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AUDIT OF
THE AID/BURMA
MAIZE AND OILSEEDS PRODUCTION PROJECT
PROJECT NO. 482-0005

AUDIT REPORT NO. 2-482-86-08
August 29, 1986

UNITED STATES GOVERNMENT

Memorandum

TO : AID Representative
AID/Burma

DATE: August 29, 1986

FROM : Leo L. LaMotte
RIG/A/Manila

RIG/EA-86-290

SUBJECT: Audit of the AID/Burma Maize and Oilseeds Production Project, No. 482-0005

This report presents the results of an audit of the AID/Burma Maize and Oilseeds Production Project. This was primarily a program results audit which included several aspects of compliance. The specific objectives were to determine whether (1) crop production gains resulting from project activities can be sustained, (2) local currency generated from the sale of fertilizer was adequately accounted for in accordance with Agency regulations, (3) fertilizer financed with AID funds was reaching targeted recipients, (4) the implementing agency was meeting its resource commitments for the project, (5) information provided by the implementing agency was timely and sufficient for AID to adequately monitor project activities, and (6) accountability over expenditures for an AID local currency grant was adequate.

The audit showed the following: It was unlikely that gains made in productivity of target crops can be sustained by Burma after the grants end because these gains were based on artificially low fertilizer prices to farmers; Funds from sale of grant fertilizer were not accounted for or used for project purposes as required by AID regulations; AID-provided fertilizer could not be traced to the end-users; Seed farms were producing only at 10 to 20 percent of expected capacity because the Burmese Government did not provide adequate resources to the project; AID/Burma did not periodically assess progress against project objectives and goals because the information received on the project was insufficient to evaluate project activities; and AID/Burma could not determine how the U.S. local currency grant was used because the Burmese implementing agency was not required to report on grant expenditures.

We are recommending that (1) AID/Burma develop and implement a specific plan of action to address the need for sustainability of crop production gains made during project implementation, (2) AID/Burma ensure that the Government of Burma provide a verifiable accounting for the local currency proceeds from the sale of grant fertilizer, (3) the Controller, USAID/Thailand examine the fertilizer distribution system and certify that the system meets Agency accountability requirements, (4) AID/Burma ensure that the Government of Burma commits the resources to

the project as agreed to in the project agreement, (5) AID/Burma modify the project management information system to ensure timely and sufficient information is received from the Burmese implementing agency on project activities so that they can be effectively monitored, and (6) AID/Burma ensure accountability for the AID local currency grant.

Written comments provided by your office in response to the draft report were very positive and showed general agreement with the audit findings and recommendations. These comments were carefully considered and changes were made to the report where appropriate. Based on actions already taken, Recommendations Nos. 2 and 5 have been closed as of the report issuance date. Actions on the other four recommendations are well underway and when completed should allow closure. Please advise our office within 30 days of further action taken or planned to clear the remaining report recommendations. AID/Burma official comments on the draft report are attached as Appendix 1 to the final audit report. Your subsequent actions have also been considered in our response to these comments.

Thank you for the courtesies extended to the audit staff on this assignment.

Attachment: a/s

cc: USAID/Thailand Controller

EXECUTIVE SUMMARY

Under the Burma Maize and Oilseeds Production Project, the United States granted \$30 million in 1981 and \$10.8 million in local currency in 1983 to assist the Government of Burma to help bring about increases in the production of maize and oilseed crops. The project funded fertilizer and other materials, the establishment of four seed farms, a rhizobium production facility, training, and technical assistance. The Burmese government pledged \$21.7 million for project activities. The project is expected to end in 1988.

This was primarily a program results audit which included several aspects of compliance. The specific objectives were to determine whether (1) crop production gains resulting from project activities can be sustained, (2) local currency generated from the sale of fertilizer was adequately accounted for in accordance with Agency regulations, (3) fertilizer financed with AID funds was reaching targeted recipients, (4) the implementing agency was meeting its resource commitments for the project, (5) information provided by the implementing agency was timely and sufficient for AID to adequately monitor project activities, and (6) accountability over expenditures for an AID local currency grant was adequate.

The audit showed that the project is bringing about significant increases in the yields of oilseed crops in Burma primarily because of the increased use of fertilizer. Farmers have benefited from this increased production. A good start has also been made in the development of seed farms to provide good quality, high-yield seeds to farmers. The Government of Burma recognizes the benefits brought about by the project and is providing increasing support.

The audit showed the following: It was unlikely that gains made in productivity of target crops can be sustained by Burma after the grants end because these gains were based on artificially low fertilizer prices to farmers; Funds from sale of grant fertilizer were not being accounted for or used for project purposes as required by AID regulations; AID-provided fertilizer could not be traced to the end-users; Seed farms were producing only at 10 to 20 percent of expected capacity because the Burmese Government did not provide adequate resources to the project; AID/Burma did not periodically assess progress against project objectives and goals because the information received on the project was insufficient to evaluate project activities, and; AID/Burma could not determine how the U.S. local currency grant was used because the Burmese implementing agency was not required to report on grant expenditures.

The Foreign Assistance Act and AID policy specify that United States assistance should promote self-sustaining economic

growth. Although yields have increased and farmers have benefited, neither this nor the follow-on project provided a plan to ensure that the project-generated gains in crop production will be sustained over the long run. Project planners had not seriously addressed how such production gains can be maintained after the project ends. Consequently, it was unlikely that the increase in grain production of \$29 million per annum can continue and the \$70 million in grant funds (provided over ten years) will result in long-term benefits. We recommended that AID/Burma develop and implement a specific action plan to address the need for sustainability of crop production gains. In response to the recommendation, AID/Burma prepared such a plan and is presently clearing it with the Burmese Government.

AID Handbook 19 requires that proceeds from sale of grant commodities be accounted for and used to carry out project activities. While the Maize and Oilseeds Production Project provided for the importation of grant fertilizer to be resold to farmers, no provision was made to account for and use the sales proceeds for project purposes. Why project designers did not include this requirement in the program agreement could not be determined. However, as a result, local currency proceeds of \$7 million generated from the sale of grant fertilizer had been or was planned to be used by the Burmese Government project implementing agency to supplement its operating expenses. We recommend that AID/Burma ensure that the Government of Burma establish verifiable accounting for the proceeds from sale of grant fertilizer and use the proceeds for agreed upon purposes. AID/Burma agreed and the Government also agreed to provide such an accounting of all such funds and in the future to use the funds for project-related activities.

AID Handbook 15 specifies that a system needs to be in place for the distribution and utilization of AID-financed commodities and that the USAID Controller is responsible for reviewing the adequacy of the system. The implementing agency system was not adequate for tracing the AID-financed fertilizer to the end-user and thus it could not be determined whether all AID-financed fertilizer was used for intended project purposes. Also, the USAID Controller had not reviewed the adequacy of the Burmese system for distribution and utilization of fertilizer. As a result, AID/Burma could not ensure that all of the fertilizer paid for with AID funds was directed to project beneficiaries. We recommended that the USAID/Thailand Controller, who is responsible for Burma Controller activities, review the adequacy of the system used for distributing and utilizing AID-financed fertilizer. Subsequent to the audit, the Controller reviewed and prepared a draft report on the distribution and utilization system, which has not yet been provided to RIG/A/Manila.

Four special seed-producing farms, planned to be fully operational by October 1983, were an important part of project

design. By July 1985, however, the four seed farms were only 50 percent complete and only producing at about 10 to 20 percent of the expected capacity in seed production. Completion of the seed farms was hampered because fuel and building supplies were rationed and the project did not receive a high enough priority from the Burmese Government. As a result, the project managers had to contract with farmers to provide higher yielding seeds for most project crop areas. We recommended that AID/Burma ensure that the Burmese Government make available needed fuels and supplies to the seed farms on a priority basis. The Government of Burma has now agreed to provide the needed fuel and supplies on a high priority basis.

AID regulations require management to assess project progress on a periodic basis. However, the management information system did not provide adequate or timely periodic information on important project activities. This occurred because AID/Burma had not required the Burmese Government to provide timely and sufficiently detailed information to monitor project activities. As a result, AID/Burma was not assured that all project objectives were being met. We recommended that the management information system be revised to ensure the Burmese Government submits timely and sufficient information on project activities. AID/Burma subsequently modified the management information system to include receipt of more detailed and periodic information on project activities from the Burmese Government.

According to Agency regulations, AID managers, have the responsibility to ensure that AID local currency grants are spent for intended purposes. However, it could not be determined whether the \$10.6 million local currency grant for the project was properly used for project activities. AID/Burma did not require the Burmese Government to report on the local currency expenditures. As a result, management was not aware of how the local currency was spent and could not be assured that the money was actually spent for project purposes. We recommended that AID/Burma ensure proper reporting on local currency expenditures. Subsequent to our audit, the Burmese Government provided an accounting of the local currency expenditures under the AID grant.

