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REPORT ON REVIEW
OF
THE MILITARY ASSISTANCE PROGRAM
FOR
LAOS

This material contains information affecting the national defense of the United States within the meaning of the espionage laws, Title 18, U.S.C., Secs. 793 and 794, as respectively amended, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

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BY
THE COMPTROLLER GENERAL OF THE UNITED STATES

OCTOBER 1958

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-133080

OCT 30 1958

FILE COPY - COMP. GEN.

Dear Mr. Secretary:

Enclosed is our report on our review of the Military Assistance Program for Laos, which is administered by a Program Evaluation Office attached to the economic aid mission maintained by the International Cooperation Administration (ICA) in Laos. (~~SECRET~~)

The report presents our findings that annual programs have been and are being developed to assist Laos without adequate knowledge of the forces being supported, the needs of these forces, or the military supplies already delivered to Laos and do not appear always to have been motivated by military considerations. Under the military assistance program, equipment is being delivered to Laos in quantities which cannot be protected or used by country forces. At the time of our review the United States exercised little or no control over the use being made of local currency generated by ICA economic assistance which it was providing to support the Laotian military establishment. The Laotian Government has been generally uncooperative and has refused to permit the United States officials to develop effective means of administering the military assistance program and of supervising and auditing the military budget expenditures of the Laotian Government financed by the United States. We have been informed by Defense officials that, so long as Laos remains basically non-Communist, military aid should be continued in spite of the numerous difficulties involved in administering the assistance programs. (~~SECRET~~)

In addition, the inability of Laos to support from its own resources United States program objectives, in our opinion, requires an informed determination, based on the development of long-range program costs for Laos and the military assistance program world-wide, as to whether these costs are within the resources of the United States to be made available for such purposes. (UNCLASSIFIED)

Copies of this report are being transmitted to the Director, Bureau of the Budget, and to the Chairmen of the

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Senate Committees on Foreign Relations, Armed Services, Appropriations, and Government Operations and of the House Committees on Foreign Affairs, Armed Services, Appropriations, and Government Operations. (UNCLASSIFIED)

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General
of the United States

The Honorable
The Secretary of Defense

Enclosure

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REPORT ON REVIEW
OF
THE MILITARY ASSISTANCE PROGRAM
FOR
LAOS

The General Accounting Office has made a review of the Military Assistance Program (MAP) for Laos. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). This review is one of a group on the military assistance program. The purpose of this program, its organization and management, and its method of financing were described in our report on the military assistance program transmitted to the Congress on August 29, 1957.
(UNCLASSIFIED)

INTRODUCTION

The objectives of the Military Assistance Program for Laos are to assist to the extent practicable in organizing, training, and equipping the armed forces of Laos in order to insure the maintenance of internal security and to provide limited initial resistance to attack by the Communist Government of North Vietnam. The cumulative dollar value of military assistance programed for Laos, as reported in the 1959 budget estimate, was \$36.5 million through June 30, 1957. An additional \$7.1 million was programed in fiscal year 1958, and \$6.6 million was estimated to be programed in fiscal year 1959. (~~SECRET~~)

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The terms of the Geneva agreement which brought the Indochina war to a close prevent the establishment of a United States Military Assistance Advisory Group in Laos. Instead, the military assistance program is administered by a group known as a Program Evaluation Office (PEO), which is established within the International Cooperation Administration (ICA) economic aid mission in Laos, and is staffed by personnel designated by the Department of Defense. The PEO is an element of the United States Country Team in Laos. The United States Ambassador to Laos is the head of the Country Team and is responsible for coordinating the activities of all United States agencies in the country and for assuring the unified development and execution of military and economic assistance programs. (~~SECRET~~) UNCLASSIFIED

We have been informed by Defense officials that the Government of Laos has never been officially advised of the mission of the PEO and that Laotian forces are trained by a French training mission and not by the PEO. (~~SECRET~~) UNCLASSIFIED

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SCOPE OF REVIEW

Our review of the Military Assistance Program for Laos was directed toward examining the effectiveness of management controls, including procedures, records, reports, and internal reviews, for developing and carrying out the MAP in accordance with established United States policies and objectives. (UNCLASSIFIED)

We reviewed at PEO-Laos and at higher levels (1) the development of requirements for the build-up, modernization, and maintenance of approved Laotian forces, particularly for the development of fiscal year 1959 programs, (2) the delivery of military end items, and (3) the standards of utilization achieved by the country forces equipped under the military assistance program. We made a limited number of field inspections to determine the techniques established by the PEO to satisfy itself that the materiel furnished was being utilized for the purpose programmed. No attempt was made to evaluate technical or strategic matters.

