

Dear Jake

Our comments in the January overview were meant to caution against using the amount of new construction as a completely positive sign of economic progress, improved security or an expression of faith in the future of the GVN. We wanted to point out why that could be misleading and that those with money to invest often turn to the construction of a building as the easiest way to invest. That there were side effects of focusing high level attention on the problem of GVN procedures that inhibited a more useful type of investment is encouraging. We welcome the attention and hope we can provide you with some useful information. Certainly most of the material presented here is not new to you but at the risk of overstating the case I thought it important to be sure you knew how we viewed the whole matter. We took this approach rather than a cursory swipe at the problem.

Tackling the problem of GVN bureaucratic procedures is a formidable task because it strikes at the very heart of the GVN system of administration. It is a maze of multiple agency referral stops where often no substantial or necessary service or function is performed but where a "formality" has been followed. As many as possible of the GVN agencies are brought into the act for several reasons. It is not a system designed for dynamic or swift action or response but to perpetuate itself in lengthy time consuming procedures. It is not getting something done as simply or quickly as possible that is as important as properly following the "correct" procedures and formalities. The pressures of the war and the infusion of younger people into the civil servant ranks has started to upset the old ways but there is still enough of the old system left to be a problem. It is difficult for us to really get the whole picture since we don't have to function within it. This can be supported by the example of the multiple surveys of the rice trade with

each trying to fathom the shadowy areas of the system and yet none fully succeeding.

Certainly the official GVN policy is to encourage investment and particularly in those industries that can contribute to the development of the country but as we know there are often significant gaps between the intent of a sound government policy and the actual application.

No one wants to admit that the system is one of red tape, delays and pay offs because these things don't officially exist. These are things that can be denied. Officials can point to policy directives and emphatically state that the GVN position is to encourage and help business expand and improve.

Conversations with businessmen indicate they face a formidable array of GVN agencies in doing business. The procedure varies depending on the nature of the business venture, whether it is a new business, new construction or expansion and/or modernization of an existing business and by product involved if the proposed venture involves the sale of a commodity.

Take as an example a man operating a lumber mill who wants to expand and improve his business by adding new equipment. He finds himself facing the task of getting approval from several provincial services.

- a. Tax Service because category and size of business is changing.
- b. Reconstruction Service if there is some construction involved.

If there is major construction then the request has to go to Saigon for technical approval.

- c. Sanitary Service if near a residential area or if it involves water residue or waste by products.
- d. Electric Service if commercial power is involved.
- e. Public Works if city water is involved.

f. Forestry Service

g. Economic Service if new machinery not locally available is to be procured.

h. Province Chief who has final authority to approve or disapprove,

It must be understood that at each Service whether at province or national level the papers can be delayed for weeks and months for "Technicalities". Anyone who is involved in any kind of business activity knows the facts of life that payoffs are necessary to get something done or papers approved. The wise business man soon finds that these delays can be reduced by leaving a sum of money at each agency. A recent payoff for a theater in Nha Trang was one million piasters.

Someone starting at the village level has to contend with village officials and the district chief as well. If a person tries to do business or to modify a business activity without going through the full process he finds that the police soon appear to close him up.

Someone who needs to import an item of equipment faces a time consuming drawn out process at the Ministry of Economy with much back and forth travel from the province to Saigon. Procedures are simpler if equipment can be purchased locally.

There are no major industrial plants in MR-2 except a tea processing factory that is DRV owned and not operating as yet. There are several potential major industrial plants under study. Most or all of the capital for these would come from sources outside this Region. There are some businessmen in the Region who are interested in modest manufacturing venture such as fish processing, rebar making, a plywood plant and others but hesitate because of the formidable process involved in getting a business established. It is

easier for anyone with money to invest to do so in property or construction of a building. If they build a building then they have to contend with fewer GVN agencies, mainly the Reconstruction Service and the Province Chief. The province chief has the authority to grant licences and approve permits. He can delegate the authority to a deputy but usually chooses to retain the function for himself.

How do you improve the system? A major step would be to eliminate all those agencies that do not have an essential function to perform. There should be one central agency at province level that does the necessary coordination with other agencies.

This is not a suggestion to eliminate all controls because a developing nation must watch carefully how limited capital resources are used and must exercise sufficient controls to be sure they are used for essential purposes.

The type of controls now used have little relevance to efficient use of development resources and if the GVN wants to encourage and assist the local investor then they must take steps to streamline the system that must be followed to establish a business.

Make the Industrial Development Center and the Small Business and Handicraft Center more interested and responsible ^{live} to prospects outside of the Saigon-Bien Hoa area.

A suggestion would be for the Provincial Council to participate along with some members appointed from the business community on a province business review board to help set up more reasonable procedures. I realize the problems of setting up any joint monitoring group composed of GVN officials and private citizens but something must be done to expose the system to an open review so that the multiple delays and payoffs are ended or at least reduced.

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I applaud the intent and appreciate the effort involved in what you propose to do but I think we must be realistic about seeing any substantial degree of improvement within a short time. Some of the ills have an amazing resistance to change. I join you in the desire to bring about some improvement and hope that this response gives you the material you need.

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