Office of the Inspector General

AUDIT OF THE AID/BURMA
MAIZE AND OILSEEDS PRODUCTION PROJECT

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
<u>A. Background</u>	1
<u>B. Audit Objectives and Scope</u>	2
PART II - RESULTS OF AUDIT	3
<u>A. Findings and Recommendations</u>	4
1. Action Needed to Ensure that Gains in Crop Production are Sustainable	4
2. A Verifiable Accounting Should Be Pro- vided for Funds Generated from Sale of AID-financed Fertilizer	8
3. Better Controls Needed on Distribution of AID-financed Fertilizer	10
4. The Implementing Agency Needs to Meet Re- source Commitments for Seed Farms	12
5. The Management Information System Needs to be Improved	14
6. Reporting on Local Currency Expendi- tures Should be Required	16
<u>B. Compliance and Internal Control</u>	18
 PART III - APPENDICES	
1. Mission Official Comments	
2. List of Recommendations	
3. Report Distribution	

AUDIT OF THE AID/BURMA
MAIZE AND OILSEEDS PRODUCTION PROJECT

PART I - INTRODUCTION

A. Background

Burma, only slightly smaller than Texas, is the largest country in mainland Southeast Asia. It is ranked among the poorest of the World's nations with a per capita income estimated at \$190 a year for its population of 36 million. Imports exceed exports, and the country suffers from a serious foreign exchange problem and deteriorating infrastructure. Since edible oil is an important part of the Burmese diet and domestic production is below requirements, there is strong motivation to produce more oilseeds, both to reduce the need for imports and to increase dietary intake.

The Maize and Oilseeds Production Project (MOPP), No. 482-005, was the first U.S. assistance effort in agriculture for Burma after the AID program there resumed in 1980. Burma had requested the U.S. and most Western donors to leave the country in the early 1960s and chose to try to solve their own development problems. The Project was approved in October 1981 and planned for completion in September 1986. In November 1985, however, the project completion date was extended to March 1988. A grant of \$10.8 million in excess local currency held by the U.S. was given in 1983 to further project purposes. The planned and actual project obligations and expenditures, as of December 31, 1985 are:

MOPP Obligations and Expenditures
(In \$ millions)

	<u>Obligated</u>	<u>Expended</u>
AID Dollar Grant	\$30.0	\$19.4
AID Local Currency Grant	10.8	10.8
Burmese Government	21.1	20.0
	<u>\$61.9</u>	<u>\$50.2</u>

The purpose of the MOPP was to bring about a rapid rate of adoption of high-yielding inputs (fertilizer, improved seeds, etc.) and improved tillage practices among farmers planting maize and oilseed crops in specified townships. The program goals to be served were to (1) increase production of oilseed crops and maize in selected townships of rural Burma, (2) increase rural income and employment, and (3) improve Burma's balance of trade through reduction of oil imports and increase in oil cake exports.

The Agriculture Corporation, the implementing agency for the project, is part of the Burmese Ministry of Agriculture and Forests. The Agriculture Corporation has ten headquarters divisions, field offices in most rural townships, and some 21,000 staff members, including agricultural extension workers.

B. Audit Objectives and Scope

This was primarily a program results audit which included several aspects of compliance. The specific objectives were to determine whether (1) the crop production gains resulting from project activities can be sustained, (2) local currency generated from the sale of fertilizer was adequately accounted for in accordance with Agency regulations, (3) fertilizer financed with AID funds was reaching targeted recipients, (4) the implementing agency was meeting its resource commitments for the project, (5) information provided by the implementing agency was timely and sufficient for AID to adequately monitor project activities, and (6) accountability over expenditures for an AID local currency grant was adequate.

Audit work was conducted in Burma and included a review of project documentation retained at AID/Burma and Burmese Government offices. We made two field trips to project seed farms and the project area to observe project implementation activities. Discussions about project activities were held with AID/Burma officials, Burmese Government officials, local officials and farmers. Finally, project accounting records were reviewed at USAID/Thailand because the USAID/Thailand Controller is responsible for AID/Burma financial activities and the Controller was interviewed about the adequacy of accountability over project funds.

The review of financial records primarily covered procurement actions totalling about \$13 million of \$19.5 million expended under the AID dollar grant. There had been no prior audits of the project. The audit was performed during the period October 1985 and March 1986 and carried out in accordance with generally accepted government auditing standards.

AUDIT OF THE AID/BURMA
MAIZE AND OILSEEDS PRODUCTION PROJECT

PART II - RESULTS OF AUDIT

The audit showed the following: It was unlikely that gains made in productivity of target crops can be sustained by Burma after the grants end because these gains were based on artificially low fertilizer prices to farmers; Funds from sale of grant fertilizer were not being accounted for or used for project purposes as required by AID regulations; AID-provided fertilizer could not be traced to the end-users; Seed farms were producing only at 10 to 20 percent of expected capacity because the Burmese Government did not provide adequate resources to the project; AID/Burma did not periodically assess progress against project objectives and goals because the information received on the project was insufficient to evaluate project activities, and; AID/Burma could not determine how the U.S. local currency grant was used because the Burmese implementing agency was not required to report on grant expenditures.

The audit showed that the project is bringing about significant increases in the yields of oilseed crops in Burma, primarily because of the increased use of fertilizer. Farmers have benefited from this increased production. A good start has also been made in the development of seed farms to provide good quality, high-yield seeds to farmers. The Government of Burma recognizes the benefits brought about by the project and is providing increasing support.

This report recommends that (1) AID/Burma develop and implement a specific plan of action to address the need for sustainability of crop production gains made during project implementation, (2) AID/Burma ensure that the Government of Burma provide a verifiable accounting for local currency proceeds from the sale of grant fertilizer, (3) the Controller, USAID/Thailand examine the fertilizer distribution system and certify that the system meets Agency accountability requirements, (4) AID/Burma ensure that the Government of Burma commits the resources to the project as agreed, (5) AID/Burma modify the project management information system to ensure timely and sufficient information is received from the Burmese implementing agency on project activities so that they can be effectively monitored, and (6) AID/Burma ensure accountability for the AID local currency grant.

A. Findings and Recommendations

1. Action Needed to Ensure that Gains in Crop Production are Sustainable

The Foreign Assistance Act and AID policy specify that United States assistance should promote self-sustaining economic growth. Although yields have increased and farmers have benefited, neither this nor the follow-on project provided a plan to ensure that the project-generated gains in crop production will be sustained over the long run. Project planners had not seriously addressed how such production gains can be maintained after the project ends. Consequently, it was unlikely that the increase in grain production of \$29 million per annum can continue and the \$70 million in grant funds (provided over ten years) will result in long-term benefits.

Recommendation No. 1:

We recommend that AID/Burma develop and implement a specific plan of action which enlists Burmese Government support to address the need for sustainability of production gains made under the Maize and Oilseeds Production Project and the follow-on project.

Discussion

The Foreign Assistance Act of 1961, as amended, stipulates that funding is provided to promote conditions enabling developing countries to achieve self-sustaining economic growth. An Agency policy paper¹ emphasized that AID is committed to bringing about fundamental, systemic change and is concerned with development, not dependency. Moreover, the policy paper noted that the recipient country should be helped to meet the needs of its own people on a self-sustaining basis as rapidly as possible.

The project paper specifies that the use of fertilizer in conjunction with improved farming practices is crucial to the productivity gains in oilseed crops. By the end of the project, the U.S. will have donated to Burma over 10,000 metric tons of urea and 55,000 metric tons of triple super phosphate (TSP) fertilizer at a cost of over \$17 million. In conjunction with the introduction of new higher yielding seeds, this fertilizer was given to the Burmese Government to increase yields of project crops. The donated fertilizer was sold by the Burmese Agriculture Corporation to cooperating farmers.

Yields Have Increased - In the townships assisted, project records showed that yields had increased during the project

¹ Blueprint for Development, June 1985.

period. Project evaluators estimated that total yield of project crops had increased by 35,500 to 41,000 metric tons of vegetable oil in three years with an estimated increase in value for these crops of \$82 million. The project mid-term evaluation report stated that the increase in yields per acre could largely be attributed to increased use of fertilizer. Chart 1 shows increases in production of project crops within the project area.

