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AUDIT REPORT
ON
REVIEW OF FOOD AND NUTRITION SECTOR
USAID/NEPAL
AS OF SEPTEMBER 30, 1978

5-367-79-4

November 29, 1978

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INTRODUCTION

Nepal is one of the world's relatively least developed countries (RLDCs). About 90 percent of the 13.5 million population make a bare subsistence living in a stagnating rural, agricultural economy. Per capita annual income for roughly 80 percent of these people ranges between \$35 and \$90. Besides low per capita income, typical problems shared with other RLDCs include low productivity, rapid population growth of 2.3 to 2.5 percent, limited institutional development, inadequate financial resources, physical infrastructure and trained manpower, under-employment, lack of appropriate technology, fragile internal marketing linkages, inadequate health, and a low literacy rate.

In addition, Nepal's topography presents a unique constraint to economic development. Two-thirds of the country is covered by mountain ranges, culminating in the high Himalayas. The "Hills" that stretch throughout the central part of the country consist of mountain ranges, canyons, inter-mountain valleys and terraced mountain slopes. Valleys and mountain slopes are intensively farmed. The size of landholdings is small, averaging less than 0.6 hectare per family. Most farms are isolated from markets and roads. Frequently, it takes several days of trekking time for a farmer to get to a market. Population pressure has forced Hill farmers to move into marginal and steep land, resulting in timber losses and major soil erosion problems.

This topography makes communication and transportation extremely difficult. A wide range of temperature, rainfall and other conditions means that agricultural inputs, systems and technology

appropriate for one area are not replicable without significant modification in other nearby parts of the country. As a result, there are no easy answers in formulating an appropriate development strategy to assist Nepal's poor majority, the two-thirds of the population living in the hills and mountains, on one-third of the arable land supply.

An AID/W Strategy Review Team concluded in June 1977 that past progress and contributions to agriculture in the Terai (the southern lowland area of Nepal) had not benefitted the people living in the hills and mountains to any significant extent. This Team accordingly expressed the need for a better balance in agricultural development plans between the lowlands and the Hills so as to provide the benefits of development to the poor majority and also enhance the national cohesion of Nepal.

To this end, in August 1978 the USAID/N and the Government of Nepal (GON) concluded two new project agreements. One (Project No. 367-0118, Seed Production and Input Storage) covers a five-year, \$4.03 million project for producing, testing, processing, storing and distributing seed of the major food crops; and, for storing and distributing all inputs used in the production of these crops, cheaply and effectively, to all small farmers wanting them.

The second new project (No. 367-0133 - RAD/RCUP) is basically an umbrella-type undertaking to initially explore, plan and design discrete sub-projects for Rural Development of the Rapati Zone (RAD), and Resource Conservation and Utilization (RCUP) in the hills. Small pilot activities will be implemented. This initial two-year program will cost \$2.9 million.

Both RAD and RCUP efforts are expected to become separate, very long term (decades rather than years) projects requiring large amounts of resources and involving other donors.

To date, the backbone of USAID/N's assistance to the GON in the Food and Nutrition (Agriculture) Sector has consisted of the two projects (and related predecessor efforts) discussed in the following sections of this report of audit. Fiscal data as of June 30, 1978 are presented in Exhibit A. We also comment on complementary AID/W centrally funded activities.

The purpose of our review was to determine whether projects in the Food and Nutrition Sector are being effectively implemented and if goals are being realized.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the following section of this report, are summarized below:

- Institute of Agriculture and Animal Science (IAAS) Project, No. 367-0102. Several problems currently inhibit project implementation. Chiefly,
 - (a) The contractor has not maintained a full advisory staff at the IAAS. (See pp. 5 - 6).
 - (b) Plans and designs for the new campus are unsatisfactory. (See pp. 6 - 8).
 - (c) Construction of the first phase of the new campus is behind schedule. (See pp. 8 - 9).
 - (d) The GON is not providing certain essential services for the school. (See pp. 9 - 10).

- Integrated Cereals Project (ICP), No. 367-0114. Planning and Implementation delays have resulted in limited effectiveness in meeting project objectives. In summary,
 - (a) The start of the ICP slipped about 15 months because additional time had to be allotted to better defining institutional arrangements, scope of work and implementation plans. This delayed finalizing the implementing contract. In turn, the contractor had difficulty in recruiting personnel. (See pp. 11 - 13).
 - (b) Planned construction at two agricultural development farms has been slow, with lengthy interruptions. (See pp. 13 - 14).
 - (c) All three agricultural development farms have a surplus of machinery and equipment which should be disposed of. (See p. 14).

- AID/W Centrally Funded Projects. USAID/N's authority over and responsibility for three such projects are ill-defined and weak. If the advantage of close proximity to field activities had been exploited for project monitoring purposes, we believe one Grantee's performance could have been improved. (See pp. 15 - 20).

