INDUSTRY

UNITED STATES ECONOMIC ASSISTANCE TO VIET NAM, 1954-1975

VIET NAM TERMINAL REPORT

PREPARED BY THE ASIA BUREAU

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INDUSTRY

1955-1960

Like most of Southeast Asia, Viet Nam was predominantly agricultural, with three quarters of the population living off products of the land. Agricultural and forestry products were virtually its only source of foreign exchange. The country relied heavily on imports of all types of goods for its existence.

At the beginning of the U.S. assistance effort in South Viet Nam, industry was practically non-existent in the sense that the term applies in industrial economies. Only small-scale manufacturing for local consumption of such items as beverages, textiles, cigarettes and toilet articles were already established. The ownership of these industries was predominantly in the hands of foreign nationals. Vietnamese participation in the industrial field was almost wholly limited to a few small operations and to cottage industry from which only 10 percent of the people earned their living.

During the years 1955 to 1960, Vietnam was in a period of great transition, which was reflected in the industrial field. While South Viet Nam with its rich rice producing delta, was historically agricultural, North Viet Nam had developed a significant industrial capability for that part of the world. With the partition in 1954, it became necessary for South Viet Nam to look to its own potentialities in order to meet at least a portion of its requirements for manufactured goods. Ironically, perhaps, the North contributed to the effort which would eventually result in remarkable industrial development in the South. With the movement of nearly a million people from North to South, following the Geneva Accords, came a nucleus of people with industrial skills, a few industrialists with modest experience and know-how and in a few rare cases some capital equipment moved South with the refugees. These were to become valuable assets in the future.

In the South, businessmen lacked experience in manufacturing and were not prepared to invest in new productive ventures where the risks appeared greater than had been encountered in other branches of economic activity such as agriculture and commercial imports. Clearly, the government had to take positive steps to encourage industrial investment by both local and foreign businessmen in Viet Nam.

The Presidential statement of March 5, 1957, outlining the advantages and assurances to be accorded to both locally-owned and foreign investments was the framework for a more detailed program which would create a favorable industrial investment climate in the succeeding years.

Creation of the Industrial Development Center (IDC) in 1957 was the first major step in implementing the government's committment to development. The IDC was a semi-autonomous government organization to which ICA contributed US$ 6,540,000 and VN$ 121,000,000. (E xchange Rate VN 35/US$ 1)
Of this amount, US$ 6,000,000 and VN$ 99,750,000 were for loan funds to aid new enterprises. The remainder was for technical assistance in the form of services of U.S. consulting engineers, establishment of a library and operational expenses. ICA also contributed technical and financial assistance through a contractor, Russel Wright Associates, to artisans in 1957. Before July of 1958, an agreement was signed which extended the Russel Wright Contract and provided for the creation of the Handicraft Development Center.

Also in 1958, services of four U.S. consulting engineering firms were provided for an industrial and economic survey.

The Handicraft Center received further U.S. assistance in 1960 and sold VN$ 10,014,000 worth of handicraft products.

The U.S. was also vitally involved in the development of the Nong-Son Coal mine. This, in the amount of $1,630,000, came in the form of equipment and consultant services.

Throughout this period ICA contributed to the development of the two industry sectors which were believed to hold the best prospects for the country: fisheries and forestry. As early as 1954-56, ICA provided two Japanese fishing trawlers to Vietnam and equipment for two refrigeration plants. During the same period an advisor was made available for forest fire prevention.

The Commercial Import Program (CIP) made a significant contribution to Vietnam's fledgling industrial development during these years. From 1954 to 1958, approximately US$ 154,000,000 of machinery and equipment (including transportation, construction, electrical, generating, etc.) and almost US$ 316,000,000 of raw materials and supplies were imported under CIP. Tables 1. and 2. for CY 1958 illustrates the type and magnitude of imports for that era. The program also enabled existing industries to continue operation by financing the import of essential spare/replacement parts. Capital goods, raw materials and parts were imported directly by industrialists and end-users as well as by approved commercial importers for resale.

Table 1.

COMMERCIAL IMPORT PROGRAM

IMPORTS OF INDUSTRIAL EQUIPMENT AND MACHINERY
- CALENDAR YEAR 1958 -
(Value in 1,000 US$)

	Items	Value
1.	Transportation vehicles	6,104
2.	Industrial electrical apparatus & parts	1,884
3.	Metal products & tools	1,750
4.	Engines & turbines	2,996
5.	Engines, chassis & parts	2,634
6.	Signal, communication & distribution equipment	1,715
7.	Acc'tg & bookkeeping machines	845
8.	Machines & parts for textile industry	916
9.	Tractors & parts	2,466
10.	Construction, mining & conveying equipment	1,572
11.	Scientific instruments	1,460
12.	Aircraft & parts	540
13.	Generators & motors	833
14.	Machine tools	342
15.	Spare parts for indust. mach.	494
16.	Ball & roller bearing equip.	231
17.	Metal working machinery	175
18.	Industrial air-conditioning & refrigerating equipment	238
19.	Air compressors & pumps	113
20.	Machinery for paper, leather, & other industries	799
21.	Printing machinery	168
22.	Industrial machinery	385
23.	Mach'ry for chemical industry	186
24.	Photographic & movie equip. for comm. & indust.use	104
25.	Belts & belting	129
26.	Scales	139
27.	Vessels, parts & equipment	820
28.	Wood-working machinery	52
29.	Railroad equipment & parts	199
	TOTAL:	30,289

Source: USOM Annual Report for Fiscal Year 1959

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Table 2.

COMMERCIAL IMPORT PROGRAM

IMPORTS OF RAW MATERIALS, FUELS, AND OTHER ESSENTIAL SUPPLIES FOR LOCAL INDUSTRY AND AGRICULTURE
- CALENDAR YEAR 1958 -

(Value in 1,000 US$)

Items	Value
1. Structural steel & others construction material	11,012
2. Yarns for textile industry	9,898
3. Coal & fuels	9,765
4. Chemicals	4,044
5. Paper & newsprint	5,028
6. Cement & other bldg material	6,709
7. Pharmaceutical raw materials for local industry	2,869
8. Tobacco (1)	2,751
9. Fertilizers & pesticides	5,015
10. Ferrous & non-ferrous metals	2,345
11. Non-metallic minerals	1,941
12. Hides & leather	820
13. Impregnated fabrics	1,431
14. Raw jute, jute sacks, cords & Twines (2)	83
15. Fats & oils	788
16. Plywood & lumber	1,375
17. Other textile raw materials	51
18. Miscellaneous raw materials & supplies	5,467
TOTAL:	71,390

(1) U.S. Public Law 480 in 1958

(2) Raw jute and jute sacks since January 13, 1958 are no longer aid-financed, due to development of the jut sack industry in Viet-Nam.

By 1960, a number of industrial projects, financed out of prior year CIP funds, were under construction or due for completion during the year.

CongTy Thuy Tinh Vietnam - A glass bottle manufacturing plant with a capacity of 15,000 tons of glass containers per year. Built at a cost of US$ 1,007,000, its production of containers resulted in a potential foreign exchange saving of approximately $2,800,000 annually.

Vietnam Textile Co. (VINATEXCO) - Cotton spinning and weaving extile mill with 20,000 spindles and 400 looms. Capital equipment cost was US$ 2,345,000. Annual production capacity of 15,000 bales (400 lbs. each) of 20 count cotton yarn and 240,000 bolts (40 yds. each) of cotton gray goods. Estimated annual savings in foreign exchange was US$ 3,840,820.

Vietnam Cong Thuong Cong Ty - Expansion of a tire recapping plant to produce 400 tons of camel back per year or enough rubber to recap 40,000 tires. Total CIP dollar financing was US$ 200,000 with a predictable foreign eschange savings of US$ 300,000 annually.

Dong Nai Ky Nghe - Textile weaving mill equipped with 130 automatic looms and preparatory and finishing equipment. CIP financing of equipment amounted to US$ 159,500. Production capacity is 202,800 meters of fabric per month.

Vietnam Development Corporation - Plastic manufacturing plant which produces 240 tons of plastic bags and 120 tons of plastic pipe per year. U.S. Aid's contribution to expansion to this point ~~thus far~~ was US$ 126,863. The Company continued to expand and diversify its products.

Vietnam Aluminum Company - Aluminum tube manufacturing for the production of non-rigid toothpaste-type tubes, rigid pharmaceutical tubes and zinc tubes for dry cell batteries. Equipment cost was US$ 120,000. Plant capacity was expected to be 800,000 tubes per month.

In 1960, approximately US$ 9,700,000 was made available for capital equipment for industrial projects. Potential investors totalled 365 different manufacturing firms. Table 3 lists the CIP licensing for those projects for which capital equipment costs exceeded $100,000.

INDUSTRIAL DEVELOPMENT

Table 3

Licenses under the Commercial Import Program during 1960 for equipment exceeding U.S. $ 100,000 were as follows:

Ky Nghê Dêt Dông-A.	Textiles	U.S. $ 249,000
Công Ty Ky Nghê Giay Vietnam	Paper	U.S. $ 2,280,000
Chan A	Textiles	U.S. $ 134,000
Brasseries et Glacières de l'Indochine	Beer and soft drinks	U.S. $ 124,000
Khai Vinh	Fishnets	U.S. $ 159,000
Vinatefinco	Textile finishing	U.S. $ 500,000
Viet-Nam Silo Company	Cement	U.S. $ 196,000
Viet-Nam Jute Company	Jute bags	U.S. $ 700,000
Viet-Nam Chlorine and Alkali Co.	Caustic soda and chlorine	U.S. $ 400,000
Plantation des Terres Rouges	Rubber	U.S. $ 177,000
Compagnie des Eaux et de l'Electricité	Water and Electricity	U.S. $ 242,000
Société Vietnamienne du Jute	Jute bags, twine and rope	U.S. $ 279,000
	Total	5,440,00

In addition to the above listed plants assisted out of fiscal year 1960 funds, actual construction of several other important industrial projects, financed out of prior year funds, was started or completed during the year. Among these plants are the following:

Source: USOM Annual Report for Fiscal Year 1960

INDUSTRY SECTOR DESCRIPTION
TECHNICAL ASSISTANCE

1960 - 1970

~~Historically Vietnam has always been an agricultural economy. Whatever industry did exist was located in the North, with the exception of some soft drink manufacturers, textiles, handicrafts and two sugar mills. The partition of 1954, however, forced the South to look to its own physical and human resources as a basis for building an industrial element into the economy.~~

The USOM-sponsored industrial Development Center (1958) provided some badly needed financial inputs into this dispirited economy but the year of 1960 was not about to be one of startling or even significant progress. If one considers that only 1.9% of the total civilian workforce employment was in industry and that both management and equipment were more notable for intrinsic deficiencies than anything else, it is not at all surprising to record 1960 as a feeble opening to a decade of development. This is not to fault either the USG or the GVN, nor is it to disparage the individual managers who at least had the courage to risk their investments in a most unstable environment. Rather it is simply a recognition of the minimal degree of industrial development that existed in South Vietnam at that time.

The year 1960 saw the first substantive attempt by the USOM to amelicrate these conditions and set the stage for a modest production take-off. It was apparent that without the machinery for production and its related material inputs no significent progress was going to be made beyond the proliferation of pathetic little shops that eked out marginal existences through the sale of shoddy merchandise on a seller's market. Since the kind of equipment needed for a moderately rationalized production was unavailable in Vietnam and because related commodities could only be imported, a decision was reached to provide grant dollars to the GVN for these purchases.

The Industrial Development Center (IDC), which was established in 1958 for the purpose of providing technical and financial assistance to industry, was already enabling small and medium entrepreneurs to obtain loans through commercial banks for productive facilities - and this program gave every indication that, other things being equal, the Vietnamese industrialist could succeed if given some help.

Supplemented by the availability of $9,700,000 under the Commercial Import Program for commodities and equipment to be used in more than three hundred small and medium sized firms, the Direct AID Program threw its weight into the effort by implementing a series of technical assistance projects designed to strengthen basic industries.

The rationale for the combination of funding and technical assistance was based upon the fact that small and medium industry, where it did spring up, had nowhere to turn either for long or medium term credit or for technical and managerial know-how. Large industries could borrow or hire technicians from abroad, but it was not so for small and medium sized enterprises, no matter how promising their future. So the focusing of funding and technical assistance, which was done so successfully under the Marshall Plan in Western Europe by the imaginative Benton-Moody Productivity Program, became a pattern for the joint USOM-GVN program.

The IDC, mentioned above, was undergoing more than its share of those growing pains normally encountered in a faltering and sensitive economy. Its inexperienced staff was floundering under a burden of paper work and technical requirements that seriously interfered with the discharge of its function and endangered its very existence. The USOM, therefore, contracted with the firm of Day and Zimmerman to provide technical assistance in the form of a team of consultants. This infusion of management and technical expertise was a critical element in the implementation of a series of successful loans to 28 private manufacturing firms in the fields of textiles, ceramics, can-making, sugar, pharmaceuticals, tobacco, soap, paint, phosphates, sawblades, pressed wood panels, etc., - all of which achieved important import savings and provided jobs for hundreds of people.

In all justice to the IDC it should be noted that its responsibilities were far too numerous and diverse to permit but a fraction of the accomplishments originally expected of it. Therefore, it fell to the USAID to take over and partially assume active responsibility for working with potential investors, advising interested foreign investors, analyzing proposals and implementing a broad range of productivity oriented projects.

Although the USOM management recognized the fact that handicraft development, as such, had not made the kind of economic impact in other LDC's which its supporters hoped for, still it made sense in South Vietnam's fragile economy to use every possible skill to create urgently needed employment and hopefully attract a measure of foreign exchange at the same time. The Handicraft Development Center project was started in 1958, but the Sales Store did not achieve full operational status until 1960 when it attracted 22,000 visitors and sold VN$10,014,000 worth of products.

The USAID contracted with two U.S. firms to furnish the required technical services. U.S. Consultants, Inc., supplied 20 Japanese and 2 American engineers to help the artisans in better methods of production of textiles, bamboo, ratton, ceramics, sericulture, woodworking, etc. The second contract was with the world famous industrial design firm, Russell Wright Associates. This input took the form of advice and guidance in design and quality needed to expand the local market and, more importantly, to attract foreign markets.

The Nong-Son Coal Mine project involved the largest single proposed industrial investment. A preliminary survey of the Nang-Son area in 1956 under a USOM contract found every indication of commercially exploitable coal reserves and recommended further investigation.

The Nong-Son Coal Mine Development project reached its action stage during 1960. This project, which aimed at achieving an annual production of at least 150,000 tons of marketable coal per year, was financed by a total of $1,630,00 for commodities and technical services. In 1960 most of the ICA financed commodities (heavy equipment) were ordered and a team of American technicans under contract with Paul Weir Co., arrived to provide help in coal mining, geologic work, core drilling, engineering, coal utilization and marketing. At the same time, work on a 30 kilometer railway extension was begun by the Vietnam Railroad.

It was in 1962 that the USOM recognized the potential for developing an industrial complex based upon Vietnam's resources and manpower. Heretofore, the USOM had actually paid little more than lip-service to industry - largely because of the country's agricultural economy. By mid-1962 the framework for a modest industrial development was becoming increasingly apparent, although serious deficiencies still existed, such as lack of an attractive investment climate and the absence of a sound banking consortium of the commercial banks.

Because of these gaps in the pattern of industrial development and because such development also had to be based upon a clear understanding of the agricultural nature of the economy, it was essential that even the most gradual transition to industry required the utilization of existing industries and careful selection of the types of industry appropriate to the needs and resources of the country. The Industrial Development Division (IDD) of USOM undertook the implementation of this transition by means of a relatively massive input of highly specialized technical assistance. Local industrialists who applied for dollar exchange for the importation of machinery needed for their operations submitted such requests to the Ministry of National Economy, which in turn transmitted them to the Industrial Development Division of the USOM. It was here that the major "go-no go" decisions were made and they were made on the basis of exhaustive technical, financial and economic feasibility studies performed by regular staff and EBASCO Services, Inc., specialists in the fields of industrial, chemical and food processing engineering.

The textile industry also received large inputs of money and technical assistance. Before 1960, when the GVN and USOM set a goal of 110,000 spindles and 3500 looms, virtually all textiles were imported into Vietnam. During 1962 the industry started expanding rapidly toward this goal by adding 1970 looms and 2400 spindles to the existing plant. The building of 52 rayon weaving plants in the Saigon area and the increasing introduction of power driven and automatic looms cut rayon imports drastically. Nylon cloth imports were also sharply cut by the building of a nylon finishing plant.