Chart 1

Increased Yields of Project Crops

<u>Project Crops</u>	<u>Yields Per Acre (lbs)</u>				<u>Percent Increase</u>
	<u>1982</u> (base year)	<u>1983</u>	<u>1984</u>	<u>1985</u> (est.)	
Maize	1380	2274	2259	2202	60
Peanuts	967	1152	1274	1398	45
Sunflower	669	1280	1104	1473	120
Sesame	245	504	410	446	82

<u>Acres Planted (Acre)</u>					
Maize	57,000	55,870	84,530	91,164	60
Peanuts	70,700	71,940	92,665	102,300	45
Sunflower	15,000	15,000	23,375	33,600	124
Sesame	59,000	61,130	72,291	87,405	48

<u>Total Yield (mt)</u>					
Maize	32,050	49,700	77,483	85,804	168
Peanuts	29,500	36,874	52,117	61,558	109
Sunflower	4,349	8,290	10,425	21,823	402
Sesame	5,891	12,058	12,342	15,227	158

Source:

Farmers Have Benefitted - The farmer pays about \$6 per acre for 123 pounds of project-provided TSP fertilizer. However, this same fertilizer would cost about \$22 on the free Burmese market. Project officials told us that the free market price roughly reflects world market prices for the fertilizer.

The use of fertilizer was the primary reason for the increased crop production for project targeted farm areas. According to project documents, a farmer applying 56 kilograms of TSP fertilizer per acre can expect significant increases in crop production. Because of the increased crop production, the value of the harvests rose dramatically. Chart 2 provides our estimate, based on project data, of the increase in crop values.

Chart 2

Gross Profit to Farmers Using
Fertilizer for Maize And Oilseed Crops

<u>Crop</u>	<u>Increased Value (per acre)</u>	<u>Fert. Cost (per acre)</u>	<u>Gross Profit (per acre)</u>
Maize	\$ 49	\$ 22	\$ 27
Peanuts	134	22	112
Sunflower	177	22	155
Sesame	58	22	36

While these estimates do not consider other costs of production, there appears to be potential to increase fertilizer prices significantly from the low subsidized rate to the world market price and still leave a sizable profit for the farmers producing maize and oilseed crops. According to AID/Burma officials, this additional profit should be enough incentive for motivating farmers to continue this use of fertilizer.

The economic and financial analysis for the follow-on project stated that if the farmer price of TSP fertilizer was doubled, the price of urea tripled, and the price of potash (another input required for some crops) was raised two and a half times, the farm production costs of the crops would increase by only 57 percent. The analysis concludes that even with crop prices unchanged, the benefit cost ratio would still be a very attractive 4.9 to 1. Therefore, even if the subsidies were eliminated, it is probable that the farmers would continue to buy fertilizer inputs at higher prices so that crop yields can be maintained at the same levels.

To continue project production gains, AID/Burma proposed and in January 1986 AID/W approved a five-year follow-on project. This project would be similar to Maize and Oilseed Production Project (MOPP), involving the grant of about \$15 million for TSP fertilizer over five years and another \$15 million for other project activities.

According to project documents and our discussion with Mission and project officials, sustainability of project gains had neither been addressed under MOPP nor the follow-on project. We pointed this out to AID/Burma during our survey. As a result, the subsequent project approval paper for the follow-on project contains a covenant that during the second year the cooperating country shall undertake a study of fertilizer pricing and supply and explore adjustments needed to ensure supplies adequate to meet long-term requirements.

Based on data in the follow-on Project Paper, if farmers discontinue using fertilizer provided under the MOPP, this would result in a potential economic loss of about \$29 million per year to the fragile Burmese economy.

In summary, MOPP and the follow-on project must address how the farmers can be moved to pay for fertilizer at world market prices so that productivity gains can be sustained after U.S. assistance ends. AID/Burma has not but should develop and implement a plan of action which enlists Burmese Government support to address the need for sustainability of production gains of about \$29 million annually made under the MOPP.

Management Comments

AID/Burma stated that the Burmese Government is planning to import increasing amounts of TSP fertilizer and that the Agriculture Corporation favors gradually reducing price subsidies to farmers. AID/Burma also noted that the controlled rate of exchange for the local currency makes fertilizer pricing a complex issue. While some resistance was voiced by Burmese officials, AID/Burma stated that a plan of action has been developed, cleared with Government officials, and implementation has begun to ensure continuation of production gains after the project ends. This course of action was approved by the Asia and Near East Bureau.

Office of Inspector General Comments

We agree that actions taken by AID/Burma subsequent to the audit and Burmese Government plans have addressed the issue of sustainability of project-generated production gains. These actions should substantially improve the chances that such gains will be sustained. However, we cannot close the recommendation until AID/Burma provides sufficient documentary evidence that the plan of action developed by AID/Burma and agreed to by the Burmese Government will be implemented.

2. A Verifiable Accounting Should be Provided for Funds Generated from Sale of AID-financed Fertilizer

AID Handbook 19 requires that proceeds from sale of grant commodities be accounted for and used to carry out project activities. While the Maize and Oilseed Production Project (MOPP) provided for the importation of grant fertilizer to be resold to farmers, no provision was made to account for and use the sales proceeds for project purposes. Why project designers did not include this requirement in the project agreement could not be determined. However, as a result, local currency proceeds of \$7 million generated from the sale of grant fertilizer had been or was planned to be used by the Burmese Government project implementing agency to supplement its operating expenses.

Recommendation No. 2

We recommend that AID/Burma ensure that the Government of Burma establishes verifiable accounting for the proceeds from sale of project grant fertilizer for this and the follow-on project, as required by AID Handbook 19, and reach a formal agreement on how the funds should be used for project purposes.

Discussion

AID Handbook 19 Chapter 5 specifies that commodities provided by Development Assistance on a grant basis which result in the accrual of sales proceeds to the cooperating country, should be fully accounted for. The use of these counterpart funds is to be restricted to meeting local currency requirements, as agreed to by the United States and the cooperating country.

AID-financed fertilizer is sold by the Agriculture Corporation to farmers. We estimate that the sales proceeds at the subsidized price have been about \$5 million. When the additional 15,000 metric tons ordered for the Fall of 1986 are sold, the sales proceeds will increase to \$7 million.

It is clear from the Project Paper and Project Agreement that the project intended that the fertilizer financed by the grant would be resold by the Agriculture Corporation to farmers targeted in project areas. However, no provisions were made to account for the sales proceeds or on how the proceeds should be used. According to Burmese Government officials, the sales proceeds were being used by the Agriculture Corporation to finance its internal operations. In addition, Burmese Government officials stated that some of the sales proceeds were used to finance project activities. However, we were unable to determine from available accounting records exactly how the sales proceeds were spent.

In summary, the U.S. Government and the Burmese Government should have provided for a verifiable accounting for proceeds from fertilizer sales and agreed to the uses of the funds. These procedures were not followed in MOPP or the follow-on project. As a result, most of the \$5 million proceeds appear to have been used to support the internal operations of the Burmese project implementing agency. In any event, AID/Burma should make every effort to ensure that Handbook 19 is complied with regarding accounting for counterpart funds.

Management Comments

The draft report recommended that proceeds from the sale of fertilizer be placed in a special account. However, after reviewing AID/Burma comments and other documentation, a verifiable accounting appears to be sufficient. AID/Burma discussed accounting for and use of fertilizer sales proceeds with the Burmese Ministry of Finance and the Ministry of Agriculture and Forests. AID/Burma stated that the Government is willing to accept a system involving careful accounting for revenues generated from fertilizer sales and attribution of such funds to project-related activities. A covenant to this effect has been included in the Grant Agreement for the follow-on project. Also the Bureau for Asia and Near East was consulted and has agreed to AID/Burma's approach.

Office of Inspector General Comments

In our view, AID/Burma has now complied with Agency regulations regarding accounting requirements. AID/Burma has negotiated an agreement with the Government of Burma on the intended uses of these funds which will be limited to development purposes. Therefore, we agree to close the recommendation as of the report issuance date.

3. Better Controls Needed on Distribution of AID-financed Fertilizer

AID Handbook 15 specifies that a system needs to be in place for the distribution and utilization of AID-financed commodities and that the USAID Controller is responsible for reviewing the adequacy of the system. The implementing agency system was not adequate for tracing the AID-financed fertilizer to the end-user and thus it could not be determined whether all AID-financed fertilizer was used for intended project purposes. Also, the USAID Controller had not reviewed the adequacy of the Burmese system for distribution and utilization of fertilizer. As a result, AID/Burma could not ensure all of the fertilizer paid for with AID funds was directed to project beneficiaries.

Recommendation No. 3

We recommend that the Controller, USAID/Thailand review the adequacy of the distribution system of AID-financed fertilizer in Burma and determine whether it meets the accountability requirements of AID Handbook 15.