(UNCLASSIFIED)

We examined selected transactions and made such other tests as we deemed appropriate to enable us to consider the adequacy and effectiveness of the management controls. (UNCLASSIFIED)

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HIGHLIGHTS

Annual programs have been and are being developed to assist Laos without adequate knowledge of the forces being supported, the needs of these forces, or the military supplies already delivered to Laos and do not appear always to have been motivated by military considerations. Because of the deficiencies and weaknesses summarized below, we recommended to the Department of Defense that consideration be given to suspending all deliveries of military assistance equipment to Laos until a sounder basis could be established for developing program needs. However, the Department of Defense informed us that, so long as Laos remains basically non-Communist, military aid should be continued in spite of the numerous difficulties involved and that, while the underlying basis for all aid to Laos is admittedly political, the maintenance of internal security, which is the primary mission of the Laotian Army, is fundamentally a military task and the justification of the military assistance program in this instance is made on that basis.

(~~SECRET~~)

UNCLASSIFIED

We believe that if overriding political considerations make a suspension of deliveries impracticable in spite of the existing program weaknesses, this motivation for continuing military aid should be clearly identified and the program for Laos should not be presented to the Congress on a military basis. ~~(SECRET)~~

UNCLASSIFIED

We obtained the comments of the PEO, the Commander in Chief, Pacific (CINCPAC), and the Assistant Secretary of Defense for International Security Affairs on our findings, and their statements have been included in this report where appropriate. (UNCLASSIFIED)

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INADEQUATE BASIS FOR DEVELOPING
PROGRAM REQUIREMENTS

Program requirements have been developed without adequate knowledge of the forces being supported or the needs of these forces and without accurate knowledge of the assets already delivered to Laos. The United States has information that considerable equipment has been turned over to Laos by the French, in excess of Laotian needs. In the absence of a sound basis for programing, additional United States materiel may be delivered which is excess to country requirements. We are recommending that action be expedited to determine the composition and distribution of Laotian forces, to obtain reliable asset data, and to recover equipment determined to be excess to valid requirements. (~~CONFIDENTIAL~~)

(See p. 11.)

LACK OF CAPABILITY TO PROTECT AND USE EQUIPMENT

Military assistance materiel is being delivered to the country in quantities which cannot be utilized or properly stored by country forces. PEO officials, who are permitted to visit the facilities and units of the Armee Nationale Laos (ANL) but who cannot advise or take formal action to correct deficiencies, have no effective means to assure that materiel delivered under the military assistance program is utilized and safeguarded after delivery. We are recommending that the current stockage objectives be reconsidered with a view toward reducing these objectives to the levels that can be stored and used by Laos. (UNCLASSIFIED)

(See p. 15.)

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LACK OF CONTROL OVER DELIVERIES
OF MILITARY EQUIPMENT

Materiel shipped to Laos under the military assistance program has been received without verification of the amounts received, without checking for loss or damage in transit, and without safeguards against losses through pilferage or mishandling after receipt. We are recommending that action be expedited to control the receipt of military assistance materiel in Bangkok, its transportation to Laos, and its transfer to Laotian officials.

(UNCLASSIFIED) (See p. 20.)

LACK OF CONTROL OVER MILITARY BUDGET SUPPORT

At the time of our review the United States exercised little or no control over the use made of local currency generated by ICA with economic assistance funds for the purpose of supporting the Laotian military establishment. The ANL did not permit the PEO to audit the use being made of these funds and did not keep its expenditures within the authorized program limits. For example, the PEO did not know on what terms Air Laos was being paid for transportation charges and did not know the actual strength of the forces receiving ration payments. (~~CONFIDENTIAL~~) UNCLASSIFIED

While the PEO is responsible for supervising the military budget support program and advising the Country Team in screening Laos military expenditures, adequate supervision was not being accomplished because the Government of Laos refused to allow it. The suggestions made by the PEO to responsible Laotian officials to develop some basis for satisfactory control over these activities have been largely ignored. (~~CONFIDENTIAL~~) UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

UNCLASSIFIED

We are recommending that adequate means of United States supervision and audit be established to afford a reasonable degree of control over the use of military budget support funds released to the Laos defense establishment. (UNCLASSIFIED) (See p. 22.)

NEED FOR BETTER COORDINATION BETWEEN MILITARY AND ECONOMIC AID PROGRAMS

The military and economic aid programs for Laos have not been sufficiently coordinated to insure that efficient use is made of materiel and equipment made available to Laos. We are recommending that the Country Team more closely coordinate the economic and military aid programs to make the most effective use of assistance provided under the respective programs. (UNCLASSIFIED) (See p. 27.)