During 1963 and 1964 textiles continued to expand rapidly, until self-sufficiency in the production of cotton fabrics and yarn was almost obtained. Factories were built outside of the Saigon area. In a poor area of Da Nang a 2000 worker plant was opened - capable of producing 2500 metric tons of yarn per year. Two plants in Saigon installed additional capacity which provided jobs for about 3,800 workers.

Other new factories went into operation to produce paper, pulp, starch, glucose, caustic soda, hydrochloric acid, bicycle tires and tubes, asbestos cement roofing sheets and oil drums. Altogether 5,000 new jobs were created in the 1963 - 1964 period. Another bit of evidence of increasingly good industrial health was the change in composition of Vietnam's overall import requirements. Imports of finished manufactured products dropped sharply while imports of components and raw materials for manufacturing rose steadily.

It was during this period that the IDC and USOM became aware of the urgent need for management talent. Several firms that otherwise met every economic standard defaulted on loan repayments because of poor management practices. Other companies were encountering operating problems that had their origins in ignorance of basic principles of organization. The lack of any professional associations whose main concern would center around management as a discipline was a hidden deterrent to industry-wide recognition of the importance of good management. The IDD was faced with the problems of first convincing industrial leaders and second taking that kind of action most likely to succeed in planting the idea of management as a primary tool in business operations. A questionnaire, which was circulated among the most prominent industrialists, asked them to list in order of importance those factors most critical to their survival. The unanimous choice for number one position was "Lack of Operating Capital" with "Good Management" far down the list and in many cases not even mentioned.

Against this background of abysmal ignorance the IDD assisted the IDC in setting up a six week textile training course for supervisors and also cooperated with the Chamber of Commerce in offering a Management Seminar. In 1964, the Industrial Development Division sponsored an industrial expansion study team to go to the United States for three months. These 12 Vietnamese executives and the GVN officials became exposed for the first time to investment practices and the more sophisticated methods of attracting foreign capital. Although no formal evaluations were developed on the results of this kind of training the IDD did perceive some signs in the participants of a larger awareness of management's scope of responsibilities. Their attitudes reflected a growing awareness of something deeper than mere importation of chunks of Western technology. They appeared to have been inculcated to some degree with the germs of what, for better words, might be described as a dynamic industrial mentality. This nucleus convinced the IDD that there was real opportunity for growth of Vietnam's own initiative, but as far as continuing a mini-attack upon the management development problem as such, the IDD felt that neither the moment nor the mechanism was appropriate.

With the exception of 1968 which saw the devastating effects of TET upon the industrial establishment and the resulting special efforts by the IDD, the major role of the IDD continued to be advisory in nature. The IDD staff consisted of a group of seasoned specialists in horizontal skills, ranging from basic steel to industrial standards - supplemented by management and financial analysts. This enabled the USOM to rub elbows with entrepreneurs at all levels and to advise in many disciplines. It is particularly important to identify this continuing advisory role in its proper perspective of pragmatic consultation. This was no armchair expert proposition with its attendant reports, recommendations and esoteric dialogue, but rather a shirt-sleeve operation involving immediate contact between the staff and the realities of industrial action. On-the-scene participation was the rule of the day, whether a survey was being initiated, a feasibility being generated or a manufacturing operation being modified. Advice took the form of applied industrial engineering at a level and scale suitable for the degree of sophistication involved. In other words this was a program geared directly to problem solving situations in situ. It also provided the industry-oriented banks and the IDC with first-hand direction on organization for both short-term activities as well as designing blueprints for developmental lending. The IDD office became both a source of expertise in all essential activities that confront manufacturers and institutional managements on their home grounds, as well as a spot where the little man with a small establishment could come and ask technical questions that otherwise would have gone unanswered.

The year of 1968 was of course, a special case which called upon the IDD to help develop a program to achieve reconstruction of over 100 damaged manufacturing facilities. The GVN called upon the IDC and the USAID Industry Division to work out a joint program for assessing

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damage to industrial plants in the Saigon Metropolitan area where 90% of the TET damage occurred. This assessment and damage analysis played an essential role in planning effective financial assistance for both short and long term reconstruction in key plants.

Additionally, as counterpart, the IDD helped IDC to administer a one billion piastre grant and a 10 million dollar grant which constituted the Reconstruction Loan Fund created by the GVN. As a direct result of these efforts Vietnam's industry staged a remarkable comeback by the end of the year - with some of the larger companies attaining 80% of their pre-TET employment levels.

The IDD staff also responded to requests for technical assistance from the provinces, averaging eight to ten field trips per month. Work was largely confined to cold storage facilities, refrigerated transport, improved fishing ports and markets, increased fish catches, etc.

In spite of the uncertainty and other problems arising from the war, the private sector invested in industrial projects at a heartening rate during 1969. Much of this could be traced to the joint IDD - IDC effort which was characterized by daily consulting and individual advice to entrepreneurs by USAID IDD staff. The following list of new plants completed and starting operations during the year as well as the corresponding investment follows:

	(US$ 1= VN$ 118)	
Marine Shipbuilding	VN$ 428 million	
Plastic Products	137	"
Detergents	30	"
Dry Cell Batteries	70	"
Electric Wire Cable	100	"
Cement Blocks	60	"
Brick and Tile	8	"
Flour Mills	770	"
Steel Rolling Mill	190	"
Tillers and Engines	526	"
Diesel Engines	200	"
Animal Feeds	471	"

This level of investment, while encouraging when measured against prior years, fell far short of what was needed and certainly did not come close to what USAID studies showed feasible. The IDD, therefore advised the Ministry of National Economy and the IDC, as well as private groups, in drafting a new investment law and advised the IDC and MNE on how to improve the administration of the present law.

In late 1969, at the request of the MNE and the IDC the IDD prepared and submitted to the GVN a tabulation of key industrial investments which fitted the GVN priorities presented by President Nguyen Van Thieu in a speech made during October 1969. The analysis indicated priority projects, rated according to their contribution to the national income, to net

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export earnings and to the production of necessities such as food, clothing and shelter. The list was used by the IDC in evaluating applications from the private sector for benefits under the Investment Law.

This increased participation by the USAID in investment activities reflected an increasing awareness of the growing confidence of the private sector and the growth opportunities associated with the timing of new domestic and foreign capital infusions into the economy. New investment fell to a record low point in 1965 following the Diem coup when the GVN acquired control of 22 industries. Starting with 1966 the investment in new facilities increased sharply until it reached a figure in 1968 six times that of 1965. Both 1969 and 1970 saw further investment increases each totaling slightly more than 1968. In 1970 approximately 39 industrial enterprises experienced capital growth of about US$ 25,000,000 of investment. Approximately 50 per cent of this was for capital equipment with the balance going for plant construction, site improvements, and beginning inventories of supplies and materials. Those industries receiving investment attention, through new operations or expanding existing activities were detergents, bricks, food processing, paper ceramics, steel rolling, steel sheet, galvanizing, flour milling, pharmaceuticals, fish processing and ice production.

Other activities indicated a constantly improving investment climate. In the fall of 1970 a trade fair was held in Saigon with 133 private business and government organizations represented. Some 500 products, most of which were produced or semi-produced in Vietnam were exhibited. As evidence of increased confidence by the private sector, over 90% of the cost of the fair was borne by private business - with only minimal help from the GVN.

The IDD continued to help the IDC to improve its management operations during 1970 by persuading it to open a full time office in Da Nang to assist industrial development. Work also proceeded under IDC on the construction of a 151 hectare industrial park in Can Tho. The older, IDC sponsored industrial park in Bien Hoa had some 30 industrial tenants in occupancy - with 24 plants under construction.

As a concurrent effort, along with such activities as technical assistance to industry, training, pre-investment surveys, plant development, etc., the USAID accorded a high priority to export development. IDD continued to encourage industries and identify products with export potential and supported the GVN Export Promotion Center in its efforts to organize and reach overseas markets.

The rationale for this concern for export stemmed from a reluctance on the USAID part to become too deeply committed to the GVN policy of substituting domestic production for imports. The built-in dangers of high production costs resulting from high protection and the inefficient use of resources could, in Vietnam, have simply perpetuated the proliferation of small plants, many of which, if faced with the free entry of competing imports would most likely perish. Generally speaking, the profitability of these small plants was dependent on high tariff protection, and prudent USAID policy called for caution in supporting a GVN policy that ultimately would have increased demands for the expenditure of foreign exchange instead of reducing them.

The USAID adopted the position that production should be encouraged only when there is an expectation that within a reasonable period of time it will be at a cost which will at least approach levels competitive with prices in other countries. In other words, industrial promotion and financial assistance for industry should be selective and discriminating - concentrating upon relatively capital - intensive enterprises, with low input costs and high labor productivity which could hold their own in world markets.

It was estimated that the future industrial development of Vietnam, i.e., looking at the short range of ten years, was going to depend upon upwards of three quarters of a billion dollars in fixed investment. This in turn called for each sector to identify itself with a special development strategy. Manufactured food products looked like a comer, but economics of scale were particularly important and the potential for export would depend in large part on farm price structure. Textile, with its already expanded production and modernization, was a potentially vigorous candidate for export production. The wood products sector, although historically weak, had obvious potential because of the abundance of coniferous and hardwood, but first steps toward rationalizing production in the saw-milling industry had to be taken. The pulp and paper products industry also showed promise, particularly in the production of long-fiber bleached sulphur pulp for export.

In any event, the USAID began to step up its pressure upon the GVN to associate industrial development with export by establishing investment priorities; by creating a physical environment in which industry could grow; by disseminating information about investment opportunities and by creating the type of incentives which would attract both domestic and foreign capital. It was against this background that a full time consultant/expert was assigned to the GVN to provide daily guidance in the export drive. Additionally, the USAID began to gear up its technical assistance program to meet the evolving needs of all industries that showed real economic promise in export. This included fisheries and forestries - two sectors that technically could have been classified as agriculture - for here were two tremendously important sources of foreign exchange earnings. It was planned to bring in teams of PASA experts to make appropriate studies; to show how to improve operations and to introduce them to the realities of export markets.

Along with the concern for the development of industry through local investment the USAID realized the long term implications of attracting foreign investment also. Numerous private businessmen in Vietnam were actively seeking joint venture arrangements with overseas investors. The GVN was also seeking to develop a broad economic base and saw foreign capital as a convenient device for gradually enlarging the industrial sector.

The GVN was still regulating foreign investment under the provisions of the Decree Law of February 1963, which was subsequently amended several times until 1970, when a new investment bill was formulated and expected to become law in late 1971 or early 1972. The 1963 law contained inducements that were liberal when compared with those of Thailand, where a remarkable influx of foreign capital had already taken place. It generally provided exemption from all Vietnamese taxation, direct and indirect for varying periods of time. It permitted resident and non-resident foreigners to transfer abroad their annual profits - with yearly limits. It allowed repatriation of capital beginning five years after commencing operations and permitted capitalization of reserves created from undistributed profits. These features, together with liberal Ministry regulations for investment implementation served to stimulate a measure of foreign interest.

Although the GVN, USAID and AID/W began a concerted effort to secure the participation of foreign capital by making various contacts with financial, economic and development interests abroad, initial reactions indicated the unlikelihood of significant, new investment until real peace came to Vietnam.

Some other deterrents were the restrictive regulations of the GVN which subjected a private investor to a complicated series of procedures in order to gain approval and investment privileges for his project. Additionally there was the difficulty U.S. investors had in obtaining guarantees through the Overseas Private Investment Corporation. Nevertheless, because it was a fact of life that those industry sectors where economics of scale were considered critical and where export possibilities existed, would absolutely depend upon the technical, managerial and export-marketing know-how available only with foreign investment, the USAID/IDD continued to explore every possibility.

Summary

At the close of the decade the USAID and the GVN agreed that the industrial program's massive input of technical assistance had made a badly needed impact upon the productive element of the economy. Vietnamese industry was in a sad state of deterioration and neglect in 1960. Poorly managed, under-capitalized, characterized by poor quality and low productivity it only survived because of the local sellers market. Furthermore, those firms that did show evidence of good management and wished to expand their facilities were usually unable to secure credit at reasonable rates - thus stifling an urgently needed contribution to the economy.

In any event, the USAID properly hit these sore spots with technical assistance both directly applied to industry and indirectly through the only available institution - IDC. Although a compulsive evaluation might term the performance as spotty, there was ample evidence of productive expansion traced to IDC loans and impressive signs of improved technical operation within industry. It became apparent in the latter years of the decade that IDC gradually took on the role of a regulatory agency, but its overall performance as an early institution in Vietnam's development pointed the way to support for and use of other institutions as the best route for future AID action. Sporadic attempts to inculcate modern management principals in selected groups of businessmen had questionable impact because it was done in a vacuum. Efforts to convince manufacturers to up-grade their products met with only partial success. Medium and long term lending institutions suffered from inefficient organization and lack of equity.

So it was that USAID and the GVN in 1969-1970 initiated dialogue on a methodology for creating and supporting new institutions, such as a professional management group, a viable standards institute and a new window in the National Bank to provide long-term credit to industry through the ICI's. These and other entities with official planning and advisory functions were seen as essential to the private sector in its role as linchpin to national development.

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INDUSTRY SECTOR DESCRIPTION

INSTITUTION BUILDING

FY 1971 - FY 1975

In late FY 1970 it became clear to the USAID that Vietnam, despite large infusions of AID generated technical assistance inputs into industry, was ill-prepared to embark upon a conventional type of industrial development program. This would have called for a level of management sophistication (both in and out of the GVN) that simply did not exist.

It was equally apparent that industry as a whole could not make its proper economic contribution without the benefits which normally stem from viable institutions. Institution building, therefore, became a major objective of the Mission. A modest start had already been made in this direction by support provided in 1967 to the Vietnam Institute of Standardization. Its impact upon industry was, of course, minimal in its early stages of growth, but significant enough to clearly see its potential contribution to the economy. Industry was struggling to improve its technology - with very little understanding of how to go about it.

As of April 1975 the Institute was well on its way toward providing the kind of services needed by industry in order to meet the new specifications. Technical information, proper testing methods and the standard mark system helped foreign importers, local dealers and consumers to recognize product quality at a fair price. Its achievements would, of course, have to be balanced against the relatively imprecise secondary and working standards that characterized Vietnam's industry at the time. The Institute did, indeed, meet the short term demands of the

Private sector and GVN owned industries - with an eye at the same time for ultimate (1980) achievement of a primary calibration and weights and measure capability. In doing so it adopted 100 standards, of which 45 were in actual use. Many of the following products were being produced according to NSI modified international standards: steel rebar, processed foods, detergents, pesticides, sulfuric acid, industrial alums and electrical items. At the time of the program closing in Vietnam the impact of the NSI upon the economy had been real and eminently beneficial. Steady progress was being made in the development of import substitution and export industries - all of which depended directly upon the ability of manufacturers to apply standardization to their operations and thus meet the rigid specifications involved.

The lack of competent and seasoned development finance institutions was seriously retarding the progress of the industrial sector.

The Industrial Development Center (elsewhere described in this paper) which was established in 1957, had made enough impact upon the promotion and development of new enterprise to signal a move by the GVN to streamline its functions into an institution that could provide urgently needed long-term industrial loans.

The center carried out many different development activities:

1. Financial assistance through loans and investment;
2. Technical assistance and management training;
3. Analysis of projects for investment privileges;
4. Promotion and development of new enterprises;
5. Management of SONADEZI (National Organization for the Development of Industrial Areas); and
6. Trustee of nationalized industries.

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These responsibilities so diluted the Center's effort that, for some time it had been obvious that the Center was notably deficient in project appraisal, particularly in respect to the overall economic and financial justification of proposed projects.. The most direct solution to this problem was to reduce its functions, restructure its organization and turn it into a competent institution with the responsibility of being the prime source of industrial long-term credit.

It soon became apparent that the job of financing fixed assets to Vietnamese enterprises would have to be split among several institutions and that there should be one created to provide resources, leadership and direction in the field of medium and long term credit.

