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Auditor General

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AUDIT REPORT

LUWU AREA AND TRANSMIGRATION DEVELOPMENT PROJECT

LOAN NO. 497-T-038

PROJECT 497-0244

USAID/INDONESIA

Audit Report Number 2-497-79-14

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Area Auditor General East Asia
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EXECUTIVE SUMMARY

I. Introduction

As part of the Area Auditor General/East Asia's annual audit plan, an audit was conducted of the Luwu Area and Transmigration Development Project (Luwu). AID Loan No. 497-T-038 dated October 23, 1975 for \$15 million has financed the project (Exhibit A).

Basically, the loan financed various sub-projects whose overall goal was to develop the Luwu area on Sulawesi, a major island in Indonesia, for the use of transmigrants and other settlers. Sub-projects include construction of 176 kilometers of road, 79 bridges and 4,224 linear meters of culvert drainage structures; rehabilitation and extension of the Bone-Bone and Kalaena irrigation system which will service 8,600 hectares of net irrigable area; construction of 4 farm cooperative centers and four regional agricultural extension centers; provision of training to project personnel and an evaluation program to measure project progress.

Each sub-project is complementary and their execution as a package was planned to intensify the total project's impact upon the sector goal which is to improve the well-being of small farmers in the area by raising agricultural productivity sufficiently to increase both per capita consumption and movement of marketable surpluses to nearby food deficit areas.

Implementation of the project is complex. Close horizontal inter-agency communication and coordination is necessary in a coordinated multi-sector rural development project. In the case of the Luwu project, coordination has involved linkages with the six Government of Indonesia (GOI) Directorates General directly involved, four Directorates General indirectly involved, two universities, two research institutes, a training institute, four foreign donors, two private voluntary organizations, and a large multinational corporation. Coordination is a necessity to project success.

The costs of the project have been divided into three financing categories: (1) traditional direct procurement; (2) Fixed Amount Reimbursement (FAR); and (3) GOI contribution. Direct procurement is used to finance advisory services, light construction equipment and steel for bridges. Almost all of the FAR financing is related to local construction costs. These

construction costs will be reimbursed as identifiable units of work are completed. Loan funds under the FAR arrangements are not released until work units are completed and completed in a fashion acceptable to USAID/Indonesia.

II. CONCLUSIONS AND RECOMMENDATIONS

General Conclusion

Defects in project development have resulted in extended delays in the obtainment of project goals (Page 4). A project designed for completion by 1979 is now forecasted to be completed by 1983 (Page 7). Loan disbursements are inordinately low reflecting the slowness of project implementation (Page 18).

Supporting Conclusions

- Early project development and design did not provide for sufficient coordination and authority for project management to ensure an expeditious implementation of project objectives (Page 5).
- Obtainment of project objectives is significantly behind schedule (Page 7).

A road project planned for completion by 1978 is just getting under way (Page 7). Delays in road construction can be attributed to:

- an inaccurate road design;
- inexperienced construction contractors;
- inefficient use of engineering consultancy services;
- lack of bridge designs;
- insufficient construction supervision.

Recommendation No. 1

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga (the GOI- Department of Highways) to advise the construction contractor to provide a time schedule to ensure an early completion of housing facilities for on site expatriate personnel (Page 12).

Recommendation No. 2

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga in coordination with the consulting engineer to review existent equipment, provided by the construction contractors, determine its adequacy and provide recommendations to ensure that equipment available is suitable to needs (Page 12).

Recommendation No. 3

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga to finalize its decision on bridge design and forward the designs to the construction contractors (Page 12).

Recommendation No. 4

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga to advise construction contractors on the importance of the project managers' presence at job site to ensure adequate project management (Page 12).

Two irrigation systems were to be rehabilitated and extended by 1979 (Page 12). New target date is 1983. Twenty-eight percent of the work has been contracted. Contributory problems are:

- poor survey and design work;
- inadequate quality control on construction;
- unavailability of local construction contractors;
- non-preparation of an operation and maintenance plan.

Four Farm Service Centers, to provide agricultural assistance to farmers, were to be constructed by October 1978 (Page 14). New projected date of completion is January 1981. The centers were to be composed of a regional extension center and a farmer cooperating center. To date, 4 regional extension centers have been constructed and 1 farmer cooperative center partially constructed. Areas associated with the delays are:

- little coordination with concerned GOI agencies;
- construction not in accordance with AID criteria;
- budgetary limitations.

