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Dear Art:

Was very pleased to receive your letter of June 27 letting me know of Mr. Mabie's return to Vietnam. Some members of my staff have worked with him in the past and are pleased to have the opportunity again. We are very interested in cooperatives and feel that they could fill a significant roll in rural development. So far they have generally been a big disappointment. Almost every coop is having difficulties and this includes some that have been in operation for more than ten years. Several reasons for their troubles are evident. The general disruptions caused by this prolonged conflict have been a continuing problem of poor security, manpower conscription, and inflation just to name a few. Perhaps the most serious shortcomings are the absence of trained competent management and a shortage of adequate operating capital. The coops can never seem to set any funds aside. They borrow from ADB but without good management the funds are not used properly and repayment on time can not be made with the results that ADB will not approve further loans so the coops are in debt with nowhere to get needed funds at an acceptable interest rate. Local politics enters the picture as do marketing problems and opposition from special interest merchant groups. The full idea of working in a cooperative effort on a sustained basis is not yet a natural part of the local peoples method of doing things. All these elements combine to put and keep the coops on the verge of collapse and in this condition they certainly can not fill the function for which intended.

ADB has a monumental task to perform and under difficult circumstances but it doesn't seem to be addressing the main effort to where it is needed the most and that is the poor small farmer and fishermen. They are trying to work in too many activities at once with a limited staff and administrative capability. We hear continually that the majority of the small farmers and fishermen who need credit can not qualify.

The current movement of refugees back to their home villages will compound the problem of rural credit needs. The numbers of people to be returned could well reach several hundred thousand if all goes as planned. These people will be literally starting all over to reestablish homes, farms and communities and will need much assistance. The resettlement allowances are not sufficient to provide the required funds but are only meant to help get a home started. We don't foresee any significant change in the ADB approach to rural credit, or improvement in their ability to administer an increased number of loans that would be necessary to adequately finance the back to the village movement, so then other sources of funds must be found.

Accurate measurements can not be made but indications are that there are sizeable amounts of money in the provinces. It is a matter of making these funds available in the right amounts and under acceptable repayment arrangements. One of the brightest prospects would be through a cooperative-credit union program. It will be a difficult process but frankly I don't see any other suitable alternative than to organize the people to help themselves through cooperative efforts. The task is formidable but something must be done and prospects for getting a successful program underway look better now than they have at any time in the recent past. This process will be materially assisted however by the Village Self Development program that is now underway.

There is no doubt that the people are becoming interested in a higher standard of living which can come from improved agriculture techniques and better use of resources. One of the most widespread desires expressed by the people is to have electricity. One of the electric coops is in this region at Dalat. Progress has been slow and they have experienced many organizational and management problems. We are monitoring their activity through our Engineer Division and will be assisting as much as possible. This project points out the many difficulties involved in getting a good cooperative organized and functioning even when it has the enthusiastic support of the people. You are quite correct in emphasizing the need for communications with the local farmers and management training as being two areas needing special attention. Both of these are essential elements of a successful program and the lack of both have been key factors in the serious difficulties that most cooperatives have experienced. The whole area of cooperatives has not been receiving much emphasis from either the U.S. or GVN for some time. The JVN Directorate of Cooperatives was recently transferred from the Ministry of Economy to the Ministry of Land Reform and Agriculture. It had been relatively dormant for some time before the shift. The director has been drafted and very little has been happening. On the U.S. side we share an advisor with Region I but there is simply too much territory to cover and too many coops that need help so the coverage has been very inadequate and progress slow. It is encouraging now to see signs of new interest and activity in the development of cooperatives and rural credit unions.

As yet we do not know what the full impact will be of the GVN directive to merge all rural organizations into one effort. This would include the GVN sponsored and controlled farmers associations along with the cooperatives which are supposed to be private groups. Whether such a forced joining will have

detrimental or beneficial effects will have to be demonstrated by time. We have been in contact with Mr. Mabie and have indicated to him our interest in cooperatives and our willingness to work closely with him and the GVN Directorate of Cooperatives to see if we can help bring improvement to the rural areas. We are in the process of reviewing our regional agriculture advisory effort to make better use of our limited personnel resources. You can be sure that we will support to the fullest extent all efforts to improve conditions for the people in the rural areas.

Your expression of concern for both safety and success are appreciated. I will be pleased to contribute whatever possible in the way of useful information concerning my experiences over here upon my next visit to Washington.

*Henry T. Morgan*  
Aug 11 1966