Several flaws in the structure and the operation of credit institutions had been the object of USAID concern during 1970-1972. Private sector investment, for one thing, was sluggish and falling far short of its role in contributing to higher output and ultimately independence from foreign aid. Furthermore, medium and long-term lending institutions were generally inefficient, and aside from requiring individual help were operating in a virtually non-competitive environment. And finally, the investment climate was unfavorable - with local investment hobbled by the unavailability long-term credit, and when it did occur it was frequently placed in operations that were not essential to economic development. Thus the stage was set for the establishment of the National Economic Development Fund (NEDEF)

Other demands emerged at this time. Inefficient management had for years hobbled industrial progress and although the GVN had supported the young Management Association of Vietnam (MAVN) it quickly became obvious that, left to its own devices, MAVN would rapidly degenerate into another mausoleum of apathy and frustration. Because both the Mission and MAVN understood the critical nature of management's role in the economy it was agreed that heavy inputs of technical assistance by the Mission were needed to strengthen MAVN as a key institution in broad management development.

Up until 1970 the GVN had been content to permit the export market to by-pass Vietnam - with yearly (1968-1970) exports hovering in the neighborhood of $10,000,000 and no signs of significant change for the better. Finally, the GVN decided upon a basic policy approach to exports which simply stated was to have a market economy for exports as well as in the economy as a whole. This meant an outward-looking, export-oriented policy rather than an inward-looking, heavily protectionist policy. Such a policy certainly did not rule out special government help of a variety of sorts. The GVN role, however, was to adopt the right policies and provide the right incentives - with the private sector actually carrying out the business. In the Vietnam context, this included an important role for foreign as well as domestic private investment. This outward-looking approach looked to comparative advantage and exports rather than high-cost import substitution as the main path toward reducing the trade deficit. This led to the creation of a National Export Development Council, the reorganization of the existing Export Development Center and the development of an Investment Law. With this evidence of solid intent the Mission decided to actively support these institutions and push for related action such as export processing zones, substantial studies of exportable products and markets, etc.

In the field of private financing the Societe Financiers Pour le Development de l'Industrie Vietnam (SOFIDIV) had, for ten years, been a dormant operation because of lack of loanable funds. Because of its seasoned staff, however, it attracted the Mission's attention as a potential investment banker type of institution and also as a functioning development bank. This ultimately resulted in its inclusion as one of the three qualifying line-of-credit banks tied in with NEDEF.

Concurrently with the moves made by the Mission to develop credit institutions it was decided to attempt an upgrading of the investment climate. Up to this time there were no dependable incentives but plenty of restrictive local business regulations. Foreign investors were reluctant to consider Vietnam, not only because of the war-related uncertainties, but also because the GVN had taken no official position on those factors (exemptions, guarantees, capital ratios) that were major determinants for foreign companies in deciding where to invest.

The GVN owned many companies which, had they been in the private sector, would have contributed to fostering competition and private initiative. A plan was developed by the Mission and agreed to by the GVN to establish the Central Management Authority, which would be the device for effecting divestiture of the GVN owned companies. The GVN was inclined to go along with this move for a secondary reason, i.e. it would be a partial alternative to cash payments to former landlords for farm land acquired under the Land Reform Program.

The background of an industrial sector that accounted for less than 10% of GNP; that depended largely upon imports of raw materials and intermediate goods; that was almost exclusively oriented towards the domestic market; that had few professional managers; that had restricted access to medium and long term credit; that had virtually no ability to meet export quality standards - called for incentives, technical assistance, strengthened financial institutions and any other institutions whose functions could ultimately promote the growth of the industrial sector. The potential for industrial development in Vietnam was good. The labor force was industrious and basically skilled. In fact, the two year period starting in early 1970 was a generally favorable one for the economy. Domestic output rose about 5% in each year and prices became relatively stable. These were symptoms of potential, but against the background of critical dependence upon U.S. funding they only served as reminders of what might be, rather than a meaningful accomplishment.

In addition to cumulative expenditures from June 1957 thru June 1970 of $8,628 millions, U.S. dollar costs for the Industrial Development Project were:

FY 71 - $356,000
FY 72 -
Fy 73 - $1,387,000
FY 74 -
FY 75

These figures include AID direct hire personnel, PASA and contract, participants, commodities.

Although the precise numbers of direct hire personnel varied slightly from year to year the staff essentially consisted of:

1. Assistant Director for Capital Development and Industry.
2. Private Enterprise Advisor - MAVN, Export
3. Industry Advisor - National Institute of Standards
4. Industrial Economist - NEDEF
5. Banking Advisor - IDB and IDEBANK (SOFIDIV)
6. Credit Advisor - Divestiture and IDB

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Other personnel were located in the Industry Office either as PASA's or contractors:

Contractors

Checchi and Company, January 1973 - July 1974

NEDEF	Project Supervisor	32 days
	Program Advisor	21 days
	Economist	20 days
	Industrial Economist	51 days
	Management Systems	237 days
	Agri-Credit Specialist	20 days
	Agri-Credit Specialist	30 days
	Financial Specialist	52 days
	Chief of Party	18 months

Thomas Miner and Associates, March 1972 - October 1973

DIVESTITURE	Team Leader	17 months
	Valuation Specialist	8 months

C.W. Robinson Company, March 28, 1971 - September 30 1974

IDB	Team Leader	3 years
	Small Loan Advisor	6 months
	Organization specialist	3 years

American Management Association, October 1971 - 1973

MAVN	Team Leader	18 months
	Seminar Specialist	10 months

Hughes Aircraft Company, November 1972 - September 1973

NIS	Team Leader	11 months
	Standards Specialist	10 months

EXPORT PROMOTION	H. M. Winters (PS) 1971-1975	3 1/2 years
	E. Scriven (PS) 1973-1974	1 year
	Kaohsiung Export Processing Zone	4 months

International Development Consultants, C.L. Terrel, Presid

IDEBANK	(PS)	December 1973 1 month
		December 1974 1 month

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Battery Specialist	Nathan C. Bleekley (PS) April 1974 - August 1974	4 months
Food Canning Specialist	J. Peter Kass (PS), 1972 - 1973	4 months
Cement Specialist	J. Morrison (Thomas Miner)	1 month

PASA

USDA - Economic Research Services Division

Howard Steele
William Hoofnagle
Robert Niehaus

Team Leader - J. Shumate	3 years
Forest Management Specialist - R. Murray	2 years
Wood Processing Specialist - W. Pierce	3 years
D. Swanson	2 years

National Oceanic & Administration (NOAA)

Harris Magnuson	2 years
James Barrett	1 year
Hilton Floyd	4 months

The Projects

National Standards Institute (NIS)

In order of sequence the NIS project was first, having been started in 1967 when the Mission convinced the GVN that the industry sector could never meet the demands of either the local or export market with a technology based upon quality standards. Passive opposition to this project existed throughout both industry and government. On the other hand industry was enjoying a seller's market and therefore saw little to gain by the additional investment of time and money necessary to manufacture to limiting specifications. The GVN on the other hand had virtually no understanding of the standardization problem and consequently paid lip-service to the entire effort for the first four years. However, the presence of a thoroughly qualified standards man on the USAID staff, who had previously been responsible for the strengthening of the Korean standards system, proved to be the key factor in moving this project from dead center.

As mentioned above the NIS was created in early 1967 by a presidential decree. At that time it was known as the Vietnam Institute for standardization (VIS). Limited assistance to VIS was provided by USAID at that time for books, foreign standard sets, office equipment and a tour of standards institutions in Korea, Japan and Taiwan for the Director. The professional staff grew slowly to four or five during 1967-70 and to ten in 1971. Activities included translating foreign standards for local industrial customers, the formation of industry committees to modify foreign standards (adaptation) to local conditions, i.e., raw materials, machinery and markets, and to promote these adapted standards as National Standards for Vietnam (adoption).

The Institute had five major objectives:

1. Writing and establishment of local standards and specifications adapted to local conditions of available raw materials, equipment and machinery, import needs, local labor and management, local and domestic markets.

2. Assistance in obtaining export market standards and other technical information on exports.

3. Testing of commodities from local and foreign sources to provide input and manufacturing/processing trouble shooting and quality production controls to assist local producers in meeting foreign standards.

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4. Promoting local in-plant inspection and testing at both local and foreign standards levels.

5. Providing recalibration of in-plant testing equipment and instruments.

In 1970, the GVN donated a lab site in the Bien Hoa Industrial Park to VIS and budgeted funds to construct the first laboratory module. USAID responded by funding the first PIO/C for testing equipment and the first PIO/Ps for two VIS staff members for training in food product testing in the U.S. Exterior construction of first lab module was completed in fall of 1971 and VIS staff moved in with USAID-supplied equipment still in crates. In early December 1972 a protracted effort of over two years resulted in establishing VIS as NSI, the National Standards Institute, by legislative enactment, with autonomous powers under its own governing board to budget salaries and other expenses at levels nearly double that of previous budgets.

Late in 1972 a contract with a U.S. firm (Hughes Aircraft) was made to provide technical assistance to NSI. As a result of some 21 man months of inputs during 1973, the USAID contractor directed substantial rewiring of the new NSI laboratory, installation of laboratory furniture and fittings, and assembly, initial operation and staff training on $200,000 worth of USAID-supplied instruments and equipments.

As a result of daily assistance from the direct-hire, standardization specialist previously mentioned, and the contract inputs referred to above, it was possible to identify several specific and major accomplishments.

1. Construction of a modern industrial testing laboratory with $200,000 in basically useful and operable test equipment.

2. Training of six (of ten) staff members in the assembly and operation of this equipment.

3. Enactment of the National Standards Law which established budget levels sufficient to hire and train additional competent staff, to maintain equipment in operating condition, and to delegate NSI as the sole national industrial standards authority including the power to designate selected products as acceptable in domestic and export markets and to direct enforcement of national standards through other appropriate GVN agencies, e.g., customs, MOH, etc.

4. Establishment of successful relations with related RVNAF labs for continuous calibrations of equipment and later additions of trained staff to NSI.

5. Continuing and expanding services to local industry for technical information, standards, testing and specifications (fish, detergents, pesticides, etc.)

Industrial Development Bank (IDB)

The Industrial Development Bank evolved from the Industrial Development Center (IDC), which had been established in May 1957 as a wholly owned Government institution.

To be doubled spaced

AID had been instrumental in establishing IDC and contributed the initial capital of about $10 million. Following the TET offensive of 1968, the Centre was selected to administer a Reconstruction Grant of $10 million to finance the rebuilding of Vietnam industry. The GVN contributed a similar amount and the Centre administered both funds. While the Centre loaned the funds satisfactorily, it nevertheless was charged with too many functions. Consequently, the Industrial Development Bank (IDB) was created by Presidential Decree Number 045/SL/KT dated May 3, 1971. The personnel and assets of the Centre were transferred to IDB and some functions were transferred to other agencies. Nevertheless IDB continued to carry broad responsibilities in the reconstruction and development of industry including technical feasibility studies, basic economic research, industrial development promotion and assistance in project implementation. These functions were also too broad for IDB to perform satisfactorily. Therefore, the Investment Service Centre was set up in March 1972 and staffed by IDB personnel to implement provisions of the Investment Act and conduct investment promotion and related activities.

The primary purpose of IDB was to provide long-term industrial loans and equity finance to investment projects for reconstruction of

Vietnam. More specifically, IDB was expected to support and stimulate the establishment of new private industrial enterprises consistent with USAID emphasis upon development of the private sector.

In order to assist the GVN in developing IDB as the prime source of industrial long-term credit, USAID provided technical assistance through consultants and participant training. The former was supplied by C. W. Robinson and Company under contract number 730-3476, dated March 28, 1971, in the original amount of $191,969, terminating June 30, 1973. The amount was later increased to $311,335 and the termination date extended to September 30, 1974. The purpose of the contract was to provide assistance in planning, operating and developing an industrial development bank.

The contract was unique in that it was a host country contract, with the contractor selected in Washington by the GVN. Also, a joint USAID/GVN panel was formed to administer the contract. The panel consisted of two members and the Chairman from IDB and one or two members from AID. The panel held meetings at least once a month to:

1. determine the scope of activities of the Bank;

2. prepare operational policies;

3. prepare management manuals and recommend a staffing plan with job descriptions and functional charts.

In addition to providing a team of development bank experts, USAID also provided participant training. Over a period of time, almost the entire senior management of the Bank received overseas training.

In order to stimulate the development of the accounting profession in Vietnam and to obtain an independent audit of the Bank, AID financed an audit for the fiscal year ended December 31, 1973. This audit was performed by SGV-Thuan and Company and was followed in 1974 by an audit by Price, Waterhouse and Company which was financed by IDB. In addition, AID provided grants of capital funds in local currency to IDB, equivalent to $700,000 in 1973 and $7,000,000 in 1974.

Progress

By early CY 1975, IDB was recognized as a seasoned development bank with an experienced staff and had attracted loan funds from international organizations. With the assistance of the C. W. Robinson team, the Bank had prepared written policies and procedures and organizational manuals and trained a staff of 160 people. IDB's capital had been increased to about $11 million with an annual loan approval volume of $39.5 million in 1974, compared to about $13.0 million in CY 1972. The number of loans approved increased significantly, from 29 in 1971 to 232 in 1974.

During 1974, IDB qualified for the first time for loans from international lending institutions, had signed a loan agreement for $5 million with the Asian Development Bank, and was negotiating for a $3 million loan from the ~~KFW~~ West German Development Agency (KFW)

Loans in 1974

Total loans approved rose 145 per cent in 1974 from VN$ 10,113 million in 1973 to VN$ 24,814 million. The number of projects increased from 104 in 1973 to 232 in 1974, i.e. an increase of 123 per cent. Disbursements totaled VN$ 7,869.8 million, an increase of 124 per cent over 1973.

During 1974, the largest share of credit went to the foodstuff, agro- and mineral production and processing industries (65.5%), followed by metals and machinery, chemicals and chemical products, power, water and transportation.

The distribution of credit reflected IDB's policy of giving top priority to industries which met criteria for utilization of domestic raw materials, supporting agro-production and processing, high export potential, and labor intensiveness.

LOANS APPROVED BY SECTOR 1974

Sector	VN$ Million	US$ Million	Per Cent
Foodstuff, Agro- and Mineral Production and Processing	16,228.4	25.8	65.5
Metals, Machinery and Equipment	3,227.5	5.1	13.3
Chemical and Chemical Products	2,668.0	4.2	10.7
Power, Water and Transportation	936.0	1.5	3.7
Garments	874.0	1.4	3.5
Others	880.5	1.5	3.3
Total	24,814.4	39.5	100.0%

The total investment cost of the 232 projects financed by IDB was VN$ 103,597.5 million (US$ 165.0 million). When fully implemented these projects would have engaged some 16,000 workers and created employment opportunities for thousands of families in related activities. The value added by the 232 projects was estimated at about VN$ 73.7 billion (US$ 117.4 million).

A number of these projects were export oriented, having earning potential of about US$ 36 million a year whereas others which were designed for import substitution would have saved US$ 34.0 million a year in foreign exchange when in full operation. Of the 232 projects, 104 were to be set up in Saigon, Gia-Dinh and the Bien Hoa Industrial Zone while the rest were to be in the provinces.

A new aspect of the IDB's lending activity in 1974 was introduction of a small-industry credit program to provide special assistance to small industrial projects. Out of the 232 projects and VN 24,814.4 million in loans approved in 1974, 92 were small industrial projects accounting for VN$ 1,123 million (US$ 1.8 million), about 4.5% of total loan funds approved.

LOANS APPROVED 1958-1974

Year	Approved (VN$ Million)	Disbursed (VN$ Million)
1958	23.7	0.8
1959	123.8	70.9
1960	101.7	104.5
1961	97.0	31.7
1962	293.9	20.75
1963	96.2	194.2
1964	298.8	108.4
1965	296.7	148.1
1966	916.3	1,121.7
1968	1,662,9	285.9
1969	1,667.6	850.3
1970	665.0	1,257.4
1971	1,234.0	1,239.2
1972	5,519.5	2,268.2
1973	10,113.5	3,518.5
1974	24,814.4	7,869.811
Total	48,413.1	19,442,611

Investment Promotion

During 1974, IDB continued to assume an active role in the promotion of both domestic and foreign investment in production activities of the country. Besides keeping the business community informed of business regulations and procedures as well as investment opportunities through the publication of documents or organization of seminars, conferences and meetings with businessmen, IDB also sent teams to the provinces throughout the country in order to assist local businessmen in project preparation and loan application.

Economic Research

Research activity by IDB was expanded greatly in 1974 to cover all important aspects of the national economy and industry. In addition to providing basic information and data essential for project preparation and loan decisions, IDB also studied basic development problems of Vietnam such as manpower requirements, industrialization and employment generation, applied research and industrial development, management training requirements, problems and prospects of small industries, and the energy situation in Vietnam. These studies contributed to the making of national economic development policies.