Recommendation No. 5

We recommend that USAID, through the Luwu Project Office, request the Department of Agriculture to improve coordination between the Rural Extension Centers (RECs) and Farmer Cooperative Centers (FCCs) to ensure the successful foundation of the FCCs (Page 15).

Recommendation No. 6

We recommend that USAID, through the Luwu Project Office, request the Directorate General of Cooperatives to develop a time schedule for the completion of the remaining FCCs (Page 16).

Training to be provided as a means of upgrading project personnel has been handicapped by the need for additional planning to ensure its effective utilization (Page 16)

Recommendation No. 7

We recommend that USAID request the Luwu Project Office to develop a planned schedule of training activities to be financed by loan funds (Page 16).

Effective evaluation means and methods to judge project progress have not been developed by the GOI. Actions taken by the GOI, to date, to implement evaluation techniques have been considered grossly inadequate (Page 17).

Recommendation No. 8

USAID review the current evaluation report to determine its adequacy. If the report is not considered adequate USAID should pursue alternate means of evaluation (Page 18).

Financial management of the loan should be improved (Page 18).

Isolation of loan reimbursable expenditures for the project has not been accomplished. The lack of a clear distinction as to reimbursable elements of the loan deprives AID management of a complete history of loan financing from its conceptual inception in the Capital Assistance Paper.

The use of fixed amount reimbursement procedures for a project to be implemented over a lengthy period of time has resulted in the existence of a large pipeline of undisbursed loan funds.

Recommendation No. 9

We recommend that USAID delineate current and future commitments under the loan and formalize commitments with a memorandum of understanding between USAID/Indonesia and the GOI. The memorandum of understanding should be supported by a reconciliation of the original CAP estimated amounts with current and future commitments (Page 21).

BACKGROUND

The Luwu Area and Transmigration Development Project (No. 497-0244) (Luwu) is one of USAID/Indonesia's first attempts at an integrated approach to area development. The Luwu project is designed to provide assistance in rural development based on an integrated approach. The project contains five separate activities:

- upgrading the main trunk road through Kabupaten (District), Luwu from Palopo to Malili (176 kilometers);
- rehabilitation and extension of the Bone-Bone and Kalaena irrigation systems which border the Palopo-Malili Road;
- establishment of four pilot Farm Service Centers serving, but not limited to the proposed irrigation schemes;
- creation of a project organization supported by short-term training and foreign technical assistance along with an annual evaluation to assess the impact of the package and its individual components;
- a transmigration program to transfer 3,550 families to farm the newly irrigated areas.

The purposes of the project are in three interrelated areas: (1) agricultural productivity; (2) well-being of the rural poor; and (3) institution-building. Increased agricultural productivity by the rural poor is the primary focus of the project. Implementation of the project will result in increased productivity and production. Increased labor productivity, employment opportunities and improved access to markets are expected to increase the real income levels of the target group, the rural poor.

Since this project was one of the first attempts at an integrated approach to area development in Indonesia it also provided an educational function for the Government of Indonesia. A key element to successful implementation of the project is the coordination of many GOI agencies to obtain project objectives. To ensure coordination a project office in Luwu was established. The project office organizationally,

is located in the Directorate General for Transmigration (GOI). USAID/Indonesia sought, at the time of project development, to extend sufficient authority to the project office to assist the office in ensuring other GOI Agencies' effort and coordination. Particular to the authority sought by USAID/Indonesia, was the authority of the project office to oversee and approve sub-project budgets. This particular authority proved unattainable at the inception of the project. USAID/Indonesia proceeded with the development of the project, aiming to increase the project office's authority during implementation stages of the project.

AID loan funds are primarily to be used for road construction and irrigation canal improvement. Specifically, funds are to be used to offset costs for a portion of road and canal construction; importation of steel for bridges; expatriate technical assistance; land clearing; training and project evaluation.

SCOPE OF AUDIT

Our audit was primarily concentrated on a review of USAID management of the project with particular emphasis on project design, implementation, and evaluation. We reviewed project documentation and interviewed project personnel both at the USAID and at various GOI agencies. A visit was also made by us to Luwu District in South Sulawesi, Indonesia to observe on-site project activities.

The audit covered project activities through June 30, 1979. It was made in accordance with standards prescribed for government audits and included audit procedures as deemed necessary in the circumstances.

The responses of USAID/Indonesia to our findings and recommendations were taken into consideration in the final preparation of this audit report.

FINDINGS AND RECOMMENDATIONS

Project Development

Means and methods used to develop and design the project contributed towards the delays associated with project implementation.