NEED FOR LONG-RANGE PROGRAM PLANNING

The military assistance program is being administered without long-range program planning for the continued support of the military forces now being equipped at United States expense. Responsible United States officials have reported that Laos has little prospect of achieving any substantial degree of economic self-sufficiency for many years and that it must be assumed that the entire military budget must continue to be financed by the United States. We are recommending that the Department of Defense develop long-range estimates of the program costs necessary to equip, maintain, and modernize forces being supported in Laos and worldwide for consideration of whether these costs are within the resources of the United States to be made available for such purposes. (UNCLASSIFIED) (See p. 28.)

~~SECRET~~

BACKGROUND

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The General Accounting Office has prepared a separate report on the economic assistance program in Laos (B-133003). This report was transmitted to the Director of ICA and to several congressional committees on October 8, 1958. In this report it is pointed out that the official exchange rate of 35 kips to one United States dollar, which is used for converting dollar aid funds into local currency, is unrealistically low. The free rate in neighboring Thailand and Hong Kong is quoted at around 90 kips to the dollar. The use of this official rate substantially increases the cost of United States aid, particularly since the primary objective of United States aid has been to generate local currency for military budget support. This rate has also contributed to certain abuses in the import program, such as profiteering, diversion of commodities, and political influence in obtaining import licenses. The Laotian Government has announced that on October 10, 1958, the official exchange rate was changed to 80 kips to one dollar.

(UNCLASSIFIED)

In order that the findings and recommendations contained herein can be considered in conjunction with conditions which were not within the scope of our review, but which were considered pertinent by responsible United States officials charged with the administration and technical evaluation of the program, certain views expressed by those officials are summarized below.

(UNCLASSIFIED)

Responsible United States officials (other than PEO) have stated that the fact that Laos thus far has remained independent may be ascribed to United States political, material, and moral support and that it is essential to United States interests that Laotian resistance to Communist enticements be stiffened.

(SECRET)

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PEO officials have stated that the Armee Nationale Laos (ANL) could not function as a coordinated force in the field. In the face of an invasion by hostile forces, coordinated effort would collapse in a few days but it is anticipated that the remnants would continue to harass the aggressor with guerrilla warfare. Defense officials have informed us that the ANL is weak, poorly trained, and inadequately equipped and that maintenance is at a low level and communications are almost nonexistent. (SECRET)

Other responsible members of the Country Team in Laos have expressed the view that a disproportionate amount of United States aid funds is being devoted to support the Laotian military budget, in the light of the conditions reported above, and that this detracts from the development of the Laotian economy and the overall effectiveness of the United States programs in Laos. These officials have reported that the fact that the salary scales established for these forces are out of line with those generally prevailing in the area has generated inflation and has led indirectly to profiteering and corruption which have undermined popular support of the Laotian Government and thus increased the difficulty of maintaining internal security. (SECRET) UNCLASSIFIED

PEO officials have stated that the assignment of the training responsibility to the French does not result in satisfactory utilization of United States military aid and precludes United States personnel from insisting on acceptable standards of technical and logistical support. We have been informed also by Defense officials that the administration of the MAP for Laos has been

adversely affected by several problems which, although not peculiar to the country, exist in aggravated form as follows: ~~(SECRET)~~

1. Laos is 85 percent illiterate by United States standards, and of the literates only a small percentage have better than a seventh-grade education. When Laotian soldiers are recruited, they have no technical background and virtually no education. ~~(SECRET)~~
2. Laos is reported to have one of the lowest income levels in the world. Government revenues not only have been insufficient to support military and police forces but have not even been able to finance civilian requirements. The government's administrative processes have been deficient because of lack of qualified personnel. Transportation and communication facilities are inadequate. (UNCLASSIFIED)

FINDINGS AND RECOMMENDATIONS

INADEQUATE BASIS FOR DEVELOPING
PROGRAM REQUIREMENTS

Program requirements have been developed without adequate knowledge of the forces being supported or the needs of these forces and without accurate knowledge of the assets already delivered to Laos. The United States has information that considerable equipment has been turned over to Laos by the French, in excess of Laotian needs. In the absence of a sound basis for programing, additional United States materiel may be delivered which is excess to country requirements. (~~CONFIDENTIAL~~) UNCLASSIFIED

Troop equipment

Although the United States has established as program objectives the forces that would be supported in Laos, at the time of our review the PEO had not completed its initial development of requirements for each category of materiel and did not have the data to use in computing Laotian requirements as follows:

