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OFFICE OF THE AUDITOR GENERAL
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AUDIT REPORT

UNITED STATES A.I.D. MISSION TO VIETNAM (USAID/VN)

SURVEY OF GVN COMPENSATION TO LANDOWNERS UNDER

LAND-TO-THE-TILLER PROGRAM

(LAND REFORM PROJECT NO. 730-11-120-311)

A.I.D.
Reference Center
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Period covered: March 26, 1970 through December 31, 1972
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Part I - Purpose and Scope

In response to a special request by the Associate Director for Land Reform, USAID Mission to Vietnam, we have conducted a special purpose review of the Compensation Phase of the Land-To-The-Tiller (LTTT) program, from date of inception, March 26, 1970 through December 31, 1972.

The twin aims of our examination centered on a validation of the adequacy of existing control mechanisms and, where desirable, suggest improvements. Within the former we concerned ourselves with the condition of the land records, plot and landlord identification, plot valuation, the physical distribution of checks and bonds to former owners, as well as the methods and procedures established to carry out the GVN legislative intent, and the organizations and individuals carrying out that mandate.)

Our project coverage took place between September 1972 and January 1973, a period noteworthy because of (intensified cease-fire negotiations as well as accelerated ground fighting,) particularly in areas directly affected by the Land Reform Program. (Last minute land-grab efforts seriously restricted our ability to visit the field because of security conditions.)

Instead we expanded the use of the computer as a control device, with rather gratifying results.) Its role was conceived originally only for conducting some statistical sampling studies for four emphasis provinces: Bien Hoa (Military Region III); An Giang, Chuong Thien and Chau Doc (Military Region IV). Data printouts from a major consolidation of previously unrelated sources proved to be sufficiently informative that the application of this computer program to the remaining forty provinces is now under serious consideration by GVN.

Part II - Background

A - LAND-TO-THE-TILLER PROGRAM

Convinced that the transfer of one million hectares (two and a half million acres) of privately-owned riceland to the actual tillers would have a major beneficial impact on the country, the GVN wrote the LTTT program into law on March 26, 1970. There exists a virtual certainty that the project will attain its goal of physically conveying title for the planned hectareage by the crucial 1973 target-anniversary date, thus effectively reversing the traditional image of the GVN as the protector of rich landlords. Follow-on distributions and compensations are programmed beyond the first million hectares.

A number of variables, such as ever changing currency conversion rates, the assumption of average land prices and a fairly complex, but unpredictable interest formula, suggest a relaxation of traditionally desirable precise pricing standards for the cost of the total compensation phase of the program which will cover the eleven year period from 1970 through 1981. Based on currently available cost visibility, it is likely to fall into the high end of the U.S. equivalent of \$360 to \$400 million, or an average monthly spending rate of \$3 million (\$100 thousand per day). Except for relatively small holdings which entitle landlords to a 100% immediate compensation, the majority receives 20% of their claims in cash, with the remaining 80% converted to bonds bearing 10% interest, on the unpaid balance and maturing over 8 years. Delays that occur between the ministerial approval date and the actual disbursement of the cash portion qualify for an additional 10% "delay interest", computed on a daily basis, whereas "delay interest" on the bond portion has been decreed to be accruable only on a full year basis, but no fractions thereof. Typically, every transaction is earning some interest from both sources, unpaid balance as well as delay.

After organizing and staffing the LTTT program during its earlier phase with an emphasis on the physical distribution side of the project, resulting in only token payments during all of 1970 and early 1971, the latter half of 1971 began to experience a growing shift towards the compensation stage. After overcoming initial start-up problems with the quality of dossiers reaching Saigon from the provinces, aggravated by the relative slowness of the pre-computer manual assembly line, training and automation efforts have since paid off, by holding the processing gap, between receipt of claim and its compensation, to about 300,000 hectares, or about one year's distribution quota.

Against the stated objectives of the compensation phase of "making speedy, efficient, accurate and legal payments, to former landlords, in accordance with the terms and conditions of the LTTT Law", our prime concerns addressed themselves to the following areas:

1. Validation of claimant's identity;
2. Validation of claimant's ownership interest;
3. Validation of property's physical characteristics;
4. Validation of applicable pricing formula;
5. Evaluation of the logic and integrity of the control procedures under which all steps were being carried out - from the time a former landlord filed his claim to the moment he was being paid.