Development of the Luwu Project as a source of U.S. assistance began in 1973. A USAID Food for Peace Officer on a trip to Luwu District defined it as a potential area for a regional development project. On that basis USAID undertook several exploratory studies to judge the project's feasibility.

As part of USAID's review of the project's feasibility, a Program Officer in a memorandum dated October 10, 1973 prepared "pros and cons" for selecting Luwu for USAID/Indonesia's initial grass roots project. Within the memo the author states:

A relatively small project (\$10 million plus or minus \$5 million) it will be fraught with organization difficulties (many ministries involved) subject to administrative rivalries, . . . flow of funds questions, planning and coordination headaches, supervision/monitoring/communication hardships (probably) and no consultants will be willing to stay there for long.

Realizing the difficulties that would be encountered USAID/Indonesia continued its efforts to develop the project.

USAID sponsored an Irrigation Appraisal Evaluation Report for Luwu to be prepared by Engineering Consultants, Inc. The report, issued December 18, 1974 states:

The lack of coordinated planning in the area (is) where many of the problems stem ...

The report goes on to state that the lack of coordinated planning between various governmental agencies is very obvious in the field. One symptom of the lack of coordination was the need to redesign an irrigation system.

Under Presidential Decree No. 29, 1974 entitled "The Formation of a Body for the Expansion of Development in Transmigration Areas", committees at the national, provincial

and district levels of government were established to increase operational coordination within the transmigration program. A project office was also established within the Ministry of Manpower, Transmigration and Cooperatives to administer the Luwu project.

According to the Capital Assistance Paper (dated May 27, 1975) for the Luwu Project, in order for the Luwu project office to exercise control it would have to have some control over the money budgeted. Therefore it was proposed that the project office be the central focus for the submission of budgets for all sub-project activities.

As a Condition Precedent to Disbursement of loan funds, the Loan Agreement required a detailed description of project organization and financial procedures to assure effective execution of the project. The project organization supplied by the GOI to clear the condition precedent precluded any financial control by the GOI project manager. In a memo dated March 2, 1976 the USAID project officer stated:

I believe the decrees formally state the concept we have been working toward, i.e., a formal coordinating body ... not a project authority. There are some implementational details (e.g. role of the GOI project manager in processing flow of funds for non-transmigration sub-projects) which will still have to be worked out as the "project organization" evolves.

Over the life of the project, the GOI project manager has not had control of the money budgeted for the individual sub-projects as expressed in the CAP.

The two project evaluations performed have detailed the pronounced ill-effects of poor coordination. Statements, such as:

...in general it has been very difficult to maintain cooperation by all entities. The result has been delays, frustrations for all, and lagging enthusiasm in some circles for the project as well as for the coordinated multi-sector approach to rural development.

and,

... in planning an integrated, multi-sectoral, rural area development program, where a coordinating agency of some sort is charged with the responsibility for the management of that effort, that agency must also be given some instrument of authority to carry out its responsibility. In the case of this project an appropriate mechanism would be to provide the Luwu Project Office with some degree of budgetary request and approval authority.

Project implementation is significantly behind schedule with many of its sub-project activities. The delays in project activities may be directly attributed to lack of authority at field site locations. The lack of authority is a direct result of an inadequate formation of the original project office. While the project office was given the responsibility of coordinating other GOI agencies activities it lacked the authority to carry out the responsibilities. In effect responsibilities exceeded authority. USAID has attempted to rectify the situation by constantly bringing before high GOI officials the need to strengthen the project office. In a recent meeting, the GOI agreed to provide additional authority to the project office. Among the changes to be implemented are: redefinement of project office lines of authority; assignment of personnel to the project with full authority to carry out project activities; and preliminary budget data for project activities must pass project office approval.

In summary, lack of effective coordination between GOI agencies and the lack of sufficient authority at project site has drastically affected project performance. This poor performance of the project will be viewed within sub-project activities described in subsequent sections of this report. We endorse USAID efforts to ensure effective coordination and authority at the project site. It is because of these efforts that no formal recommendation for corrective action is being made. However, it is also to be recognized that the present project office as it is now constituted does not provide an ideal model by which to monitor and manage project activities. To ensure the future implementation of the project USAID must remain vigilant to forestall any major problems related to coordination or lack of authority.

Project Implementation

Fulfillment of project objectives has met with numerous implementation problems. In addition, quantitative analysis of accomplishments to date versus original projections support the conclusion that the project is significantly behind schedule.

