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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL
AREA AUDITOR GENERAL - SOUTH ASIA

AUDIT REPORT
USAID/LAOS
AGRICULTURE DEVELOPMENT SECTOR
PROJECT NO. 439-11-190-065

Period Covered by Audit: Cut-off
dates of prior Audits to March 31, 1974

Audit Report No. 8-439-74-86

Date Report Issued June 28, 1974

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AUDIT REPORT

USAID/LAOS

AGRICULTURE DEVELOPMENT SECTOR

PROJECT NO. 439-11-190-065

PART I - PURPOSE AND SCOPE

We have completed an interim audit of the Agriculture Development Sector administered by the USAID/Laos Agriculture Division (AGR). The objectives of the audit were to evaluate the effectiveness of the program and identify and report on problems adversely affecting program implementation.

The audit covered the period from the cut-off dates of the prior audits to December 31, 1973 for financial transactions and March 31, 1974 for physical implementation. [The audit included (a) a review of pertinent records maintained by the USAID, the Royal Lao Government (RLG), the Agriculture Development Organization (ADO) and Contractors; (b) discussions with responsible USAID, RLG, ADO and contractor personnel; and (c) visits to project sites in Vientiane and Xieng Khouang provinces.] Exhibit B is a listing of the projects reviewed with their associated obligation and expenditure data; Exhibit C lists the expenditures covered by our current review, and Exhibit D contains data on arrival and departure of contractor personnel.

Significant findings disclosed by the audit are presented in detail in Part III, Statement of Findings and Recommendations.

PART II - BACKGROUND

USAID assistance to the Host Government in the field of agriculture began in 1955. Mission programs from 1955 through 1962 were primarily for (a) rehabilitation of certain agriculture facilities, (b) assistance to the RLG Extension Service, and (c) establishment of an RLG Sub-Directorate of Irrigation. In 1963, USAID increased the

level of agricultural assistance with emphasis placed on rice production. However, until 1967, with the introduction of the Accelerated Rice Production Program (ARPP), there was no well-defined Mission agriculture development goal. The ARPP goal developed in 1967 was for Laos to be self-sufficient in rice production by 1970 with 200, 000 metric tons (M/T) of rice per year being exported by 1972.

The goals were not achieved because of (a) difficulties in changing farmers' attitudes from a subsistence to a money economy, (b) marketing and transportation problems, (c) unrestricted rice imports from Thailand, and (d) manpower shortages because of the security situation in Laos. Some of these problems still exist.

The current USAID program for agriculture development is divided into seven subprojects which are designed to help (a) the Agriculture Development Organization, (b) Extension Services, (c) Fisheries, (d) Crops & Soils Research, (e) Administration & Planning, (f) Irrigation Development, and (g) Livestock. The project is still officially operating under the 8-1-69 Non-Capital Project Paper (PROP) which lists as its overall goal "to make Laos self-sufficient in the production of major foods by 1975 and to export any existing foodstuff surplus". However, the last two years' Project Agreements have been written using a revised PROP as their basis. That revised PROP of December 1972 was not responded to by AID/W until December 1973 and was neither approved nor disapproved. Because of the changing political and security situation in Laos, the whole area of agriculture development is under review by the USAID and AID/W with in-depth studies proposed; another revised PROP and a new program emphasis may result from this review.

U.S. dollar obligations and expenditures from July 1, 1963 through December 31, 1973 for the Agriculture Sector were \$17.6 million and \$16.9 million respectively (Exhibit A); local currency (Kip) obligations and expenditures during the same period were K1,381 million (\$5.5 million) and K1,355 million (\$5.4 million) respectively (Exhibit A); expenditures covered during our current audit were \$2.8 million and K127,199,000 (\$210,000) (Exhibit B).

PART III

STATEMENT OF FINDINGS AND RECOMMENDATIONS

The goal of the AGR program of USAID/Laos, as stated in the December 1972 PROP, is to promote the economic stability of Laos. The promotion and achievement of this goal in the agricultural area will be through increasing production of basic food crops to the level of national self-sufficiency. (Production of food crops for self-sufficiency was also the goal of the August 1969 PROP). Some of the AGR subprojects promote commercial agriculture so that crops surplus to the needs of the growers will be produced and sold in the urban centers.

