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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S AGRIBUSINESS PROGRAM

AUDIT REPORT NO. E-267-08-006-P
September 30, 2008

BAGHDAD, IRAQ



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Office of Inspector General

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MEMORANDUM

TO: USAID/Iraq Mission Director, Christopher D. Crowley

FROM: Director, Office of Inspector General/Iraq, Gerard M. Custer /s/

SUBJECT: Audit of USAID/Iraq's Agribusiness Program (Report No. E-267-08-006-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report and have included them in their entirety as appendix II of this report.

This report contains eight recommendations to improve USAID/Iraq's Agribusiness Program. Based on management's comments, a management decision has been reached on Recommendation Nos. 1, 3, 4, 5, and 8. In addition, documentation provided by management demonstrated that final action has been taken on Recommendation Nos. 2, 6, and 7. Determination of final action for Recommendation Nos. 1, 3, 4, 5, and 8 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the planned corrective actions.

Recommendation No. 3 recommended that USAID/Iraq reprogram any funds remaining from the \$5 million allocated to the master's degree program. Management concurred with this recommendation. In addition to the \$5 million in the recommendation, the mission reported taking action to reprogram an additional \$1 million associated with participant training. Therefore, a management decision has been reached to put \$6 million to better use.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

Iraq has experienced a dramatic decline in agriculture production during the last few decades. While Iraqi farmers supplied about half of the country's food supply in 1980, by 2002 more than 80 percent of many basic staples had to be imported. Given that agriculture and related businesses comprise Iraq's largest source of employment and are second only to oil in contribution to national income, revitalizing Iraqi agribusiness is an important element in creating a stable, prosperous, and democratic Iraq. To address this issue, USAID awarded a 3-year, \$209 million contract in May 2007 to a consortium led by the Louis Berger Group, Inc., to implement an agribusiness program known as *Inma*–Arabic for “growth.” This program was designed to provide agricultural and business development services to USAID beneficiaries in strategic locations in Iraq (page 3).

The Office of Inspector General/Iraq conducted this audit to determine whether USAID/Iraq's Agribusiness Program was achieving intended results and to determine its impact (page 4).

Two of 12 agribusiness activities reviewed by the audit were not achieving intended results.

- (1) USAID/Iraq's Agribusiness Program set an initial target of increasing the gross sales of dates by 150 percent over 3 years. This target likely will not be achieved because it was too ambitious for the current state of the Iraqi date industry. Also, the program did not build on the mission's previous date production initiative as called for in the *Inma* contract. Diminished results for dates will make the program's overall sales and employment goals more difficult to achieve (see pages 6–8).
- (2) Owing to delays in finding qualified candidates, the agribusiness program's master's degree activity likely will not realize its goal of providing master's degrees in agribusiness subjects to 25 Iraqis during the 3-year life of the program. Since few qualified candidates have been identified to begin studying in the fall of 2008, the \$5 million allocated to cover the travel, living, and educational costs of Iraqi participants likely will not be fully used. Therefore, we are making a monetary recommendation that USAID/Iraq reprogram any remaining master's degree activity funds so that they can be put to better use (pages 8–9).

Owing to delays in the startup of USAID/Iraq's Agribusiness Program, it was too early to determine whether the other 10 activities were achieving planned results. Further, it was too soon to determine the degree of impact of the program as a whole in Iraq. The program only recently completed its first year of activities and has not yet yielded performance data for the entire first year. Nevertheless, the program has produced interim reports indicating that some program activities are making early progress toward achieving their targets (pages 5–6).

In addition to the above findings, the audit identified a few other areas in which USAID/Iraq could improve its management of the agribusiness program; adding and/or revising performance indicators, improving the utility of financial reports, and ensuring

that a provision to prevent the possible financing of terrorism is included in all subcontracts (pages 9–13).

This report includes eight recommendations to address the identified findings. In response to a draft report, USAID/Iraq management concurred with all eight recommendations and described actions planned or taken to address the findings. Based on the documentation provided by management, final action has taken place on three of the recommendations and a management decision has been reached on the remaining five recommendations. Management comments have been included in their entirety as appendix II.

BACKGROUND

The decline of agriculture in Iraq has been another calamitous legacy of Baathist misrule. Iraqi farmers supplied about half of the country's food supply in 1980, but by 2002 more than 80 percent of many basic staples had to be imported. The 1980–1988 Iran-Iraq War and the 1991 Gulf War diverted labor and resources from agriculture and damaged irrigation infrastructure, thereby increasing soil salinity and decreasing production. Moreover, as a result of U.N. sanctions and an entitlement food distribution system, Iraq's agricultural sector faces a highly distorted system of incentives that include subsidized agricultural inputs and a command control economy mentality. Given that agriculture and related businesses comprise Iraq's largest source of employment and are second only to oil in contribution to national income, revitalizing Iraqi agribusiness is an important element in creating a stable, prosperous, and democratic Iraq.