- ... 176 kilometers of road to be upgraded by late 1978; to date, no upgrading completed; new completion date 1983.
- ... 8,600 hectares producing irrigated crops; a workable plan for irrigation operation and maintenance; both to be accomplished by 1979; to date 28% of the irrigation construction/rehabilitation has been contracted; the operation and maintenance plan has not been developed; new completion date 1983.
- ... Four regional extension centers operating in coordination with four farmer cooperative centers to be constructed and in operation by October 1978. To date, four regional extension centers constructed however, two not to AID specifications. One farmer cooperative center partially constructed. New completion date January, 1981.
- ... Detailed plan for training project personnel to be completed by September 1977. To date, although 48% of the training has been provided no plan has been developed. New completion date for training is 1982.
- ... Evaluation program to be completed by April 1979. To date, an effective evaluation program has not been developed. New target date January, 1981.

The delays in sub-project implementation are attributed to several factors. Some of those factors are related to specific sub-projects while others can be seen as affecting the project as a whole. For presentation, we will review each sub-project activity and then provide a summary isolating problem areas which we feel affect the entire project.

A. Palopo-Malili Road

The objective was to construct 176 kilometers of road, 79 bridges, and 4,224 linear meters of culvert drainage structures

along an existing alignment between the towns of Palopo and Malili on the Island of Sulawesi. The objective was to be accomplished over a three year period (1976-79). This original projection was greatly underestimated. Road construction is just getting underway. In addition, due to very poor design work most of the road has had to be redesigned and road costs have been estimated to escalate from 50-100% above original cost estimates.

Almost three years elapsed between the effective dates of the loan agreement and the construction contracts. The delay in execution of the contracts can be attributed chiefly to the approval process on road design and the slow method by which the contracts were procured.

The CAP, dated May 27, 1975, reported:

At the present time Bina Marga's (GOI-Department of Highways) design office with the assistance of an Indonesian consulting firm is making the final designs for the Palopo-Malili trunk road and ... are scheduled for completion by July 1975.

In addition:

Design of the Palopo-Malili road is well underway by Bina Marga and the review of prefinal design and cost estimates has been completed by the USAID Highway engineer. By the time the loan agreement is signed, the final design should be approved so contracting and construction can begin.

The USAID highway engineer did not make final approval of the plans until November 1976. Subsequent to the approval, Bina Marga initiated steps to implement procurement for the construction contracts. Procurement for construction contracts also included procurement for engineering consulting services.

In both instances, procurement was directed towards local contractors assisted by "expatriate" personnel. In each case procurement action was slow. Contracts were executed in 1978. Use of local Indonesian contractors has been a contributory element in delaying project implementation.

At the project's outset use of local contractors was justified on the grounds that by doing so, the project would not only provide for the construction of a road but also would educate local contractors in road construction. Of the two construction contractors selected only one contractor had had any experience in road construction and that experience was limited. No other available contractors in Indonesia at the time of procurement had experience in road construction. This lack of experiences, coupled with the project's location in a remote area of Sulawesi was a significant factor in project delays. Mobilization contributed to the delay. Heavy equipment had to be moved from one Indonesian island to another, into an area where roads were barely passable under optimum conditions.

Construction of the road was initiated in August, 1978. But construction progress was immediately affected by the realization that the design of the road prepared jointly by Bina Marga and the Indonesian consulting firm was grossly in error.

The original design work was so poor that the consulting engineer with heavy assistance of its expatriate staff members is performing a redesign. As each section of the road is redesigned the plans are approved by Bina Marga and passed on to the construction contractors. A direct effect of the poor original design will be an escalation of construction costs. Estimates on the escalated cost of the road range from 50% to 100% over the original estimate. Escalated costs will be affected by inflationary increases and rises attributed to the rupiah devaluation of November 1978.

Road construction will continue to experience delays. Some of the contributory problems are:

Engineering Consulting Services

Provision of engineering consulting services in an efficient and timely manner has been a continuous problem. Bina Marga contracted with a local

Indonesian engineering consulting firm who in turn was required to subcontract with an American firm. This expatriate firm was to provide the Engineer-in-Charge. Since inception of the construction program the provision of engineering services has been inefficient due to a continuous series of logistical problems. As for example, housing as yet, has not been provided to the expatriate staff in a manner in which they feel is acceptable. Housing has been constructed at two separate sites. The houses, as inspected appear adequate in size for a small family (2 bedroom) and contain 3 air conditioning units, 1 stove, 1 refrigerator, 1 freezer and 1 washing machine plus what appears to be an adequate supply of furniture. The housing was only recently furnished. The expatriates are willing to move into the houses if the present water and power problems are resolved. The water available is not suitable for needs. As a consequence the expatriate staff has been residing at Rantepao, a site which is 159 kilometers from the job site. Travel time to the job site is approximately 5 hours over very rough road.