[In our review, we gathered information from reports of research done in market and rural areas by qualified personnel.] We found that current RLG attitudes and actions work effectively toward prevention of this goal resulting in waste of agency resources. [These attitudes and actions include (a) allowing unofficial collection of fees on commodities going to market, (b) not collecting official tariffs or fully enforcing tariffs on agricultural imports from Thailand, (c) artificially maintained low market prices for agricultural commodities, (d) an apparent lack of RLG interest in agriculture judging by the low Agriculture budget and Agriculture's status in the governmental structure, (e) laws that allow Chao Khouengs (provincial governors) to collect taxes on animals, fish and produce that leave their provinces to be marketed elsewhere, and (f) the patron system of paying for the continued privilege of selling one's own produce. These items all contribute to a system where there is little or no incentive to produce goods in excess of one's own needs. There are no rewards for the extra work and inputs required to produce the extra commodities which are necessary for country-wide self-sufficiency in agriculture.]

It is clear that those people or agencies (RLG) who allow these impediments to local production and marketing to continue have little or no interest (or conflicting interests) in the goal of agricultural self-sufficiency that USAID/AGR is pursuing. AID legislation clearly indicates that assistance must be accompanied by host country self-help and at least a show of positive interest in the AID program for that program to continue to receive US support.

[We have found no effective positive actions on the part of the RLG which would encourage the marketing of food crops.] (However, note exception mentioned in Exhibit A, Mission Comments. We have no information on the effectiveness of this exception). Such encouragement is necessary to achieve Lao self-sufficiency in major foodstuffs.

There are also natural impediments to agricultural production in Laos which must be effectively dealt with before self-sufficiency in major foodstuffs can be achieved. These natural barriers include mountainous terrain, poor and shallow soils, and an undependable water supply - too much or too little. [However, before additional resources are expended in trying to overcome these natural obstacles, we believe that the human-imposed obstacles should be eliminated, or at least action undertaken which offers realistic prospects for near term elimination.]

We have no objection to the goal itself (achievement of agricultural self sufficiency) as a proper goal if it could be achieved, but considering both the human and natural obstacles existing in Laos that hamper progress toward this goal, it may be necessary for USAID/Laos to reevaluate what it can do in assisting Lao agriculture and to redefine its goals. Further, we do not believe that Mission activities directed toward this goal should continue for the year or two that the Mission has indicated will be necessary for redefinition and evaluation.

Recommendation No. 1

We recommend that USAID/Laos suspend all activities aimed at commercial agricultural production until either (a) the human-imposed impediments controllable by the RLG are eliminated, or (b) there is a redefined and redirected program which takes all of the human and physical impediments to agricultural production in Laos into consideration.

We are aware that AGR division provides extensive support to the refugee relief activities. Since the refugee program is another of the USAID's priorities and most of the AGR activities related thereto appear to fall within the spirit of AID legislation (assistance to the poorest of the poor), we believe these activities should continue. However, we believe the refugee activities of agriculture

should fall within the Office of Refugee and Rural Affairs (ORRA) where they could be monitored and managed for the best service to refugee activities.

Recommendation No. 2

We recommend that USAID/Laos reorganize its personnel from AGR to ORRA to more closely fit the activities they are involved in and operate under the managers responsible for success of the refugee program.

PART IV - GENERAL COMMENTS

The Mission response to the draft audit report is included in this report as Exhibit A. It deals at some length with the activities of ADO and discusses the need for the AGR program in general. One paragraph of the response is quoted below.

"3. The marketing constraints (identified as attitudes and actions in the draft audit report) are to the best of our knowledge, valid and we think do have a negative influence upon individual farmer production and marketing of produce. These same constraints are common in most developing countries and perhaps to a lesser extent in developed countries as well. However, if a country such as Laos is to increase production with the objectives of national self sufficiency, marketing constraints must be effectively addressed and resolved to motivate all classes of Lao farmers (refugees, traditional, commercial) to produce beyond their needs to meet the increasing demand for food in the urban areas."

These comments agree with our reported findings. The Mission's conclusions, however, differ from ours. We believe that to achieve the project's stated goals, the first requisite is for the farmer to have the incentive to produce beyond his needs. With the present marketing constraints, he does not have it, and no amount of money spent on providing technical expertise will give it to him.

In discussing the activities of ADO, it was stated that "ADO has not had any problem with (a) official and unofficial road taxes, (b) never paid taxes for commodities going from one province to another, (c) never paid any taxes to 'uncles' or 'committees'. Aside from the fact that the marketing activities of ADO have been practically nil, the implication is that farmers could avoid these payments by marketing their produce through ADO. ADO could not provide such service without the assessment of service charges. The implied solution, then, offers the farmer a choice of paying several "taxes" of uncertain amount or paying service charges for a service he should not need. In either case, part of the incentive to produce beyond his needs has been removed.