Following are publications by the Bank during 1974:

Wood Industry in Vietnam
Agricultural Product Processing Industries in Vietnam
Printing Industry in Vietnam
Taxation for Businessmen (Vol. II)
Standard Forms of Company
By Laws
Economic Indicators '74
Industrial Development News (monthly)

Technical Assistance

One of IDB's functions was to provide technical assistance to investors by carrying out pre-investment and feasibility studies on marketing, technical, and financial aspects of projects. In 1974, IDB prepared a total of 27 projects in various types of activities. In addition, IDB helped industrialists comply with bidding procedures for importing machinery and equipment necessary for their projects. In 1974, the IDB staff assisted 42 projects in procurement of machinery and equipment worth US$ 27 million.

Interagency Cooperation

Cooperation with international agencies and institutions continued during 1974 through IDB's participation in conferences and through exchange of information and experience. The Bank also sent some of its staff abroad to attend advanced courses on project evaluation and management consultancy or to observe the professional practice of other development banking institutions.

On the other hand, IDB received many teams of experts and representatives from various agencies and institutions such as APO, ECOCEN, UNIDO, IMF,
Asian Productivity Organization (APO)
Economic Coordination Center (ECOCEN)
United Nations Industrial Development Organization (UNIDO)
International Monetary Fund (IMF)

(ADB)

(KFW)

Asian Development Bank/And West German Development Agency//

ADB, and KFW. These teams came to study the operations or to provide technical assistance.

A highlight of 1974 was an agreement by the Asian Development Bank (ADB) to lend US$ 7 million to IDB for relending to private industrial ventures in Vietnam. The loan from ADB's Special Funds carried a service charge of 1 per cent per annum and was repayable within 40 years including a 10-year grace period. This was the first time that the ADB provided finance for development banking in Vietnam. In 1975, IDB expected to conclude negotiations with KFW for a loan of DM 8 million and also expected to negotiate with AID Washington to borrow US$ 10 million.

The achievements in 1974 reflected the IDB's efforts to expand activities in order to contribute more effectively to the economic development of the country. In 1975, the Bank needed additional resources in order to promote and finance many more development projects, especially those given high priority by the GVN.

Small Industry Credit

Establishment of the Small Industry Credit Program (SICP) in early 1974 opened a new area of development banking for IDB. Through this program the Bank intended to serve a long-neglected but nevertheless vital sector of the Vietnam economy-medium and small industry.

The benefits to be derived from small industry projects were numerous, including:

1. A low capital requirement, permitting financing of a large volume of small industry projects.

2. A high reliance on local raw materials, reducing dependency on foreign exchange for import of raw materials.

3. A short period of gestation, which would have a quick impact on the economy.

4. A high degree of labor intensiveness, reducing unemployment.

5. A wide geographic dispersion of industrial centers away from the Saigon-Cholon area, thus intensifying rural and regional development.

6. A tendency to produce the basic-necessity goods, which have good potential for import substitution.

7. A simple production process, which would avoid heavy reliance on foreign technological know-how.

8. A large contribution to the national budget through taxes, alleviating inflationary pressures in the economy.

9. A unique training ground for small entrepreneurs, thus helping the most deserving ones to become industrialists of the future.

The development of small industries also helps widen the middle class and bring about a more equitable distribution of income, thereby having a stabilizing effect in the society. IDB however, was fully aware of the high risk as well as higher operating costs inherent in financing small industries.

With the above considerations in mind, the IDB launched the SICP in March 1974 to finance small industry projects with relatively liberal lending terms:

Interest rate: 12% per annum (commercial bank rate 30%).

Duration of loans: 2 to 5 years including a grace period of 1/4 of total duration time.

Mode of repayment: quarterly equal installments.

Financing ratios:

Up to 80% of value of machinery and equipment.

Up to 70% of cost of construction (compared with a 50% limit for larger projects).

As of December 31, 1974, the IDB had approved VN$ 1,141.7 million in loans to finance 92 small industry projects.

A detailed analysis indicates that all of the 92 small industry projects approved by IDB in 1974 were located in provinces and a vast majority utilized local raw materials. The geographical distribution of these projects is given below.

Zone	Projects	VN$ Million ~~Exch rate~~
I*	-	-
II	23	385.0
III	48	468.2
IV	21	288.5
Total	92	1,141.7

* A special fund was used by IDB~~X~~ to finance industrial projects in Military Zone I.

The projects were in the following main industrial categories

Types of Industry	Number of Projects	VN$ Million
Sugar Mills	45	438.7
Saw Mills	11	127.5
Fish and Soya Sauce	8	108.5
Animal Feed	6	83.0
Fertilizer	3	56.0
Ceramics	3	41.5
Brick Kilns	3	34.0
Miscellaneous	13	252.5
Total	92	1,141.7

Most small industry loans financed production of food and production inputs.

When fully implemented, the 92 projects would have employed about 2,700 direct workers, an average of 30 employees per project. With an average family size of 7 persons, these projects would bring additional income to approximately 20,000 people.

The approved SICP loans entailed an estimated equity investment of VN$ 1,331 million (US$ 2.1 million) by private investors with total project costs of VN$ 3,115 million (US$ 5.0 million). The average cost for each job created was VN$ 1.2 million or about US$ 1,911. The average SICP loan was VN$ 12.5 million or about US$ 20,000.

During the second year of operation the projects were expected to earn US$ 540,000 through exports annually. Though modest, this was an encouraging start for future expansion.

The value added by the small industry projects was estimated at VN$ 615 million (US$ 979,299). Thus, in a period of less than two years the value added of these projects would cover the entire SICP loans by the IDB in 1974. Most of the projects had an implementation period of less than six months and would have had an early economic impact.

In short, the benefits of credit to small industries were no longer in the imagination but were a reality. IDB intended to strengthen the SICP in order to implement a more balanced development policy by extending credit at the grass-roots level.

Vietnamese American Association (VAA)

With the support ~~of the~~ Asian Productivity Organization (APO), the IDB, the MAVN and VAA jointly organized a seminar, "International and intra-national Transfer of Technology to Small Industries," on March 6, 1975. The lecturer was Dr. Jack Baranson, President of Developing World Industry and Technology Inc. in Washington, D. C. The focus of the seminar was on the problems and issues of transferring industrial technology to small firms at both the intra-national and trans-national levels and the factors which determined the success or failure of enterprise-to-enterprise transfer of technology. The mode of transfer, absorptive capability of the recipient enterprise, the capabilities and motivation of the supplier enterprise, and the technology gap between the supplier and the recipient were discussed.

Revision of Lending Policies in April 1975

In the light of military setbacks in early 1975, the IDB reviewed its operational policies to create a more favorable climate for industrial activities as well as employment for war refugees.

Among the various measures considered were (1) raising the current loan ratios, which were 80% for equipment and 50% for plant constrution; (2) reducing the interest rates, which were 12-15% per annum; (3) providing working capital for industrial enterprises at interest rates lower than those applied by commercial banks.

In addition, IDB expected to engage directly in investment activities. More equity participation in industrial enterprises was to be subscribed. In areas where private investors had not yet entered, IDB itself was to carry out industrial projects and transfer them to private industrialists once these projects became operational. Also, IDB was to give full support to small and medium industrial enterprises in Regions III and IV. With authorized capital of VN$ 7.6 billion (US$ 9.7 million) and financial resources from national and international financial institutions, the IDB had adequate funds for implementing the measures. In short, under critical national military circumstances, IDB was doing its utmost to assist entrepreneurs who were determined to proceed with industrial production and investment.

Characteristics of Investment

In 1974, 276 investment projects were approved by the Board of Investment compared to 232 for 1973 and the second half of 1972 together. Under normal circumstances, many of these projects would have been financed subsequently by IDB. The characteristics of investment projects approved in 1974 changed somewhat compared with investment proposals approved in earlier years.

More labor intensive. The 276 projects approved in 1974 involved a total investment expenditure of VN$ 93.5 billion (US$ 149.9 million) and created over 31,000 jobs. Investment expenditures was VN$ 3.0 million (US$ 4,777)/job, much lower than the VN$ 3.8 million/job for 1973.

Greater use of local raw materials and less reliance on imports. As much as VN$ 73.4 billion of local raw materials was to be used by the projects, more than twice the amount spent on local raw materials in 1973. At the same time, the imported raw materials required declined from US$ 64.0 million to US$ 40.7 million.

Increased exports. Projects approved in 1974 were expected to result in annual exports of US$ 97.2 million, nearly US$ 20 million higher than the US$ 78.4 million from projects approved in 1973. The majority of newly approved export-oriented projects were in the fields of ready-made garments, frozen fish and shrimps, lumber, furniture, toys, and handicrafts. Foreign participation in the export-oriented projects was high, especially in ready-made garments industry.

Promotion of small industries. In March 1974, the Board of Investment lowered the minimum equity capital required from VN$ 20 million to VN$ 5 million. Small investors were encouraged greatly and as a result a large number of applications for small projects were submitted and approved. Out of the 276 projects granted special incentives,

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96 had equity capital of less than VN$ 20 million (US$ 31,847). Among these 50 were cottage sugar mills producing brown sugar for local consumption.

Implementation. Of the 344 projects approved by the Board of Investment between June 1972 and June 1974, 110 projects had started production in April 1975 and 186 were under construction. Of the projects already in production, 23 were in the food processing industry, 11 in chemicals, 9 each in textiles, ready-made garments, and fish, and the remainder in other types of activities.

IDB's ability to analyze loan applications thoroughly and rapidly, and to prepare and administer adequately the corresponding projects was seriously impaired by the lack of training which characterized its staff of young economists, engineers and managers. The key element determining the success of a development bank is the bank's ability to adequately appraise the financial, economic and technical aspects of proposed investment projects and to follow-up on the implementation of the project. Personnel capable of performing these functions are scarce and considerable time is required to train them. After five years training assistance by foreign advisors and participant training at foreign development banking institutions, the IDB had achieved a satisfactory level of competence in appraising projects and in implementing them.

Export Promotion

Until 1971 the GVN had given little attention to export development as a national policy. This, along with successive decreases in export value from $84.5 million in 1960 to $11.5 million in 1970, brought about a serious imbalance of foreign exchange. It also created an overall drop in industrial production and a shocking diminution of quality.

In November 1971, when a new GVN economic program was launched, the President emphasized that export development would be a goal of highest priority and announced a series of actions:

1. Creation of a National Export Development Council whose Chairman is the Prime Minister.

2. Reorganization of the existing Export Development Center, increasing its budget and providing it with new and capable leadership.

3. Increase of exchange rate and consideration of additional subsidies for new products requiring encouragement.

4. Retention of up to three percent of foreign exchange proceeds to enable exporters to meet overseas costs of market development.

5. Reduction of red tape by elimination of most export licensing requirements; establishment of a policy of post-audit for all remaining controls and easing of restrictions on foreign travel by exporters.

6. Strengthening of institute of standards.

Following this announcement a series of constructive steps were taken by both the GVN and the USAID to encourage and assist the more rapid expansion of exports.

1. September 1971 - Appointment of a Special Advisor (Mr. H. M. Winter) to the Export Development Center to assist in carrying out its new mandates following its reorganization.

2. January-February 1972 - Export bonus established by GVN.

3. April 1972 - Passage of the Investment Law, with several attractive features related to export production.

4. June 1972 - Creation of the Investment Service Center, whose job was to help both domestic and foreign investors - with special attention being given to those wanting to establish export-oriented businesses.

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5. Organizing of a better statistics reporting system for providing essential information on exports. This was done by the Export Development Center. This provided on a monthly basis fairly reliable figures on exports, foreign exchange earned, products exported, numbers of exporters, market countries, etc.

6. Publication of an excellent series of bulletin, information pamphlets, Newsletter on Exports, Press Releases, Pamphlets on Key Regulations and Procedures, etc.

7. Creation during 1973 - 1974, with USAID funding, of a good international trade and export library.

8. Inauguration of informal meetings between government and indi- vidial industry groups, to pinpoint problems retarding more rapid industrial development.

9. Choice of the Camp Davis site for the much needed Export processing zone and signing of a contract with Kaohsiung Export Processing Zone of Taiwan for assisting the Zone to get started.

10. The completion of two major studies by teams from the Economic Research Services Division of USDA of markets and resources in the Fisheries and Forestry industries.

11. The dispatching of several missions abroad to Southeast Asian countries to study market possibilities and export incentive practices.

12. The development by the Management Association of Vietnam of ten successful export-oriented management seminars.

13. The training of GVN officials at the World Trade Institute, New York City, in their six week program.

In addition to the above specifics the USAID recruited a full-time Export Advisor with responsibility for designing and implementing USAID programs for export development. He recommended policy to Mission management in the areas of export production, incentives, training, marketing research and marketing, export-oriented institutions and publicity domestic and abroad. His day-to-day work involved a close and sustained relationship with the Director of the Export Development Center, the Vice-Minister of Economy, the Director General of the Industrial Development Bank, the Investment Board of the Ministry of Economy and a host of other top level officials whose responsibilities related one way or another to export activities.

Until early 1974 the export effort was supplemented by a heavy input of USAID technical assistance into the Forestry and Fishery industries. other USG agency PASA technicians contributed a wide variety of management and applied technology to both industries - resulting in an array of new methods throughout the two fields. These were selected for concentrated help because of their vast natural resources and proven world-wide markets.

In the case of wood, this took the form of a sharply expanded staff of U.S. specialists who provided practical advice in the fields of reforestration, forest inventory, forest organization and forest industries. At the same time numerous contacts were sponsored between the GVN and U.S. businessmen to take advantage of the wealth of prime timber in Vietnam and of current overseas markets. Attention was directed toward the development of timber concessions and the attracting of inter-national timber company investment. Practical steps were also taken to develop an export-oriented plywood industry.

Exports of hard and soft woods and wood products reached a total value of $16,000,000 in 1972 - an astounding achievement in view of the fact that no appreciable amounts were exported from 1966 - 1970.

In the area of marine products, or fisheries, the USAID in cooperation with the Directorate of Fisheries developed programs designed to capitalize upon South Vietnam's potentially profitable marine resources. A Fish Port Survey Team began identification of optimum development of fish ports in February 1972. A contract for management improvement of DOF was approved and fish and food specialists were added to the USAID staff to work with the Directorate on a day-to-day basis.

The Commercial Import Capital Commodity Committee approved applications for almost $9 million for equipment for projects ranging through four fish-meal plants, six fishing boats, one deep frozen and canned fish plant. Training was provided in ferro-cement boat construction and off-shore fishing. Fishing cooperatives were encouraged to adopt new techniques in handling, storage and marketing.

Frozen sea products were exported in the amount of $9 million in 1972, which is more than 3.5 times higher than the average for 1966 - 1971.

In addition to the more direct methods of assistance described above, the USAID has been active in the field of capital moblization - helping to set up the National Economic Development Fund for loans to Vietnam's Intermediate Credit Institutions. Sustained input of direct advice and guidance by USAID contract teams has greatly strengthened the Industrial

Development Bank, the Agriculture Development Bank, the Export Development Center, the Vietnam Insitute of Standards, the Investment Service Center - as well as individual firms manufacturing for export.

No picture of the export situation would be complete without more detailed reference to the area of incentives. After two years of rapid growth Vietnam's export earnings leveled off beginning in late 1973. Although earnings for the first nine months of 1974 were 49% above the corresponding 1973 period, receipts declined steadily since the peak levels set during January-April 1974. Earnings for all of 1974 were $75 million, up from $61 million in 1973 but well below the $90-100 million foreseen at the outset of the year.

The rapid growth during 1972-73 followed the exchange reform measures of 1970-71 and related GVN actions aimed at promoting export activities. It coincided with a period of exceptionally rapid increases in world commodity prices, including the prices of the raw materials which Vietnam was able to exploit. During 1972-73, a USAID index of Vietnam's four leading export commodities--frozen shrimp, pine logs, rubber, and scrap--rose by 68% accounting for a major share of the rise in overall earnings for that year. Thus, worldwide demand trends as well as GVN policy measures combined at that time to provide a powerful incentive to actual and prospective exporters.