In addition, the American expatriate engineers have not been reimbursed for local currency costs since inception of the contract. Some of the expatriate staff have completed 12 months of service. It was not quite clear why the sub-contractor had not been reimbursed by the prime contractor, however, we were advised that funds would be forthcoming. The lack of funds did affect the expatriate's staff mobility.

Equipment

The Indonesian construction contractors have little or no experience at road construction. This lack of experience is reflected in the means and methods exercised to mobilize for construction.

Some of the comments provided by a USAID engineer and others pertaining to specific local contractors which were confirmed during our visit to the project site were:

Construction contractor for Section I

- whole production area was cramped, disorganized, and needs complete revamping in order to produce efficiently.
- maintenance yard was full of broken down equipment and the limited garage area was as usual, a cluttered mess of broken down trucks, dozers and jeeps. The shops needs organization, direction and expansions.

Construction contractors for Section I & II

- The present crusher to crush the volume of rocks needed does not have sufficient capacity.

These and other comments are indicative of the lack of experience on the part of the local contractors which will take time and technical assistance to alleviate.

Other Contributory Problems

Bridge design is still in the process of approval and implementation. The reconstruction of existent bridges is a necessity. Some existent bridges are very marginal and would be impassable for heavy construction equipment. Until design work is completed and actual construction completed, existent bridges will prevent the local construction contractors from proceeding.

Project managers for the local construction contractors spend frequent amounts of time away from the project site mainly in Jakarta. Inasmuch as decisions are only complete upon the approval of the GOI project manager, work progress is detrimentally affected by their absences.

Construction Progress to Date

Construction has just started. One of the local construction contractor has completed 18 kilometers of river-run subbase. The subbase was laid without completed drainage, but the contractor has provided guarantees to Bina Marga for possible damages attributed to water erosion.

Road construction is significantly behind with current projections for completion in 1983. As reported by the USAID project officer, this projection may prove overly optimistic. To assist in expediting current road construction in an effective and efficient manner we make the following recommendations:

Recommendation No. 1

We recommend that USAID/Indonesia request, through the the Luwu Project Office, Bina Marga to advise the construction contractor to provide a time schedule to ensure an early completion of housing facilities for on site expatriate personnel.

Recommendation No. 2

We recommend that USAID/Indonesia request, through Luwu Project Office. Bina Marga in coordination with the consulting engineer to review existent equipment, provided by the construction contractors, determine its adequacy and provide recommendations to ensure that equipment available is suitable to needs.

Recommendation No. 3

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga to finalize its decision on bridge design and forward the designs to the construction contractors.

Recommendation No. 4

We recommend that USAID/Indonesia request, through the Luwu Project Office, Bina Marga to advise construction contractors on the importance of the project managers' presence at job site to ensure adequate project management.

B. Irrigation

The original project objective was to rehabilitate and extend existent irrigation systems in the Bone-Bone and Kalaena areas of Luwu in order to service 10,760 hectares

of net irrigable land. This original objective was later reduced to 8,600 hectares after completion of a master plan for irrigation development for the North Luwu Plain which was dated March 1977. The master plan was completed by the GOI with the assistance of the Kingdom of Netherlands. The adjustment between the original and the final objective was attributed to refinement of design and cost efficiencies.

To date, the construction program for irrigation has lagged behind projected schedules. For example, only 28% of the total construction package affecting the 8,600 hectares has actually been contracted. A USAID engineer pointed out however that the 28% contracted represents 41% of the AID loan financing for irrigation. Of the work contracted, progress to date among the individual contracts ranges 65 to 100% complete.

The construction program has been handicapped in several areas. Some survey and design work was poor and had to be redone. Heavier than usual rains impeded work. Quality of construction was in need of improvement. Availability of qualified contractors was limited.

Quality control on construction has been a problem. The Directorate General of Water Resources Development (DGWRD) is responsible for supervising construction. As part of its supervision, the DGWRD must implement a materials testing program. The DGWRD Engineer assigned to the project, has failed to provide any kind of testing laboratory at the site. Only recently a testing laboratory of the road betterment project was made available for irrigation construction purposes. In addition as reported by a USAID engineer -

Construction inspectors have little if any authority to alter poor construction practices by DGWRD contractors in the field. Situations are reported to Palopo and then referred to Ujung Pandang for decision. This procedure results in sufficient delay to allow contractors to complete works before remedial action can be taken.