With respect to Recommendation No. 2, the Mission raises the problem as to counterparts. The response reads in part:

"It appears that little attention was given in the audit to the fact that ORRA counterparts the Ministry of Social Welfare, whereas, the Agriculture Division counterparts the Directorates of Agriculture, Veterinary Services, and Waters and Forests. This too would have to be given serious consideration in any modification of agriculture activities which shifted agricultural specialists and programs to ORRA or any other management organization."

If the Ministry of Social Welfare has responsibility for meeting the needs of refugees, it should have either agricultural capabilities on its staff or a close working arrangement with the Directorates of Agriculture, Veterinary Services, and Waters and Forests. If it has neither, then agricultural specialists under ORRA could be instrumental in developing one or the other.

The Agriculture sector was last reviewed in a combination of three audit reports. These were reports No. 8-439-72-85 dated February 24, 1972 with six recommendations, No. 8-439-72-88 dated March 6, 1972 with four recommendations, and No. 8-439-73-9 dated September 20, 1972 with nine recommendations. All of the recommendations were cleared prior to our current audit.

Mission Response To Draft Audit Report

The Mission response to the draft audit report was in the form of a memorandum dated May 20, 1974 from Mission Director Charles A. Mann to Resident Auditor, James I. Elliott. The response is reproduced in full below.

"The following are the Mission comments with respect to the findings and recommendations included in subject report:

1. In a traditionally subsistence agriculture which has been practiced in Laos for centuries and aggravated by warfare for more than a decade, we find a land-locked nation of very limited physical assets which, even if it had adequate human and financial resources, may not be capable of achieving self sufficiency in food production. Thus, it seems basic that the goal of any agriculture program would be an endeavor to increase production of basic food crops to the level of national self-sufficiency. In considering the unique conditions in Laos and in addressing this goal, it seems paramount that efforts be directed towards: (a) production for self sufficiency of refugees and traditional farmers to the extent possible: and (b) commercial agriculture to increase production to feed expanding urban centers.

2. USAID's support, to what we assume the audit report refers to as "commercial agriculture", is primarily in support of the Agriculture Development Organization (ADO). This is a semi-autonomous host country agency which is the catalyst to stimulate agriculture development. It provides: (1) commercial production inputs to farmers (cash sales and limited credit) at the most economical price possible; (2) a market for selected produce and (3) project planning and economic information. We believe ADO has demonstrated with refugees, select groups of traditional farmers, and limited

commercial producers that the increased production resulting from their support has brought producers a fair price, as well as, sold to consumers in the local market at fair, competitive prices. We, therefore, believe due credit should have been given in the audit review to these accomplishments, along with the recognition given to marketing surveys which apparently lead to the conclusions that RLG attitudes and actions toward marketing of farm produce is totally corrupt and that all farm produce is illegally taxed. We believe that ADO's recent experiences are examples of commercial agriculture (from production through marketing) where farm producers get a fair price. ADO has not had any problem with (a) official or unofficial road taxes, (b) never paid taxes on commodities going from one province to another, (c) never paid any taxes to "uncles" or "committees".

3. The marketing constraints (identified as attitudes and actions in the draft audit report) are to the best of our knowledge, valid and we think do have a negative influence upon individual farmer production and marketing of produce. These same constraints are common in most developing countries and perhaps to a lesser extent in developed countries as well. However, if a country such as Laos is to increase production with the objectives of national self sufficiency, marketing constraints must be effectively addressed and resolved to motivate all classes of Lao farmers (refugees, traditional, commercial) to produce beyond their needs to meet the increasing demand for food in the urban areas.

4. In response to the statement in the audit report, "we have found no effective positive actions on the part of the RLG which would encourage the marketing of food crops", the RLG has in recent months established a National Rice Office and has allocated 150.0 million kip host country funds to procure rice as a means to stockpile rice to meet local food requirements. The reported average price paid to farmers/agents/mills is 102 kip/kilo.

5. We believe that continuing USAID support to ADO is essential in assisting the host government to increase agriculture production primarily through commercial farmers, groups of individual farmers, and to a lesser degree refugee farmers. Since December 1973, three of the nine borrower grantee ADO USAID-financed staff have been 100% utilized in support of refugee activities. Also, we estimate that about 10% of the time of the remaining six staff members is devoted to securing inputs, preparing projects, etc., which are support of refugee villages.

