PUBLIC FINANCE AND THE STRUGGLE AGAINST EMBEZZLEMENT

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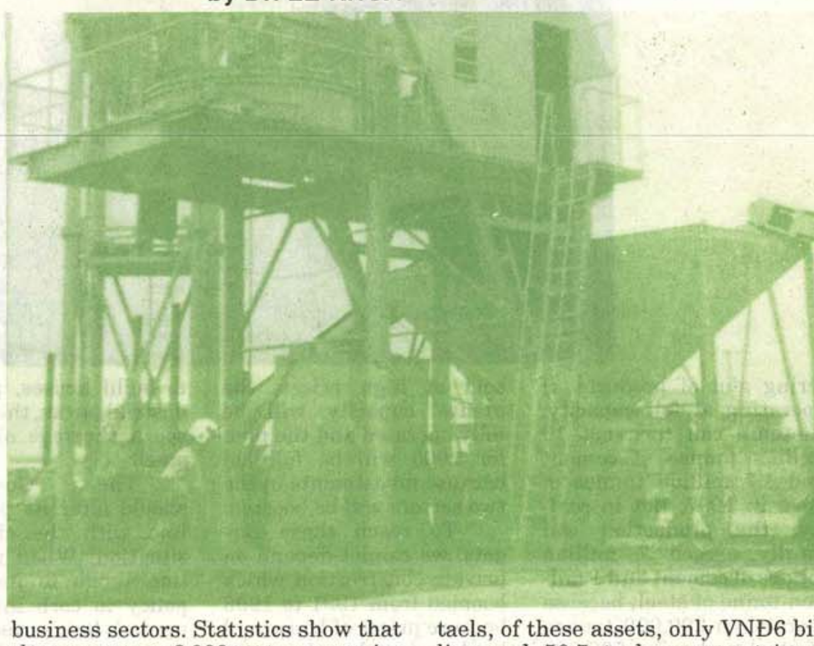
In a speech addressed the National Assembly in October 1997, Prime Minister Võ Văn Kiệt declared the embezzlement a national calamity. The task of struggling against embezzlement is more complicated in Vietnam than in other countries because the public finance in Vietnam is related to a wider range of activities.

The public finance in foreign countries is usually limited to government's income and expenditures on national defense, education, health care, administrative machinery and national insurance. The government usually has only a handful of state companies and a central bank. In Vietnam before 1990, under the centrally- planned mechanism, the government was responsible for developing the economy, ensuring full employment, and supplying necessaries of life to officials and the public. The public sector was very large, most economic concerns were under state ownership, therefore the state gave subsidies to loss-making companies and all profits from them were transferred to the treasury. In the banking system, there were only the State Bank and its branches in all provinces and districts and the State Bank acted as general treasury to the government. In short, the public finance in Vietnam involves government revenue and spending (government sector), state-owned enterprises (business sector) and banking system (banking sector).

The economic reform in Vietnam has helped to separate the above-mentioned three sectors. Firstly, the Ordinance on Banking separated the banking sector from the government sector because branches of foreign banks and privately-owned commercial banks had come into being. The National Treasury was formed and acted as cashier to the government. The Government had to keep its budget balanced with a view to avoiding borrowing from the central bank. Secondly, the Government allowed all classes to do business and stopped discriminating between state and private companies. Thus, the government sector was separated from the business sector.

However, the Government, in fact, kept on playing the leading role and intervening into the banking and



business sectors. Statistics show that there are some 6,000 state companies holding a total capital of some VNĐ104,000 billion while around 25,000 private companies own only VNĐ10,000 billion, equalling only one tenth of capital possessed by state companies.

In principle, state companies stop receiving subsidies from the Government, but these companies are under the state ownership, if they make profits, the state assets will increase and of course the Government must suffer losses if these companies are run badly, therefore it's difficult to distinguish between finances of state companies and those of the government sector. The banking sector was separated from the government sector but most of important banks, such as the State Bank, banks for foreign trade, banks for agriculture and banks for commerce and industry, are under the state ownership, so it's difficult to distinguish between the government and banking sector too. In short, the public finance in Vietnam, after the economic reform, is still much larger than that in foreign countries. So the struggle against embezzlement must be carried out not only in the government sector, but also in state companies and state-owned banks.

1. Embezzlement of public fund

According to the HCMC Anti-Embezzlement Commission, 226 inspections carried out in 1996 discovered 60 cases relating to 95 officials. The damage caused by them to the public fund included VNĐ20.7 billion, 20,132 sq.m of land, and 52.7 gold taels, of these assets, only VNĐ6 billion and 50.7 taels were retrieved (*Thanh Niên*, Jan.24,1997).

