

The important content of management reform of state-owned enterprises (SOEs) is the reform of financial management system. The reform of SOE financial management system is really effective only when the measures to perfect the financial management system are implemented at the same time with the reform and perfection of the SOE management system and in turn the effective measures to rectify and renew the SOE financial management system will be an important motive to speed up the process reforming SOE management. In this article, we would like to outline the process of reforming the SOE financial management system since 1986 until now and make some proposals to continue the reform of SOE financial management system.



CONTINUING REFORM AND PERFECTION OF FINANCIAL MANAGEMENT SYSTEM FOR SOEs

by MEcon. NGUYỄN VĂN TẠO

I. DECISION 217 / HĐBT - AN IMPORTANT BREAKTHROUGH

Before 1985, the SOE management system was absolutely strict under such agencies as the State Planning Committee, State Pricing Committee, Ministry of Finance, State Bank, Ruling Ministry, Ministry of Labor... All problems arising in the enterprise would be resolved by these agencies.

In such a management system, the enterprise found no way to carry out self-determination and no responsibilities for any losses. As a result, it paid no attention to its performance. All was settled by the Government. This system inevitably caused stagnancy, doldrums and socio-economic crises.

Since 1986, the all-sided socio-economic reform was launched in the Party's sixth congress. The third plenum of the Party's Executive Committee, term VI adopted an important resolution on the reform of economic management changing SOE activities into business accounting and renewing the State eco-

nomic management. On Nov 14, 1987, the Ministerial Council (now the Government) issued Decision 21/HĐBT to reform SOE business and production system. This was actually a breakthrough. This decision was brought into life revitalizing SOEs and the public sector made significant progress. Besides positive effects, the new system following Decision 217/HĐBT also revealed shortcomings to remove concerning enterprises and government agencies. The implementation of Decision 217/HĐBT was uncontrollable to some extent. In the last years of 1980s, SOE still faced troubles in finding the way to improve their business performance. Until early 1990s, when our economy began to shift from the centrally-planned system to the market economy, many SOEs step by step had adapted themselves to the new system and gained profits. However, the number of loss-making SOE were also increasing over the past years. Their performance did not match the Government's investment. The percentage of SOEs in the red was 8% in 1993, 10% in

1995, 22% in 1996, 32% in 1997 and 35% in 1998. It was attributed to many causes but more important is the fact that the SOE financial management system remains many deficiencies to tackle.

II. DECREE 59/HĐBT - AN ACTUAL REVOLUTION

The Law on State Enterprises was passed by the National Assembly in April 1995, the Government issued Decree 59/CP dated Oct 3, 1996 on "Statute on SOE Financial Management and Accounting". This can be seen as a revolutionary step of reform. This was the first time the Government promulgated rather comprehensive regulations on SOE financial management. Some provisions in Decree 59/CP were compatible with the market mechanism and international practice and standard, pushing SOEs to compete fairly with other economic sectors. Decree 59/CP first specified financial rights of relevant government agencies. As compared with the former system, the statute has reduced considerably troublesome interventions of govern-

ment agencies in corporate management and strengthened its business autonomy and financial obligations.

Nevertheless, after two years of implementation, Decree 59/CP has also revealed its defects as follows: Some provisions are not suitable to Vietnam's SOEs, international practice and the market economy, so they are not feasible. Some also make troubles to the enterprise and do not match other legal documents. Notably, Decree 59/CP did not yet specify adequate responsibilities of SOE managers while they get into the red and lose the State capital and properties as well as relevant State agencies' obligations.

III. DECREE 27/1999/CP - CONFIRMING TO CONTINUE THE REFORM OF SOE FINANCIAL MANAGEMENT

On April 20, 1999, the Government issued Decree 27/CP to revise some provisions of Decree 59/CP. The promulgation of Decree 27/CP confirms the Government's determination to continue its reform of SOE financial management expanding their autonomy, for example, giving more rights to attract capital, change capital structure, sell and collateralize their assets and rights to cover some real costs in line with international practice. Especially Decree 27/CP details administrative, substantial and legal obligations of the enterprise's director when he makes losses as well as obligations of relevant government agencies.

In spite of positive amendments and supplements but so far the SOE financial management system still faces following shortcomings to be deleted:

- The financial system for business SOE and public utility ones is not clearly separated, so it is difficult to implement it.

- The State ownership and the enterprise's ownership towards properties are not specified.

- Although the enterprise's autonomy in financial management is expanded but their rights are still restricted such as investment decision, amortization of fixed assets, limits on costs of advertising, marketing, transaction... These regulations place hurdles on the enterprise' flexibility in the market, badly affecting its performance and competitiveness.

- The Decree has not yet specify obligations of the enterprise's executives in line with their rights.

- There is nominally only one representative of State capital and property ownership, but it is not so in reality. The State method of financial management is still administrative, cumbersome, loose and ineffective.

- The financial relations between the corporation with its affiliates are still ambiguous, administrative and sometimes obligatory.

IV. CONTINUING THE PERFECTION AND REFORM OF SOE FINANCIAL MANAGEMENT SYSTEM

We have modeled the market economy under the State management and socialist orientation over the past 10 years. In that process, the reform of SOE financial management system has made significant achievements. In the first place SOEs in some industries have affirmed their leading role. However, the Government is much concerned about poor competitiveness of the economy on the whole and SOEs in

particular. This is a big obstacle to our country's integration in the world and region. To remove this obstacle, the reform of SOE financial management system has an extremely important part. In our opinion, the system should focus on following issues:

First, soon making clear distinction between business SOEs and public utility ones for their appropriate financial system (the current definition of the two kinds of enterprises is still arbitrary).

Second, specifying the State ownership to the enterprise.

Third, giving more rights in business management to the enterprise such as amortization of fixed assets, investment decision, costs, mortgage, liquidation, selling assets... at the same time strengthening the State supervision and inspection such as regulations on making tenders for property purchase and sale, and on publicizing costs...

Fourth, changing the administrative management into financial investment. This is an important measure to separate the State from the enterprise, reduce the State interventions in business operations. The State ownership is implemented via the financial investment company. This company will represent the State as a shareholder of the enterprise. The Government's instructions to the enterprise will be carried out via the shareholder's rights with no direct intervention in the enterprise.

Fifth, the financial relations between the corporation with its affiliates should be turned into a new form of the father company and its subsidiaries in the market economy■