The report contains eight recommendations listed in Exhibit B.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

Institute of Agriculture and Animal Science (IAAS) Project, No. 367-0102

Several problems currently inhibit project implementation. Chiefly, (a) the contractor has not maintained a full advisory staff at the IAAS, (b) plans and designs for the new campus are not satisfactory, (c) construction of the first phase of the new campus is behind schedule, and (d) the GON is not providing certain essential services for the school. These issues are discussed below.

Contractor Staffing. The Midwest Universities Consortium for International Activities, Inc., (MUCIA) has not been able to recruit the four-member long term staff at the IAAS campus that the project envisaged. Experience indicates that probably a full complement of advisors will never be realized. The present MUCIA support staff and facilities are excessive for the smaller advisory staff.

On December 1, 1975, AID signed contract AID/NESA-C-1197 with MUCIA to assist the IAAS to develop academic and training programs for middle and high level officials of the Ministry of Agriculture, vocational agriculture teachers and supervisors, and farmers at the local level. The contract called for MUCIA to place a team of four long term advisors on the IAAS campus and to provide short term advisors as required.

Through July 1978, five long term advisors had been assigned to the project, but only two fulfilled a two-year tour. One member left after 15 months; another after 14 months; and, one left after only three months because of illness contracted in Nepal. From contract inception through July 1978, 128 person-months of long term assistance were called for, but MUCIA provided only 82 person-months. During this period, eight short term advisory visits also were made to the IAAS campus.

Two new long term advisors arrived on the Rampur campus in August and September 1978, replacing the original full-term advisors. A third advisor arriving in October 1978 is committed to only three months, with the option to extend to two years if he finds conditions acceptable for the longer term. The team leader advised us that MUCIA is currently attempting to fill the fourth position.

The MUCIA has encountered more problems staffing the project than were anticipated, primarily because of the remote and primitive location of the Rampur campus.

Although only two or fewer MUCIA advisors were on campus for 18 of the first 32 months of the contract, IAAS made significant progress during this period. The original team leader was a recognized authority on institution building. With his assistance a new curriculum was introduced, including a program leading to a baccalaureate degree. He was also instrumental in establishing project-oriented teaching methods and improving the organization of the school.

Nevertheless, the school is still in the early stages of development. The first baccalaureate degree class will not graduate until Spring, 1980. We believe that MUCIA advisors, whether four or fewer, can continue to make significant contributions to the development of the IAAS.

The present support staff and facilities for the advisors are certainly adequate for a full team of four members, and clearly excessive for the reduced number actually at site. When the MUCIA team first arrived they found that USAID/N could not provide the necessary level of support in Rampur. In that area, there are no public facilities for maintaining and repairing vehicles, air conditioners and generators. To handle the team's housekeeping and maintenance requirements, a local hire staff of 24 people has been acquired. The team also has four vehicles and four motorbikes.

In view of the problems involved in recruiting advisors for Rampur and the current progress being made, we are making no recommendation concerning MUCIA's professional staffing for the IAAS project. However, adjustment may become necessary in the supporting staff and facilities.

Recommendation No. 1

We recommend that USAID/N monitor the level of the MUCIA advisory staff, with a view to arranging reductions in support staff and equipment to a level commensurate with the number of advisors on-board.

Campus Construction. The IAAS and USAID/N are dissatisfied with the plans and designs for the Rampur campus; the first phase of construction is behind schedule; and, the project is expected to cost substantially more than has been budgeted. We believe project management should have taken more effective action to resolve these problems.

A grant agreement between the GON and USAID/N was signed January 13, 1976, providing funds for master campus planning, designs, cost estimates, site preparation and development, and construction and supervision of Tribhuvan University, IAAS's new campus facility at Rampur. The school is now housed in antiquated, termite-ridden buildings which formerly accommodated a trade school. As amended, the grant amount is 43,645,000 Nepalese rupees (equivalent to \$3,668,000 at \$1.00 = 11.90 Nepalese rupees) obtained through conversion of U.S.-owned Indian Rupees.

The grant agreement requires the GON to provide USAID 'N with copies of the designs and plans prepared by the architect and reports of construction progress. The USAID/N Office of Capital Inputs has oversight responsibility for the project. A Campus Development Committee (CDC), with members from USAID/N, IAAS, and the architect, monitors project progress.

In 1973 the IAAS campus was moved from a location in the Kathmandu Valley to Rampur in order to establish the rural character and orientation of the school. The IAAS and USAID/N officials believe the modern, stylized buildings designed for the Rampur campus are not consistent with the rural image they want for the school.

An Indian firm of architects was engaged to provide consulting services because of the Nepalese architect's limited experience in designing university campuses. However, neither the Nepalese architect nor the consultant seemed to recognize the kind of campus and buildings the IAAS wanted. Both IAAS and USAID/N officials had reservations with the proposed designs which were eventually approved. The CDC, as a cost saving measure, waived preparation of scale models. Without the plans in a model form, easy to visualize and understand, this long-standing dissatisfaction was only substantiated after construction was well along and the officials could see the shape the planned campus and buildings were taking.