Discussion

AID Handbook 15 Chapter 12 specifies that (1) the grantee must ensure that AID-financed commodities are effectively used for the purpose for which the assistance was made available, (2) commodities are effectively delivered and used in accordance with project implementation plans, (3) the grantee maintains a system of records documenting the arrival and disposition of commodities financed by AID, (4) USAID is responsible for verifying that commodities are being effectively used in the project or disposed of as approved by AID, and (5) the USAID Controller (USAID/Thailand is responsible for AID/Burma financial management) is responsible for certifying that the grantee's accountability system for distribution and control of commodities is adequate.

By the end of the project period in March 1988, the U.S. will have donated to Burma 65,000 tons of fertilizer costing over \$17 million. In addition, the follow-on project grant will finance 60,000 tons of fertilizer for use over a five-year period.

Project officials stated that only through interviews with project farmers can it be determined whether AID-provided fertilizer has reached its intended target. They also stated and distribution records substantiated that AID-financed fertilizer is comingled with other donors' and government purchased fertilizer and thus the AID-financed fertilizer loses its identity.

Available AID/Burma records did not show whether all of the AID-financed fertilizer was used in project areas. For example, as of May 1985, project reports indicated that by January 1985, only about 18,000 of the 25,000 tons of triple super phosphate fertilizer (TSP) shipped to Burma had been used in targeted project townships.

This raised a question as to the disposition of the remaining 7,000 tons. Project officials stated that the 18,000-ton figure was not up to date and may have included only the 25 original project townships. For instance, project officials noted that the project also provides TSP fertilizer to 14 additional townships. There was no documentary evidence that all of the AID-financed fertilizer was distributed and used in the project areas. Neither had the Controller certified that the system of distribution and control of commodities used by the grantee is adequate.

In summary, the Burmese government has a system for monitoring the distribution of fertilizer financed by the AID grant. However, this system does not maintain records suitable for ensuring proper end-use of AID-financed fertilizer. Since the U.S. will donate a substantial amount (over 75,000 tons) of fertilizer over the next several years, it is crucial that timely action is taken by the Controller, USAID/Thailand to ensure that all AID-financed fertilizer is used for intended purposes.

Management Comments

The Controller, USAID/Thailand agreed to review the Burmese Government system of accountability for distribution of AID-financed fertilizer. According to AID/Burma officials, this review was conducted in April and May 1986. However, as of the report issuance date, we had not received a copy of his report nor had the Controller certified that the distribution system for fertilizer meets Agency accountability requirements.

Office of Inspector General Comments

We are unable to close the recommendation until the Controller, USAID/Thailand has certified that the system used by the Burmese Government can adequately account for the distribution and end-use of AID-financed fertilizer.

4. The Implementing Agency Needs to Meet Resource Commitments for Seed Farms

Four special seed-producing farms, planned to be fully operational by October 1983, were an important part of project design. By July 1985, however, the four seed farms were only 50 percent complete and only producing at about 10 to 20 percent of the expected capacity in seed production. Completion of the seed farms was hampered because fuel and building supplies were rationed by and the project did not receive a high enough priority from the Burmese Government. As a result, the project managers had to contract with farmers to provide higher yielding seeds for most project crop areas.

Recommendation No. 4

We recommend that AID/Burma ensure that the Burmese Government carries out its resource commitments so that needed project inputs such as gasoline, diesel fuel and cement are available on a priority basis for the establishment and operation of the seed farms.

Discussion

The project paper states that the purpose of the project is to bring about a rapid rate of adoption of high-yielding inputs and tillage practices among farmers planting maize and oilseed crops in the project townships. It further states that seed quality is a primary concern and a system of seed production and preservation is necessary to bring about increases in crop yields. In this respect, the project agreement called for four completely-equipped and staffed seed farms to be fully operational by October 1983. Two farms were to produce foundation seed using breeder seed developed by research in Burma and elsewhere. Two other farms were to produce high quality seed for distribution to farmers.

While the project paper anticipated that the seed farms could meet most seed requirements for the project area, production reports showed that only 10 to 20 percent of seeds required for the project area were being supplied by the project seed farms. The specific make-up and percentage of seeds the farms provided targeted project areas for the 1983-84 period are shown below.

Seed Farm Production

<u>Project Crop</u>	<u>Seeds Provided by Seed Farms</u>
Peanut	2%
Sesame	2%
Sunflower	20%
Maize	73%

The July 1985 project progress report, the most recent at the time of the audit, showed that the seed farms were 50 per cent operational. According to project officials, the reasons for slow implementation of the seed farm element of the project was that critical resources (gasoline, diesel fuel, and cement) promised by the Burmese Government were not made available. These resources were rationed and the project did not receive a high enough priority by the Government. Project officials also stated that some equipment for the farms was delayed in clearing customs because the Burmese implementing agency was slow in paying import duties.

AID/Burma stated that since the original implementation plan for the seed farms had little chance of success, they moved to the use of contract farmers to produce the bulk of the seed distributed to project areas. For instance, during 1985, 72 percent of sunflower, 80 percent of maize, 40 percent of sesame and 10 percent of peanut seeds used in the project were produced by these contract farmers.

In summary, if more improved seed were available for project crops, yields should be even higher. The slow development of seed farms had held up the production of improved seeds and thus reduced the impact of other project inputs on productivity of project crops. AID/Burma should point out the problem and potential benefits to the Burmese Government to attempt to get higher priority for project inputs for the seed farms.

Management Comments

AID/Burma believes the seed farms have recently received high priority from the Burmese Government and progress is satisfactory considering the general lack of resources within the country. For example, in a letter in June 1986 the Agriculture Corporation formally assured AID/Burma that high priority will be given to the project, especially with regard to seed farm development.

Office of Inspector General Comments

The Burmese Government has reaffirmed its commitment to provide adequate resources to the project so that the seed farms can be completed on a timely basis. However, we are unable to close the recommendation until AID/Burma provides us evidence that this commitment will actually be carried out.

5. The Management Information System Needs to be Improved

AID regulations require management to assess project progress on a periodic basis. However, the management information system did not provide adequate or timely periodic information on important project activities. This occurred because AID/Burma had not required the Burmese Government to provide timely and sufficiently detailed information to adequately monitor project activities. As a result, AID/Burma was not assured that all project objectives were being met and United States funds were being spent efficiently and effectively.

Recommendation No. 5

We recommend that AID/Burma develop and implement a reliable management information system for the Maize and Oilseeds Production and follow-on projects, as required by Agency regulations.

Discussion

AID Handbook 3, Chapter 11 specifies that monitoring enables AID to understand progress being made in implementing a project and whether it is in accord with the project agreement. Chapter 12 of the Handbook states that monitoring efforts should be concerned not only with whether certain events are occurring as planned, but also with the continued likelihood that the project will achieve its goals. Therefore, a good management information system should provide adequate data for determining whether project goals and objectives are being or can be achieved.

The Agriculture Corporation makes reports on the Maize and Oilseeds Production Project (MOPP) from time-to-time which provide financial, activity and progress information against some milestones. The last such report was dated July 1985. While these reports are informative and useful to management, none of them provided information to show whether MOPP objectives and goals were being achieved. For example, the reports did not provide adequate information to assess the achievement of MOPP goals to increase rural income and employment, reduce oil imports, and increase exports of oil.

AID/Burma also prepares quarterly progress reports on project activities. However, these reports focused on project inputs, such as the importation of AID-financed fertilizer. Again, the reports did not address whether MOPP objectives and goals were being achieved and AID/Burma had not required the Burmese Government to provide timely and sufficiently detailed information.

Therefore, neither the Agriculture Corporation nor AID/Burma could determine whether the project was achieving its goals,

especially those of increasing rural income and employment, reduction of oil imports, or the increase in exports of oil cake.

In summary, because MOPP and the follow-on project will continue for several years, it is important that a reliable management information system be developed and implemented. Otherwise, AID management cannot assess whether the project objectives and goals are achievable and if not, make the necessary adjustments to the project. More importantly, the absence of such a system makes it nearly impossible for AID management to know whether U.S. funds are being spent efficiently and effectively.

Management Comments

AID/Burma agreed that there was a need for an improved management information system for MOPP. They developed a more comprehensive system for the follow-on project, which they have also implemented for MOPP. Agriculture Corporation officials have agreed to provide more detailed and timely information on project activities. There is also an evaluation for MOPP planned for the summer of 1986 which will assess the status of project activities and make recommendations to ensure the project goals are realistic and can have a reasonable chance of success.

Office of Inspector General Comments

Based on these actions, we believe AID/Burma has met the intent of Recommendation No. 5. Therefore, this recommendation will be closed as of the report issuance date.

