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UNITED STATES GOVERNMENT

# Memorandum

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PD-AAD-408-A1

DATE: October 15, 1973.

TO : SA/LT  
AID/W

FROM : Francis M. Harrison, Area Auditor General/South Asia  
c/o USOM/Thailand

SUBJECT: Audit Report No. 8-439-74-15  
Industry Development  
Project No. 439-11-290-074  
Issued October 15, 1973

*Audit*

6 p.

338.09594  
A 265  
Oct. 1973

Subject report is forwarded in accordance with applicable instruction. The audit report contains no recommendation for corrective action.

Attachment: a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE AREA AUDITOR GENERAL, SOUTH ASIA

USOM/Thailand, American Embassy

Bangkok, Thailand

October 15, 1973.

Mr. Charles A. Mann  
Director  
USAID/Laos  
APO 96352

Dear Mr. Mann:

Re: Industry Development  
Project No. 439-11-290-074  
Audit Report No. 8-439-74-15

We have performed a terminal audit of subject project for purposes of reviewing project implementation and to identify any significant areas requiring corrective action. Our audit included a review of pertinent project records in both the USAID/Laos and the Development Bank of Laos (DBL), observations of continued utilization of nonexpendable equipment under the project at project sites, discussions with responsible USAID/Laos and Royal Lao Government (RLG) officials, and other audit procedures deemed necessary under the circumstances. The audit covered the period April 1, 1971 to July 31, 1973.

A. I. D. has obligated \$1,258,654 for this project of which all but \$1,586 have been expended. From the local currency trust fund K 175,115,186 has been obligated of which all but K84,610 have been expended. Details are shown on Exhibit A.

There are no recommendations outstanding from the prior Audit Report No. 8-439-72-53, dated October 29, 1971, which covered the period January 1, 1969 to March 31, 1971.

The Industry Development Project was initiated during FY 1967 for purposes of encouraging and assisting the development of private industrial establishments in Laos, primarily by providing technical advisory, financial, and commodity assistance. Because priority was attached to the development of forest products industries, an ancillary objective was to provide support and assistance to the Lao

Forest Survey and Forest Inventory, undertaken by the RLG Directorate of Water and Forestry in the Ministry of National Economy, to assess the nature, quantity and location of forest resources. The other objectives of this project were to assist the development of mechanized farming activities and assist DBL to grow in capability as an intermediary for the flow of loan capital to private industry and agriculture.

During FY 1967, USAID/Laos formed the Industry and Manpower Division (IMD), formerly known as the Small Industry Branch, to coordinate the undertakings of the Industry Development Program. In September 1970, the IMD was abolished as an organizational unit and the functions of the division transferred to the Agro-Industry Branch within the Agriculture Division (AGR) and the Economic Affairs Division (EAD). The action was taken based on an evaluation of the project, by the Mission, which concluded that the basic ground work had been laid for the development of Lao forest resources and private industries, but that multiple problems prevented the rapid growth of private industries and mechanized farming in Laos, primarily due to the security situation of the country and the serious shortage of essential management personnel. On July 31, 1972, a final contribution of K95 million (\$133, 333) was made by the Mission from Trust Fund, to DBL, to provide assistance to (1) a Tire Recapping Plant (K3 million), (2) Industrial and Mechanized Farming (K60 million), and (3) Swine Production (K32 million). Although the project has not been officially terminated, from discussions with Mission officials we learned that the Mission considers it terminated and does not intend to provide further assistance. We concur in the Mission's evaluation as stated above and feel that the decision not to provide additional assistance under the project is warranted.

We noted that the Mission had not complied with the requirement of AID M.O. 1333.1 which requires a Completion Report. Mission officials have stated that the preparation of the Completion Report had been overlooked, but that immediate action would be taken to prepare it.

Our review of DBL records showed that as of July 31, 1973, K92 million, consisting of the K60 million for Industrialized and Mechanized Farming and K32 million for Swine Production, had not

yet been loaned by DBL to prospective customers. DBL officials stated that this had been primarily due to the uncertain economic and political climate in Laos. They added, however, that proposals are presently under study for a number of activities which are consistent with project objectives.

From discussions with Mission officials, we learned that efforts are underway to assure effective use of idle DBL funds. The Mission is exploring the possibility of the DBL loaning these and perhaps additional funds for projects in agriculture, through the Agriculture Development Organization (ADO). Examples of its use are seed capital for agricultural cooperative and development of lands for commercialized agricultural production. In addition, we learned from recent cable traffic that the Asia Development Bank (ADB) has approved technical assistance to the RLG to finance the services of a study team of two experts to DBL, for purposes of making recommendations on improving the quality of DBL's performance, and study the environment in which DBL operates. In light of the above actions, we have no formal recommendations to make.

Sincerely yours,

*Francis M. Harrison*  
Francis M. Harrison  
Area Auditor General  
South Asia

Enclosures:

EXHIBIT A - Project Financial Status as of June 30, 1973

EXHIBIT B - Distribution of the Audit Report

INDUSTRY DEVELOPMENT  
PROJECT NO. 439-11-290-074

EXHIBIT A

PROJECT FINANCIAL STATUS

As of June 30, 1973

	<u>Obligations</u>	<u>Expenditures</u>	<u>Balance</u>
<u>Dollar Assistance:</u>			
Personnel Services - Direct	\$ 590,848	\$ 590,848	\$ -
Personnel Services - PASA	107,180	107,180	-
Personnel Services - Contract	291,160	291,160	-
Participants	69,818	68,795	1,023
Commodities	143,902	143,902	-
Other Costs - Direct	49,172	48,609	563
Other Costs - Contract	6,574	6,574	-
Total	<u>\$ 1,258,654</u>	<u>\$ 1,257,068</u>	<u>\$ 1,586</u>
<u>Local Currency (Trust Fund)</u>			
Personnel Services - Direct	K 1,194,385	K 1,194,385	K -
Personnel Services - Contract	2,567,036	2,567,036	-
Commodities	1,276,970	1,276,970	-
Other Costs - Direct	2,604,555	2,519,945	84,610
Other Costs - Contract	141,015	141,015	-
Other Costs - IMF Loan Fund	167,331,225	167,331,225	-
Total	<u>K175,115,186</u>	<u>K175,030,576</u>	<u>K84,610</u>
Dollar Equivalent	<u>\$ 494,946</u>	<u>\$ 494,806</u>	<u>\$ 140</u>
Total Assistance	<u>\$ 1,753,600</u>	<u>\$ 1,751,874</u>	<u>\$ 1,726</u>

Conversion Rates: K240 = \$1.00 prior to 7/1/72  
K605 = \$1.00 after 7/1/72

Distribution of the Audit Report

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Director	1
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