To further this aim, in May 2007 USAID awarded a 3-year, \$209 million contract to a consortium led by the Louis Berger Group, Inc., to implement the agribusiness program known as *Inma*—Arabic for “growth.” The program was designed to provide agricultural and business development services to USAID beneficiaries in strategic locations in Iraq to promote economic diversification and job generation, with an emphasis on the growth of the agriculture and agribusiness sectors in the provincial, regional, and subregional economies. The contract includes two 1-year option periods for an additional \$134 million—a potential total contract value of \$343 million.

Inma's strategy is based on pursuing targeted opportunities identified through a process known as value chain analysis. This process uses pricing information to analyze the marketing chain “from field to fork” in order to identify weak links that, if strengthened, would have the greatest impact. The strategy is further refined by focusing on “commodity clusters,” which consist of a number of related activities pertaining to a specific category of products. *Inma*'s commodity clusters comprise perennial horticulture, concentrating primarily on dates but also including crops such as grapes and pomegranates; annual horticulture, dealing with vegetables; and livestock and feed, which also includes fish. These groupings are complemented by a “cross-cutting” cluster that focuses on activities such as distributing market data, funding master's degree studies in agricultural disciplines, and providing technical training to Iraqi farmers.

The interplay of commodity clusters and value chain analysis has resulted in a geographic focus to *Inma* activities. This focus allows *Inma* to concentrate resources for greater effect by addressing multiple points in the value chain. For example, a demonstration project in northern Baghdad introducing farmers to improved seed varieties has been coupled with a nearby packing sheds initiative to enhance output, storage, and processing.



Photograph showing the distribution of *Inma*-funded plastic covers for greenhouses and seeds in Taji, Iraq. Source: USAID/Iraq

Refurbishment of a major marketplace in central Baghdad completed the value chain by providing a secure shopping area, cold storage capabilities, and other enhancements. In Salah ad Din governorate, renovation of a tomato-processing facility has been accompanied by demonstration plantings of tomato varieties bred specifically for processing. A summary of major Inma initiatives is provided in appendix III.

Given the complexities of operating in Iraq, effective coordination with a number of other parties is imperative for Inma's success. Provincial reconstruction teams and the U.S. military assist the mission's economic growth and agriculture office not only logistically, but also through relationships they have developed with local Iraqi leaders. In addition, these entities have helped identify potential projects for Inma involvement through a job order system. Inma also works with Iraqi organizations to interface with Iraqi farmers when necessary.

Inma was originally designed to pursue selected proposals primarily through grants. However, another legacy of centralized planning during the Baathist era was the dearth of private financial intermediaries to provide agricultural credit. To rectify this deficiency, USAID has initiated a grant-to-loan component to Inma's funding mechanisms. Under this initiative, approximately half of the funds originally budgeted for direct grants are to be distributed to private banks instead, thereby creating the basis for a sustainable agricultural lending capacity. The initiative is still in its initial stages.

While there is still state involvement in Iraqi agriculture, Inma is strictly geared toward private sector development. Consequently, government organizations, except for academic institutions, are not eligible for Inma grants. The level of resources devoted to this program, however, means that not all promising proposals can be pursued. Inma's strategy and success hinge on the ability to identify and nurture key entrepreneurs who can drive the development of associated enterprises within their respective commodity clusters, thereby increasing Iraqi agricultural income and employment.

AUDIT OBJECTIVE

The Office of Inspector General/Iraq conducted this audit as part of its fiscal year 2008 annual audit plan to answer the following question:

- Is USAID/Iraq's Agribusiness Program achieving intended results and what has been the impact?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

Two of 12 agribusiness activities reviewed by the audit were not achieving intended results. Owing to delays in the startup of USAID/Iraq's Agribusiness Program it was too early to determine whether the other 10 activities were achieving planned results. It was also too soon to determine the impact of the program as a whole in Iraq. Nevertheless, the audit team identified several areas in which USAID/Iraq could improve its management of this important program.

USAID/Iraq's Agribusiness Program, known as Inma, only recently completed its first year of implementation and has not yet yielded performance data relating to that entire year. Only 5 of 12 activities reviewed during the audit were actually underway. These five projects showed some early progress, but a review of Inma's central objective, to aid all elements in Iraq's agronomic value chain, was inconclusive, as many agricultural initiatives depend on future seasons, germination, or breeding to yield reportable results. Therefore, a reasonable judgment regarding the demonstrable impact of Inma activities on Iraqi society could not be made at the time of this audit.