Other planning and design discrepancies have arisen which further illustrate this problem.

In the classroom building, the largest lecture rooms as now designed will only accommodate 60 students. IAAS officials are concerned because certain classes now have over 100 students. The need for a planned cafeteria building is not clear since each of the dormitory complexes

includes a mess hall for student residents. Also, the MUCIA campus planning consultant has questioned the need for a planned auditorium and noted that the recently acquired animal farm is not included in the present campus master plan.

Rampur is in a humid, semi-tropical area. Because the buildings will not be air conditioned, the dormitory design must balance the conflicting requirements of lighting, ventilation and privacy. The architect has designed dormitory rooms that have small windows and open off of interior instead of exterior corridors. The IAAS and USAID officials believe that conditions in the new dormitories will be less comfortable than the present facilities which have large windows protected by exterior corridors.

Ten housing units for campus non-professional staff were designed with more amenities than are considered appropriate for that level of employee. IAAS officials recognized this inconsistency when the first units were nearing completion and stopped construction of the remaining units. The four units that were started will be completed and will probably be assigned to single professional staff members.

At the time of our review, construction was about 32 percent complete overall, compared with 85 percent called for in the construction schedule. The IAAS project engineer estimates the target completion date of December 1978 will slide to at least December 1979. While certain buildings are well along, the classroom and laboratory buildings are still at the foundation stage.

Shortages of brick and cement caused the major construction delays and are largely beyond the control of USAID/N or the IAAS. Brick production facilities in the Rampur area are uncertain and primitive. Two complete stocks of unfired bricks were lost because of unexpected rains. Cement supply has been curtailed because of a nationwide cement shortage. Recently, however, IAAS has received an import license which will facilitate obtaining cement from India.

Problems with the architect also caused construction delays. Supervision of construction by the architect was never satisfactory. First, the architect had difficulty finding someone to work in Rampur. Later, when material shortages delayed construction, the architect refused to provide a supervisor for the lengthened construction schedule because of the increased cost. In early 1978 construction was further delayed when the architect did not supply needed drawings to the

contractor. The architect withheld the plans because of an unexplained GON stoppage of payments to the architect. Presently, however, the GON is releasing payments for work performed, and the contractor is supplied with all drawings needed to continue construction.

The overly elaborate designs and the many delays will increase project costs. The grant agreement gave the GON 43.6 million Nepalese rupees for campus construction. Now, the IAAS project engineer and the architect estimate that an additional 30 million Nepalese rupees will be needed. Inflation during construction may possibly increase this deficit. In the last three months, the price of cement has increased from 46 rupees to 67 rupees per bag.

The IAAS student body has already been increased in anticipation of the completion of the new buildings. The present student body of 348 is more than the present facilities were designed to accommodate. Dormitory rooms intended for two or three persons now house four. Other facilities are similarly overcrowded and these conditions, which should have been relieved by December 1978, will continue at least until December 1979.

The IAAS has discharged the original architect and is negotiating with other architects to evaluate and possibly revise phase one construction plans, as well as continue phase two campus plans and designs, and to supervise construction. Officials of USAID/N do not discount the possibility of tearing out the foundations of the contested principal classroom and laboratory buildings, and starting anew.

Recommendation No. 2

We recommend that USAID/N, in conjunction with the IAAS and the MUCIA team, (a) critically review the campus master plan for adequacy, including the questionable cafeteria and auditorium, (b) temporarily halt construction except on ancillary buildings nearing completion, and (c) oversee development of acceptable plans and designs consonant with approved development plans and available funding.

GON Support

The GON has not provided certain basic facilities needed to establish and maintain a school in a remote, rural location.

Under the IAAS project agreement the GON is to contribute not less than 25 percent of the total project costs for the development of the school at Rampur. This contribution is made up of the IAAS operating budgets and such in-kind resources as buildings, housing, and land. Additional facilities are needed to ensure the well being of the staff and student body as well as improve operational efficiency.

The IAAS campus has no medical facilities. Last year a Peace Corps nurse maintained a small clinic, which closed with her departure. We believe a basic medical facility is an essential part of the campus both because of the unhealthy conditions in the Rampur area and accidents associated with the school's farm activities.

The IAAS campus has neither telephone nor public transportation services. The MUCIA team purchased shortwave radios for contact with its Kathmandu liaison office and the IAAS officials now use the radio to contact officials at the Tribhuvan University. For transportation, the IAAS has one bus that occasionally takes the staff and students to the town of Bharatpur, ten kilometers away. The IAAS officials frequently request use of the four USAID-provided MUCIA vehicles. Use of the radio and vehicles by IAAS is not authorized under the project agreement with the GON.