6. We fully recognize the numerous and complicated constraints existing in Laos that hamper progress towards agricultural self-sufficiency. In fact, if one were to identify countries around the world and rank them according to complexity of constraints, we believe Laos would rank very high out of the 26 least developed countries in the world identified by FAO. Because of this, we plan intensive studies of the agriculture sector, as indicated in the audit report. We, however, do not agree that USAID's assistance towards food self-sufficiency should be suspended until the results of the studies are known. We believe this judgment should be left to well qualified, experienced professionals in agricultural development.

7. The Mission appreciates the auditor's recommendation with respect to continuation of agricultural support for refugee activities. We estimate that about 55% of the present USAID agriculture support is devoted to this worthy area with an additional 10% of the present inputs in support of the narcotics crop redirective program. This leaves a balance of about 35% of USAID's support for more production oriented programs such as, ADO, the Lao Savings and Loan Cooperative Program (LSLC), and Fisheries Development. If the Mission accepted the recommendation of the audit report, it would mean terminating assistance to most of these three activities. It appears that little attention was given in the audit to the fact that ORRA counterparts the Ministry of Social Welfare, whereas, the Agriculture Division counterparts the Directorates of Agriculture, Veterinary Services, and Waters and Forests. This too would have to be given serious

consideration in any modification of agriculture activities which shifted agricultural specialists and programs to ORRA or any other management organization. Again, the Mission will be guided by the sector analysis studies as to the best management structure under which to provide assistance to agriculture whether it be an Agriculture Division, ORRA or other management unit.

In conclusion, we appreciate the comments submitted in the referenced report. However, based upon the above comments, we do not believe that the recommendations were made with a complete, adequate knowledge of: (a) the agriculture development process; (b) the overall U.S. objectives in Laos; or (c) the complexity and the fractionation of local conditions. Therefore, we reject the two recommendations included in this report and consider them closed. It is intended to continue current assistance at about the same level, simultaneously undertaking the sector studies which hopefully will provide the best possible technical and economic guidance upon which to base any modification of our programs."

Obligations and Expenditures
July 1, 1963 to December 31, 1973
(\$000 Omitted)

<u>SubProject</u>		<u>Obligations</u>	<u>Expenditures</u>	<u>Unliquidated Obligations</u>
Crops & Soils 063-1	Dollar	\$ 2,059	\$ 1,953	\$106
	Local Curr. in \$	<u>704</u>	<u>702</u>	<u>2</u>
	Total	<u>\$ 2,763</u>	<u>\$ 2,655</u>	<u>\$108</u>
Livestock 063-2	Dollar	\$ 881	\$ 814	\$ 67
	Local Curr. in \$	<u>554</u>	<u>525</u>	<u>29</u>
	Total	<u>\$ 1,435</u>	<u>\$ 1,339</u>	<u>\$ 96</u>
Irrigation 063-3	Dollar	\$ 5,387	\$ 5,332	\$ 55
	Local Curr. in \$	<u>1,600</u>	<u>1,593</u>	<u>7</u>
	Total	<u>\$ 6,987</u>	<u>\$ 6,925</u>	<u>\$ 62</u>
Extension 063-4	Dollar	\$ 1,779	\$ 1,742	\$ 37
	Local Curr. in \$	<u>851</u>	<u>837</u>	<u>14</u>
	Total	<u>\$ 2,630</u>	<u>\$ 2,579</u>	<u>\$ 51</u>
Agriculture Dev. Org. 063-5	Dollar	\$ 4,526	\$ 4,350	\$176
	Local Curr. in \$	<u>1,163</u>	<u>1,162</u>	<u>1</u>
	Total	<u>\$ 5,689</u>	<u>\$ 5,512</u>	<u>\$177</u>
Fisheries 063-6	Dollar	\$ 741	\$ 659	\$ 82
	Local Curr. in \$	<u>332</u>	<u>325</u>	<u>7</u>
	Total	<u>\$ 1,073</u>	<u>\$ 984</u>	<u>\$ 89</u>
Admin. & Planning 063-7	Dollar	\$ 2,276	\$ 2,097	\$179
	Local Curr. in \$	<u>268</u>	<u>263</u>	<u>5</u>
	Total	<u>\$ 2,544</u>	<u>\$ 2,360</u>	<u>\$184</u>
	Total Dollar	\$17,649	\$16,947	\$702
	Total Local Curr. in \$	<u>5,472</u>	<u>5,407</u>	<u>65</u>
	Grand Total	<u>\$23,121</u>	<u>\$22,354</u>	<u>\$767</u>

Note: Local currency converted at the official exchange rate in effect at the time of expenditure.