During its first year of implementation, USAID/Iraq's Agribusiness Program evolved from a primarily reactionary program directed to fund agricultural initiatives provided by provincial reconstruction teams (PRTs) and the U.S. military, to a sustainable agribusiness development program. Despite this transformation and other challenges that delayed the early implementation of Inma, recent developments indicate that Inma is moving toward a more effective means of achieving program results. For instance, when Inma mobilized—6 months after the previous USAID/Iraq agriculture program¹ had ended—PRTs and U.S. military personnel were eagerly waiting



Photograph showing Inma's senior engineer reviewing plans for a Baghdad market with fellow members of a provincial reconstruction team. Source: USAID/Iraq

to request financing for agribusiness ideas. Originally used to identify and track large numbers of project proposals, Inma's job order system created a false sense that each request would be supported. When Inma officials realized that the job order system was working to their disadvantage, they began to use the data collected by the system to

¹ USAID/Iraq's previous agriculture program, the Agriculture Reconstruction and Development Program for Iraq (ARDI), ended in December 2006.

develop regional value chains—an agronomic model that has allowed Inma to effectively link related agricultural activities within the various economic regions of Iraq. PRTs came to understand that they were to support Inma’s broad goals, rather than vice versa.

An example of USAID/Iraq’s Agribusiness Program expanding initial PRT requests into other value chain activities is in the Babil governorate. Inma was increasing the ability of fish farmers to produce for a competitive market by helping to strengthen the links of the fish value chain, beginning with the market. A \$3.6 million “forward contract agreement” with the Euphrates Fish Farm to purchase fingerlings (juvenile fish 3 to 4 inches long) at a fixed price provided the hatchery with vital up-front funding. Information provided by Inma indicated that the Euphrates Fish Farm doubled its expectations by producing an estimated 12 million fingerlings. PRT officials who visited the site reported on its positive results



Photograph of Euphrates Fish Farm workers netting fingerlings for distribution to other fish farms in Iraq. Source: USAID/Iraq

to the auditors. This surplus—attributable to improved feed and increased water flow that provided better pond oxygenation—will enable the fish farm to supply fingerlings to farms as far south as Basra. This progress has further increased Inma’s involvement in feed mills and distributors to provide quality and consistent feed in the Babil area.

Although USAID/Iraq’s Agribusiness Program has demonstrated some successful results, at least two of its major activities—revitalizing Iraq’s date industry and obtaining U.S. master’s degrees for 25 Iraqi agriculturalists—will not likely achieve planned results within the 3-year life of the program. Moreover, opportunities exist for USAID/Iraq to improve its management of the program by adding and/or revising performance indicators, improving the utility of financial reports, and ensuring that a provision to prevent the possible financing of terrorism is included in all subcontracts. These matters are discussed more fully in the following sections.

Intended Results in Date Industry Are Not Likely to Be Realized

Summary: USAID/Iraq’s Agribusiness Program set an initial target of increasing the gross sales of dates by 150 percent over 3 years. This target likely will not be achieved within the 3-year life of the program because it is too ambitious for the current state of the Iraqi date industry. Also, a previous USAID/Iraq agricultural program was not used by the current program as called for in the Inma contract. Diminished results for dates will make the program’s overall sales and employment goals more difficult to achieve.

An integral component of Inma's plan to increase agribusiness sales and employment was the revitalization of the Iraqi date sector. Inma set an initial target of increasing the gross sales of dates by 150 percent over the 3-year term of the contract. Inma's strategies for reaching this target included increasing export sales through enhanced grading, sorting, and packaging capabilities. In addition, the development of new date-based products was intended to increase domestic and foreign consumption.

Despite these strategies, it is highly unlikely that the initial target for increased date sales will be realized, owing to serious declines in the quality of Iraqi dates combined with unfavorable market conditions. According to Inma officials, the deterioration of the Iraqi date sector was due in large part to disruptions caused by the Iran-Iraq war, the draining of the southern marshes, and U.N. sanctions. These events provided opportunities for other countries to expand their presence in the global market, which they exploited at Iraq's expense. Moreover, the long-standing effects of socialist policies discouraged entrepreneurial efforts and diminished incentives for investment in the date sector. The net result, according to an Inma survey report, was that "in Iraq today private investors have no incentive to improve quality in the [date] value chain." Consequently, the initial target for date sales was and remains overly ambitious.