As originally conceived, a comprehensive set of built-in safeguards was to make any of a number of abuses subject to early detection, and thus prevention. Among the temptations the system attempted to discourage were:

1. Filing of multiple claims, under assumed names, and in diverse locations, for the same plot.
2. Filing of phony claims, for plots not eligible for indemnification.
3. Exaggerating the size of the plot.
4. Inflating the value of the land, at a given location.
5. Receiving multiple payments for the same piece of land.
6. Sharing the proceeds with officials as a prerequisite for having the claim processed.

With creative ingenuity the variations and combinations of the above practices are virtually endless. Their avoidance, therefore, became a major task of the internal control system. At the same time, that system needed to remain sufficiently flexible, to avoid paralyzing the data flow. The sheer volume of documents, coupled with the growing headstart gained by the distribution "assembly line" vis-a-vis the compensation "assembly line", placed considerable strain on the systems personnel to maintain some sort of equilibrium between the two, and trading off relative risks between too little

movement under good quality control conditions versus a more rapid rate of progress, achieved with some concessions to basic safeguards.

Computer software and hardware limitations, not to mention problems related to the ultimate organizational affiliation for the Computing Center -- recently spun off from the Mission -- contributed their share of administrative challenges to the situation.

While progress-to-date through December 31, 1972 was relatively easy to measure on the distribution phase of the project, with 92% accomplishment reported at the 92% mark on the time-scale -- thus putting that aspect right on target -- a comparable evaluation in terms of compensation was more complicated. Because of resource limitations it was realized from the outset that distribution and compensation could not receive the same degree of emphasis concurrently. Once the decision had been made to concentrate all initial energies on distribution, together with appropriate goals and quotas, the compensation phase was virtually compelled to exist with residual resources, at least until such a time when it was considered safe to realign some personnel into that area. We have been told that the "on-target" position of the distribution phase has now enabled GVN to carry out such a massive reorientation, and that as a result it is hoped that compensation will be completed within six to twelve months after the distribution of phase I (the first million hectares) has been attained.

Semi-official documents suggested that by the end of calendar 1972 slightly more than half of the total hectarage would have been compensated. The very absence of an official document, establishing precise goals and quotas, adds weight to the statements that compensation, during the program planning stage, simply did not receive the same degree of urgency and timing discipline as did distribution. Actual compensation, at December 31, 1972, was just approaching the 35% mark in terms of hectarage distributed. However, because of certain unique features of the LTTT program, as for instance the fact that 100,000 hectares will never be compensated, for one reason or another, while other land is waiting for beneficiary determinations because of the original landowner's death, leading to frequent time-consuming heir searches, a one-for-one comparison between distribution and compensation is simply not readily obtainable. When one realizes that close to half the payments ultimately are being made to second-generation, rather than original landowners, then actual achievements assume a different perspective when one considers the various obstacles involved, as well as early staff limitations.

B - PRIOR AUDITS

Our prior audit was concerned with the entire Land Reform Program rather than just compensation-related matters. The Audit Report No. 9-730-71-122, dated June 28, 1971 presented ten recommendations which are formally closed.

A recent GAO audit report, which we reviewed in draft form, did not cover the compensation aspects of the Land Reform Program.

C - PROJECT MANAGEMENT

Direct responsibility for administering the program rests with the GVN Directorate General of Land Affairs (DGLA).

Within USAID/VN the Office of the Associate Director for Land Reform (ADLR) has been assigned the task of working with the DGLA staff, in an advisory capacity. It is extremely important to realize the practical limitations which such an advisory role implies: The ability to suggest and urge, but lacking the power to direct and command.

ADLR was activated on August 1, 1970. The staff consists of about 30 people. It was recently augmented by a financial specialist. This individual was appointed project manager for all systems improvements leads proposed by the auditors, thus avoiding a situation whereby they became operationally involved.

Part III - Summary

This Mission-requested report, responding to a felt need to assess the adequacy of existing controls and procedures relating to the compensation phase of the Land-To-The-Tiller program identified, within an overall well managed operation, a number of areas capable of increased effectiveness:

1. Greater utilization of source data contained by the computer system, with particular emphasis on matching relative plot sizes in terms of hectarage distributed vs. hectarage compensated (page 7).