1. The PEO did not know the actual military strength of Laotian military forces and had to depend on Laotian reports which it believed to be inaccurate. (~~SECRET~~) UNCLASSIFIED
2. The PEO had not been able to ascertain unit strengths or the distribution of troops within the branches of the Armee Nationale Laos. (~~SECRET~~) UNCLASSIFIED
3. There were no valid tables of organization and equipment (TO&E) for the ANL forces. PEO has initiated a study of the ANL requirements with the objective of developing valid TO&Es, but at the date of our review it had not reached an understanding with representatives of the Laotian Government on the size of the forces necessary for the country. Until valid TO&Es have been developed, the type and quantity of equipment which will be required cannot be determined. (~~SECRET~~) UNCLASSIFIED

~~SECRET~~

UNCLASSIFIED

4. The PEO did not have data on the quantities of equipment assets in the country or the condition of this equipment. The PEO utilized sundry sources of information, such as ANL reports, reports from French training personnel, and the limited opportunity for field observations. This information is useful in a limited degree but is not adequate. (~~SECRET~~) UNCLASSIFIED
5. The PEO did not have data reflecting actual consumption of the ANL. These data are essential to planning for time-phased deliveries, to evaluating ANL requests, and to properly computing requirements for consumables. (UNCLASSIFIED)

The PEO commented in its fiscal year 1959 program submission that in practically all instances the materiel deficiencies that had been computed for the program were inaccurate. (~~CONFIDENTIAL~~) UNCLASSIFIED

The Chief, PEO, has stated that many of the difficulties stem from a lack of qualified personnel in PEO. He does not believe that a civilian-type organization operating under ICA can ever completely carry out the military assistance mission in Laos. CINCPAC has informed us that the serious programing deficiencies have been recognized and that programing teams have been sent and will continue to be sent to Laos to assist in resolving these problems. Although we observed during our review that PEO had a personnel problem, we do not believe that expanding the PEO staff, or temporarily supplementing the PEO staff with personnel from other commands, will solve the programing difficulties. (~~SECRET~~) UNCLASSIFIED

Excesses

PEO computations from available data show the existence of excess quantities of major end items in the possession of ANL, including those which follow:

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~~SECRET~~

<u>Item</u>	<u>On hand</u>	<u>Require- ment</u>	<u>Excess</u>
Howitzer, 105 mm.	27	12	15
Mortar, 60 mm.	126	66	60
" , 81 mm.	76	26	50
Rifle, 57 mm.	71	38	33
Carbine, cal. 30	13,210	8,075	5,135
Rifle, cal. 30 ml.	11,166	5,473	5,693 (SECRET)

The PEO and CINCPAC have informed us that, until sound tables of organization and equipment acceptable to both the United States and the ANL have been developed, it is not wise, for both military and political reasons, to reclaim American equipment. (~~CONFIDENTIAL~~)

Construction

Cost estimates for military construction in Laos program submissions have been prepared without engineering data. There appears to have been insufficient planning between elements of the Country Team, and there has been no formal agreement or understanding with either the Laotian Government or the ANL as to the specific responsibility and authority of each government for construction planning, financing, engineering, and administration of the program. PEO has requested construction funds without over-all knowledge of the ANL requirements for facilities or of existing construction assets since such information has not been compiled. (~~CONFIDENTIAL~~)

CINCPAC and PEO have acknowledged that the construction program has not been properly controlled. They state that actual construction has been virtually suspended until an over-all construction survey covering the entire requirements of ANL has been completed. The Country Team is trying to obtain a construction agreement with the Laotian Government. (UNCLASSIFIED)

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Conclusion

We do not believe that the Military Assistance Program for Laos can be effectively administered and the stated objectives of the Military Assistance Program for Laos can be achieved under the conditions described in the preceding paragraphs. We have been informed by CINCPAC that overriding necessities to prevent political or military crises have made it necessary to provide assistance to Laos without adequate controls and that continual adjustments to the Laotian program probably will be required to meet the unstable political situation. We believe, if overriding expediencies require the delivery of additional military assistance equipment to Laos, that this motivation of the aid should be clearly identified and that the program for Laos should not be presented to the Congress on a military basis. (~~SECRET~~)

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Recommendation

We recommend that action be expedited to determine the composition and distribution of Laotian forces, to develop tables of organization and equipment, to obtain reliable asset data, and to recover equipment determined to be excess to valid requirements. We have been informed by the Department of Defense that action has been taken and is currently in progress to develop tables of organization and equipment and to determine the status of all equipment now in the hands of the Laotian Army. (UNCLASSIFIED)