In addition, according to USAID's contract with the Louis Berger Group, Inc., the intent of Inma's date activities was to build upon the mission's previous agriculture initiative, the Agriculture Reconstruction and Development Program for Iraq. Under that program, the initiative intended to restore the Iraqi date palm production by establishing 21 date palm mother orchards and providing support to a number of date palm nurseries. However, security concerns kept the previous contractor from disclosing the locations of those orchards and nurseries. Without fundamental information such as the locations of the prior USAID-funded date projects, Inma was unable to capitalize as intended on the results of the previous program.

Nevertheless, Inma officials stated that the key to success with Iraqi dates would be to identify niches where favorable investment conditions exist. Inma officials were attempting to do this through coordination with other initiatives. For example, the Balad Canning Factory, a major Inma project, developed a production line capable of producing date syrup, a widely used staple item in Iraq, which Inma officials believe has untapped market potential. Ideas for the production of date-based snacks at the same facility are also being explored at the same facility. In addition, Inma is planning to conduct training for Iraqi date traders on providing value-added marketing services to increase revenue, and plans to share the results of an international date assessment.

Regardless of these initiatives, Inma officials have indicated that the current state of the Iraqi date sector dictates the need to adjust the initial target for increasing date sales. Since dates are the major crop in Inma's perennial horticulture cluster, diminished results for dates will make the overall sales and employment goals established at the beginning of the program more difficult to achieve. For USAID/Iraq to achieve those overall goals, other clusters would have to compensate for this shortfall. Consequently, this audit makes the following recommendation:

Recommendation No. 1: We recommend that USAID/Iraq review and revise the performance target for the date sector in light of current market information and adjust targets for other agricultural commodities, as appropriate, to help ensure that the overall sales and employment targets for USAID/Iraq's Agribusiness Program are achievable.

Intended Results for Master's Degree Activity Are Not Likely to Be Realized

Summary: USAID/Iraq's Agribusiness Program established an activity to provide opportunities for 25 Iraqis to receive master's degrees in agriculture-related studies from U.S. universities. However, after the first year of the 3-year program, no master's degree fellowships have been awarded as few qualified applicants have been identified. As the activity is not likely to achieve its goal of obtaining 25 master's degrees for Iraqis within the remaining 2 years of the program, excess funds not used to fund the master's degree activity should be put to better use.

USAID/Iraq's Agribusiness Program sponsors a 2-year activity for Iraqi university graduates to receive a master's degree in an agriculture-related field at a U.S. university. Specifically, the activity plans to send 25 Iraqi students to the United States at an estimated cost of \$5 million, provided the students meet the minimum required test scores.² The activity anticipates that the students' postgraduate work would be completed by the end of Inma's 3-year contract.

USAID/Iraq documents indicate that the master's degree activity will not likely achieve its intended results during the remaining 2 years of the activity. A mission quarterly portfolio review, dated April 28, 2008, documented the difficulty in identifying qualified candidates prepared for graduate work in the United States. Of the 20 applications received as of that date, 18 applicants did not have acceptable English language scores, only 3 applicants had a background in an agriculture-related field, and none had achieved the minimum required GRE test scores. Furthermore, a recent decision memorandum for the USAID/Iraq mission director from the agribusiness program cognizant technical officer warned that the master's degree activity could succeed only if USAID/Iraq exercised both of the contract's option years. The memo asserted that the program had not yet awarded a single fellowship and that it may be able to sponsor only three to five candidates—who were in the final stage of placement—to commence their studies in the fall of 2008.

The difficulty of recruiting qualified Iraqi applicants from the private sector who are proficient in English or have a background in agriculture has hindered the master's degree activity's ability to achieve its intended results. As a result, the master's degree activity will not likely achieve its intended results or expend all of the \$5 million allocated to it. Consequently, this audit makes the following recommendations:

² Minimum scores were established for the Graduate Record Examination (GRE) and the Test of English as a Foreign Language (TOEFL).

Recommendation No. 2: We recommend that USAID/Iraq reassess the feasibility of sending 25 students to the United States for its master's degree activity under the Inma Agribusiness Program and adjust its planned results accordingly.

Recommendation No. 3: We recommend that USAID/Iraq, after making adjustments per Recommendation No. 2, reprogram any funds remaining from the \$5 million allocated to the master's degree activity and put them to better use.

Performance Indicators Need to Be Added and/or Revised

Summary: USAID policy states that operating units are responsible for establishing systems to measure progress toward meeting intended objectives with performance indicators that closely track the performance and results they are intended to measure. It further states that the activity being measured should be reasonably attributable to USAID efforts. Two significant agribusiness program activities did not have performance indicators established to measure their progress, and 8 of 44 indicators reviewed were not directly attributable to Inma activities. This occurred due to an oversight on the part of USAID and Inma staff despite the fact that performance indicators were periodically assessed. Without up-to-date and attributable performance indicators, USAID/Iraq may not be able to accurately measure agribusiness program achievements.