2. Shortening the "in-transit" time for checks and bonds between time of issue to the time of delivery to former landlords, coupled with the need for monthly bank reconciliations, and an "aging" of checks outstanding (page 7).

3. Discouraging the preparation of manually prepared checks and use of the so-called "Off-Line System" (page 8).

4. Accountability for all transactions involving the "Override" privilege (page 8).

5. Enhancement of the physical security over checks, bonds and other key documents, as well as basic computer software programs (page 9).

6. Stepped up interest in the plot value mix problem which, unless attended to, could result in shortchanging latecomers or overrunning the budget (page 9).

7. A greater appreciation for the tenuous land register base, or rather its absence, together with the obvious implications such a vacuum entails (page 10).

8. More awareness for the financial/economic impact of "Delay Interest" (page 11).

9. Increased efforts to persuade GVN to issue equity in GVN industry, in preference to cash and bonds, thus easing inflationary pressures concurrently (page 11).

10. Realization of the existence of a major "Contingent Liability" funding the program (page 12).

PART IV

STATEMENT OF FINDINGS AND RECOMMENDATIONS

For the Office of the Director, USAID/VN

Our assignment developed a technique whereby all systems refinements were implemented as soon as the need became clear. This accounts for the lack of any formal recommendations in this report. The following topics represented the emphasis areas of our review.

A - MAXIMIZING AVAILABLE SOURCE DATA

Our early surveys convinced us that while there existed a wealth of raw data, better utilization could be achieved by correlating more of the components of the distribution sub-system with those of the compensation sub-system. Accordingly, we advocated, and found acceptance for a proposal to merge additional key factors of both systems into a consolidated version. Among other expanded insights gained was one that compared the hectarage distributed to the new tillers with that being compensated to the former landlords. Ideally, as in the case of any other mathematical equation, the sum total of the sub-divisions should match that of the original mother plot.

In carrying out this comparison we gave appropriate consideration to certain practical concessions built into the system, such as a ten percent tolerance margin to allow for inaccuracies attributable to the use of aerial photographs for identifying plot outlines, and therefore plot sizes.

Detailed studies of a number of villages, comparing hectarages compensated with hectarages distributed, for the identical plots, revealed a number of cases, whose frequency exceeded incidental occurrences, whereby the total land paid for was recorded in precise multiples of that being titled to the new tiller. The majority of these cases ran in an exact 2:1 relationship, but there were others that worked out to a 3:1 ratio, with several anomalies running even higher. This suggested that the plots in question may have actually been compensated for more than once, unless the original check was since cancelled -- a piece of information not readily available at that time.

Under current operating conditions checks tend to remain in the pipeline for extended periods of time because of two major conditions: (1) search for heirs of deceased landlords, (2) acceptance refused by landlords. Workpapers we have developed

support our belief that one and two years in transit are by no means exceptional. We initially encountered some minor difficulties in convincing responsible GVN officials that bank reconciliations and check locator systems are mandatory for basic financial control. As working relationship solidified, and thanks to a final breakthrough in a year-long effort by ADLR, measurable progress has been made towards the goal of pinpointing batches of checks to various stations within the system at a given time, and - if necessary - to return them to Saigon after 90 days. As a corollary to improving the check locator system parallel efforts took place to discourage the production of calculation sheets with pre-assigned check numbers, via the so-called "off-line" system, superseding -- in effect -- the master-planned computer system, to service difficult-to-locate and/or process landlords.

We feel that the injection of some of these fundamental check procedure issues is necessary at this point to lead to an understanding of the apparent multiple payment question. The mere appearance of a seeming duplication cannot be accepted as conclusive until the location and disposition of each potentially repetitive check has been completed. Subsequent investigations carried out by ADLR staff and special task forces established by GVN, in instant response to our findings, have discovered no more than ten instances per province, representing unjustifiable duplications. Corrective reactions have been taken promptly, including the initiation of refund claims against those landlords known to have cashed more than one check, backed up by ADLR's bond retention capability in case of non-cooperation. In other cases it has become obvious that clerical carelessness has been the cause. While this still remains a serious condition to overcome, it falls into a different severity category.