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LACK OF CAPABILITY TO PROTECT AND USE EQUIPMENT

Military assistance materiel is being delivered to the country in quantities which cannot be utilized or properly stored by country forces. PEO officials, who are permitted to visit the facilities and units of the ANL but who cannot advise or take formal action to correct deficiencies, have no effective means to assure that materiel delivered under the military assistance program is utilized and safeguarded after delivery. (UNCLASSIFIED)

The depots in Laos do not have sufficient storage space and provide only meager protection to stocks. Staff personnel have not had training or experience in logistics, and the PEO has estimated that the logistical system would collapse even more quickly than the Laotian forces would disintegrate. Distribution facilities in Laos are extremely limited. In the southern areas, transportation is by motor vehicle over the limited road facilities or by boat. In the northern areas, the only transportation is pack horse or air drop. Aerial supply operations have been conducted by ANL and by Air Laos using French crews. The PEO has reported that the drops are made from high altitude and that approximately 50 percent of the supplies are lost. (UNCLASSIFIED)

Because of limited and inadequate storage facilities, stocks of supplies generated by PEO programing, based on establishing 90-day supply of stocks in the country for operating and safety levels and an additional 45-day level for war reserves, cannot be properly stored at depots. For example, in the ordnance depot we found that spare parts were stocked in disorder and were rusting

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from exposure to moisture. In the quartermaster depot we observed that the warehouses, which are small and provide minimum protection from the elements, are so crowded with supplies that there is no working space left inside many of the buildings. For some stock items of clothing and equipment, we noted that no issue had been made for a year or more. The depot was overstocked with rice, tea, and fish, and we were informed that double rations were being issued to relieve the shortage of space. At the signal depot, conditions were somewhat better, although there was an obvious need for more storage and working area. (~~SECRET~~) UNCLASSIFIED

PEO officials have stated that the situation at the depots stems from lack of proper training and the inability of PEO to institute training programs. These officials have informed us that the French, who are primarily responsible for training, are extremely jealous of their prerogatives and that it is necessary that PEO work in this area without any agreement as to the responsibilities and prerogatives of the PEO. Under these conditions the PEO has reported that it cannot give direct instructions to the ANL and is extremely limited in its capability to correct the deficiencies known to exist. PEO also has reported that training over and above that which the French are willing to furnish is needed, but that attempts by PEO to provide training by sending Laotian personnel abroad and by contracting for foreign civilian technicians to train Laotian personnel in the country have had almost negligible success because of a lack of student candidates who can effectively pursue courses of instruction and because of a lack of cooperation by the ANL and the French. (~~SECRET~~) UNCLASSIFIED

~~SECRET~~

UNCLASSIFIED

A shortage of commanders who are qualified to train men and a shortage of student candidates who can effectively pursue standard courses of instruction are serious problems. PEO reports that individual training is grossly inadequate and that unit commanders are not sufficiently qualified to develop their men. Schools are not capable of any large-scale individual training. PEO believes it unrealistic to expect that the ANL will be more than a collection of uncoordinated battalion-size combat groups until line officers capable of conducting individual and unit training and command and staff officers capable of operations comparable to that of an infantry division are developed.

~~(CONFIDENTIAL)~~

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PEO officials have reported that development of the Laotian Air Force into a reasonably useful auxiliary to the ANL is going to be a long-range program. The C47s in the Air Force are principally French operated, and a lack of education on the part of Laotians as well as an absence of a desire to learn to fly has been a serious deterrent to training pilots to replace the French.

~~(SECRET)~~

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CINCPAC agrees that it is most undesirable to ship supplies into a country in quantities greater than can be handled and states that the logistical system is in an obviously deplorable state. CINCPAC believes, however, that military requirements necessitate a supply base in Laos for use by outside forces and that this is an overriding priority despite obvious deficiencies. CINCPAC believes that corrective action can be achieved only

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through an accord which will permit closer cooperation and coordination between ANL, PEO, and the French. (~~SECRET~~) UNCLASSIFIED

The Department of Defense has given Laos, among the countries within the Far East area, the lowest priority for MAP aid and, so far as we are aware, does not contemplate, as a program objective, the establishment of a stockpile of military equipment in Laos beyond the needs of the Laotian forces. (~~SECRET~~) UNCLASSIFIED

We have been informed by the Department of Defense that our comments on the utilization of MAP materiel accurately reflect the situation as it exists and that all concerned are fully aware of the problems and are applying themselves to their solution which, under the circumstances, is an extremely slow process. We were informed also that, so long as Laos remains basically non-Communist, military aid should be continued in spite of the numerous difficulties involved. (~~SECRET~~) UNCLASSIFIED