Electrical power to the IAAS campus from local sources is uncertain and in limited supply. During the last year, MUCIA's USAID-provided generators supplied power to the IAAS for an estimated 2,600 hours. This situation may be corrected when a planned increase in the local power supply becomes available.

The IAAS officials have provided spartan facilities for the school because they want to maintain conditions similar to those in the agricultural areas where the students will be expected to work. Another constraint on facilities is the limited GON budget. The intent of the project agreement with the GON, however, is to develop a fully functioning school of agriculture. With due consideration to its operating philosophy, we believe the school has responsibilities to its community of staff and students which are not being met.

Recommendation No. 3

We recommend that USAID/N review the GON support to the IAAS and exert appropriate efforts to ensure provision of basic facilities required for the health and well being of the staff and student body and the operational efficiency of the Rampur campus.

Integrated Cereals Project (ICP), No. 367-0114

Planning and implementation delays have resulted in limited effectiveness in meeting project objectives. In summary,

- (a) The startup of the ICP slipped about 15 months because additional time had to be allotted to better defining institutional arrangements, scope of work and implementation plans. This delayed finalizing the implementing contract. In turn, the contractor had difficulty in recruiting personnel.
- (b) Construction at the Rampur agriculture station was halted from January to October 1978 due to a shortage of cement. Construction at Bhairahawa has also been slow.
- (c) The agriculture development farms at Rampur, Bhairahawa and Parwanipur have a surplus of machinery and equipment furnished under previous USAID projects.

A limited-scope ICP was authorized June 10, 1975, initially for one year only, to allow additional time to better define the scope, implementation and evaluation plans of the full-scale effort to succeed the concluding \$ 10 million 1957-1975 Food Grain Technology Project No. 367-11-110-054. Under this prior project, five research stations were constructed, and efforts undertaken to strengthen the functions of adaptive research and agricultural extension services. The goal was to increase food production by three percent per year. Although food production did improve, project evaluation reports recognize that this long range goal was not achieved.

In June 1976 the ICP was further defined as a five-year integrated effort to (a) increase the national research capability in cereals and other crops raised in rotation with cereals, and (b) improve the research delivery system to transfer new, readily adaptable technology to Nepali farmers in order to increase national agricultural production and farming profitability. Poor hill farmers were specifically targetted for inclusion among the beneficiaries of the program.

Total project costs are estimated at \$9.3 million, financed by an AID dollar grant of \$5 million; \$1.8 million (dollar equivalent) of U.S. -owned Indian Rupees; GON contribution of the equivalent of \$2.5 million; and, Peace Corps/Nepal contribution of \$39,000 funding four Peace Corps Volunteers (PCVs).

The project design envisages USAID/N will finance the services of an advisory team of seven long term specialists under a host country contract with the International Agricultural Development Service (IADS), with the Peace Corps supplying four additional trained agronomists. As required, IADS will call in experts from international research centers.

The IADS team of experts will help staff three coordinated cereals experiment stations (maize, wheat and rice), plus the multi-cropping Khumaltar station, and will assist personnel of the GON Ministry of Food, Agriculture and Irrigation (MFAI) plan and arrange for (a) acquisition of supplies and equipment, (b) construction/upgrading of research facilities and (c) training of counterparts and participants.

The U.S. -financed experts will not only help conduct research on the central and outlying experiment stations and state farms but will, in cooperation with Nepalese field personnel, work down to individual private farms. The strategy is not only to comprehensively test new technology, but also to demonstrate it to agricultural workers and cooperating farmers in their own areas. Research work on farms will identify local problems which can be incorporated into the central research program for solution.

Small amounts of seed equipment will be procured. Also, experimental storage facilities will be repaired or built so that such inputs as seeds, fertilizer, tools and pesticides required by new technology will be available near at hand to farmers wanting to try them.

Staffing. IADS has been unable to recruit replacement senior agronomists required to head research teams at two of the three agriculture research stations. This is inhibiting project progress.

Initially, under the ICP, these positions were filled by personnel transferred from the foregoing Food Grain Technology Project. Since their departure, the senior agronomist position to jointly coordinate the national maize development program at Rampur has been vacant eight months. Similarly, the national wheat development program at Bhairahwa has been without a joint coordinator for sixteen months. In both cases, the lack of permanent personnel has been partially compensated for by bringing in consultants (1½ to 3 months each) to help plan and analyze research and to improve station operations.

IADS participation in these efforts is considered necessary to create the research technologies required for increased production potential. These specialists are jointly responsible, together with the Nepalese coordinators, for planning and executing their respective crop or systems research programs, farmers' field trials, and adaptive and regional trials. They were also to assist with training programs for research and extension personnel.

This IADS staffing shortage is exacerbated by the early departure - after only one year - of two of the four Peace Corps specialists. While present plans call for their replacement, it is not known when this will occur. The PCVs were to work closely with local Agriculture Development Officers in the projects' research-outreach activities in four development regions.