6. Reporting on Local Currency Expenditures Should be Required

According to Agency regulations, AID managers have the responsibility to ensure that AID local currency grants are spent for intended purposes. However, it could not be determined whether the \$10.6 million local currency grant for the project was properly used for project activities. AID/Burma did not require the Burmese Government to report on the local currency expenditures. As a result, management was not aware of how the local currency was spent and could not be assured that the money was actually spent for project purposes.

Recommendation No. 6

We recommend that AID/Burma require reporting by the Burmese Government as to expenditures under the local currency grant, in conformance with the requirements of AID Handbook 19.

Discussion

AID Handbook 19 Chapter 5 provides guidance on financial management for AID foreign currency programs. It specifies that management should be aware of what AID funds are used for and should determine that they are used appropriately for project purposes.

We were told by responsible project officials that there were no regular reports to AID/Burma which showed expenditures or progress under the AID local currency grant of \$10.8 million. During our audit, we requested and were given updated information as to the local currency grant expenditures under the grant. However, this information was not adequate to determine how the funds were spent.

AID/Burma considered the funds to be owned by the Burmese Government. Consequently, AID/Burma did not require regular reporting on the local currency grant and did not know how the funds were expended. Therefore, they could not determine whether the funds were properly expended for project purposes.

Since the grant funds provided to Burma were previously U.S.-owned local currency, AID/Burma should have monitored expenditure of these funds, as required by AID Handbook 19.

Management Comments

AID/Burma reported that all local currency grant funds have been expended and a final detailed accounting of expenditures by the Government of Burma was provided. A copy of the report was provided to RIG/A/Manila, however, AID/Burma did not indicate that the funds were used appropriately for project purposes.

Office of Inspector General Comments

We are unable to close the recommendation until AID/Burma reviews the report on local currency expenditures and determines that the funds were used appropriately for project purposes.

B. Compliance and Internal Controls

Compliance

The review of the project showed that AID/Burma was not complying with applicable laws and AID regulations in several significant instances. About \$7 million of funds from the sale of grant fertilizer were not being accounted for as required by AID Handbook 19, Chapter 5. The Controller had not reviewed and certified the grantee's system for commodity distribution as required in AID Handbook 15, Chapter 12. Also, AID/Burma's project management information system did not meet standards of Handbook 3 and Handbook 19 in regards to information on achievement of project objectives and use of local currency grant funds. Specific recommendations were made in each case to bring the project into compliance with these requirements.

Internal Control

Two problems with internal controls are reported in this report. One was the inability of the project managers to determine the amount of grant fertilizer used in the project area or in storage and the lack of a system to trace the fertilizer to the end-user. Another was the failure of the Mission to follow-up on and account for the use of the local currency grant of \$10.8 million. These were both significant deficiencies.

The system for financial controls over dollar expenditures was the standard AID system and appeared to be functioning satisfactorily, especially considering that the responsible Controller is located in Bangkok, Thailand.

AUDIT OF THE AID/BURMA
MAIZE AND OILSEEDS PRODUCTION PROJECT

PART III - APPENDICES

ACT: AID-6 INFO: AMB DCM AA ECON ADB CHRON/11

VZCZCML0260
RR RUEHML
DE RUMJRC #3244/01 1640855
ZNR UUUUU ZZH
R 130839Z JUN 86
FM AMEMBASSY RANGOON
TO RUEHML/AMEMBASSY MANILA 4102.3.4.5.6.7.....
INFO RUEHC/SECSTATE WASHDC 8122
RUEHBK/AMEMBASSY BANGKOK 2584
BT
UNCLAS SECTION 01 OF 09 RANGOON 03244

LOC: 60
13 JUN 86
CN: 03673
CHRG: AID
DIST: AID

AIDAC

MANILA FOR RIG/A, L L LAMOTTE
AID/W FOR ANE/DP/F AND ANE/PD
BANGKOK FOR O/FIN, T FALLON



E.O. 12356: N/A
SUBJECT: AUDIT OF MAIZE AND OILSEED PRODUCTION PROJECT
- (MOPP): RESPONSE TO DRAFT AUDIT REPORT DATED
5/12/86

REF: (A) RANGOON 2956, (B) RANGOON 2824, (C) RANGOON
- 2263

FOLLOWING ARE AID/BURMA'S RESPONSE TO DRAFT FINDINGS
NUMBER 1,2,4,5 AND 6 FROM THE SUBJECT AUDIT:

1. RECOMMENDATION NO. 1

"WE RECOMMEND THAT AID/BURMA DEVELOP AND IMPLEMENT A
SPECIFIC PLAN OF ACTION WHICH ENLISTS BURMESE
GOVERNMENT ASSISTANCE TO ADDRESS THE NEED FOR
SUSTAINABILITY OF PRODUCTION GAINS MADE UNDER THE MAIZE
AND OILSEED PRODUCTION PROJECT AND THE FOLLOW-ON
PROJECT."

PLAN OF ACTION. AID/BURMA HAS DRAFTED, CLEARED WITH
SRUB OFFICIALS, AND IS SENDING TO THE MANAGING DIRECTOR
OF THE AGRICULTURE CORPORATION A PROJECT IMPLEMENTATION
LETTER (PIL) WHICH CONTAINS A PROPOSED NEW PROJECT
MANAGEMENT INFORMATION SYSTEM AND PLAN OF ACTION FOR
THE MOP PROJECT. THIS SYSTEM AND ACCOMPANYING PLAN,
COVERING OBJECTIVES FROM THE GOAL THROUGH OUTPUT LEVELS
OF THE PROJECT, ESTABLISHES MUTUALLY AGREED UPON
OBJECTIVES FM ATTAINING SUSTAINED GROWTH AND
REPLICABILITY OF YIELDS ATTAINED WITH U.S. ASSISTANCE.
THE PLAN WILL BE EXTENDED THROUGH THE END OF THE BURMA
AGRICULTURE PRODUCTION (BAP) PROJECT.

IN RECOGNITION OF THE GREAT FARMER DEMAND FOR FERTILIZER FOR USE ON OILSEEDS, THE GOVERNMENT OF BURMA (SRUB) HAS PREPARED AS PART OF ITS 5-YEAR PLAN, A DOCUMENT SPECIFYING THE FOLLOWING AMOUNT OF FERTILIZER TO BE IMPORTED THROUGH CROP YEAR 1989/90:

- SRUB PROJECTIONS FOR CHEMICAL FERTILIZER USE FOR
- OILSEEDS CROPS THROUGH CROP YEAR 1989-90

CROP	84/85	85/86	86/87	87/88	88/89	89/90
GROUNDNUT						
UREA			10.32	10.32	10.32	10.32
TSP			20.68	20.68	20.68	20.68
TOTAL	12.123	14.913	31.0	31.0	31.0	31.0
SESAME						
UREA			16.188	16.711	17.322	18.047
TSP			10.162	10.287	10.421	10.546
TOTAL	7.808	8.684	26.35	26.998	27.743	28.593
SUNFLOWERS						
UREA			12.675	14.985	18.020	21.045
TSP			4.314	5.180	6.063	6.938
TOTAL	3.914	4.02	16.989	20.165	24.083	27.983
GRAND TOTAL	23.845	27.617	74.339	78.163	82.826	87.576
(OF WHICH						
MOPP/BAPP):	15.023	14.46	15.	15.	15.	15.

THIS PLAN, ALREADY APPROVED BY THE NATIONAL ASSEMBLY, PROJECTS THAT THE SRUB WILL BE IMPORTING FAR MORE FERTILIZER ON ITS OWN THAN AID WILL SUPPLY UNDER THE GRANTS. THROUGH WE PERCEIVE IMMEDIATELY THE FOREIGN EXCHANGE ISSUE HERE, WE BELIEVE THE SRUB PLANS DEMONSTRATE THE SRUB'S SINCERE COMMITMENT TO CONTINUING THE GAINS MADE UNDER THE MOP PROJECT, SHOW JUST HOW COMMITTED THE SRUB IS TO PROCEEDING BEYOND THE SCOPE OF AID'S ASSISTANCE, AND INDICATE THE SUCCESS OF THIS "PRIME-THE-PUMP" APPROACH TO CAPTURING THE IMAGINATION OF AGRICULTURAL PLANNERS. WE HOPE NOW, WITH CARE AND PATIENCE, TO BEGIN TO INSINUATE POSSIBLE RESOLUTIONS TO A RESOURCE PROBLEM.

IN VIEW OF THE PARTICULAR INTEREST SHOWN BY THE AUDIT IN THE ABILITY OF THE SRUB TO CONTINUE IMPORTING FERTILIZERS FOR OILSEEDS, AND IN AN EFFORT TO ASSURE IMPORTS IN LINE WITH THOSE PROJECTED BY THE SRUB PLAN, WE HAVE INCLUDED IN THE PLAN OF ACTION, A LINKAGE BETWEEN AID FERTILIZER IMPORTED DESTINED FOR THE OILSEED SUBSECTOR AND THOSE PROJECTED BY THE SRUB.