AGRICULTURE DEVELOPMENT SECTOR
PROJECT NO. 439-11-190-065

EXHIBIT C

U.S. Dollar Expenditures During Audit Period
 April 1, 1972 to December 31, 1973
 (\$000 Omitted)

<u>SubProject</u>	<u>Personnel</u>		<u>Participants</u>	<u>Commodities</u>	<u>Other Costs</u>	<u>Total</u>
	<u>US 1/</u>	<u>TCN 2/</u>				
Crops & Soils 063-1	\$ 39	1/	\$ 25	\$ 50	\$ 5	\$ 122
	3	2/				
Livestock 063-2	69		5	33	1	121
	13					
Irrigation 063-3	93		30	338	12	520
	47					
Extension 063-4	71		31	161	46	339
	30					
ADO 063-5	265		13	171	351	807
	7					
Fisheries 063-6	116		5	25	3	149
Admin. and Planning 063-7	670		6	23	11	735
	25					
	<u>\$1,448</u>		<u>\$115</u>	<u>\$801</u>	<u>\$429</u>	<u>\$2,793</u>

AGRICULTURE DEVELOPMENT SECTOR
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EXHIBIT C₁

U.S. - Owned Local Currency Trust Fund Expenditures During
 Audit Period April 1, 1972 to December 31, 1973
Kip (000 Omitted)

<u>SubProject</u>	<u>Personnel</u>	<u>Commodities</u>	<u>Other Costs</u>	<u>Total</u>
Crops & Soils 063-1	₪ 933	₪ 739	₪ 2,564	₪ 4,236 (\$ 7)
Livestock 063-2	2,510	5,862	2,145	10,517 (\$ 17)
Irrigation 063-3	27,164	2,256	9,267	38,687 (\$ 64)
Extension 063-4	10,459	6,073	18,570	35,102 (\$ 58)
ADO 063-5	1,059	-	89	1,148 (\$ 2)
Fisheries 063-6	-	-	10,747	10,747 (\$ 18)
Adm. & Planning 063-7	18,673	5,839	2,251	26,763 (\$ 44)
Total	<u>₪60,798</u>	<u>₪20,769</u>	<u>₪45,633</u>	<u>₪127,200</u> (\$210)

Note: () figures are \$ equivalents calculated at the official
 rate of exchange \$1.00 = 605 kip.

Arrival/Departure Dates of Contractor Personnel
As of March 31, 1973

<u>Name</u>	<u>Title</u>	<u>Date of</u>	
		<u>Arrival</u>	<u>Departure</u>
<u>AID/csd-1526 Task Order No. 17 (CUNA)</u>			
Avram, P.	Agricultural Production	10/11/71	6/16/73
	Credit Coop Spec.	9/ 2/73	*
Perez, G.	Accounting Specialist	6/ 3/73	*
<u>AID-439-699 U.S. Consultants, Inc. (Fisheries)</u>			
Sugitani, S.	Project Supervisor	9/ 6/70	6/ 4/72
		7/ 3/72	*
Masuo, M.	Fishery Specialist	7/31/70	4/12/72
		5/11/72	*
Suzuki, C.	Fishery Specialist	8/16/70	7/ 7/72
		8/ 4/72	
<u>Borrower/Grantee AID-Funded Personal Services Contract for ADO</u>			
Acott, E.	Field Manager	10/12/72	12/31/73
Barringer, J.	Field Operations Officer	12/19/69	7/ 2/72 <u>1/</u>
		8/ 7/72	*
Demello, J.	Field Manager	2/ 1/71	12/31/73
Finby, T.	Chief, Operations Support	8/11/71	12/ 7/73 <u>1/</u>
		1/11/74 <u>1/</u>	*
Hitchcock, C.	Field Manager	12/14/70	8/ 3/73 <u>1/</u>
		8/31/73 <u>1/</u>	*
Karpe, B.	Controller	8/31/72	*
Panning, R.	Commodities Supply Officer	10/ 3/72	*
Parmenter, J.	Sericulturist, Special Projects	8/29/73	*
Resseguie, R.	Agriculture Economist	8/17/72	*
Rufener	Field Manager	10/10/72	*
Zola, A.	Project Monitor	10/ 2/72	*

1/ Approximate dates

* Personnel in Laos on March 31, 1974.

Distribution of the Audit Report

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