We understand that IADS in New York has advertised in the "Journal of Agronomy" with limited success. One individual was tentatively identified, but this candidate is considering an offer from AID and may not be available.

IADS was selected as the project contractor without competition, based on their predominant capability to perform. They have authority to recruit personnel internationally for assignment to Nepal. Since staffing is critical to project success, we believe IADS should extend and accelerate their recruitment efforts.

Recommendation No. 4

We recommend that USAID/N exert its best efforts to ensure that IADS conducts a national and international recruiting campaign to identify acceptable specialists required for the ICP.

Construction. Work has been halted nine months on construction of the office/laboratory building, seed storage building and advisor and staff quarters at Rampur. The contractor has been unable to obtain cement. These facilities are needed for efficient operation of the national maize development program.

Since our visit to the site on October 1, 1978, IADS reported that the contractor had obtained one truck load of cement.

In addition, construction work at the Bhairahwa wheat research station has been habitually slow. When we visited this site, the contractor did not have a full crew and there was no supervisor present.

The GON has appointed a local firm of Architects and Engineers to oversee construction and to approve periodic payments to the contractors. This has not proven effective.

In order to expedite progress we believe the GON should appoint a full-time officer to monitor construction activities and to handle financial accountability matters with the contractors so that construction is carried out in a timely and orderly manner.

Recommendation No. 5

We recommend that USAID/N exert its best efforts to ensure that the GON appoints an officer to expedite ICP construction and handle related financial accountability matters.

Commodities. A surplus of equipment is on hand at the agricultural stations in Rampur, Bhairahwa and Purwanipur. The equipment was accumulated through prior successive years of USAID assistance. These unnecessary items compound repair and maintenance and related staff problems.

For example, the Rampur Agricultural station has six Massey Ferguson tractors and four smaller Kubota power tillers and ploughs. The size of this station has recently been reduced from 225 hectares to 105 hectares with the transfer of the animal husbandry land and buildings to the Institute of Agriculture and Animal Science (IAAS).

The Bhairahwa agriculture station of 34 hectares has four large tractors and two hand-type tractors.

Each of the stations have a hydraulic scraper not intended for further use. Also, a large quantity of scrapped machinery and equipment should be sold or otherwise disposed of.

An IADS consultant concerned with Farm Station Development who is currently available should review the inventory of equipment against projected work plans and recommend the complement of machinery and equipment necessary for operations. The balance should be made available to other farm stations or sold.

Recommendation No. 6

We recommend that USAID/N ensure that the present inventories of machinery and equipment at Rampur, Bhairahwa and Purwanipur stations are analyzed against requirements, and the excess quantities disposed of.

Local Currency. The sum of Rs. 3, 000, 000 (US \$240, 964) earmarked for the ICP cannot properly be obligated pending a determination from the U.S. Office of Management and Budget (OMB).

These funds represent Nepalese rupees (NC) obligated but unutilized on various terminated projects or else never obligated. The original source of the NC was PL 480 Indian rupees (IC). The OMB allocation letters in FY 1975, 1976 and 1977 making available ICs to help finance the U.S. economic assistance programs in Nepal contained expiration dates, now elapsed. Thus, an extension of time by OMB is required before these funds can be used.

This problem was first reported in August 15, 1977, in the Auditor General Audit Report on Aid Development Assistance to Nepal as of March 31, 1977. In March 1978 and again in September 1978, USAID/N requested the assistance of AID/W to resolve this issue, however, the matter has not yet been finalized.

These USAID/N contributions were reported as obligated and fully expended at the time the rupees were first released to GON implementing agencies. Consequently, as projects were completed, no funding reductions were recorded for unutilized and recovered rupees. The recovered rupees, moreover, were reprogrammed on new projects without recording them as new obligations. There was continual inaccurate reporting of rupees actually obligated and expended on new and completed projects.

Recommendation No. 7

We recommend that USAID/N continue to pursue through AID/W an OMB extension of time and/or appropriate procedure for reprogramming ICs converted to Nepalese currency, and, if approved, accordingly adjust affected project accounting records.

AID/W Centrally Funded Projects

USAID/N's authority over and responsibility for three AID/W centrally funded projects being implemented in Nepal are generally ill-defined and weak. Proximity to field activities gives USAID/N a natural advantage, compared with AID/W, in monitoring project performance. Had this advantage been exploited, we believe one Grantee's progress could have been improved.

The USAID/N is not staffed to play a major role in centrally funded projects. To facilitate USAID's limited participation in such projects, the AID/W offices concerned should be alert to defining the USAID's line of authority.