COPIES OF THE PIL, ITS ANNEXES, AND THE SRUB FERTILIZER IMPORT PROJECTIONS ARE BEING SENT TO RIG/A/MANILA BY THE NEXT POUCH.

INTRODUCING A POLICY ISSUE. AS NOTED IN REF (A), AID/BURMA IS PROPOSING TO INCLUDE IN SECTION 5.3 OF THE BAP PROJECT GRANT AGREEMENT A COVENANT WHICH READS AS FOLLOWS:

"THE GRANTEE FURTHER COVENANTS THAT:

(B) BEFORE COMPLETION OF THE SECOND YEAR OF THE PROJECT, THE GRANTEE AND A.I.D. SHALL UNDERTAKE A STUDY OF FERTILIZER SUPPLIES AND DEMAND, WHICH WILL INCLUDE INTER ALA, THE RELATIONSHIP OF FERTILIZER TO CROP YIELDS, FARM MANAGEMENT PRACTICES, FARM INCOMES AND CROP MARKETS."

WE BELIEVE THE REVISED LANGUAGE SATISFIES THE INTENT OF A.I.D. POLICY, BUT HAVE ASKED AID/W FOR ITS COMMENT/APPROVAL. OFFICIALS OF THE AGRICULTURE CORPORATION HAVE TOLD US THAT SUCH LANGUAGE WILL BE ACCEPTABLE TO THE SRUB.

RIG/A/MANILA WILL NOTE IN THE DRAFT PLAN OF ACTION FOR BAP (ALSO BEING POUCHED) THAT AID/BURMA PLANS TO BEGIN RECRUITMENT OF THE U.S. CONTINGENT OF THE FERTILIZER STUDY TEAM IN JANUARY 1987.

IN SUMMARY, AID/BURMA, ALONG WITH THE AC, WILL CONTINUE TO WORK TO ASSURE THE SUSTAINABILITY OF PRODUCTION AND YIELD INCREASES ACHIEVED UNDER THE MOP PROJECT. WE BELIEVE THAT THE SUCCESS OF THE MOP PROJECT HAS CONTRIBUTED MARKEDLY TO THE SRUB REALIZATION THAT CONTINUING SUPPORT FOR OILSEED FARMERS THROUGH THE PURCHASING OF FERTILIZER IS IN THE SRUB'S OWN INTEREST. THE SRUB HAS ITSELF MADE PLANS FOR MARKED INCREASES IN THE SUPPLY OF FERTILIZER AND THE MAINTENANCE/EXTENSION OF PROJECT PRODUCTION GAINS. OUR PLAN OF ACTION CONFIRMS OUR MUTUAL INTENTION TO FOLLOW UP.

WE REQUEST THAT THIS DRAFT RECOMMENDATION BE LISTED AS CLOSED IF IT IS INCLUDED IN THE FINAL REPORT.

2. RECOMMENDATION NO. 2.

"WE RECOMMEND THAT AID/BURMA REQUEST THE GOVERNMENT OF BURMA TO DEPOSIT THE PROCEEDS FROM THE SALE OF PROJECT GRANT FERTILIZER IN A SPECIAL ACCOUNT FOR THIS AND THE FOLLOW-ON PROJECT AS REQUIRED BY AID HANDBOOK 19. IF THE GOVERNMENT IS UNWILLING TO DO SO, AID/BURMA SHOULD SEEK GUIDANCE FROM AID/W."

22

AID/BURMA RESPONSE:

DRAFT AUDIT REPORT ACKNOWLEDGES THAT USE OF A SPECIAL ACCOUNT FOR REFLows FROM DEVELOPMENT ASSISTANCE GRANT-FUNDED COMMODITIES IS NOT A LEGAL REQUIREMENT AND SUPPORTS THE ABOVE RECOMMENDATION ON THE BASIS OF AN A.I.D. POLICY REQUIREMENT. A POLICY WHICH IS INCLUDED IN A.I.D. HANDBOOK 19, FINANCIAL MANAGEMENT.

THE ABOVE POLICY CAN ONLY BE EFFECTIVE WHERE IT PROMISES NOT TO HARM RELATIONS WITH THE HOST GOVERNMENT OR CAUSE EXCESSIVE ACCOUNTING PROBLEMS.

SEE HB 19, CHAPTER 5A3(G). GIVEN THE RIGID BURMESE GOVERNMENT POSITION ON THIS ISSUE, AID/BURMA BELIEVES THE REQUIREMENT TO ESTABLISH A "SPECIAL" OR SEPARATE ACCOUNT WILL ONLY JEOPARDIZE OUR RELATIONS WITH BURMA AND ESTABLISH AN ACCOUNTING CONSTRAINT (THE ESTABLISHMENT OF A SEPARATE ACCOUNT) WHICH THE BURMESE COULD NOT ACCEPT. THE INTENT AND SPIRIT OF THE POLICY, HOWEVER, CAN STILL BE ADHERED TO BY THE BURMESE. UNDER THE ONGOING MOP PROJECT AN ACCOUNTING MECHANISM IS IN PLACE WHICH HAS PROVIDED AID/BURMA WITH REPORTS OF THE PROCEEDS AND DISBURSEMENTS FROM THE SALE OF AID-FINANCED FERTILIZER. WE PROPOSED THAT THIS PROCEDURES BE FORMALIZED BY LETTER FOR THE REMAINING PERIOD OF THE MOP PROJECT AND IN THE NEW BAP PROJECT THROUGH THE INCLUSION OF A PROJECT COVENANT, THE LANGUAGE OF WHICH HAS BEEN PROVIDED TO AID/W FOR COMMENT/APPROVAL.

THE PREMISE IS THAT AID PARTICIPATION IN THE PROGRAMMING OF THESE LOCAL CURRENCY FUNDS WILL BE AN EFFECTIVE MANAGEMENT TOOL. AID/BURMA SUPPORTS THE POLICY, BUT BELIEVES THAT THE INTENT (EMPHASIS ADDED) IS MET BY THE HOST COUNTRY ENTITY PROVIDING A CAREFUL ACCOUNT OF SUCH FUNDS (WITHOUT THE ESTABLISHMENT OF A SEPARATE OR "SPECIAL" ACCOUNT), THE MISSION PARTICIPATING IN THE PROCESS OF SELECTING MUTUALLY AGREEABLE AGRICULTURE DEVELOPMENT ACTIVITIES IN SUPPORT OF THE PROJECT AND BOTH PARTIES BEING COGNIZANT OF THE ISSUE OF ADDITIONALITY.

AS A RESULT OF DISCUSSIONS WITH REPRESENTATIVES OF THE AGRICULTURE CORPORATION, FOREIGN ECONOMIC RELATIONS DEPARTMENT OF THE MINISTRY OF PLANNING AND FINANCE AND THE MINISTRY OF AGRICULTURE AND FORESTS, AID/BURMA BELIEVES THAT THE BURMESE GOVERNMENT WOULD NEVER PERMIT THE ESTABLISHMENT OF A "SPECIAL" ACCOUNT FOR LOCAL CURRENCY GENERATED FROM SALES OF AID-FINANCED FERTILIZER. THE GOVERNMENT OF BURMA'S VIEW IS THAT IT CANNOT ALLOW FOREIGN DONORS TO PROGRAM FUNDS WHICH ARE

A PART OF THE NATIONAL REVENUE. THIS IS THE SOLE PREROGATIVE OF THE PYITHU HLUTTAW, THE NATIONAL ASSEMBLY. THE BURMESE ARE WILLING, HOWEVER, TO ACCEPT A SYSTEM INVOLVING CAREFUL ACCOUNTING FOR FERTILIZER GENERATIONS AND THEN SEPARATE ATTRIBUTION OF GENERATED FUNDS TO PROJECT-RELATED ACTIVITIES.

THE DRAFT AUDIT REPORT MENTIONS A DISCREPANCY OF APPROXIMATELY DOLS 1 MILLION BETWEEN FUNDS GENERATED FROM THE SALE OF AID-FINANCED FERTILIZER AND THEIR USE IN SUPPORT OF INLAND TRANSPORTATION OF THE FERTILIZER UNDER THE MOP PROJECT. IT SHOULD BE EXPLAINED THAT THIS IS A RESULT OF A "LAG" PERIOD BETWEEN THE TIME THE FERTILIZER ARRIVES AT THE PORT AND ITS DISTRIBUTION (AND SALE) IN OUTLYING DISTRICTS. FERTILIZER WHICH HAD BEEN RECEIVED YET NOT SOLD (THE DOLS 1 MILLION IN QUESTION) WAS STORED IN WAREHOUSES AT RANGOON.