We believe, however, that it is an undesirable practice to bring supplies into a country in quantities greater than the country can handle properly and that the priority and program objectives established by the Department of Defense do not justify furnishing support to Laos without effective controls to assure that the country can protect and utilize the aid furnished under the military assistance program. Recognizing that the system does not have the capability to properly handle the quantity of stock to maintain the desired stock level, and in view of the inadequate facilities for providing logistical support, the statement by PEO officials that the ANL would collapse in a few days in the face of

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an invasion, and the lack of any program objective for establishing a regional stockpile, we believe that the level should be reduced until the capacity for storing and capability for handling larger quantities have been attained. This course of action appears to be the only practical solution because United States advisors are not permitted to instruct Laos personnel in better procedures and have no formal procedure for correcting deficiencies.
(UNCLASSIFIED)

Recommendation

We recommend that the current stockage objectives be reconsidered with a view toward reducing these objectives to the levels that can be stored and utilized by Laos. (UNCLASSIFIED)

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LACK OF CONTROL OVER DELIVERIES OF MILITARY EQUIPMENT

Materiel shipped to Laos under the military assistance program has been received without verification of the amounts received, without checking for loss or damage in transit, and without safeguards against losses through pilferage or mishandling after receipt. (UNCLASSIFIED)

Since Laos is a landlocked country, surface shipments of MAP materiel must be unloaded from ships and moved overland. Until April 1957 the port at Saigon, Vietnam, was used almost exclusively, but since that time most materiel has been moved through Bangkok, Thailand. The PEO has not maintained a reliable record of the materiel that was unloaded at Saigon, and the records and procedures which have been used at Bangkok were not satisfactory, although during our review we noted efforts to improve the situation. (UNCLASSIFIED)

At the Bangkok port approximately 2,272 tons of materiel, according to manifests, were unloaded from 25 ships between April 30 and October 12, 1957, without verification of the quantity or condition of the cargo. Over, short, and damaged reports, which are used for accounting purposes and as a basis for any claims that may arise against the carrier, were filed showing no discrepancies since there had been no check of cargo delivered. On October 13, 1957, PEO began to check the cargo and noted shortages on three of the five ships that had discharged cargo between that date and the date of our review in late October. The most significant of these was a shortage of 121 containers weighing 8,201 pounds. (UNCLASSIFIED)

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Military aid materiel is stored in an area used jointly with the ICA mission, and the military cargo is intermingled with commercial import cargo handled by the ICA mission. A search for specific items is made occasionally in other storage areas and warehouses, and some items are found that, during the period cargoes were not checked, had not been identified as military assistance materiel. (UNCLASSIFIED)

The major portion of MAP cargo is shipped by rail to Laos. It takes approximately 3 days for the cargo to reach the Laotian border where it must be unloaded and moved across the Mekong River by barge and then transported by truck to depots. The PEO has not established physical control and accountability for United States aid goods off-loaded at the rail terminus. Materiel is placed in unsecured open storage along the railroad right of way.

(UNCLASSIFIED)

Representatives of the ANL receive the cargo and assume accountability for the Laotian Government at depots in Vientiane and Savannakhet. These representatives are supposed to sign the required documents acknowledging receipt of the cargo and to process reports of over, short, or damaged items. There have been serious delays in obtaining these reports as evidenced by the fact that through October 31, 1957, only 10 carloads out of 68 shipped between August 23 and October 22 had been acknowledged as received.

(UNCLASSIFIED)

We have been advised by PEO officials that reasonable progress has been made in establishing time-phased schedules for aid deliveries, establishing control over materiel unloaded at

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Bangkok, and maintaining control over materiel as it is transported overland to Laos. We were also advised, however, that it continues to be difficult to obtain the necessary receipts from Laotian officials. We have had no means of ascertaining the effectiveness of these actions which took place after our review.

(UNCLASSIFIED)

Recommendation

We recommend that action be expedited to control and safeguard the receipt of military assistance materiel in Bangkok, its transportation to Laos, and its transfer to Laotian officials.