1. Training Nepalese in Agricultural Research and Development Planning, Project No. 498-13-899-251, AID/W Bureau for ASIA, Office of PD/PVD. Under Grant No. AID/ASIA-G-1199 dated September 30, 1976, AID provided partial support for a program under which the Agricultural Development Council, Inc. (ADC), N. Y. C.; N. Y. was to provide a two-member team to initiate research on selected problems of agricultural and rural development in Nepal. Also, in-service, non-degree and advanced-degree training was to increase the capacity of Nepalese planners to guide and capitalize on the gains implicit in the Integrated Cereals Project and other development opportunities for the benefit of small and hill farmers. The Ministry of Food, Agriculture and Irrigation (MFAI) was designated as the GON counterpart agency.

Under the grant, AID retains little if any project responsibility and implementation has been slow. In the formal agreement, USAID/Nepal/Agriculture Officer and AID/W, ASIA/PD/PVD are designated to receive the Grantee's semi-annual progress reports, but are assigned no specific authority for project overview or direction.

ADC's first semi-annual progress report contains the comment that the relationship between ADC in Nepal and AID/Nepal has suffered from a lack of definition. Since the AID contribution to the project is in the form of a grant from AID/Washington to ADC, there is no formal or explicit relationship or line of authority between AID/Nepal and this project.

From the field, it is not evident to what extent the AID/W project originating office (ASIA/PD/PVD) may have consulted with the Grantee regarding slow program implementation.

We realize that under a grant agreement, as versus a contract, AID customarily relies heavily on the Grantee to proceed independently with project implementation. In retrospect, we believe a contract, with its inherently tighter AID controls, would have been more appropriate than a grant. In the absence of a marked improvement in future performance by ADC, we would not recommend further grants to this institution.

Originally for two years and costing \$412,445, the grant was extended on August 25, 1977 one additional year, to September 29, 1979 with AID's contribution increased to \$660,170. The ADC and GON are to contribute \$213,519 and \$43,219, respectively.

The Grantee's performance did not appear to warrant this extension; USAID/N advises it was not consulted on the matter.

Performance in most respects has continued to be disappointing. However, the arrival on board of a new team leader (the "Associate") in August 1978 augers well for vitalizing the project. The previous Associate departed Nepal in December 1977. The other team member ("Specialist") did not arrive until September 1977, one year later than planned.

Due, principally to the Grantee's past staffing problems, both research and short-term training are lagging behind. A Hewlett-Packard desk top calculator, procured by ADC and considered essential for processing and analyzing research data and statistics, was not operational until mid-1978. The third aspect of the project, the fellowship program for long-term degree training, has moved ahead satisfactorily.

Two years after inception of the grant, disbursements approximate those anticipated for one year of activities. It seems evident the project will extend well beyond the anticipated completion date of September 29, 1979.

The grant agreement, as amended, requires that ADC initiate annual overall evaluations of the achievements as they relate to the directions and objectives of the project. The first evaluation (aside from the annual report reciting first-year activities) is scheduled for November 1978. The USAID/N advised us it was uncertain whether the USAID would have a role in this evaluation, or if it would be solely an ADC self-assessment. USAID/N officials also consider an evaluation at this time may be premature in view of the paucity of accomplishments to date.

We were advised by the new ADC team leader that the upcoming evaluation will include the GON, USAID/N and ADC Headquarters personnel, and will concentrate on formalizing a detailed work plan for the upcoming 12 months.

This coincides with what we view as the most pressing need facing this project, i. e., a mutual understanding and implementing work plan for future Grantee activities, and a revised time frame for their conclusion.

We appreciate that current plans call for achieving this. However, postponements do occur and we therefore believe a formal

audit recommendation is advisable. The USAID/N is being requested to take the lead since it enjoys the advantage of close physical proximity to Grantee field personnel.

Recommendation No. 8

We recommend that USAID/N, in coordination with ASIA/PD/PVD as appropriate, follow-up to ensure development of revised project work plans, including a related time frame.

2. Agricultural Sector Implementation Project (ASIP), No. 931-11-190-209, AID/W Bureau for Technical Assistance, Office of Development Administration (TA/DA). Under contract No. AID/ta-C-1350 dated September 30, 1976 the Governmental Affairs Institute (GAI), Washington, D. C. was to establish and institutionalize the ASIP approach for training agricultural managers in two unspecified developing countries. These were subsequently identified as Nepal and Egypt.

Basic information and design of a general course of instruction was initiated under an earlier multi-faceted AID/W project. This current project was to test their utility and effectiveness for adaption and application in two less developed countries. The intention was to create a self-sustaining training system and enough trained managers to have a discernible impact on the host country's agricultural and rural development effort.

Envisaged as a 37-month effort to be completed October 31, 1979 at a cost of \$1.6 million, the contract obligated only \$962,000. From data available in the field, it is not clear whether additional funding has been provided, or is contemplated. We were advised by the GAI team leader the Nepal program and level of disbursements are geared to a three-year, \$1.6 million effort (including Egypt). Fiscal records are maintained at the GAI Home Office, Washington, D. C.