CONCLUSION

CURRENTLY, UNDER THE MOP PROJECT THERE IS NO "SPECIAL" OR SEPARATE ACCOUNT FOR PROCEEDS GENERATED FROM THE SALE OF AID GRANT-FINANCED FERTILIZER. THERE IS, HOWEVER, AN ACCOUNTING OF SUCH FUNDS AND THEIR DISBURSEMENT IN SUPPORT OF PROJECT-RELATED ACTIVITIES. WE PROPOSE TO FORMALIZE THESE SYSTEMS SO THAT AID'S ROLE IN PROGRAMMING THESE FUNDS IS STRENGTHENED. AID/BURMA'S OPINION IS THAT THE INTENT AND SPIRIT OF THE POLICY REQUIRING THE PROCEEDS FROM THE SALE OF PROJECT GRANT FERTILIZER TO BE DEPOSITED INTO A "SPECIAL" OR SEPARATE ACCOUNT IS ADHERED TO WHEN THERE IS AN EFFECTIVE ACCOUNTING OF THE PROCEEDS AND A MECHANISM TO MUTUALLY AGREE ON DISBURSEMENTS IN SUPPORT OF AGRICULTURE DEVELOPMENT ACTIVITIES. WE SUPPORT SUCH A POLICY AND HAVE SHOWN OUR CONCERN FOR THIS ISSUE BY PROVIDING APPROPRIATE COVENANT LANGUAGE TO AID/W FOR THE BAP PROJECT. WE RECOMMEND, THEREFORE, THAT THIS DRAFT AUDIT RECOMMENDATION BE CLOSED.

3. RECOMMENDATION NO. 3

"WE RECOMMEND THAT THE CONTROLLER, USAID/THAILAND EXAMINE THE SYSTEM FOR DISTRIBUTION OF AID-FINANCED FERTILIZER IN BURMA TO ENSURE THAT IT MEETS AID'S REQUIREMENTS AND IS ADEQUATE TO ENSURE THE FERTILIZER IS USED FOR PROJECT PURPOSES."

THE USAID/THAILAND CONTROLLER, TOM FALLON, VISITED BURMA THREE TIMES DURING APRIL AND MAY TO EXAMINE THE SYSTEM FOR DISTRIBUTION OF AID-FINANCED FERTILIZER IN BURMA AND ENSURE THAT IT MEETS AID'S REQUIREMENTS AND IS ADEQUATE TO ENSURE THE FERTILIZER IS USED FOR PROJECT PURPOSES. BEFORE DEPARTING FOR HOME LEAVE, HE PROVIDED AID/BURMA WITH A COMPLETED DRAFT FOR REVIEW.

THOUGH HIS FINDINGS ARE POSITIVE, WE BELIEVE IT APPROPRIATE THAT THE CONTROLLER PROVIDE THIS RESPONSE TO THE AUDITORS DIRECTLY. SINCE WE HAVE FOUND NO INACCURACIES IN THE DRAFT REPORT, WE BELIEVE IT CAN BE FINALIZED RAPIDLY FOLLOWING MR. FALLON'S RETURN TO BANGKOK.

4. RECOMMENDATION NO. 4

"WE RECOMMEND THAT AID/BURMA OBTAIN ASSURANCES FROM THE BURMESE GOVERNMENT THAT NEEDED PROJECT INPUTS SUCH AS FUEL, SUPPLIES AND ELECTRICITY WILL BE AVAILABLE ON A PRIORITY BASIS, ESPECIALLY PRIOR TO IMPLEMENTATION OF THE FOLLOW-ON PROJECT."

AID/BURMA RESPONSE:

AID/BURMA RECOGNIZES THAT PROGRESS ON THE SEED FARMS HAS BEEN SLOWER THAN ANTICIPATED. THE AUDITORS' OBSERVATION THAT FUEL AND CEMENT HAVE BEEN IN SHORT SUPPLY IS CORRECT. ADDITIONALLY, THE SUPPLY OF ELECTRICITY TO THE FARMS HAS REQUIRED PARTY APPROVAL WHICH HAS BEEN EXTREMELY SLOW. THE SLOW DEVELOPMENT OF IRRIGATION AND DRAINAGE HAS PRECLUDED MUCH OF THE AREA FROM BEING PLANTED, HEREBY REDUCING SEED PRODUCTION FROM SEED FARMS AND THE AVAILABILITY OF SEED TO FARMERS, A CRITICISM OF THE PROJECT MENTIONED IN THE DRAFT AUDIT REPORT. THESE PROBLEMS EXIST DESPITE TOP PRIORITY GIVEN BY THE BURMESE TO CRITICAL INPUTS FOR THE PROJECT, PARTICULARLY FOR THE SEED FARMS. DURING 1985/86, MOPP RECEIVED APPROXIMATELY 20 PERCENT (40,020 GALLONS) OF ALL FUEL SUPPLIES ALLOCATED TO THE AGRICULTURE CORPORATION. THIS EQUATES TO 31 U.S. GALLONS/ACRE OF CROP PLANTED (WHEREAS FULLY MECHANIZED FARMS IN THE U.S. USE APPROXIMATELY 10 GALLONS/ACRE AND OTHER SEEDS FARMS IN BURMA GET LESS THAN 2 GALLONS/ACRE). THIS SEEMINGLY EXCESSIVE USE FUEL CONSUMPTION STEMS FROM THE FACT THAT OVER 70 PERCENT OF THE FUEL SUPPLY WENT INTO LAND LEVELING, IRRIGATION AND DRAINAGE ACTIVITIES, THE MAGNITUDE OF WHICH WAS NOT ENVISIONED IN THE PROJECT DESIGN AND THE USE OF WHICH DOES NOT PRODUCE SEED IN THE SHORT RUN. THE AGRICULTURE CORPORATION HAS DEMONSTRATED A SIGNIFICANT DEGREE OF FLEXIBILITY BY INCREASING THE ALLOTMENT OF FUEL OVER THAT PREVIOUSLY PLANNED DURING THE PROJECT DESIGN PHASE. LIKEWISE, 38 PERCENT OF ALL CEMENT AVAILABLE TO THE AGRICULTURE CORPORATION WAS ALLOCATED TO THE SEED FARMS DURING 1985/86. THE 722 TONS OF CEMENT FOR SEED PROCESSING PLANTS, WAREHOUSES, MACHINE SHEDS, FOR FERTILIZER, FERTILIZER STORAGE FACILITIES, ETC. IS ALMOST DOUBLE THAT RECEIVED DURING THE PREVIOUS YEAR. TRANSFORMERS AND ELECTRICAL WIRING IS BEING INSTALLED AT THE TWO SEED FARMS AND SHOULD BE COMPLETED BY THIS SEPTEMBER.



THE DRAFT AUDIT REPORT STATUS THAT "ONLY 7 PERCENT OF SEEDS REQUIRED BY FARMERS TO PLANT PROJECT-SUPPORTED CROPS IN THE PROJECT AREA WERE BEING SUPPLIED BY THE SEED FARMS IN 1983/84."

IN FACT, THE SEED FARMS ARE PRODUCING 22 PERCENT OF THE REQUIRED SEED.

CROP	ACREAGE COVERED FROM MOPP SEED (ACRES)	ACRES PLANTED IN 28 MOPP TOWNSHIPS	PERCENT SEED REQUIREMENTS PROVIDED BY SEED FARMS
CORN	67,241	107,400	63 PERCENT
PEANUT	7,822	118,100	2 PERCENT
SESAME	982	92,700	1 PERCENT
SUNFLOWER	3,835	44,000	9 PERCENT
TOTAL	79,880	362,200	22 PERCENT

FURTHERMORE, THE REPORT STATES THAT "AS A RESULT (OF INADEQUATE INPUTS), THE SEED FARMS WERE NOT PRODUCING ENOUGH SEEDS AND PROJECT MANAGERS HAD TO RESORT TO CONTRACT FARMERS TO PROVIDE HIGHER YIELDING SEED TO FARMERS FOR MOST PROJECT CROPS."

