besides equitizing some state companies, the responsible authorities should perfect mechanisms for auctioning shares of equitized companies, leasing state companies and enhancing functions of the Fund for Equitization and Rearrangement of State Companies.

Solution	2001	2002	2003	2004	2005	Total
1. Merged	107	94	50	50	50	351
2. Equitized	345	374	200	200	200	1,319
3. Sold or leased	136	126	100	100	100	562
4. Dissolved	132	141	50	40		363
5. Changed into administrative bodies	13	14				27
Total	733	749	400	390	350	2,622

mobilize capital from the public.

b. Dealing with overdue debts: To help state companies improve their financial situation, it's necessary to free them from debts. Forming state-run debt recovery agencies seems to be the best solution now. At present, the government has a plan to diversify ownership of state companies. In my opinion, the financial situation of state companies should be improved before the plan could be carried out. Generally, state companies should make plans to deal with their debt payable instead of relying on, or waiting for, government support.

In addition, a mechanism for inspecting and supervising the financial situation of state companies should be developed in a manner in which the company's autonomy is ensured.

c. Equitizing state companies: This plan aims at restructuring the system of state companies in terms of size and quantity with a view to enhancing their performance and competitiveness. It also helps reduce the government intervention in operation of state companies and deal with loss-making ones.

According to the plan, the number of state companies would reduce by 40% by 2005. In the years 2001 - 2005, 2,622 state companies would be reorganized or adjusted (1,319 would be equitized, 562 sold or leased, 351 merged, 363 dissolved and 27 changed into administrative bodies). More details of this plan are as follows:

In that period, it's planned that 150 new companies would be formed

d. Forming state investment companies: These companies will invest public funds in companies of all sectors. An effective financial management mechanism is needed for operation of these companies that are responsible for preserving state-owned capital and deciding on their business strategies as independent companies. They will do business according to the investment strategies worked out by the State.

e. Developing a perfect financial mechanism for the public sector: this measure includes two tasks:

- Identifying representative of state capital in state companies:

Governmental bodies should refrain from intervening too much in operation of state companies and limit themselves to dividend or income from investment in companies. State companies should be considered as independent entities that have rights to make business decisions and bear responsibility for their decisions. The companies own their assets and use them to realize targets set by the State.

The control over capital invested in state companies should be made appropriate to the current financial management mechanism by allowing directors to make decisions on their investment and production plans and be responsible to relating governmental bodies about their decisions.

As for labor issues, companies management should have full rights and responsibility for recruiting laborers and setting salary scale.

- Perfecting the financial mechanism for corporations: In the years 2001- 2005, full attention should be paid to classification of state companies and improvement in their financial situation. As for finance companies, three restrictions should be removed (not mobilizing short term capital, not offering financial leasing services, and not undertaking payment arrangement between subsidiaries within a corporation) because these financial and banking services could help corporations become strong groups.

Better performance of state companies will contribute a lot to the modernization and industrialization program.■