A letter agreement dated August 8, 1977 between USAID/N and the GON provides further details for GAI assistance to the Agricultural Projects Services Center (APROSC) for development of an Agricultural Program Implementation Training Division. Utilizing project-prepared reference material detailing factors critical to success or failure of prior development efforts, a staff of Nepalese instructors are to be trained to provide a continuous program of training in management and project formulation and implementation in agricultural and rural development adapted specifically to the needs of Nepal.

The contract between AID and GAI provides for technical direction by the AID/W Bureau for Technical Assistance. The USAID/N, according to its letter agreement with the GON, will provide continuous liaison support, advice and cooperation to the ASIP project, and will participate in periodic review and evaluation of the progress of the project.

While these provisions give USAID/N no particular authority over project activities, no resultant ill effects are apparent since the project has progressed well. The USAID/N considers the project satisfactory to both itself and the GON and has provided for additional support to GAI following completion of the present centrally funded contract. This USAID/N assistance is part of the new RAD/RCUP project No. 367-0133 approved August 31, 1978.

The two-man GAI team arrived in Nepal on schedule in September 1977. The APROSC training division was established and staffed shortly thereafter. Eight selected instructors have received repeated exposure to the ASIP training techniques. They were participants (students) in the first training session, and observers, assistant coaches or repeat participants in subsequent sessions. Fifty-five pages have been compiled (in the Nepalese language) of reference material citing past successful project management/implementation practices.

Under the AID contract, GAI is required to submit annual progress reports. We were advised by the GAI team leader that the only progress reports prepared locally were ASIP Newsletters. These were issued monthly from March 1978 through September 1978, prepared by the ASIP staff of future instructors. USAID/N and GAI Headquarters receive copies, among others. These Newsletters discuss the ASIP training courses held, list attendees, report preparations for upcoming training sessions, miscellaneous staff news such as arrivals and departures, and similar information.

Hopefully, the first annual progress report due shortly will assimilate this information in a form to facilitate assessment of GAI activities in terms of a discernible impact on Nepal's agricultural and rural development effort.

A project evaluation is tentatively scheduled for November 1978, with participants from AID/W, USAID/N, GAI Headquarters and the GON. It may, however, be postponed to January 1979; AID/W has not yet responded to cables on the subject.

3. Studies of Energy Needs in Food System, Project No. 931-11-995-234, Bureau for Technical Assistance, Office of Science and Technology (TA/OST). The project paper identifies this as a \$1.1 million, three-year effort to study the usage of energy to produce, distribute and prepare basic foods in four unidentified countries. In Nepal, the Peace Corps received \$30,000 of AID funding to investigate ways to improve efficiency, lower cost and increase acceptance of methane generators in Nepal.

Progress has apparently been satisfactory, although there is little in USAID/N files to document this. There was no clear-cut requirement that the USAID be kept advised of project progress or activities.

In Nepal, this effort was implemented under a Project Agreement dated June 30, 1976 between USAID/N and the GON MFAI. The estimated project completion date was September 30, 1978. Project purpose was to find a solution to the problem of rural fuel scarcity which has led to severe deforestation in many regions of Nepal, and to burning of cow dung which otherwise would have been used in fields as manure. The resulting ecological damage includes soil erosion, declining fertility, and reduced crop yields. It was hoped that implementation of small scale methane generators in rural Nepal would help alleviate this problem.

Since the Nepal segment was part of a larger, centrally funded activity, TA/OST retained ultimate project responsibility. The conduct of the project was to be by mutual agreement of the two principal investigators, one from the Peace Corps/Nepal and the other from the Department of Agriculture. USAID/N was to serve in a liaison capacity.

The ProAg required that reports on all research and field testing be submitted through the Department of Agriculture to AID and the Peace Corps. The principal investigators were each to review and evaluate the entire project and its activities. Three such evaluations were scheduled: an initial one before much work had been expended; at midpoint through the project; and, a final in-depth analysis of the project, its performance and its outcome.

USAID/N had on file a brief $1\frac{1}{4}$ page interim report dated January 31, 1977 and a similar sketchy 2-page second periodic report dated July 7, 1977. These covered, respectively, October through December 1976, and through April 1977. These reports cite work on construction of various homestead and community bio-gas digestors, training, and research efforts. The Mission advised us project results have been sufficient to interest a private voluntary agency in providing support for further work.

SCOPE OF EXAMINATION

The Office of the Area Auditor General/Near East has performed a review of the Food and Nutrition Sector of the USAID/Nepal program to determine whether these AID-financed activities were implemented effectively. We also reviewed complementary projects centrally funded by AID/W. The examination covered the period from inception of each agricultural related activity to September 30, 1978, with a fiscal cut-off date of June 30, 1978. The field work was performed in Nepal from September 22 to October 18, 1978.

The examination was performed in accordance with generally established practices and included such tests of records and discussions as were considered necessary.