The DGWRD has recently tried to rectify this situation by

assigning additional personnel to the project. It is too early to judge any effects of the corrective action.

Adding to the implementation problems, is the shortage of qualified contractors in the area. The shortage of contractors can be attributed in part to a nearby irrigation project which is Dutch-supported. The Dutch-supported project has absorbed several construction contractors who would have been available for the AID-financed project.

USAID has yet to approve any completed irrigation construction for reimbursement. However, a USAID engineer has reviewed completed construction in certain sections and has determined the work satisfactory and USAID will approve reimbursement shortly.

As part of the Loan's General Covenants and Warranties, Section 4.04 Operation and Maintenance, the borrower was to ensure, upon completion of work, that the construction be operated, maintained, and repaired in conformity with acceptable engineering, financial and administrative practices. During the course of our field visits, GOI personnel advised that they were in process of preparing an Operational and Maintenance plan. It would be in USAID's interest to ensure receipt of that plan prior to any significant reimbursements for irrigation construction. To make the plan meaningful, the plan should be supported by GOI directives providing budget and personnel for the operation and maintenance effort.

The USAID/Indonesia project officer has advised that reimbursement for the completed irrigation construction will not be made until clear evidence is given to show that an effective operation and maintenance plan has been submitted by the GOI. Based on the expression of USAID/Indonesia's intent to ensure the preparation/implementation of an operation and maintenance plan, no formal recommendation is made.

C. Farm Service Centers

As originally envisioned, farm service centers were to be comprised of a rural extension center (REC) and a farm cooperative center (FCC). Four centers were to be constructed. AID loan financing was made available for construction of

the centers and for furnishing them with equipment and vehicles. To date 4 RECs have been constructed and 1 FCC partially constructed.

Linkages were to be established between the RECs and FCCs. According to the CAP:

Prior to the physical construction of the Farmer Association Complex (FCC) facilities, Rural Extension staff will undertake pre-association formation activities, encourage and establish association membership, establish the association's organizational charter and by-laws, assist with the election of a governing board of directors, providing training for the board, organize association activities and assist with the election of association activity committees.

Our visit to the field sites revealed that little of any of the above mentioned activities were underway between existent RECs and the nearly completed FCC. One REC, through the initiative of its director had informally held training sessions for members of local farmer cooperatives.

Two of the four RECs were constructed prior to USAID's approval of their design. As a result USAID has decided not to reimburse for these units as the buildings constructed do not conform to AID criteria. Conditions Precedent to the Loan required prior approval before construction.

No specific reasons were available to explain the slow construction process of the FCC other than budgetary limitations. In order to ensure that the remaining FCCs are constructed in a timely manner, the GOI should develop a timetable for their construction.

Recommendation No. 5

We recommend that USAID, through the Luwu Project Office, request the Department of Agriculture to improve coordination between the Rural Extension Centers (RECs) and Farmer Cooperative Centers (FCCs) to ensure the successful foundation of the FCCs.

Recommendation No. 6

We recommend that USAID, through the Luwu Project Office, request the Directorate General of Cooperatives to develop a time schedule for the completion of the remaining FCCs.

D. Training

Loan financing was provided to train key members of the project organization and other concerned local government officials to provide them with skills necessary for the successful completion of the project. Under the loan \$122,000 was provided for training. To date, approximately \$59,100 has been committed or expended. Despite the level of expenditures an overall plan for training project personnel has not been prepared.

The Luwu Project Office has prepared annual plans for training but has not prepared, as outlined in the loan agreement, a comprehensive plan for the effective use of the loan training funds.

In a recent workshop attended by GOI and USAID officials on the Luwu project, the point was raised that training efforts to date seem to concentrate on upgrading central project office personnel. While this in itself is not inappropriate, greater emphasis should be directed towards a larger number of people at lower levels. Also a need was identified for a comprehensive training plan with inter-subactivity coordination.

The USAID project officer has advised that training budgeted in the future would be directed towards lower level areas of the project concentrating more on the pragmatic than the theoretical.

Recommendation No. 7

We recommend that USAID request the Luwu Project Office to develop a planned schedule of training activities to be financed by loan funds.

E. Evaluation

Project evaluation was to provide concerned personnel with a means by which to judge project progress. \$150,000 in loan funds was provided to sponsor project evaluation. While evaluation activities have been conducted, the methods and means used have been questionable.