The perceptiveness of the expanded computer program has had a refreshing impact on all users, and simply publicizing its existence has had some psychologically rewarding effects. In the light of all these facts, no formal recommendation appears necessary any longer, particularly knowing ADLR's and GVN's wishes to expand the application of the computer program to all provinces, on a pre-determined cycle basis, and thinking seriously about adding an internal auditor assistant to its own staff to devote full time to this task.

B - ACCOUNTABILITY UNDER THE "OVERRIDE" PRIVILEGE

Under the previous heading we briefly referred to certain transactions that bypass the regular system, for a variety of legitimate reasons. The only thing that concerns us in this connection is the absence of any accountability for those cases where the "override" privilege is being invoked. ADLR is well aware of the situation, and is working towards a solution.

In our spotcheck of exceptional cases we were struck by their frequency. While the computer-based system may not be perfect, at least it provides visibility, whereas the application of the override, particularly when used less than sparingly, spreads a mantle of immunity over a fairly significant percentage of total volume. If left unchecked, or if ongoing negotiations to provide more visibility should fail, then there exists a growing risk of bypassing and defeating the very controls which very obviously are needed for the entire program, and not just parts of it. Under present conditions, articulating this need formally as part of this report, probably constitutes the maximum practical exposure.

C - PHYSICAL SECURITY

Custodial care in the United States and Vietnam cannot and should not be compared on a one-for-one basis. But even discounting cultural differences, we were struck by the more casual attitude towards the physical protection of checks, bonds and other key documents, stored invariably in plywood boxes, without lock or guardian. Suggestions for improved security, coupled to USAID-provided advice and metal boxes, met with only mild expressions of interest, mainly because of the GVN custom of visaing every negotiable paper.

Of more far reaching implications is the relatively easy accessibility to computer software programs. Some efforts have been made to duplicate certain masterdecks and tapes, but because of ever changing programs and rather infrequent updates in the duplicates we still feel that the entire computer program -- particularly as it moves off-site -- is vulnerable to an unscrupulous vandal or saboteur. A problem recognition letter in our files only partially alleviates our apprehensions on that subject, in full recognition of ADLR's exhaustive efforts to improve GVN's security consciousness.

D - PLOT VALUE MIX

A rather sophisticated formula fragments each village into four layers of relative land plot values. On a trial-and-error basis the weighted average of the four categories, when calculated and extended, stays within a budgetary ceiling. Our actuarial test check computations show that the first wave of claimants tended to concentrate into the high value categories. Depending on the firmness of the overall funding and the maintenance of pre-set budgetary boundaries, one of two things is likely to happen:

1. An overrun (which program experts claim cannot take place, by definition).

2. Latecomers will have to be satisfied with residual unit plot values, which in some cases will have to be forced downwards, in order to remain within overall fiscal constraints.

Either way, some risk exists. Mission officials do not feel greatly concerned, particularly in view of the frequent intervals at which they call trendlines to GVN's attention. Some knowledgeable technicians anticipate ultimate inequities. At best, the more patient claimant will have the same feelings as the man who shared the dinner check with his friends on an equal basis, yet had the cheapest entry on the menu.

E - PLOT OWNERSHIP

Regardless of the degree of control exercised over blank checks printed in and arriving from the U.S. or during the actual processing of claims, the real Achilles Heel of the entire compensation operation is to be found, in the auditors' opinion, in the so-called "Case 2" land category. This is the classification describing that land which enjoys neither the benefit of land registers or cadastral maps. Instead, it relies on an honor system under which Village Land Registrars conduct ownership investigations.

"Case 2" (undocumented) land outnumbers "Case 1" (documented) land in a 3:1 ratio that has remained fairly constant over the years. Hence, from an overall plausibility point of view, we cannot over-emphasize the complete dependence of every subsequent processing step on the fundamental honesty of the officials charged with the temptation-rich task of converting hearsay and an aging population's fallible memory into substitute land records, which in turn formulate the basis for pricing out the claim.

Even the one-month posting period, called for under the procedures, whereby persons who consider themselves wronged under the proposed award, may challenge the decision, does little to alleviate our reservations, particularly under the political dynamics that prevail at many villages and hamlets.