The report was reviewed by USAID/Nepal officials whose comments were given due consideration prior to the issuance of the report.

EXHIBIT A

USAID/NEPAL
FOOD AND NUTRITION SECTOR
SUMMARY OF PROJECT FISCAL DATA
AS OF JUNE 30, 1978

<u>Project Number/Title</u>	<u>\$ (000)</u>			<u>Rupees (000)</u>			<u>Total \$(000) Equivalent ^{1/}</u>			<u>Life of Project</u>	
	<u>Obj.</u>	<u>Dis- burse- ments</u>	<u>Unliqui- dated Obj.</u>	<u>Obj.</u>	<u>Dis- burse- ments</u>	<u>Unliqui- dated Obj.</u>	<u>Obj.</u>	<u>Dis- burse- ments</u>	<u>Obj.</u>	<u>From</u>	<u>To</u>
367/0102 Inst. of Agr. and Animal Science	<u>3,194</u>	<u>894</u>	<u>2,300</u>	<u>47,615</u>	<u>4,730</u>	<u>42,885</u>	<u>7,162</u>	<u>1,288</u>	<u>5,874</u>	8/77	6/84
U. S. Personnel	2,335	671	1,664)))					
Participants	206	117	89) N/A) N/A) N/A					
Commodities	653	106	547)))					
367/0114 Integrated Cereals	<u>3,225</u>	<u>1,004</u>	<u>2,221</u>	<u>21,229</u>	<u>3,621</u>	<u>17,608</u>	<u>4,994</u>	<u>1,306</u>	<u>3,688</u>	8/77	9/81
U.S. Personnel	2,258	685	1,573)))					
Participants	750	181	569) N/A) N/A) N/A					
Commodities	217	138	79)))					
Totals	<u>6,419</u>	<u>1,898</u>	<u>4,521</u>	<u>68,844</u>	<u>8,351</u>	<u>60,493</u>	<u>12,156</u>	<u>2,594</u>	<u>9,562</u>		

^{1/} Nepalese Rupees converted at rate of Rs. 12 = US \$1.00.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

We recommend that USAID/N monitor the level of the MUCIA advisory staff, with a view to arranging reductions in Support staff and equipment to a level commensurate with the number of advisors on-board.

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Recommendation No. 2

We recommend that USAID/N, in conjunction with the IAAS and the MUCIA team, (a) critically review the campus master plan for adequacy, including the questionable cafeteria and auditorium, (b) temporarily halt construction except on ancillary buildings nearing completion, and (c) oversee development of acceptable plans and designs consonant with approved development plans and available funding.

9

Recommendation No. 3

We recommend that USAID/N review the GON support to the IAAS and exert appropriate efforts to ensure provision of basic facilities required for the health and well being of the staff and student body and the operational efficiency of the Rampur campus.

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Recommendation No. 4

We recommend that USAID/N exert its best efforts to ensure that IADS conducts a national and international recruiting campaign to identify acceptable specialists required for the ICP.

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LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 5

We recommend that USAID/N exert its best efforts to ensure that the GON appoints an officer to expedite ICP construction and handle related financial accountability matters.

14

Recommendation No. 6

We recommend that USAID/N ensure that the present inventories of machinery and equipment at Rampur, Bhairahwa and Purwanipur stations are analyzed against requirements, and the excess quantities disposed of.

14

Recommendation No. 7

We recommend that USAID/N continue to pursue through AID/W an OMB extension of time and/or appropriate procedure for reprogramming ICs converted to Nepalese currency, and, if approved, accordingly adjust affected project accounting records.

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Recommendation No. 8

We recommend that USAID/N, in coordination with ASIA/PD/PVD as appropriate, follow-up to ensure development of revised project work plans, including a related time frame.

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REPORT RECIPIENTS

USAID/Nepal

Director 5

AID/W

Auditor General (AG/W) 1

Auditor General, Executive Office (AG/EMS) 12

Auditor General, Office of Policy, Plans and Programs (AG/PPP) 1

Bureau For ASIA (ASIA)

Office of Assistant Administrator (AA/ASIA) 1

Office of Deputy Assistant Administrator (Audit Liaison)
(DAA/ASIA) 1

Office of Executive Management Staff (ASIA/EMS) 1

Office of Pakistan and Nepal Affairs (ASIA/PN) 1

Office of Project Development (ASIA/PD) 1

Bureau For Development Support (SD)

Office of Deputy Assistant Administrator - Food and
Nutrition (DS/DAA/FN) 1

Office of Deputy Assistant Administrator for Development
Technology (DS/DAA/DT) 1

Bureau For Private and Development Cooperation (PDC)

Office of Private and Voluntary Cooperation (PDC/PVC) 1

OTHER

U. S. General Accounting Office (GAO/W) 1

Inspections and Investigations Staff (IIS/Karachi) 1