According to the CAP, the evaluation program would emphasize the assessment of the impact of the project's inputs rather than monitoring the execution of those inputs and would include a broad-based social sector analysis of the impact of the project.

USAID has committed 35 million rupiah (approx. \$56,450) to the University of Hasanuddin (UNHAS) in Ujung Pandang, Sulawesi, for the implementation of the evaluation program. The University has prepared two evaluation reports. The first report was reviewed by USAID and AID-financed contractor personnel. As a result of their review they concluded:

- ... the survey work already done as well as that being planned by UNHAS is, for the most part, irrelevant and useless.
- ... data collected is highly questionable in terms of quality...
- ... reports are much too large, contain a great deal of irrelevant information.

It was recommended that the University obtain technical assistance from expatriates. This data was rejected by University personnel.

Subsequently a second evaluation report was prepared by the University and is being evaluated by USAID.

The subject of evaluation should be an essential element in any project. Lack of meaningful baseline data, studied in conjunction with changes in the project environment, precludes a clear judgement on the developmental effects of the project inputs.

Recommendation No. 8

USAID review the current evaluation report to determine its adequacy. If the report is not considered adequate USAID should pursue alternate means of evaluation.

In summary, many elements of the Luwu project are several years behind in implementation. Some of the implementation problems can be attributed to the slow methods used by bureaucracies and the necessary "red tape" associated with them. Procurement of contracts is a perfect example. It took over a year to procure the construction contracts. Other problems can be associated with the "remoteness" and "uniqueness" of the project. The project was located in an area not only remote but without an infrastructure, i.e. suitable roads, to assist in the project development. In addition the project was a "first" attempt at using local consulting and construction contractors. The only area which reflects poorly on USAID management appears with its monitorship in preparation and approval of road design. The CAP as presented, provides a strong case that (a) the pre-final design was sufficient; (b) the remaining design would be completed by the date of the loan agreement and (c) the Indonesian consulting engineer would adequately perform his task. As it turned out, the road design was completed and approved by USAID in late 1976, a full year after the date of the loan agreement. Why it was approved, is also questionable. Prior to construction, the design work approved for the road was proved grossly inadequate and the cost of the road will escalate because (a) the design work must be redone and (b) because the design was inaccurate, quantities were under-estimated. While no formal recommendation is made USAID should initiate steps to ensure that future projects, where design provides a key element, are properly reviewed to avoid similar conditions.

Financial Management of Loan Funds

Due to changes in project direction, reimbursable elements under the loan have been redefined. While changes have taken place, the loan documents and files have not completely reflected the modifications. The lack of complete financial documentation precludes management from adequately monitoring the utilization of loan funds from date of loan signature to terminal disbursement date.

In addition, loan funds, to date, have had a low level of disbursement. This low level of disbursement may be attributed to several factors, of which one of the prime factors may be the fixed amount reimbursement procedures.

The loan agreement provided \$15 million to finance U.S. dollar and local currency costs associated with the Luwu project. Subsequent to the loan, implementation letters were prepared setting forth the procedures for using loan proceeds. In Implementation Letter No. 1 dated January 7, 1976 the following statement is made:

The allocation and use of AID loan funds to pay for dollar and dollar currency costs will be discussed in detail in a subsequent implementation letter.

To date, an implementation letter has not been issued which itemizes the loan amount by specific category. Implementation Letters have been issued, such as Implementation Letter No. 7 dated June 30, 1978 which reflects on reimbursement of the road subproject and Implementation Letter No. 9 dated March 5, 1979 which reflects on the irrigation subproject. However, no one implementation letter reflects upon the entire loan amount.

The CAP for the Luwu project provides a detailed summary of project costs. The CAP is dated May 27, 1975. Since the date of the CAP, there have been some changes in project loan commitments. The following presentation indicates the changes between the original CAP figures and current commitment levels by area of expenditure.

<u>Item</u>	<u>CAP</u>	<u>Current Commitment</u>
Road	\$8,243,000	\$7,500,000
Advisory Services	746,000	1,125,000

The changes in dollar amounts reflects decisions made on the price and amount of imported steel and an increase in the use of advisory services dictated by project needs.