Nevertheless, given the constraints under which USAID's participation has been conceived, and considering further the priorities that paced the Land Reform program, then it is difficult to envision any more meaningful protective measures USAID, in its advisory role, could have introduced and sustained. Under the circumstances, we see little basis for a constructive recommendation, but confine ourselves to a formal statement of a calculated risk.

Put another way, this means that up to 75% of all claims are really contingent on the integrity of the many different individuals that make up the membership of the various Village Land Registers.

F - DELAY INTEREST: FINANCIAL vs. ECONOMIC CONSIDERATIONS

Elsewhere we have described the processing gap whereby a claim, remains for extended periods in the pipeline, and is thus entitled to earn delay interest. We have independently verified or established certain financial criteria whereby the average land value per hectare amounts to VN\$120,000, the average bond interest on the unpaid balance at 10% over 8 years equals 30% of principal, and that delay interest accounts for an additional 19%, based on criteria discussed earlier.

The total price tag for delay interest, for a program distributing and compensating 1,000,000 hectares, is therefore VN\$22.8 billion, or US\$48 million, assuming the current rate of exchange of 475:1 applied consistently. Through December 31, 1972, at a time when about one third of the hectareage had been compensated, an estimated VN\$10.3 billion were attributable to delay interest. From a purely financial point of view, a strong potential cost saving case could be argued. However, this would constitute an oversimplification, because of the prevailing inflation rate which exceeds the bond coupon rate of 10%. If and when it dips below 10%, then aggressive efforts should be made immediately to reduce the delay interest by removing the conditions that cause it. Until that crossover point is reached, no economic harm is being done, except to the landlords whose purchasing power has been eroded.

To avoid this from happening it had been suggested at one time to cushion the inflationary effects of massive compensation payments by switching the check and bond formula to the venture capital route, converting the former agriculture-based capitalist to an industrial entrepreneur, except -- may be -- for the ex-landlord who possessed only relatively modest land holdings.

This suggestion, which appears to have merit from both an anti-inflationary as well as an economy pump-priming point of view, has met with variable reactions since the program started, particularly since GVN's initial supportive stance could not always be taken entirely for granted. Notwithstanding some occasional ambivalence we believe that an important reconstruction avenue was until very recently being seriously slighted, leaving Mission officials interested in the implementation without the full back-up, to convert a worth while theory into more viable practice. Since the circulation of our first draft report we have been advised of the Prime Minister signing a decree authorizing landlords to use their bonds to purchase shares in private or GVN enterprises.

Instead of wholeheartedly pursuing the originally envisioned capital formation route which would have solved the pressures of inflation concurrently with providing a funding base for industrialization, USAID committed a total of \$40 million of import funding to the programmed CIP support levels, coinciding approximately with the level of expenditures made by the GVN to the former landlords. Considering that as of this writing this amounts to only about 10% of the total estimated cost over the life of the disbursement cycle, and as long as such a level of spending is beyond the internal financial capability of GVN while at the same time remaining subject to year-to-year incremental U.S. funding, then this leads to the realization that there exists an enormous contingent liability overhanging the program, similar to an unfunded pension or retirement scheme. We were and continue to be a bit baffled by the relative unconcern to think through the obvious implications. This is, in part, due to the realization that projected LTTT payments will never exceed 5-6% of total GVN budgetary expenditures, in any one year. Yet such rationalization does not take into consideration the significant dependence of the entire GVN budget on U.S. support.

G - CORKAGE

Corkage is a euphemism for the practice of obtaining a gratuity from interested parties for carrying out a task, which normally should be handled routinely as a matter of fact. It flourishes particularly when an administrative process has been broken up into many small interdependent steps, each one being handled by a severely underpaid civil servant. Corkage thus assumes the nature of a fiscal lubricant "to keep things moving".

A great deal of time and effort has been expended by Mission officials to obtain some insight into the corkage problem, as it relates to the Land Reform Program, and to ensure that "abnormal practices" do not jeopardize the entire program. Because the Mission has already conducted its own study of this subject no useful purpose is being served by repeating a detailed discussion here. We did, however, share the results of our own compensation to landlord survey to determine the extent of any unusual practices, with the appropriate ADLR officials.

Distribution of Report

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