USAID's Automated Directives System (ADS) 203.3.2 states that operating units are responsible for establishing systems to measure progress toward meeting intended objectives. Specifically, ADS 203.3.4.2 states that quality performance indicators should be direct and closely track the results they are intended to measure and that performance indicators selected for inclusion in the performance monitoring plan (PMP) should measure changes that are clearly and reasonably attributable to USAID efforts. ADS suggests that one way to assess attribution is to ask, "If there had been no USAID activity, would the measured change have been different?"

Despite this guidance, two significant agribusiness program activities did not have performance indicators established to measure their progress, and 8 of 44 indicators reviewed were not directly attributable to Inma intervention.

Activities without performance indicators – As previously stated, the master's degree activity did not have a performance indicator to measure its performance. Inma's PMP did not include a performance indicator to monitor the master's degree activity's progress and results owing to an oversight on the part of Inma and USAID staff. Consequently, the master's degree activity continues to operate without a formal performance indicator with which to measure its progress.

Inma's expanded grant program also lacked updated performance indicators. A letter from USAID/Iraq's cognizant technical officer to Inma's chief of party, dated March 12, 2008, requested action to modify key implementation documents as a result of an amendment to the Inma implementation plan to broaden the grant program. According to the letter, key documents, including the implementation plan, the 2008 workplan, and

the PMP, were to be modified and submitted to USAID/Iraq for approval within a month. Despite this request, the Inma contractor did not provide the requested documents until June 2008. According to the cognizant technical officer, the modified documents contained new performance indicators for the expanded grant program, but those indicators were still pending approval by USAID/Iraq as of the end of the audit. According to USAID/Iraq's cognizant technical officer, this occurred because Inma's key monitoring and evaluation staff member was out of the country during the period the instructions were given to update the key implementation documents. Consequently, the significantly expanded grant program has gone several months without approved performance indicators.

Indicators not reasonably attributable to Inma activities – The audit team reviewed 44 performance indicators listed in Inma's PMP to determine whether they measured results that were reasonably attributable to Inma activities. Eight of those indicators did not appear to be reasonably attributable to Inma activities. For example, one Inma performance indicator was that “[g]ross sales of dates [be] increased.” As worded, the indicator measures all Iraqi date sales and not just those attributable to Inma activities. Inma should include only indicators that are direct and report data that are clearly attributable to Inma activities.

Another performance indicator identified in the PMP was “[g]ross sales of targeted fruits and vegetables doubles.” Again, this indicator measures all Iraqi sales of selected, or *targeted*, fruits and vegetables. Further, the term *targeted* is not defined in the PMP. As a result, this performance indicator lacks the attributes to clearly link results with the program activity.

One Inma official stated that the program's needs are reassessed every quarter through the preparation of quarterly reports. Through these reviews it became apparent that the performance indicators required revision. The official reasoned that the indicators remained acceptable at the time; however, targets required review and, where necessary, revision as the program developed.

Prompt establishment or updating of performance indicators to reflect changes in Inma's programs or conditions is necessary for adequate program monitoring. Such performance indicators need to incorporate all the data quality standards outlined in ADS—including being reasonably attributable to USAID activities—in order to manage for results and provide credible reporting. Without clearly defined indicators, the mission will not be able to accurately measure program progress and achievements. Consequently, this audit makes the following recommendations:

Recommendation No. 4: We recommend that USAID/Iraq establish appropriate performance indicators to monitor Inma's expanded grant and master's degree activities, as well as any other major program components without performance indicators in accordance with USAID's Automated Directives System 203.3.

Recommendation No. 5: We recommend that USAID/Iraq review Inma program performance indicators listed in its performance monitoring plan to ensure that they are reasonably attributable to USAID activities, in accordance with USAID's Automated Directives System 203.3.

The omission of the provision from the Executive Order on Terrorism Financing in the Inma contractor's subcontract with the Euphrates Fish Farm, a local Iraqi business, may increase the risk that USAID funds are used to finance terrorism. Consequently, this audit makes the following recommendations:

Recommendation No. 7: We recommend that USAID/Iraq verify that the Inma contractor modifies the subcontract language with the Euphrates Fish Farm to include the required provision pertaining to the Executive Order on Terrorism Financing.

Recommendation No. 8: We recommend that USAID/Iraq obtain written assurance from the Inma contractor that the required provision pertaining to the Executive Order on Terrorism Financing is included in all current Inma subawards.