Export prices continued rising into the first quarter of 1974, but subsequently turned downward in the line with generally weakening worldwide raw material demand. The aforementioned USAID index of Vietnamese export prices declined 12% between the first quarter and August 1974. Meanwhile, the initial growth period during which resources could be quickly and easily exploited was giving way to a

Development Bank, the Agriculture Development Bank, the Export Develop ment Center, the Vietnam Insitute of Standards, the Investment Service Center, as well as individual firms manufacturing for export.

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While this type of measurement was difficult, the Mission believed that the degree of devaluation since 1971 had been sufficient to maintain currency parity with Vietnam's principal trading partners, and that together with the subsidy system in effect, the Vietnamese exporter had been provided with sufficient incentive relative to purely domestic business alternatives. The exporter's position might have been jeopardized by weakening demand for Vietnam's main export commodities and the continued decline in export prices, if current world trends persisted. However, a

growing array of problems, many of them peculiar to Vietnam, affecting especially the major product areas. The rubber and lumber industries were hit by increasing security-related problems; the lumber industry was plagued by seemingly intractable bureaucratic obstacles; all producers reported difficulties with the tax system, which impacted at numerous points on the production and movement (e.g., Province Export Taxes) of goods, was often erratic in its impact, and at no point provided positive incentives to exporters; and all producers were affected by rising costs. The shrimp industry, in particular, was hurt by the extremely high cost of diesel fuel, its most important cost element by far.

Since the major exchange reform of November 1971, the GVN devalued the piaster in a large number of small--10 and 15 piaster--moves designed to provide a minimum of unsettlement to the markets while maintaining piaster parity with other world currencies. In addition, varying forms of export subsidies were decreed. The export subsidy in 1975 stated in terms of an interest rate equivalent, amounted to 10 percent on general products, 15 percent for certain industries judged to be most severely affected by the high cost of fuel, namely, fish products, timber tea, and glass.

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large one-time devaluation did not appear warranted. For one thing , given the structure of the Vietnamese economy with its heavy dependence on imports, devaluations impact heavily on costs, in some cases to nearly the same extent as the increase in the exporter's return. The solution to the situation of lagging exports therefore appeared to be more in the area of removing existing obstacles to production and in the introduction of export incentives other than the exchange rate itself. An example of the former would be the revision of bid procedures for lumbering rights which was introduced in October, and which would have probably led to increased exploitation of timber resources. Much could have been done in the way of removing bureaucratic and security restrictions hampering the fishing industry. On the incentive side there were possibilities in the areas of tax rebates and interest rate preferences that needed to be explored. The Mission will be looking into these possiblities.

The number of active exporting firms increased from fewer than 50 in 1971 to more than 600 in 1975 and 1,500 firms were registered as exporters. These included many small firms important to the export drive. The reluctance of commercial banks to lend to small exporters was a major obstacle to increasing exports. The problem was not scarcity of loanable funds because the commercial banks had accumulated excess reserves since tight restraint of imports was imposed early in 1975. Commercial banks were reluctant to lend to small exporters because they normally do not own real property or have guarantors, which commercial banks usually require as the basis for a client relationship. Without risk, commercial banks could invest in tax-free treasury bonds with a tax equivalent return of over 35% compared to short-term business loans which

NEDEF

This description of the National Economic Development Fund (NEDEF) includes the latest data available on NEDEF's loan and other activities at the time the Government of Vietnam (GVN) surrendered to the Provisional Revolutionary Government on April 30, 1975. Most of the financial data is from the 1974 fourth quarterly report. Although NEDEF and the development Banks continued activities during the first quarter of 1975 there was insufficient time for the first quarterly report for 1975 to be compiled and published. Similarly, data on the economic impact of NEDEF lending for 1974, which would have been included in the annual report for 1974, is not available. Some information on NEDEF policies introduced in 1975, however, is available. The steps taken by NEDEF, for example, to permit the Investment and Development Bank (IDEBANK) to attract additional capital from outside Vietnam is discussed below.

The term borrowing bank is sometimes used in the report to refer to financial institutions which borrowed from NEDEF. The term Intermediate Credit Institution (ICI) also is used although it is not entirely suitable since NEDEF itself can be considered a financial intermediary. The term borrowing bank is not entirely appropriate because the Handicraft Development Center (HDC) was not a full-fledged bank.

The purpose of NEDEF as stated in the original Project Agreement No. 72-074 was to stimulate private sector investment in ways which would lead to higher output in the economy and independence from foreign aid as soon as possible. A second objective was to improve medium and long term lending institutions in Vietnam. A further objective, not included in the ProAg but adopted by NEDEF, was to encourage investment and a favorable investment climate. Within USAID an additional purpose, similarly unstated in the Project Agreement, was to encourage competition among industrial development credit institutions. An increase in competition was possible primarily through increasing counterpart funds available to IDEBANK, a privately owned bank, which competed with the Industrial Development Bank (IDB).

The NEDEF charter used somewhat different language indicating the purpose was "To promote and support balanced national economic development in the agricultural, industrial, and service sectors".

The major source of funds for NEDEF and industrial financing in Vietnam during the life of the NEDEF project was counterpart funds jointly controlled by the GVN and AID(Table 1). In addition, however, local currency from a loan of $5 million by the Republic of China was available to NEDEF for loans. As NEDEF activities progressed, a modest amount of interest income also became available for relending. However, the principal of counterpart loans repaid by the final borrower was returned to the GVN counterpart special account at the end of each quarter as specified by the ProAg.

The ProAg which obligated funds for NEDEF during the life of the project were:

Number	US$ 000	VN$ Billion	Use
72-074	--	10	Loans
Revision 1	86	--	TA
2	--	--	No funds
73-033	27	--	Participant training
Revision 1	129	--	TA
2	--	4	Loans
3	3.6	--	Commodities
4	- 2	--	TA
5	--	6	Loans
6	--	--	No funds
7	--	10	Loans
Total	243.6	30	

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Table 1. FINANCIAL RESOURCES THROUGH DECEMBER 31, 1974

VN$ Million

Sources	Available for NEDEF	Released to NEDEF	Repayment by NEDEF
US Counterpart Fund	30,000	15,884.5	410.5
ROC Counterpart Fund	3,000	2,173.8	
Total	33,000	18,058.3	410.5

TABLE 2. LOANS APPROVED, COMMITTED AND DISBURSED 1972-74

Year	Approved		Committed		Disbursed	
	VN$ b.	US$ m.	VN$ b.	US$ m.	VN$ b.	US$ m.
1972	7.0	16.5	3.8	9.0	1.7	4.0
1973	12.0	24.0	8.7	17.4	5.9	11.4
1974	10.9	17.4	14.7	23.4	7.1	11.3
Total	29.9	57.9	27.2	49.8	14.5	26.7

Note: VN$ converted to US$ using NBVN weighted annual average foreign exchange rate. Includes loans from US counterpart funds and local currency from ROC loan.

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In order to provide qualified advice to NEDEF in its formative phase it was decided to finance the services of a professional consulting firm. Harvey A. Lerner, Vice President of Checchi and Company signed the host-country Checchi/NEDEF Contract for $213,000 on November 17, 1972. The effective date of the contract was January 1, 1973, and the estimated date of completion was August 31, 1974. The contract provided for 30 man-months of key personnel and 9 man months of short-term specialists, a total of 39 man-months. Two amendments to the contract were made which increased the man-months of short-term specialists and deleted the Development Banking Policy Advisor.

A final report was submitted by Checchi and Company to the National Economic Development Fund (NEDEF) on July 7, 1974, in compliance with the terms of the Contract No. AID-730-3563 (as amended). The final report covered the period from January 8, 1973, through July 7, 1974, during which the contractor's field staff served in Saigon.

The contract divided the personnel into two classifications--key personnel and short-term specialists. Following is a listing of personnel and the length of service spent in performance of duties.

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Key Personnel

Name	Time
Donald R. Jones, Chief of Party Development Banking Operations Advisor	18 months
Total	18 months

Short-Term Specialists:

Harvey Lerner, Project Supervisor	32.5 days
Jack C. Corbett, Program Advisor	21.0 "
Dr. Alek Rozental, Economist	19.5 "
Dr. Sidney Lerner, Industrial Economist	51.0 "
Paul Murgatroyd, Management Systems	237.5 "
Richard Abbott, Agri-Credit Specialist	19.0 "
Gerald Schmaedick, Agri-Credit Specialist	30.0 "
Richard C. Kimball, Financial Specialist	52.5 "
Total	463.0 days

Throughout the contract period, the contractor submitted five regular quarterly reports to NEDEF and USAID which discussed in detail the particular phases of work accomplished by the Checchi team. In addition to required quarterly reports, the team prepared and submitted the studies listed below:

1. Seminar in Development Financing (Discussion Notes) May 1973.
2. Summary Loan Analysis on Vietnam Industrial Corporation (A Fictitious Company) June 1973.
3. Proposed NEDEF Organization Study, September 1973.
4. Proposed NEDEF ICI Reporting and Evaluation Study, September 1973.

5. Proposed NEDEF Budgeting System, September 1973.

6. Proposed NEDEF Work Plan, December 1973.

7. Plan for Priority Allocation of Development Credit, December 1973.

8. Program Modles for NEDEF Participation in Medium and long Term Credit in the Agricultural Sector, December 1973.

9. A conceptual Approach to NEDEF Personnel Policies and Procedures, October 1973.

10. Proposed Aid to the Structuring of Interviews for the Data Collection Phase of the Prefeasibility Program, March 1974.

The contractor received the assistance, support and complete cooperation of the President of NEDEF, Dr. Nguyen Van Hao, and his staff. The contractor's team were accepted willingly as members of the NEDEF family.

Loan Performance

Having been established on February 28, 1972, by decree of the Prime Minister, NEDEF was only three years old at the end of the project but had established itself as a major development lending institution. The initial fund at NEDEF's disposal, VN$ 10 billion from USAID Counterpart Fund, had been increased by another VN$ 23 billion by the end of 1974. With these resources, NEDEF had provided medium and long-term loans to the private sector through intermediate credit institutions (ICI's), mainly development and commercial banks, which were provided with lines of credit for small and medium projects. Larger projects of more than VN$ 200 million required prior approval by NEDEF. At the end of 1974, total approved loans were VN$ 29.9 billion (US$ 57.9 million), 91% of which had been committed through formal loan agreements signed with the borrowing banks ~~(Table 2)~~.

NEDEF policy was to assist the ICI's to stimulate private investment and provide them with adequate resources at concession rates. At the end of 1974 the cost of funds to the ICI's was 2 per cent per annum for export-oriented projects and 4 per cent for other projects. Terms for the final borrower varied between 12 per cent to 15 per cent per annum with a term up to 10 years. Preferential financing coupled with sound lending criteria helped foster investment and channel it into export-oriented and other high-priority manufacturing activities.

During 1972 and 1973 loan commitments were much less than the amount approved. However, in 1974 committed loans were 34% more than loans approved ~~(Appendix Table 1)~~. This is explained by two factors. First, until January 1973 there often were delays of several months between the date the loan was approved by NEDEF and the date the loan contract with NEDEF was signed by the borrowing bank. In January 1974 new loan contracts were introduced which set a maximum period for signing the contract. Moreover, the signing of some contracts in 1973 was deliberately delayed by NEDEF in order to use the new contracts. Secondly, during 1972 and 1973 funds were sufficient to allow substantial increases in new loans approved resulting in a large backlog of approved loans, particularly during the fourth quarter of 1973, which had not been committed. However, in 1974 the total amount of new loans approved declined and the backlog of uncommitted loans declined. ~~(For performance by individual borrowing banks see Appendix Tables 2, 3, and 4)~~. The ratio of disbursals to approved loans rose steadily each year from

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25% in 1972 to 47% in 1973 and 65% in 1974. Since the loans were for up to 80% of the equipment cost and 50% of construction cost most of the NEDEF loan normally was not disbursed until equipment was delivered in Vietnam which was sometimes 18 months or more after the loan was approved. However, by the end of CY 1974 over half of the loans committed had been disbursed. About VN$ 15 billion had not been disbursed but most of the loans had been approved during the preceeding 12 months. There was no indication that implementation of projects had been delayed, for security or other reasons, as sometimes was alleged.

Economic Impact

The NEDEF annual report for 1974 had been prepared and was being printed at the time Saigon surrendered to the PRG. The report contained data on the economic impact of NEDEF credit but unfortunately is not now available. However, some indication of the economic impact can be obtained from NEDEF's Monthly Economic Synopsis and other sources.

Development banks supplied VN$ 46.0 billion of industrial credit from all sources during CY 1974 ~~(Appendix Tables 8 and 9)~~. This was more than double the amount supplied in CY 1973. The loans averaged VN$ 137 million (US$ 218,153) in size compared to VN$ 102 million (US$ 204,000) in CY 1973 and were somewhat over half of the amount of investment involved. Thus, the projects were predominantly small. Average employment was 65 workers per project in CY 1974.

The credit provided jobs for 21,758 workers at an investment cost of VN$ 3.8 million (US$ 6,050) per job in CY 1974 and 13,974 workers in CY 1973 at a cost per job of VN$ 3.7 million (US$ 7,497). While this was labor-intensive investment compared with the U.S., it is less labor-intensive than the new export oriented projects which had commenced operation in the Saigon Export Processing Zone, largely because most of the projects saved foreign exchange through substitution rather than earning foreign exchange by exporting.

During 1974 NEDEF initiated new reporting procedures which provided additional data on the economic impact of all committed credit provided by development banks. Therefore, the data was not exactly equivalent to data on the economic impact of NEDEF credit.

These data showed that the imported raw material required for the projects was small, only 12% of the gross foreign exchange benefits ~~(Appendix Table 10)~~. Therefore, the impact on the balance of payments was substantial, but still primarily through import substitution. These were significantly different import-substitution projects, however, from those which were typical during 1972 and 1973. During the

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last quarter of 1974 the investment was largely for production of intermediate goods, particularly pulp and paper~~,~~ rather than consumer goods which had characterized earlier projects ~~(Appendix Table 6 and 7)~~.

Employment per project averaged 78 workers, more than cited above, and investment per job created was VN$ 2.4 million (US$ 3,822), substantially less than cited above for the entire year. This is further evidence of the trend of investment away from import substitution of consumer goods toward labor intensive projects ~~(Appendix Tables 11 and 12)~~.

Loans continued to be small, nevertheless, averaging VN$ 140 million (US$ 222,983). Excluding five pulp and paper projects, the average loan was VN$ 75 million (US$ 119,637). Nearly all projects were in Saigon, Gia-Dinh, Bien-Hoa and Cho-Lon. ~~(Appendix Tables 13 and 14)~~.

Development Credit Policy

Aside from providing credit for investment a major function of NEDEF was its role in coordinating development credit to ascertain that scarce resources were channelled into investment projects essential to the economic development. To perform this role, NEDEF established lending policies and criteria to be uniformly applied by ICI's in selecting investment projects.

By establishing common lending policies and criteria for all development credit and enforcing them rigorously, NEDEF exercised an important influence on national economic development through credit policies. Prior to NEDEF establishment, each development bank followed separate credit policies and applied lending criteria that at times was contradictory and conflicted with national economic development goals.

By providing the ICI's with a system and procedures for computing and measuring both financial and economic impact, and through reporting and evaluation procedures, NEDEF was able to maintain and adjust as necessary, high economic standards for projects financed by the ICI's using NEDEF funds.

In addition to credit, NEDEF also set up a risk-sharing program aimed at reducing the risks -- in particular war risks -- of long-term financing. The rationale for establishing a risk sharing program was to relieve the borrowing banks and entrepreneurs of some uncertainties due to war and unstable economic conditions that impede investment efforts. The terms of the risk sharing scheme were designed to encourage wide participation by the ICI's and to alter their lending behavior which tended to favor large and well established enterprises with established reputations at the expense of small businesses. Also

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the risk sharing program was intended to achieve a diversification of the loan portfolio toward regions where the risk factors were a major barrier to implementation of investment projects.

In order to encourage lending activities and provide more incentive to borrowing banks, NEDEF lowered interest rates on loans to the ICI's from 10% in 1972 to 8% in 1973 and still further (to 2-4%) at the end of 1974. Reduction of the interest rate was to provide the ICI's with sufficient returns and to build up adequate reserves as well as to encourage the ICI's to extend preferential interest rates to investment for export, agro-based and other industries that fell within the investment priorities set up by the GVN.

During the planning stage prior to NEDEF's establishment and later there was much discussion about NEDEF being a temporary organization. Some AID officials had the understanding even after NEDEF had been created that it would be temporary. In fact, however, neither the Project Agreement nor the NEDEF charter contained provisions suggesting that NEDEF was a temporary organization. Since some AID officers felt that NEDEF was intended to be temporary, they suggested that NEDEF should be discontinued. This conclusion implied that USAID had the jurisdiction and the authority to terminate an organization created by decree of the host government.