Recently, the USAID Luwu project officer, in a letter dated June 29, 1979 to his Indonesian counterpart, outlined financial commitments and expenditures under the loan. The purpose of the letter was to carefully outline commitments to date and to program the uncommitted remainder of the loan. The project officer's calculation indicated that \$13,331,934 is formally committed, leaving \$1,668,066 to be committed. Of the amount formally committed, \$1,075,000 had actually been disbursed (as of 6/30/79). Principal reason for the low level of disbursements is the lack of drawdowns for the reimbursement of costs associated with the road and irrigation works. The road project with the exception of the foreign exchange costs of the Louis Berger & Co. engineering consultancy services contract and the purchase of steel will not be a source of drawdowns for quite sometime. In the near future, USAID intends to reimburse for certain sections of the irrigation works. The use of the Fixed Amount Reimbursement (FAR) procedures in the project has been a contributory factor in the large pipeline of undisbursed funds. FAR arrangements are best suited for low cost, short-term projects. As outlined in AID Handbook 3, Project Assistance, a short-term project generally does not exceed two years. If the project is divided into separate reimbursable elements, each element should be completed within 9 to 12 months. Unfortunately the units for FAR reimbursements i.e. the road and irrigation works, under the Luwu project are forecasted to have a 3 to 4 year construction period. To help alleviate the burden on the GOI and to increase drawdowns USAID will segment the irrigation works into useable units and reimburse as they are completed as long as loan conditions are met.

Finally, an extension of the Louis Berger & Co. engineering consultancy services contract is being projected for the future. Funds for financing the services will probably be provided from the AID loan. Bearing in mind the need for loan funds to cover the additional technical assistance, it would be prudent to draw up a schedule of firm commitments under the loan. The remaining uncommitted funds would be available, if approved, for the technical services.

In summary, USAID, in order to fulfill the spirit of Implementation Letter No. 1 should formalize all present and future commitments under the loan. In addition to properly accounting for the use of loan funds, a reconciliation of original CAP estimated amounts with current and future

commitments should be performed. This analysis would provide USAID a means to judge monetary requirements in respect to the extension of technical services.

Recommendation No. 9

We recommend USAID delineate current and future commitments under the loan, and formalize commitments with a memorandum of understanding between USAID/Indonesia and the GOI. The memorandum of understanding should be supported by a reconciliation of the original CAP estimated amounts with current and future commitments.

EXHIBIT A

USAID/INDONESIA
Loan No. 497-T-038: Lusu Area & Transmigration Development
Financial Status as of June 30, 1979
(000 Omitted)

<u>Line Item</u>	<u>Key</u>	<u>DRA 03801</u> <u>Cost of</u> <u>Training</u>	<u>PIO/ 60316</u> <u>A. Hugh</u> <u>Denney</u>	<u>L/Com 03803</u> <u>Cheechi & Co.</u> <u>& DMJM</u>	<u>L/Com 03804</u> <u>Equipment</u> <u>Procurement</u>	<u>DRA 03805</u> <u>Fixed Amount</u> <u>Reimbursement</u>	<u>L/Com 03806</u> <u>Louis Berger Co.</u> <u>& Indah Karya</u>	<u>TOTAL</u>
Loan Authorization	A							\$ 15,000
Loan Commitments	B	\$ 22	\$ 15	\$ 1,110	\$ 851	\$ 2,000	\$ 970	<u>4,968</u>
Uncommitted Loan Balance	C=A-B							<u>\$ 10,032</u>
Current Contract Values	D	22	15	1,108	846	2,000	966	4,957
Current Disbursements Under Contract	E	9	15	464	587	-0-	-0-	1,075
Balance Available	<u>F=B-E</u>	<u>13</u>	<u>-0-</u>	<u>646</u>	<u>264</u>	<u>2,000</u>	<u>970</u>	<u>3,893</u>

REPORT RECIPIENTS

USAID/INDONESIA

Director 5

AID/W

Deputy Administrator (A/AID) 1

Bureau for Asia:

Assistant Administrator (AA/A) 1

Deputy Assistant (Audit Liaison Officer) 1

Office of Indonesia and South Pacific/
ASEAN Affairs (ASIA/ISPA)

Bureau for Development Support
Office of Development Information and
Utilization (DS/DIU) 4

Bureau for Program and Management Services
Office of Contract Management (SER/CM) 1

Office of Legislative Affairs 1

Office of the Auditor General:
Auditor General (AG) 1
Executive Management Staff (AG/EMS) 12
Policy, Plans & Programs (AG/PPP) 1

Area Auditor General:
AAG/Africa (East) 1
AAG/Africa (West) 1
AAG/Egypt 1
AAG/Latin America 1
AAG/Near East 1
AAG/Washington 1

OTHER

Auditor General, Inspections and Investigations
Staff (AG/IIS/Manila) 1