(UNCLASSIFIED)

LACK OF CONTROL OVER MILITARY BUDGET SUPPORT

At the time of our review the United States exercised little or no control over the use made of local currency generated by ICA with economic assistance funds for the purpose of supporting the Laotian military establishment. The ANL did not permit the PEO to audit the use being made of these funds and did not keep its expenditures within the authorized program limits. For example, the PEO did not know on what terms Air Laos was being paid for transportation charges and did not know the actual strength of the forces receiving ration payments. (~~CONFIDENTIAL~~) UNCLASSIFIED

ICA finances dollar assistance, either through cash grants or authorizations to import commodities, and Laos deposits the equivalent in kips, computed at the official exchange rate, which is to be used for payment of such military budget costs as troop pay and subsistence. Although the PEO is responsible for supervising the military budget support program and advising the Country Team in

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screening Laos military expenditures, adequate supervision was not being accomplished because the Government of Laos refused to allow it. The suggestions made by the PEO to responsible Laotian officials to develop some basis for satisfactory control over these activities had been largely ignored. (~~CONFIDENTIAL~~)

On January 8, 1957, the Deputy Chief, PEO, stated in a letter to the Chief, General Headquarters, ANL, on accountability for 1957 funds that:

1. Funds were to be expended according to approved budgeted objects.
2. Overobligations would be prohibited.
3. An audit would be made by PEO.
4. Funds were not to be used for air transportation by Air Laos unless specifically approved by PEO.
5. A monthly statement of funds allotted, obligated, and expended should be furnished.

The letter has not been acknowledged. At the time of our review it was not possible to determine the manner in which the funds were expended because PEO was prevented by ANL from making an audit of the utilization of the funds. Except for the first month, no written statement of obligations or expenditures was furnished.

(~~CONFIDENTIAL~~)

Investigations by the ICA mission had previously disclosed serious weaknesses in the procurement practices of the Laotian Army. Army officials were found to pay excessive prices for supplies and to use kips provided through United States aid to buy products abroad which were produced and for sale locally at lower prices. (~~CONFIDENTIAL~~)

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Lack of budgetary control

ANL does not keep its expenditure of military budget support funds within the limits set by the program. In September 1957 ANL officials advised United States authorities that local currency funds were expended in calendar year 1956 (Laos' fiscal year) in the equivalent of \$3.2 million in excess of the dollar grant made and payment was requested. We have been advised that ICA has approved the payment of \$2.5 million. PEO officials advised us that similarly local currency expenditures in calendar year 1957 would exceed the equivalent of authorized dollar grants by about \$1 million and that ICA has approved payment of this deficit. The Chief, PEO, in the country statement for the quarter ended August 31, 1957, stated, with respect to these transactions, that United States funds were being funneled into the ANL in uncoordinated and uncontrolled amounts. (~~CONFIDENTIAL~~)

Air Laos

The PEO did not know the terms of the agreement between the Laotian Government and Air Laos for paying transportation funds to Air Laos for operating and maintaining aircraft for ANL. ANL did not comply with a request of PEO to obtain prior approval for transportation expenditures incurred by Air Laos. The United States Embassy advised the Department of State by cable on November 20, 1956, that there was evidence of an extraordinary increase of transportation costs over estimates, most of which was traceable to Air Laos. PEO was requested to make an immediate

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investigation of the situation. This action was never taken, primarily because of resistance by the Government of Laos.

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Ration payments

Ration support was being furnished to the Laotian armed forces on the basis of an estimated cost of food items and strength of forces figures that had been prepared by the French advisors to the ANL. The information on which monetary support for rations was computed was not being verified by PEO. For example, PEO did not know the quantity or cost of ration components nor did they know the actual strength of forces on which ration payments should be based. The PEO had no procedure for auditing payments and ascertaining that the full amount of ration support reaches the troops for which it is intended. (UNCLASSIFIED)

Defense comments

PEO officials have stated that they have been concerned with the problems imposed by the fact that Laos does not permit a verification of the expenditure of United States generated support funds and that improvement in the situation is contingent upon assignment of additional personnel to PEO. CINCPAC also has taken cognizance of the situation as expressed in its comments submitted to the Department of Defense. In our opinion, however, so long as Laos does not permit effective expenditure audits, assignment of additional personnel will not remedy the situation. (UNCLASSIFIED)

The Department of Defense has informed us that certain improvements have been effected in the control over military budget support, that cooperation by the Laotians in making expenditure

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records available is now considered to be very good and PEO screens military expenditures on a spot-check basis, that the PEO has maintained strict control of Air Laos expenditures, and that the use of Air Laos for transportation of MAP equipment has been severely curtailed. We were informed that the PEO now receives monthly reports of the strength of the Laotian forces. It was not indicated by what means the PEO ascertains that these forces are actually receiving the support for which local currency funds are released. We have had no means of ascertaining the effectiveness of these arrangements, which took place after our review. (~~SECRET~~)

Recommendation

We recommend that adequate means of United States supervision and audit be established, through the facilities of the Country Team if necessary, to afford a reasonable degree of control over the use of military budget support funds released to the Laos defense establishment. (UNCLASSIFIED)

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NEED FOR BETTER COORDINATION BETWEEN
MILITARY AND ECONOMIC AID PROGRAMS