Since NEDEF was a corporate body created by the GVN, USAID did not have such authority. Nevertheless, USAID, if it had chosen to do so, could have terminated the NEDEF project and counterpart funding. Withdrawal of financial support from counterpart could have been so abrupt that it resulted in the collapse of the organization. However, the reduction in availability of funds during CY 1974 was not abrupt and NEDEF's expected earnings were sufficient to consider undertaking additional development finance functions such as investment guarantees and export finance, which were not originally envisioned but which were not performed by other development finance institutions and, therefore, did not compete with them. The evaluation report prepared by Mr. Henry Lee

and other members of his team recognized the evolving character of NEDEF and the continuing role it might perform for the GVN. In this connection, the scope of the NEDEF charter was somewhat narrower than usual in charters of corporations in the U.S. for example. The stated purpose was sufficiently broad but the list of functions was rather limited. Decree No. 002 - SL/TC issued by the Prime Minister on February 28,1972 was all encompassing in authorizing NEDEF to undertake "strengthening of the existing specialized credit structure."

The ProAgs which provided counterpart funds for NEDEF lending were signed on the following dates:

ProAg	VN$ Billion	Date Signed
72-074	10	3/1/72
73-033	4	3/12/73
73-033 Rev. 5	6	1/3/74
7	10	9/9/74
Total	30	

Financing of projects approved by the boards of development banks was delayed during the latter part of CY 1973 and most of CY 1974 because of a lack of counterpart funds and the relatively low priority of industrial development financing within USAID. The funds provided during CY 1974 were utilized almost immediately through project approvals by the NEDEF board. As a result primarily of insufficient funds, the total financing by NEDEF of new projects approved in CY 1974 (VN$ 10.9 billion) was less, even in current amount, than during CY 1973 (VN$ 12.0 billion) although loan demand for financing of economically and financially sound projects was two or more times larger than in CY 1973.

This set of problems to some extent accentuated the severe depression of the industrial sector by restricting employment-creating new investment which could have slowed the industrial downturn and contributed significantly to industrial recovery with little short-run inflationary effect. The lack of sufficient counterpart for industrial credit could have been offset in part by funds supplied by the GVN. USAID did not urge the GVN to supply funds from other sources because of USAID's continued concern with price stability. By contrast, the U.S. and other market-oriented economies normally give highest priority to national anti-recession and employment objectives when they conflict with anti-inflation goals.

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Year	NEDEF Loans Approved VN$ Billion	Saigon Retail Price Index	Real Credit Approved VN$ Billion	Percent Change in Real Credit
1972	7.0	61	11.05	-
1973	12.0	100	12.0	4.3
1974	10.9	141	7.7	-35.8

The net effect in CY 1974 was a real decline of 36% in industrial lending through NEDEF, the major source of new industrial credit.

The real decline in industrial credit from NEDEF and counterpart, however,

Year	Industrial Loans Outstanding VNR Billion	Saigon Retail Price Index	Real Loans Outstanding VN$ Billion	Percent Change in Loans Outstanding
1972	6.5	61	10.7	-
1973	10.3	100	10.3	-3.7
1974	20.0	141	14.2	39.2

Source:NBVN

appeared to be partially offset by an increase from other sources, particularly to IDB. As a result real industrial loans outstanding in development banks

Year	Industrial Loans Approved VN$ Billion	Saigon Retail Price Index	Real Industrial Credit Approved VN$ Billion	Percent Change in Real Credit
1972	8.69	61	14.25	-
1973	17.28	100	17.28	21
1974	40.32	141	28.6	66

Source: NBVN

increased 39% in 1974 and industrial loans approved increased 66%. IDEBANK however, was unable to obtain funds from other sources in CY 1974 and NEDEF allocated a larger share (46%) of its loan funds to IDEBANK than in CY 1973 (26%).

IDB approved VN$ 24.8 billion of loans in 1974 and made VN$ 7.9 billion in disbursements. However, VN$ 7 billion of the loans approved by IDB was for the Ha Tien Cement Company. This loan was not included in NEDEF's approved loans because the source of the funds had not been finalized and the NEDEF board had not taken action. IDB increased approved loans by 76%, excluding the Ha Tien loan, from VN$ 10.1 billion in CY 1973 to VN$ 17.8 in CY 1974.

Improvement of Lending Institutions

NEDEF helped to strengthen borrowing banks by supplying (1) technical assistance and (2) financial resources. From the beginning NEDEF provided technical assistance to borrowing banks -- mainly IDEBANK, the Handicraft Development Center, commercial banks, and rural banks -- which was focused mainly on project preparation and analysis, selection, and follow-up. To help borrowing banks improve and utilize methods of project analysis, NEDEF organized a seminar with the First National City Bank in project analysis, organized a course on prefeasibility analysis, and published and distributed various documents on methods and techniques of project evaluation. In addition, NEDEF's staff worked closely on special problems concerning medium-term financing whenever requested by a borrowing bank.

Since the development banks had experience with medium-term financing, NEDEF's technical assistance concentrated mainly on improving techniques of project analysis and follow-up. As a result, the quality of the analysis of projects submitted to NEDEF for financing, improved and the proposed projects were consistent with national criteria. The NEDEF staff worked closely with HDC in project preparation and analysis and HDC was able to finance more craft and small industry projects than would have been possible otherwise. HDC received VN$ 400 million in two lines of credit through 1974 and provided VN$ 305 million in loans for 35 projects.

For the first time rural banks, with the help of NEDEF, began to finance long-term loans to enterprises damaged by the war. Since rural banks were not well trained in banking practice, NEDEF assisted in preparation of loan applications and selection of applicants for financing.

Development and other borrowing banks could finance investment projects from their own equity, NEDEF funds, or other sources. Because of the general shortage of industrial credit, however, most borrowers used solely NEDEF funds for medium and long-term financing. Commercial bank equity and other loanable funds, for example were used to finance short-term loans. However only about 30% of IDB loan financing came from NEDEF.

The technical assistance program proved helpful to ICI's in project preparation and analysis. However, technical assistance was offered only when requested by an ICI or when an ICI received a line of credit and was not available to other commercial banks which did not use NEDEF financing. The technical assistance placed little emphasis on the project follow-up program, resulting in too little attention to implementation of the project.

At the end of the project, NEDEF also was preparing a plan for financing the working capital of export projects to help promote investment in priority sectors. NEDEF also agreed to share losses on loans from commercial and other risks up to 75% of the amount of the loan.

During the early months of the NEDEF project USAID sought to utilize another device for strengthening the borrowing banks as well as NEDEF,i.e., insisting on high standards used in appraising projects reviewed by NEDEF and USAID. While it was important for USAID to be concerned with upgrading the techniques used in project evaluation by both NEDEF and the borrowing banks, the USAID review procedure proved to be an unsatisfactory educational device. To reject projects which already had the approval of the board of the borrowing bank and the staff approval of NEDEF on grounds that the evaluation techniques used were incomplete or inadequate created resentment and friction in working relationships with USAID. In fact, however, evaluation techniques gradually were upgraded, in part, through informal discussions with the president and staff of NEDEF and comments included in formal letters expressing no objection, sometimes with qualifications, to NEDEF approval of applications for financing. The primary means of upgrading project evaluation methodology, however, were (1) on-the-job technical assistance provided by the Checchi and Company personnel; (2) an intensive nine-month training course in the U.S. for two participants; and (3) the intensive attention devoted to this methodology by highly educated NEDEF staff in their day-to-day work.

(Continued ~~on next page~~)

In early 1975 at the end of three years of operation, NEDEF reassessed its financing procedures and policies and noted four significant short-comings which it hoped to correct in the coming months. The problems noted were universal among development lending institutions and the fact that they became evident to NEDEF was an illustration of NEDEF's increasing maturity.

First, although NEDEF tried to promote wide participation of financial institutions in its credit program, 80% of the loans approved and committed had been to IDB and IDEBANK. The Agricultural Development Bank of Vietnam had not been a large borrower nor was the commercial bank system, which accounted for only 5% and 7% of loans committed, respectively. The reasons for the commercial banks' modest interest in NEDEF's credit program were numerous. For example, commercial banks had no project appraisal capabilities and were reluctant to engage in risky long-term financing, despite NEDEF's risk-sharing scheme.

Second, NEDEF's interest rate structure to some extent restricted investment. To fully accommodate credit demand and at the same time improve the development bank's ability to increase resources, the interest rate structure needed further change.

NEDEF recognized that preferential rates of interest on medium and long-term credit restricted the borrowing banks' ability to raise additional resources at higher costs and at the same time could create excessive demand for credit. Raising interest rates on loans to the final borrowers, however, was not a wise course of action. Subsidized financing, of course, could create excess demand, but the numbers of good projects qualified for low-cost funding were not large. Furthermore, raising interest rates on development credit was likely to discourage investors and thereby hinder development.

Regarding the ability of development banks to raise additional resources, NEDEF decided to give ICI's greater interest spread which could increase their profit margin and at the same time facilitate efforts to increase resources. As for IDEBANK, one of the main users of NEDEF money, the reluctance of its shareholders to increase capital subscription because of low return on equity, resulting from the narrow spread, was solved by converting part of NEDEF's loans to long-term quasi-equity with favorable terms.

Third, although a risk-sharing program and other incentives existed to encourage the implementation of risky projects beneficial to the country, the use of these facilities was not as large as originally expected.

The across-the board interest rate and the natural aversion of businessmen to risks, particularly those associated with the war, resulted in the concentration of loans in secure areas, namely the Saigon - Gia - Dinh - Bien-Hoa region, while there was little investment in more contested provinces. Critics argued that lending policies reinforced the tendency of industrial investment to cluster in already developed areas.

Since inception NEDEF encouraged projects that contributed to regional development, particularly in areas where the risk factors seemed to be the major obstacle to investment, by establishing a risk-sharing scheme.

NEDEF expressed its dissatisfaction with this kind of lending to borrowing banks which had no incentive to do otherwise. Moral suasion, however, was not an effective tool to correct such misallocation of resources. Consequently, NEDEF considered further restructuring of interest rates to encourage growth of less developed regions.

Fourth, development banks tended to favor loans to large, well-established enterprises at the expense of smaller businesses. The administrative costs and risks involved in lending to entrepreneurs with established reputation are considerably less than those associated with loans to medium and small-scale borrowers. Furthermore, concentration of loans may not reduce unemployment as much as possible and may adversely affect economic development. In order to encourage the ICI's to diversify lending to new, small-scale borrowers, NEDEF increased profit margins by lowering interest rates and made special efforts to help the Handicraft Development Center (HDC) build up resources and technical abilities.

Public Accountability

As a public corporation NEDEF used the regular and some special devices to indicate and assure progress toward achievement of its responsibilities. NEDEF provided a full array of reporting including annual and quarterly reports, annual audits by a firm of internationally recognized certified public accountants, wide distribution of research and policy studies prepared by the NEDEF staff and staff of the technical assistance contractor, and special reports prepared at the request of USAID and others.

In addition, USAID regional auditors and inspectors from the Inspector General of Foreign Assistance, Department of State, conducted periodic inspections and audits. AID/W also provided a team of three members consisting of Henry F. Lee, George Grande, and Ken Krause, which conducted an assessment after the first year of operation (Evaluation Report:National Economic Development Fund, July 12, 1973).

Since much of the imports financed by NEDEF loans were procured through the Commercial Import Program (CIP) these projects were subjected to end-use and other checks by the CIP staff of USAID. Other special devices for achieving accountability were the control provisions written into the ProAg which specified that USAID and NEDEF must give prior approval of all applications for which the NEDEF loan exceeded the equivalent of US$ 500,000.

By stressing NEDEF's responsibility to implement national economic development criteria, the ProAg and the NEDEF charter envisioned an institution with a primary role of enforcing such criteria. Broad guidelines to be enforced were written into the ProAg and applications for NEDEF credit were reviewed by NEDEF and USAID to verify that the projects satisfied the criteria. This regulatory role of NEDEF was an important function which, to a large extent, was a new activity in the public sector.

Perhaps equally important, however, was the role played by NEDEF in stimulating attention and concern in the GVN with national development policy issues. The issue of the availability of foreign exchange for continuing import of raw materials and intermediate goods for production of consumer goods was an important illustration. The NEDEF staff and board felt that NEDEF could not approve financing for a major consumer goods project which required large annual imports of raw materials unless the Ministry of Trade and Industry affirmed that the industry was a high-priority type of production for which the GVN would give assurance of the continuing availability of foreign exchange. This effort by NEDEF encouraged the Ministry to make a decision on a critical national economic issue.

To the extent that a larger share of industrial credit in CY 1974 was financed from outside NEDEF the influence of NEDEF in enforcing national economic development criteria was reduced. Much of IDB financing came from sources other than NEDEF which precluded a direct regulatory review by NEDEF. This budding problem called attention to the fact that NEDEF's regulatory function was essentially a governmental role which might have been performed by a GVN agency responsible for reviewing all development credit activities. NEDEF, of course, did not directly formulate national development policies but did initiate policy recommendations which were presented to the appropriate parts of the GVN for action. The National Credit Committee was often the site of final decisions on development credit policies. The influence of NEDEF continued to be exerted on national policies largely through decisions of the National Credit Committee. However, oversight of IDB's compliance with these policies declined as its financing from non-NEDEF sources increased.

Adequacy of Equity in Industrial Development Banks

Because of the requirement in the NEDEF Project Agreement that the principal of the funds from counterpart for agro-industrial and industrial credit must be returned to counterpart the NEDEF project did not make a permanent contribution to the loanable resources of industrial development financial institutions (Appendix Table 5). This policy by USAID was reported to have been intended to preserve the supply of counterpart funds for possible later uses with higher priority. Moreover during the term of the NEDEF loans the real value of the financial assets of both NEDEF and the industrial development banks depreciated rapidly. Without supplementary resources the financial institutions would have had a smaller real credit base when the loans were repaid than they had when the loans were made.

The depreciation of the real credit base of industrial finance institutions and their need for more equity to attract financing from outside sources resulted in various suggestions that would make the funds supplied through NEDEF available permanently for industrial credit. The only suggestion to be implemented was a proposal by IDEBANK to convert NEDEF loans to IDEBANK to 30 year loans at 2%.

On February 5, 1975, NEDEF agreed to grant a quasi-equity loan to IDEBANK under the following terms and conditions:

1. The quasi-equity loan was to be made available by converting existing NEDEF loans to a single quasi-equity loan.

2. Conversion of existing loans was to apply to the earliest NEDEF loans committed to IDEBANK, up to the amount determined as in Paragraph 5.

3. The term of the loan was to be for thirty years, including a ten-year grace period on principal repayments.

4. The interest rate on the quasi-equity loan was to be 2%, payable quarterly.

5. The amount of the quasi-equity loan was to be directly related to IDEBANK's degree of success in obtaining new equity capital investment, in the following ratio. Beyond IDEBANK's authorized and issued capital of VN$ 595 million as of December 31, 1974, each US$ 1.00 equivalent of added (new) IDEBANK capital authorized, issued and paid-in was to be matched, in effect, by US$ 3.13 equivalent of quasi-equity loan amount. Actual computation of the quasi-equity loan amount was to

be in US$ equivalents, on the basis: each US$ 1.00 equivalent of total authorized, issued and paid-in capital of IDEBANK to be matched by US$ 2.50 equivalent of quasi-equity loan. The maximum amount of the quasi-equity loan to be US$ 10,000,000 equivalent, reached when and if IDEBANK's total capital reaches US$ 4,000,000 equivalent. A new equity capital level of less than US$ 4,000,000 equivalent to be matched by an equity capital loan amount in proportion, at a 2.50 to 1.00 ratio.

6. All risk on repayment of loans so converted was to be assumed by IDEBANK, relieving NEDEF of all previously shared risk on such converted loans, and relieving IDEBANK of all previous considerations and fees relevant to such previously shared risks. No further supervision of loans thus assumed by IDEBANK was to be exercised by NEDEF. Funds from repayment of such loans were to be reloaned under IDEBANK's sole discretion, providing these funds were utilized in accordance with the general development policy of the Government.

7. The loan was to be a "quasi-equity loan," i.e., in the event of dissolution of IDEBANK, the loan was to be held in the same status, pari passu, as shareholders to IDEBANK.