The damage to the public fund in 1996 of VNĐ20 billion, or US$2 million, thinking through, is only a small sum in comparison with HCMC annual export earnings. It's too small to be a national calamity, but certain cases discovered in 1997 such as Epco, Minh Phụng, Hùng Vương, etc. have caused much bigger damage. The press reported that these cases had caused a total loss of some VNĐ2,500 billion (US$250 million).

But that's just the tip of the iceberg. If this loss is turned into investments, results they produce will be certainly enormous.

2. Embezzlement rackets

Recently embezzlement suits show that embezzlers used the following rackets:

a. Keeping two systems of accounts: In most cases put on trial recently, we saw that there were always two systems of accounts in each company in question: one was kept under direction of directors and one kept as formal documents used for reporting to managing bodies. All directors kept hidden reserves and used them to pay bribes or hush money.

As we know, if all accounts are kept correctly according to the double-entry method, embezzlers will meet with a lot of difficulties in getting money, they can only make money by overvaluating goods bought in (in order to get secret commisison from the supplier) or undervaluating goods sold and get bribe from the buyer. However, a closer inspection could easily uncover their tricks.

A lack of exact accounts is one of main preconditions that enable directors to embezzle the public fund.

b. Collusion among company's managers: In this case, director, chief-accountant, cashier and inspector colluded together in coverting public fund to private assets. Public organizations such as the Youth League, Trade Union or Party committee were all neutralized. Naturally, this leadership was assisted by a lot of friends outside the company: they were suppliers or buyers (who pay secret commission), government bodies that were in connivance with embezzling leadership, and credit officials of banks that could decide on supply of loans.

c. Getting money from banks: After conniving with credit officials, the leadership prepared false documents in order to secure bank loans:

- To mortgage an assets, a house or a piece of land, to several banks.
- To open L/Cs under defferred payment term: in principle, the importer must pay the bank before taking goods out of warehouse, however, the importer gives bribes to bank officials so as to take goods out on the condition that the importer will repay bank after selling out goods. This practice puts the bank at a disavantage: if the importer defaults, the bank has to pay the foreign supplier.
- To mortgage false documents to banks: The company A makes a sale contract to sell goods to a company B (but A has no goods in its warehouse), and the company B mortgage this contract to a bank.

In short, when the Government stops giving subsidies, directors of state company can keep false accounts, form hidden reserves or secure bank loans in order to embezzle the public fund. However, these tricks can only hide their embezzlement temporarily: if they embezzle the company's fund, there will be a day when the company has no cash to pay its workers or repay debts; if directors embezzle bank loans, after a while, the bank will demand repayments, and discover embezzlements. In fact, all recent embezzlements were discovered by banks because with exact systems of account books, banks could easily find out bad or doubtful debts.

3. Measures to prevent embezzlement

a. Keeping exact accounts

In state companies, accountants are forced to obey orders from directors, therefore accounts kept by them aren't exact. The simplest way to solve this problem is to form an accounting center where all companies with capital of over VNĐ1 billion have to send vouchers on a daily basis to. This center will keep accounts for all companies and the job will be computerized. Thus, directors can't keep false accounts.

b. Periodical disclosure

In Vietnam, information about the public finance is kept secret from the public. This practice originated from wartime when such information was considered as related to the national defense, however, in the market mechanism and with the aim of struggling against embezzlement and beefing up the macro-economic management, it's necessary to supply the public with information about the banking system, business accounting and national budget.

Those two measures can basically put an end to embezzlement in state companies and banks, because bank's accounts must be exact and up-to-date. The State Bank must carry out regular inspections of its branches and commercial banks. As for companies' accounts, when accounting centers are responsible for keeping books for companies, directors of companies can't keep false accounts. When data about banks' and companies' accounts are disclosed periodically, it's almost impossible to hide profits, losses and embezzlements from the public. If the full disclosure is made on a quarterly basis, financial analysts can help to discover all embezzlements or limit them to the smallest scale.

Besides those two measures, it's necessary to make the government sector smaller and reduce government expenditures by equitizing or dissolving loss-making state enterprises. The Government had better concentrate on large projects which can affect greatly the structure of industry, and allow private persons, or private companies to buy, and run small state companies, and tender for supply of goods and services to the Government. This measure can help to reduce the amount of government officials working in state companies, that is, the amount of potential embezzlers■