The military and economic aid programs for Laos have not been sufficiently coordinated to insure that efficient use is made of materiel and equipment made available to Laos under both programs. (UNCLASSIFIED)

In addition to the military forces being supported under the military assistance program, the United States is providing funds under the economic aid program for pay, training, equipment, and supplies of a national police force numbering 2,900. This police force, which is under civil administration, is used to maintain law and order throughout Laos and is available to offer limited resistance to an aggressor in event of hostilities. Under the economic assistance program, winter clothing totaling about \$200,000 has been ordered for the police force. This clothing included 3,500 pairs of boots purchased in Japan for \$21,880. We were informed that currently the Laotian Army has about 40,000 pairs of boots and shoes which were furnished under the military assistance program and are surplus to its needs. (~~SECRET~~)

Substantial quantities of road-building equipment, costing about \$1.5 million, were delivered to the Laotian Ministry of Public Works under the economic aid program for road construction in Laos. At the time of our review some urgent military construction in Laos required the temporary use of some of this type of equipment. The Ministry of Public Works refused to permit the use of any of the available construction equipment for this military construction work. At that time road-building aggregate had been

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stockpiled at the site of the project but there were no plans to go forward with the military construction pending an arrangement to obtain equipment elsewhere. United States officials considered themselves powerless to take action to negotiate the temporary use of some of the equipment for military needs. We observed that some of this equipment had deteriorated since being received in Laos, indicating its availability for temporary use on the military construction work, and that it was not being adequately stored or protected. (~~SECRET~~)

Recommendation

We recommend that the Country Team more closely coordinate the economic and military aid programs to make the most effective use of assistance provided under the respective programs and to assure, whenever possible, that equipment furnished under either program is made available to fill both defense and economic development needs in Laos. (UNCLASSIFIED)

NEED FOR LONG-RANGE PROGRAM PLANNING

The military assistance program is being administered without long-range program planning for the continued support of the military forces now being equipped at United States expense. Responsible United States officials have reported that Laos has little prospect of achieving any substantial degree of economic self-sufficiency for many years and that it must be assumed that the entire military budget must continue to be financed by the United States. The Department of Defense has not developed long-range estimates of the program costs necessary to equip, maintain, and

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modernize forces being supported in Laos and world-wide, for consideration of whether these costs are within the resources of the United States to be made available for such purposes. (UNCLASSIFIED)

The Country Team, in commenting on the fiscal year 1959 program submission for military assistance to Laos, pointed out that, at the time the United States initiated its assistance program, Laos had negligible resources to meet required civil and military expenditures, lacked an economic base on which a prosperous economy might be built, and had little prospect of achieving any substantial economic reliability for many years to come. In the period of time since United States aid has been given to Laos, the Country Team reported that no appreciable headway has been made in the development of Laotian resources to a point where Laos might be able to contribute to its military requirements, that Laos has never devoted and is not now devoting any government revenues for defense, and that in fact Laos has not been able to support half of its very modest civil budget requirements. The team reported also that the government's power to collect taxes is extremely limited, that major civilian government expenditures, such as those for police and education, are covered by United States aid, and that there is virtually no prospect of early improvement.

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Laos has shown a deficit in external trade since a relatively complete record has been kept, beginning in 1951. In the first 6 months of 1956, exports financed less than 8 percent of imports and the deficit was being financed by United States aid.

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We are aware that current programing procedures include analyses of country economic and financial capabilities and that attention is being given to projecting future costs for the United States support of MAP forces. However, so far as we have been able to determine, no estimates have been developed of the aggregate long-range costs of equipping, training, and maintaining the military forces of Laos and of other countries on a world-wide basis. As we pointed out in our report on the military assistance program transmitted to the Congress on August 29, 1957, we believe that such estimates should be developed and that a determination should be made as to whether these costs are within the resources of the United States likely to be available for such purposes. Unless such a review is made, the United States may lose the benefit of aid granted in the early part of its assistance program if the program cannot or will not, in later years, be sustained and supported by either the country or the United States. (UNCLASSIFIED)

We believe the conditions in Laos make it imperative that future assistance be based on informed estimates by responsible officials with respect to (1) the capability of the country to utilize the aid, (2) the cost and duration of the country dependence on United States aid, and (3) likely availabilities of United States resources to carry out and sustain these aims. (UNCLASSIFIED)

Recommendation

We recommend that the Assistant Secretary of Defense for International Security Affairs develop estimates, on a long-range basis, of the costs required to achieve approved program objectives in Laos and on a world-wide basis. (UNCLASSIFIED)