8. Opportunity was to be available for pro-rata portions of the quasi-equity loan to be executed, on an interim quarterly basis, as significant portions of IDEBANK's new capital were paid in.

9. The commitment of NEDEF to provide this quasi-equity loan was to be firm for a period of twelve months from this date.

The agreement by NEDEF was approved by a resolution of the NEDEF board dated February 5, 1975 and was approved officially by the National Bank of Vietnam and all other agencies concerned. This action by NEDEF authorized IDEBANK to use the quasi-equity to qualify for additional investment in equity. USAID concurred in this action by letter signed by the Director and agreed to amend the project agreement.

Maintenance of Value

Perhaps the most widely debated and controversial issue related to industrial development credit was the level of interest rates. USAID had urged an increase in commercial bank and development bank lending rates during 1973 in order to help curtail inflation. Inflation undoubtedly was a serious problem. The Saigon retail price index rose 65% in 1973 and 41% in 1974. However, at the same time available statistical evidence showed that industrial employment and production had declined since 1971 and in the third quarter of 1974 was 41% below peak of three years earlier. Development bank, commercial bank, and GVN officials universally agreed that raising interest rates in the prevailing investment climate would seriously reduce investment. However, USAID was persuasive and commercial bank lending rates were raised two percentage points in July 1974. Development credit rates were not raised.

Neither commercial banks nor development banks like depreciation of bank capital. However, even commercial banks usually are not able to charge rates which fully protect from depreciation, as was the case in the U.S. in 1973. In Vietnam, full protection against depreciation of asset value would have required that the banks charge rates in excess of 65% in 1973 and 41% in 1974. Furthermore, if development banks charged such rates the interest cost to borrowers would have been as high or higher than commercial bank rates. The special incentive to investors through preferential rates then might also be jeopardized.

Some argued that development bank credit need not be treated as all other lending. Investment spending was the chief means of slowing the industrial downturn and eventually stimulating industrial recovery. Monetary policy and the interest rate package could be designed to encourage investment and combat recession while restricting other types of expenditure, particularly for imported consumer goods.

During the latter months of 1974 the inflation rate diminished rapidly and John E. Koehler and Albert P. William of Rand and Prof. Arthur Smithies of Harvard University recognized the need to reduce interest rates to combat the recession and the virtual disappearance of the primary justification for continuation of high rates. Therefore, on January 1, 1975 the GVN reduced commercial bank rates to 2 to 3 percentage points below the level of the previous July when rates were raised. Development bank rates again were not changed.

The fact that development banks lending rates were not increased, in spite of pressure from stabilization-minded advocates, was a victory of sorts for supporters of development credit. The choice implied that development banks could not expect to maintain the value of their assets under the economic conditions and must expect to replenish financial resources probably from government sources, from time to time.

Loan Criteria

The Project Agreement for NEDEF included guidance, noted above, for using funds in support of industrial development. While stated in broad terms, the prime emphasis of this guidance was on balance of payments benefits and output:

At the time the Project Agreement was approved on March 1, 1972, NEDEF expected to prepare more detailed guidance. However, within a month the North Vietnamese Army invaded South Vietnam, with devastating effect on the industry sector which was still recovering from the Tet attack of 1968. Thereafter, for more than a year, loan demand was weak and the overriding concern of NEDEF and the development banks was to encourage all sound investment which met the criteria stipulated in the project agreement. In that period and circumstances USAID agreed with NEDEF to postpone establishing more restrictive criteria.

During CY 1974, with loan demand far exceeding AID's ability to supply counterpart, NEDEF and USAID agreed on the need for more selective criteria. NEDEF had been applying a more rigid interpretation of existing guidelines for some time. Meanwhile, new criteria were drafted by NEDEF which emphasized labor-intensive export industries. USAID recommended that formal adoption be delayed briefly until the recommendations of an export financing advisor were available. The advisor, who arrived in January 1975, also assisted NEDEF to develop export guaranty and financing procedures.

The wisdom of tightening loan criteria because of a shortage of counterpart for industrial credit during a period of severe industrial depression and unemployment can be questioned. A general tightening of industrial credit was not needed. Normal anti-recession policy would have been to expand the supply of loanable funds for industrial credit and reduce interest rates. However, another compelling reason arose for introducing more selective loan criteria during the period following the signing of the Paris Agreement in early 1973. An acute shortage of foreign exchange developed because of rapidly increasing import prices and declining economic aid programs which resulted in a rapid increase in the urgency of investment to improve the balance of payments. This objective already was the primary purpose of the NEDEF ProAg. However, the ProAg implied emphasis on certain kinds of investment because it did not mention exports and because discussions of economic policy at the time tended to stress import substitution through producing domestically some of the goods, particularly consumer goods, which had been imported under the CIP program.

As time passed, however, it became clear that Vietnam would not have enough foreign exchange to supply all of the raw material and intermediate product imports associated with investment required to produce substitutes for imported consumer goods. Framers of the NEDEF project, in effect, did not anticipate adequately the extent of the reduction of consumption in Vietnam which would be required because of the shortage of foreign exchange.

Unused Funds

Numerous observers have commented on the long period between loan approval and disbursal, of as much as 12 to 18 months. Of course, it is desirable to accelerate utilization of committed funds wherever appropriate. During 1974, NEDEF carefully reviewed all slow-moving loans in order to recapture funds to meet increasing new loan demand. For the most part the apparent delay, however, was normal and not excessive. The reason for the delay was the fact that most of the local currency loans by NEDEF were not required by the final borrower until the imported equipment was delivered in Saigon. Even if the equipment was offered prior to NEDEF approval of the loan, which usually was the case, delivery was 12 to 18 months or more later.

As a result, counterpart funds obligated in project agreements were not drawn down quickly, leading casual observers to the false conclusion that loan demand was small and that additional loan funds were not needed. The NEDEF board felt that it could not formally approve loan applications until the funds for such loans had been obligated by project agreement. To refuse to obligate additional funds from counterpart because disbursals lagged substantially behind loan approvals, therefore, in effect would postpone investment in other new projects which would create needed income, employment and foreign exchange. Although this problem was understood more widely by the end of the project, the utilization of obligated funds during the lead-time period required for procurement and delivery of equipment was not achieved and the problem essentially was not resolved.

The Cosuvina proposal has been cited as an example of project commitments which were not utilized within a reasonable period of time. Instead, the Cosuvina experience illustrates a case of a reluctant investor as well as NEDEF's policy in 1974 to implement more restrictive economic criteria. After submitting a loan application to IDEBANK, Cosuvina decided to withdraw the application and re-evaluate the project due to rising costs. It then resubmitted the application but for a larger amount. By that time, NEDEF was applying more restrictive criteria and returned the application to IDEBANK.

The commercial banks also did not use all the credit committed. Both USAID and NEDEF, however, hoped to encourage commercial bank participation in the medium/long-term lending market. The amounts reserved for this purpose were relatively small and were maintained in the hope that perhaps greater use of these credit lines would be made after the interest rate spread for intermediaries had increased.

Project Review and Site Visits

The role of USAID regarding appraisal of the feasibility of a project and project implementation was discussed in detail prior to establishment of NEDEF and intensively during the life of the AID project. The extensive site visits envisioned by the IGA inspection team, (Inspector General of Foreign Assistance, Inspection Report: National Economic Development Fund in Vietnam, November 13, 1974), implied that USAID had a responsibility for checking loan management by the development banks as well as the management of individual companies. However, USAID did not have the staff for more than spot checks. This would have become increasingly clear as NEDEF loan volume increased.

In 1969, AID undertook a comprehensive study of development banking operations to formulate guidance on the issue of how and to what extent AID should involve itself in the individual projects of AID-funded development banks. The conclusion was that AID missions should monitor the institutions to assure the soundness of their operations and procedures, but that USAID staffs should not assume the banks' responsibilities for management or presume in any but exceptional cases to second guess the judgments of bank managers. Direct USAID involvement in appraising and administering individual projects was rejected as a concept, not only because such involvement would impede the development and maturing of banks but also because AID could not possibly provide the required staff.

The procedure adopted did not in any way abrogate USAID's responsibility for assuring that loan funds were used in compliance with the project agreement. However, the procedure delegated much of this responsibility to NEDEF and the management of the borrowing bank.

Reserves and Bad Debts

NEDEF reserves were criticized on occasion for being larger than necessary and duplicating reserves for bad debts held by the borrowing banks. NEDEF's top officials, however, did not envision that the reserves would be held indefinitely for protection against bad debts. Moreover, they anticipated that the accumulated reserves above the level required for adequate protection would be available for other purposes at the discretion of the board of directors. Numerous uses had been discussed including an export financing guarantee fund. Mr. Kim, Kun, head of the Credit Control Department of the Bank of Korea, was hired in early 1975 to study this subject and make recommendations. In any event, prudent banking policy during the special security conditions within Vietnam, justified reserves for bad debts substantially in excess of ratios which are normal outside of Vietnam.

DEVELOPMENT AND RECONSTRUCTION LOANS DISBURSED TO BORROWING BANKS 1972-1974

Million VN$

				1974-1974				
				USCF				
Borrowing Bank	1972	1973	1974	PAL	LOC	ROC Loan	Reconstruction Fund (USCF)	Total
IDB	1,234.2	2,744.2	2,143.6	2,059.2	4,062.8			6,122.0
IDEBANK	259.4	1,804.3	3,096.0	1,692.0	3,436.1		31.6	5,159.7
ADB/VN	199.6	759.1	167.8		1,126.5			1,126.5
VN Commercial Credit Bank		167.0	673.3	350.0	220.3	240	30	840.3
Foreign Commercial Banks	41.6	49.2	293.3	359.0	25			384.0
Other Commercial Banks		38.5	291.7	70.0	145.9		114.8	330.7
Handicraft Development Center		15.0	289.2		304.2			304.2
Rural Banks		78.9	141.4				220.3	220.3
Total	1,734.8	5,656.2	7,096.7	4,530.2	9,320.8	240	396.7	14,487.7

REPAYMENTS TO NEDEF OF DEVELOPMENT AND RECONSTRUCTION LOAN PRINCIPAL
BY BORROWING BANKS 1972-1974

Million VN$

Borrowing Bank	1972	1973	1974	1972-1974 USCF PAL	1972-1974 USCF LOC	1972-1974 ROC Loan	1972-1974 Reconstruction Fund (USCF)	1972-1974 Total
IDB			125	125				125
IDEBANK		25	67.5	92.5				92.5
ADB/VN			100		100			100
VN Commercial Credit Bank								
Foreign Commercial Banks		45.4	45.4	90.8				90.8
Other Commercial Banks								
Handicraft Development Center								
Rural Banks			2.2				2.2	2.2
Total	—	70.4	340.1	308.3	100	—	2.2	410.5

MEDIUM AND LONG TERM CREDIT BY NEDEF AND DEVELOPMENT BANKS - 1973-74

Type	NEDEF 1/ 1973	NEDEF 1/ 1974	NEDEF 1/ Nov-Dec 1973	NEDEF 1/ Nov-Dec 1974	Development Banks 1973 2/	Development Banks 1974	Development Banks Nov-Dec 1973	Development Banks Nov-Dec 1974
Approved	11,739	10,639.9	5,198	4,150	20,225	45,999.5	4,286	24,560.8
Committed	8,118	14,370.9	300	4,260	11,404	18,036.5	2,495	2,418.8
Disbursed	5,514.7	6,840.4	739	1,276.7	6,350.3	10,394.5	788.4	1,842.3

Note: In December, IDB approved VN$ 10.3 billion in new loans, 42% of total loans of VN$ 24.8 billion approved during CY 1974 .

1/ Excluding Reconstruction Fund

2/ Including Agricultural Credit

Sources: NEDEF, IDB, IDEBANK, ADB/VN

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DEVELOPMENT BANK CREDIT BY INDUSTRY 1973-74

VN$ Million

Industry	Number of Projects	Employment	Equity	Investment	Approved	Committed	Disbursed
1973							
Food, beverage, tobacco	49	2,711	2,753	16,624	5,936	3,339	1,326
Textiles, leather goods	15	1,896	1,910	6,071	2,451	1,529	991
Chemicals	31	2,970	3,246	10,812	4,324	1,420	1,006
Metals and mechanical	17	2,351	2,112	6,217	1,767	1,874	841
Electrical & electronics	11	898	1,364	4,695	1,190	703	527
Services, miscellaneous	13	1,013	914	2,459	1,281	586	285
Minerals	6	830	189	391	190	133	116
Forestry	10	204	1,203	1,259	392	277	314
Fishery processing	16	495	1,225	2,236	762	56	34
Agric. & Animal husbandry	15	576	1,192	1,615	430	-	-
Total	183	13,974	18,439	52,381	18,724	9,918	5,443
1974							
Food, beverage, tobacco	106	3,080	6,030	11,876	4,631	2,078	2,749
Textiles, leather goods	21	3,498	2,487	8,905	8,052	1,317	1,688
Chemicals	29	1,777	3,965	11,001	5,309	2,188	1,719
Metals and mechanical	24	3,397	5,716	13,866	6,749	2,676	1,198
Electrical, Electronics	1	56	90	290	77	-	284
Services miscellaneous	20	1,462	1,764	4,727	3,111	877	736
Minerals	22	2,573	13,502	12,077	9,126	1,491	157
Forestry	44	2,886	4,947	13,759	7,157	4,610	578
Fishery processing	11	1,107	458	1,788	577	893	451
Agric. & animal husbandry	50	1,368	1,126	2,543	1,209	1.166	568
Total	335	21,758	30,758	82,915	45,999	18,036	10,367

NOTE: Excludes data from ADB/VN (36 projects, with approvals worth VN$ [illegible] billion, Commitments worth VN$ 103 billion, and disbursements worth VN$ 89[illegible] million).

Source: IDB, IDEBANK.ADB/VN

IDEBANK

Background

IDEBANK was organized in October 1961 as Societe Financiers Pour le Developpment de l'Industrie Vietnam (SOFIDIV), a private financing institution to provide medium and long-term loans to Vietnamese private industry. It was one of the earliest examples of what more recently has come to be known as a development bank. The concept of IDEBANK was evolved by its first Director, Mr. Nguyen huu Hanh, formerly General Manager of the Credit Commercial Bank of Vietnam and concurrently Director General of the National Bank of Vietnam; subsequently he was an Alternate Director of the International Monetary Fund of the World Bank. Mr. Tu Ngoc Dinh, the next Director General, is a member of the staff of the Development Finance Companies Division of the World Bank. IDEBANK's Director General since 1969 has been Dr. Lam Van Si, who presided over recently expanded activities and the planning for further expansion.

IDEBANK's principal shareholders were seven domestic commercial banks and nine foreign banks. Total equity capital as of December 31, 1973 was VN$ 677 billion (US$ 1.0 million). In April 1975, Credit Commercial owned 45.5% of the outstanding stock.

In 1973, SOFIDIV's name was changed to "Banque d'Investissement et de Developpement" (IDEBANK). With the setting up of the National Economic Development Fund in March of 1972, and the inclusion of SOFIDIV as one of the three qualifying line-of-credit banks, SOFIDIV had access to additional funds and began to expand operations very rapidly. Prior to 1972, the Bank had been dormant because of a lack of loanable funds but with the formation of NEDEF in February 1972 loan activity increased sharply

	VN$ billion		
	1971	1972	1973
Loans Approved	1.0	3.2	7.0
Loans Committed	.3	.5	3.3
Loans Disbursed	.9	1.1	1.9
Loans Outstanding	.7	1.0	2.7
Net Worth	.5	.6	.7

Conservative management policies resulted in gradual growth of IDE-BANK's portfolio through 1971, with moderate returns on equity. As of January 31, 1975, loans committed totalled VN$ 9.4 billion with VN$ 6.5 billion disbursed and VN$ 5.9 billion outstanding. No bad-charge-offs had been incurred since its inception.

Share dividends and reserves had increased outstanding share capital and reserves to the level of VN$ 950 million by November 30, 1974. With its increasing loan portfolio, the debt-equity ratio had reached 5.6:1, and it became evident that new equity capital would be required if loaning operations were to continue to expand.

It also became evident that, with IDEBANK's long experience and seasoned staff, it had reached the point at which operations could be expanded to include other financing services to private entrepreneurs.