THE SEED FARMS WERE NOT DESIGNED TO PRODUCE ALL OF THE SEED REQUIRED BY TOWNSHIPS IN THE MOPP AREA. THEY WERE DESIGNED TO PRODUCE ONLY CERTAIN AMOUNTS OF FOUNDATION AND CERTIFIED SEED, MOSTLY FOR THE INTENSIVE TOWNSHIPS. THE PROJECT PAPER STATED THAT "IT IS ANTICIPATED THAT PLANTING SEED WILL ALSO BE PRODUCED BY HELPING FARMERS UNDER CONTRACT ARRANGEMENTS" 1/ THE PROJECT PAPER FURTHER STATED THAT "FOR OILSEEDS, WHILE THE PROJECTED SEED PRODUCTION (ON SEED FARMS) IS MORE CLOSELY IN LINE WITH PLANNED REQUIREMENTS IN THE INTENSIVE TOWNSHIPS BY 1985/86, HERE ALSO IT IS POSSIBLE THAT WITH THE ADDITIONAL SEED GROWN ON COOPERATING FARMS THAT TOTAL PRODUCTION WILL EXCEED REQUIREMENTS LIMITED SOLELY TO THE PROJECT'S INTENSIVE TOWNSHIPS." 2/

1/ MAIZE AND OILSEEDS PRODUCTION PROJECT PAPERS (482-0005), JUNE 1981, PAGE 50.

2/ IBID

CONCLUSION

THE MOPP SEED FARMS ARE NOW SUPPLYING 22 PERCENT OF THE PROJECT AREA SEED MATERIAL REQUIREMENTS AS COMPARED WITH LESS THAN 10 PERCENT EARLIER IN THE PROJECT. THIS IMPROVED PERFORMANCE IS, IN PART, A RESULT OF 20 PERCENT OF ALL AGRICULTURE CORPORATION DIESEL FUEL

SUPPLIES AND 40 PERCENT OF AGRICULTURE CORPORATION'S CEMENT BEING ALLOCATED TO THE MOPP PROJECT'S FOUR SEED FARMS. THIS IS DESPITE THE AGRICULTURE CORPORATION'S RESPONSIBILITY FOR 40 OTHER SEED/RESEARCH FARMS AND 23 OTHER FOREIGN DONOR PROJECTS. LIKEWISE, BUILDING SUPPLIES HAVE RECEIVED PRIORITY FOR THE PROJECT AND THE ELECTRIC POWER CORPORATION HAS GIVEN THE APPROVAL FOR ELECTRIFICATION OF TWO SEED FARMS. IT IS ONLY NECESSARY NOW TO COMPLETE THE NETWORK OF LINES AND TRANSFORMERS.

AID/BURMA AND THE BURMESE RECOGNIZED THE OVER AMBITIOUS PROJECTIONS FOR THE SEED FARMS OUTLINED IN THE PROJECT PAPER AND CALLED BACK PROCUREMENT OF EQUIPMENT FOR TWO OF THE SEED FARMS WHILE MORE THAN DOUBLING (OVER THAT ORIGINALLY PLANNED) THE FUEL ALLOCATED BY THE AGRICULTURE CORPORATION TO MOPP. THIS EARLY RECOGNITION OF PROJECT PROGRESS INDICATES CONTINUED MONITORING AND DECISION MAKING BASED UPON REALISTIC EXPECTATIONS.

IN A LETTER DATED 6/7/86, THE AGRICULTURE CORPORATION, AS TANGIBLE EVIDENCE OF ITS PRIORITY ON MOPP, FORMALLY ASSURED AID/BURMA THAT HIGH PRIORITY WILL BE GIVEN TO THE MOP PROJECT, ESPECIALLY WITH REGARD TO SEED FARM DEVELOPMENT. WE BELIEVE THE AC'S FORMAL COMMITMENT TO PRIORITY TREATMENT OF MOPP (LETTER BEING POUCHED TO RIG/A), THE EVIDENCE NOTED ABOVE OF THE PRIORITY PREVIOUSLY GIVEN TO MOP IN A RESOURCE-SCARCE ECONOMY, AND THE GENERAL PRIORITY NOW PROPOSED BY THE SRUB FOR OILSEEDS IN GENERAL, SHOULD BE ADEQUATE BASIS FOR CLOSING THIS AUDIT RECOMMENDATION BEFORE IT IS ISSUED.

5. RECOMMENDATION NO. 5

"WE RECOMMEND THAT AID/BURMA REVISE THE PROJECT INFORMATION SYSTEM TO PERIODICALLY ASSESS WHETHER THE PROJECT IS MEETING ITS OBJECTIVES."

AID/BURMA RESPONSE:

AID/BURMA HAS DEVELOPED UNDER THE BAP PROJECT A MORE COMPREHENSIVE INFORMATION SYSTEM WHICH IS NOW BEING INTRODUCED EARLY, UNDER THE MOP PROJECT. WE HAVE DISCUSSED WITH THE AG CORPORATION (AC) THE PROCESS BY WHICH THE NEW SYSTEM WILL BE INTRODUCED AND, AS NOTED ABOVE, WE ARE SENDING TO THE AC A PROJECT IMPLEMENTATION LETTER (PIL) ESTABLISHING THE MANAGEMENT INFORMATION SYSTEM. THERE HAS ALWAYS BEEN A SYSTEM OF SCHEDULED QUARTERLY AC AND BIWEEKLY MUCA MEETINGS TO REVIEW WITH SRUB OFFICIALS AND WITH CONTRACT PERSONNEL PROGRESS UNDER THE PROJECT. WE WILL NOT INCORPORATE INTO THE AGENDAS FOR THESE MEETINGS A FORMAL REVIEW OF PROGRESS AS MEASURED AGAINST ELEMENTS OF THE PROJECT

PLAN OF ACTION. AS NOTED ABOVE, COPIES OF THE PIL AND ITS ATTACHMENTS ARE BEING POUCHED TO RIG/A/MANILA.

PARTICIPANTS IN THE EVALUATION OF THE MOP PROJECT SCHEDULED FOR THIS SUMMER WILL BE ASKED NOT ONLY WITH ASSESSING PROGRESS UNDER THE OILSEEDS PRODUCTION PROGRAM, BUT WITH HELPING TO INSTALL MECHANISMS (E.G., PERIODIC, RAPID SAMPLE SURVEYS) WHICH WILL ALLOW TESTING/CONFIRMATION OF GOAL/PURPOSE-LEVEL ACHIEVEMENTS UNDER MOP. INSTALLATION OF THIS SYSTEM IS INCORPORATED AS ONE OBJECTIVE UNDER THE PLAN OF ACTION.

6. RECOMMENDATION NO. 6.

"WE RECOMMEND THAT AID/BURMA REQUIRE REPORTING BY THE BURMESE GOVERNMENT AS TO EXPENDITURES UNDER THE LOCAL CURRENCY GRANT CONSISTENT WITH THE REQUIREMENTS OF AID HANDBOOK 19 CHAPTER 5 AND THE NEED TO CONTROL THE USE OF AID-PROVIDED FUNDS.

IN REF (B), AID/BURMA ADVISED RIG/A/MANILA THAT THE FINAL ACCOUNTING SHEETS FOR THE MOP PROJECT PORTION OF THE JANUARY 7, 1983 KYAT GRANT HAD BEEN RECEIVED AND THAT THESE INDICATED THAT THE LOCAL CURRENCY PROVIDED TO MOPP UNDER THE KYAT GRANT HAVE BEEN FULLY EXPENDED. THE DOCUMENTS WERE POUCHED TO MANILA IN LATE MAY SINCE THE LOCAL CURRENCY PROVIDED TO MOP UNDER THE KYAT GRANT HAS BEEN FULLY EXPENDED--AND DETAILED REPORTS ON THE EXPENDITURES RECEIVED--WE REQUEST THAT IF THIS DRAFT RECOMMENDATION IS RETAINED IN THE FINAL REPORT, IT BE LISTED AS CLOSED. O'DONOHUE

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List of Recommendations

Recommendation No. 1:

Page

4

We recommend that AID/Burma develop and implement a specific plan of action which enlists Burmese Government support to address the need for sustainability of production gains made under the Maize and Oilseeds Production Project and the follow-on project.

Recommendation No. 2

8

We recommend that AID/Burma ensure that the Government of Burma establishes verifiable accounting for the proceeds from sale of Project grant fertilizer for this and the follow-on project, as required by AID Handbook 19 and reach a formal agreement on how the funds should be used for project purposes.

Recommendation No. 3

10

We recommend that the Controller, USAID/Thailand review the adequacy of the distribution system of AID-financed fertilizer in Burma and determine whether it meets the accountability requirements of AID Handbook 15.

Recommendation No. 4

12

We recommend that AID/Burma ensure that the Burmese Government carries out its resource commitments so that needed project inputs such as gasoline, diesel fuel, and cement are available on a priority basis for the establishment and operation of the seed farms.

Recommendation No. 5

14

We recommend that AID/Burma develop and implement a reliable management information system for the Maize and Oilseeds Production and follow-on projects, as required by Agency regulations.

Recommendation No. 6

16

We recommend that AID/Burma require reporting by the Burmese Government as to expenditures under the local currency grant, in conformance with the requirements of AID Handbook 19.

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