Mr. C. L. Terrel, a development bank expert, worked with IDEBANK in December of 1973 for one month to develop a capitalization program and to determine the steps needed for IDEBANK to become the major source of long-term finance for the private sector under the assumption that the GVN-owned Industrial Development Bank (IDB) gradually would focus on financing government-owned enterprises and small industry. Mr. Terrel prepared a capitalization plan dated February 15, 1974, "Reconstitution of IDEBANK", which was accepted by the Bank and the GVN. In December of 1974, Mr. Terrel returned to Saigon to complete and implement the capitalization plan. As part of this program, USAID agreed to the conversion of loans made by NEDEF to the bank to a long-term subordinated base (quasi-equity) with the amount converted dependent upon the increased capital funds. The program for IDEBANK also included an expansion of activities to include merchant banking, equity underwriting and increased equity investments and ultimately issuance of guarantees, commericial paper activities and leasing. In 1968-69, Amerconsult also provided technical assistance on policies, organization and procedure.

By September 30, 1974 IDEBANK had taken steps to increase authorized and issued share capital to VN$ 800 million by year-end 1974, and to VN$ 1.0 billion by mid-year 1975, provided entirely by existing share-holders. Plans for further increase in capital to VN$ 2.8 billion by year-end 1975 were in progress, along with planning to expand both loaning operations and the scope of financing services during the five-year period through 1979. Assistance in this objective was to be provided by a quasi-equity thirty-year loan of US$ 10.0 million (equivalent) from counterpart funds through the Government at 2% interest and with a ten-year grace period. The added VN$ 1.8 billion equity capital was to be provided by existing shareholders and by new investors, both domestic and foreign.

In preparing to attract new equity capital investors and an expanded scope of operations, IDEBANK reviewed and modernized its internal management control and planning systems. A new management control reporting system was installed, and a computer-type method of projecting financial statements over five years was introduced. A revised organization was prepared for installation in early 1975, giving greater emphasis to follow-up of the expanding loan portfolio. A four-year training plan and policies were set out to upgrade the capability of all levels of staff.

Further action scheduled in 1975, leading to expansion of equity capital to VN$ 2.8 billion by year-end 1975 included:

1. Introduction of IDEBANK's status and forward planning to home office executives of existing foreign shareholders and potential new shareholders abroad.

2. Internal review and revision of IDEBANK's chart of accounts and accounting methods, originally established in 1962 to reflect modern accounting methods and the management information system. Review and updating of internal auditing, procedures and specification of job fundtions and descriptions.

3. Updating of IDEBANK prospectus, and approach new equity investors for definite intention to consider new equity capital investment in IDEBANK.

4. Negotiations with potential new investors for firm commitments; investigation of IDEBANK in Saigon by their representatives.

5. Preparation of legal documents required in the closing meeting for paying-in new equity capital investment.

6. Closing meeting of old and new investors; implementation of the previously committed quasi-equity loan and paying-in of $VN 1.8 billion new equity.capital.

A financial audit of IDEBANK for 1973 was performed by SGV-Thuan & Co., Certified Public Accountants, Price, Waterhouse and Associates conducted an audit of activities during 1974 in the early months of CY 1975.

Through rapid growth during 1972-1975 IDEBANK became a strong competitor to the government-owned Industrial Development Bank (IDB) and stimulated IDB to undertake a similar rapid expansion program. A comparison of the two banks' loan activity follows:

	1972		1973	
			VN$ billion	
	IDB	IDEBANK	IDB	IDEBANK
Loans Approved	5.5	3.2	10.1	7.5
Loans Disbursed	3.0	.4	7.5	1.8

Technical Assistance

The work of C. L. Terrel was to help IDEBANK attract added private capital investment through a quasi-equity loan from the GVN; improve IDEBANK's internal procedures and control in anticipation of on-the-spot analysis by potential new investors; expand the scope of activities; obtain the required added new private capital investment; and proceed with reconstitution of IDEBANK to achieve the basic objective--a significant participation in the post-war reconstruction of the economy. These separate but related areas of activity are discussed briefly in the following section.

Early work concentrated on the existing status of IDEBANK. With inflation then at 68.7% and IDEBANK's interest spread between cost of funds and interest charged severely limited by the Government, loan activities were loss-making in real terms. Alternative solutions to this problem were developed as prerequisite to future investment in IDEBANK. Maintenance of the value of equity was presented in forceful terms with the hope that the effects of the government's restrictive policies could be minimized or eliminated.

Depreciation of equity. The effect of inflation on equity was analyzed to convince IDEBANK management that remedial action was required.

Alternative solutions were prepared as pre-requisites for analysis and negotiation of the required $10.0 million quasi-equity loan from the government.

Quasi-equity loan. Work on the quasi-equity scheme begun on November 1 was on the measures required for the quasi-equity loan to be effective. Over the period to December 31, while IDEBANK's internal procedures, organization and management control were instituted, the precise commitment required by the GVN was outlined. A change in government officials concerned in late December, allowed the negotiations to continue slowly through January 1975. The final and official commitment was made on February 7, 1975.

The official agreement for an equity-loan set the stage for discussions to begin with potential new equity capital investors in various countries, including those of the existing foreign shareholders, and in other countries most likely to be interested, especially the U.S.

Expanding the scope of activities. Broadening IDEBANK's range of activitie began with planning marine products projects for export. The need was to convince management to seek projects it could promote as well as finance. In December and January a new project was initiated to build two service vessels for off-shore oil drilling activities. With IDEBANK acting as the investment banker, the project had proceeded to the tentative commitment of overseas financing from Singapore and the U.S. in excess of $300,000 with total investment of $1.5 million.

Improving internal procedures. Improvement of operating procedures and control within IDEBANK, was needed to present an acceptable image for analysis by representatives of potential new investors.

IDEBANK had existed for over a decade with a low level of activity, a small staff, and personal operational control and direction by the Director-General. Under these conditions it was a one-man organization, without delegation of authority or internal records and control required for expanding operations. No readily available or summarized records existed on the exact status of month to month activities, on the extent and rapidity of flow of applications through the succession of approvals by its own Board of Directors and that of NEDEF from which it was obtaining funds, on the reflow and use of repayments, on the interest rate spread and trend, and on other data required to know the current levels and trend of operations and profitability. It was even difficult to acquire the specific data required for justification of the quasi-equity loan. Accordingly, a major effort was made to establish internal monthly control reports.

Staff organization and training. With no formal organization of staff functions or division and delegation of responsibilities and authority, it was necessary to formalize the organization and responsibilities and prepare the initial directives of an operations manual. The existing personnel needed training and were insufficient for the volume of business.

Training of least a few staff to collect, analyze and present the required monthly control reports was needed so that these would be available when potential new investors arrived to investigate. Two new staff members were employed to be trained in continuing the reports.

Accounting system. A new accounting system was required as the existing system was devised in the early 1960's using obsolete accounting methods. Detailed records were kept of actual cash receipts and disbursements on the more than one hundred loan projects outstanding, but these and other data were buried as detail in the account journals and files. New accounts were required to record data in a form which permitted extraction and summary of the essential financial control reports, and for precise data upon which management decisions could be formulated. Under the system which existed such data were available largely from the memory of those concerned with the daily operations. Precise reports took such an inordinate amount of time to prepare that they normally were prepared only annually, largely as a result of the annual requirements of the outside auditor of the firm's accounts.

An outline of the accounting changes was prepared and, with USAID assistance an American firm of accountants was in the process of being employed to analyze and revamp the accounting method. This activity was not completed because of military events.

Monthly management reports. Data sources were identified and the method of analysis, summary and presentation was developed. The monthly reports for September 1974 through January 1975 are the best single record of the financial and operating status and trends in IDEBANK.

Financial projections. A complete computer-type program was prepared to permit financial projections to be made by manual methods with desk-type calculators in a short time, thus permitting alternate projections to be made with changing sets of assumptions. Forms for precise calculation were prepared, so that such computations could be carried out quickly, resulting in projected balance sheets and income statements over five years in the future. The capability of IDEBANK to make such projections was crucial to management in assessing the financial results unforeseen government action, for example, on interest rates paid by IDEBANK and limits on the rates it could charge.

DIVESTURES

Divestiture of GVN-owned or controlled enterprises was considered important to the economy from the standpoint of encouraging private sector development and fostering competition and private initiative to the fullest extent possible consistent with national economic stabilization, pacification and postwar economic development priorities. A second, but equally important, consideration was to utilize asset values of GVN-owned corporations as a partial alternative to cash payments to former landlords for farm land acquired under the Land Reform Program. The GVN wanted also to minimize the impact of Land Reform Bond maturities on the GVN budget.

The basic purpose of this project was to assist the GVN, through the Central Management Authority, to design and implement a strategy for the divestiture of certain GVN owned corporations. To this end the firm of Thomas Miner and Associates was contracted to develop a capability within the GVN to:

1. Design and manage a divestiture program.

2. Appraise GVN-owned corporations on the basis of their real assets and earning value.

3. Established management policy so as to upgrade individual company performance to facilitate early and advantageous divestitures.

More specifically, Miner was to advise and assist the GVN to:

1. Rapidly select enterprises for divestiture.

2. Assign accounting and transfer value to enterprises so selected.

3. Devise a method of using such companies as equitable compensation under the Land Reform Program.

4. Develop a strategy for effecting transfer in coordination with the inter-Ministerial Committee on Land Reform and Compensation.

5. Develop such other means to effect divestiture not a part of the Land Reform Program and open to the general public.

Actual on-the-spot implementation of the project by Miner started in March 1972 and finished in November 1973. The task, as outlined above, was an admittedly complex and demanding one, but made all the more so by Miner's failure to recruit a seasoned specialist as team leader. Nevertheless, a series of significant accomplishments were achieved:

1. The Prime Minister issued a Decree in March 1973 establishing the GVN agency PDGOC (Project for Divestiture of GVN-Owned Companies) with prescribed divestiture functions.

2. PDGOC's staff developed audit procedures and a manual on valuation.

3. Two companies were divested, a glass company and the water company - with preparatory steps completed on several more.

4. Land Reform Bondholders were educated to the merits of share ownership and indicated a willingness to exchange bonds for equity shares.

5. A marketing system was established with a consortium of banks, or what might be termed a modified underwriting syndicate.

6. PDGOC developed a capability for managing all aspects of divestiture with possible exception of evaluation.

Considering the number of man-months and funds expended under the Miner contract these results appear meager. The reason for this may be partially attributed to (a) the lack of sufficient authority, at the outset of the project, by the GVN agency to actually divest GVN owned companies (b) the failure of the GVN to take timely and appropriate action. Divestiture actions often required the coordination and concurrence of several ministries, which took considerable time. Moreover, it appears that the GVN did not understand fully its role in supervising a host country contract or in using the services available through the contractor. For example, the GVN accepted the valuation of the Miner team of the shares of the glass company without requiring any justification of the valuation. (c) the lack of proper focus of efforts by the contract team. One of the primary objectives of the contractor was to develop a capability within the GVN to design and manage a divestiture program. In practice, the contractor took the lead in setting up and implementing a divestiture program and only toward the end of the initial contract period following USAID prodding, was there any serious effort made by the contractor to train the GVN staff in the functions of divestiture. The Contractor also rushed into having audits made of several divestiture candidates, at considerable expense, prior to conducting an adequate preliminary survey of each company as called for by the work plan. Such a procedure might have eliminated some of them as candidates - thus saving the cost of audits.

In mid 1974 the responsibility for the Divestiture Program was changed to the office of the High Commissioner for Planning, following the reorganization of the Ministry of National Planning. Considerable support for the program existed on the GVN side, but divestment of particular firms was suddenly deferred following Dr. Sidney Robbins' recommendation that the securities market be formally organized with adequate controls and safeguards prior to divesting another GVN-owned firm. As expected, the National Securities Commission strongly supported the divestiture program. However, the Commission was in the process of establishing various listing requirements, including submission of annual financial reports audited by independent certified public accountants. Historically, GVN owned firms have been very reluctant to have such audits made or to pay for them. Under the program AID paid for several audits out of counterpart funds, but by August 1974 it became clear that the GVN had finally achieved the capability to handle the divestiture program and auditing costs and other advisory services could be borne by the companies being divested as part of the sales cost.

American Association of Vietnam

During 1967 and 1968 it became increasingly apparent to the USAID that regardless of how much financial credit was provided to developing industries they could neither survive in a local buyers market nor hope to compete in the world markets without sound management capabilities.

Although most managers blamed the lack of operating capital for their production shortcomings, the fact of the matter was that these managers operated largely by the seat of their pants and knew virtually nothing about financial management nor much more about other management techniques. This widespread ignorance of such essentials as quality control, preventive maintenance, materials handling, production and inventory control, costing, purchasing and marketing undercut the effectiveness of existing and proposed investment.

In a local market that was becoming increasingly selective, and in a world market where competition had been honed to a high pitch by producers from Japan, Korea, Taiwan and Hong Kong there was little room for the inefficient manager. Even those with native business acumen frequently did little more than eke out a marginal existence.

It was against this background of management ineptitude and its overtones of economic waste that the USAID sponsored the establishment of the Management Association of Vietnam (MAVN) in 1969. Its function was to improve management practices and provide management training for supervisory and managerial personnel in the private sector. After two years, however, the USAID concluded that neither the MAVN nor the GVN had the technical capability to develop and upgrade the MAVN into an effective management organization. Therefore, in October 1971 the USAID entered into a contract with the American Manacment Association (AMA) to provide the advice and assistance considered necessary to improve MAVN's management skills, professionalism, training programs and to create a viable and effective Vietnamese management institution.

Specialists from the AMA were assigned on a daily basis to the MAVN office where a complete overhaul of operations was initiated. The existing association was inactive, disorganized and virtually without leadership. The AMA directed its technical inputs toward the achievement of three basic goals.

1. To make MAVN a functioning, self-sustaining management association capable of attracting and holding membership and offering management training to all levels of Vietnamese private enterprise.

2. To lay a foundation for management development by:

(a) Forming a close affiliation with a nationwide management training association in the United States so as to offer MAVN membership access to management training guidance and technical information at all levels of industry operation.

(b) Training Vietnamese trainers and develop MAVN management training capability to meet the needs and desires of local enterprise.

The actual assistance took the form of the following activities:

1. Guidance to MAVN in developing and conducting export-management seminars.

2. Scheduling and providing subjects and program material for some 15-20 new training activities-seminars, programs, workshops -- for senior executives, middle managers and first line supervisors.

3. Development of an overall marketing plan encompassing all activities of the Association.

4. Helping MAVN develop consulting activities which the business community wants.

5. Providing guidance in the expansion of the MAVN staff, revising the organization, writing position descriptions, selecting and training new personnel, and in developing management skills of the MAVN managers.

This contract, which was subsequently amended to redefine some of its responsibilities, lasted until late 1973 at which time it appeared desirable to permit MAVN go it alone. Although nobody really believed that a simple two year contract was the final answer to MAVN's problems still its accomplishments evidenced real progress:

1. The partial and continuing accomplishment of strong leadership for MAVN, structured into an organization that became financially and politically independent and recognized as such by the local private sector businessmen and industrialists.

2. The organization and highly successful implementation of a series of seminars on management functions. These were instrumental in attracting new members and in establishing payment for participation as a way of life for both MAVN and its members.

3. Publication of an up-to-date Directory of Business and Industrial Traders.

4. Publication of sophisticated handouts on marketing profitability, cost control, personnel administration.

5. The development of ongoing supervisory training programs.

Bibliography

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IMPACT OF A.I.D. PROGRAMS ON SOUTH VIETNAM

1957-1975

INDUSTRY

ACTIVITY	1958	1974
IDB		
Loans Approved	VN$ 23,700,000	VN$ 24,814,400,000
Loans Disbursed	VN$ 800,000	7,869,811,000
NEDEF	1972	1974
Loans Approved	VN$ 7,000,000,000	VN$ 10,900,000,000
Loans Disbursed	VN$ 1,700,000,000	VN$ 7,100,000,000
IDEBANK	1971	1973
Loans Approved	VN$ 1,000,000,000	VN$ 7,000,000,000
Loans Disbursed	VN$ 900,000,000	1,900,000,000
EXPORTS	1970	1974
Exports	$ 11,500,000.	$ 75,000,000

GK

STANDARDIZATION	1967	1975
	No standards	Adoption of 100 standards
	No legal requirements	GVN established National Standards Institute, with modern testing labs and trained staff.
	Inferior production	Actual use of standards in steel rebar, processed foods, detergents, pesticides, sulfuric acid and electrical items.
	Inaccurate measuring equipment	Established methods for continuous calibrations of equipment.