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Auditor General

AUDIT REPORT

ON

AID ASSISTANCE

TO

PAKISTAN

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INTRODUCTION

Commencing with the Congressional mandate of 1973, the USAID began to redirect its program toward the rural poor. This shift of emphasis or direction is proving to be a challenging process. The kinds of projects under this new strategy are hard to plan and hard to implement since they usually involve assistance at the province and district levels. This is accentuated by a dearth of knowledge about village life. The USAID and GOP consequently have little or no experience to guide them on project design. Spending levels also tend to be lower on these types of projects, so in the end it is more difficult to maintain a given level of funding using the new type projects.

At the same time, with Pakistan's success in wheat production, there is less need for PL 480 assistance in wheat imports. This is coupled with AID/W's desire to deemphasize commodity import loans and major capital assistance projects and give increased emphasis to those projects having a more direct impact on the rural poor.

Because Pakistan continues to have serious balance of payments problems, the Mission is reluctant to reduce its amounts of aid for fear of exacerbating that situation. The Mission wrestled with this dilemma in 1975 and 1976 and finally decided to keep the level of AID assistance at its current levels by greatly increasing project-type activities.

The Mission's program emphasis is therefore going from relatively easy-to-implement PL 480 programs, commodity import programs and capital projects to hard-to-implement development assistance projects affecting the rural poor.

With the exception of 1975, which has a very large PL 480 component, aid levels to Pakistan have been fairly consistent. But if PL 480 assistance, commodity import type programs, and flood relief assistance are subtracted out to obtain the levels of the new-type-project assistance, the following picture emerges:

	U. S. \$ Millions				
	<u>1974</u>	<u>1975</u>	<u>1976</u> <u>T.Q.</u>	<u>1977</u>	<u>1978</u>
Total AID assistance	129	189	198	144	202
Less: PL 480, commodity import programs, etc.	<u>121</u>	<u>161</u>	<u>178</u>	<u>102</u>	<u>127</u>
Net new project-type aid	<u>8</u>	<u>28</u>	<u>20</u>	<u>42</u>	<u>75</u>

To go from about \$8 million in the new harder-to-plan, harder-to-implement project-type assistance in 1974 to about \$75 million in 1978 is an ambitious undertaking. A significant degree of success will depend on any number of things, not least of which are (1) availability of sound projects of the new type; (2) amount of genuine Pakistani interest in the new projects; (3) capacity of the Mission and GOP to plan and implement new projects well; and (4) the degree of control which can be maintained over the projects.

The purpose of this review was to determine whether the AID-financed activities are planned and implemented effectively and in accordance with prescribed Agency policies and procedures.

SUMMARY

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

- Lack of adequate planning information, delays in starting projects, and overoptimistic scheduling of project activities are impeding the implementation of the current Mission strategy. (See pp. 5 - 8.)
- GOP counterparts responsible for implementing projects are often not assigned or are transferred to other jobs shortly after being assigned to projects, creating problems and delays in project implementation. (See pp. 9 - 10.)
- The Mission has been unable to ensure that provincial governments responsible for project implementation will comply with applicable project agreements. (See pp. 10 - 11.)
- An inordinate amount of time has been spent in attempting to establish an in-country capability to provide support for foreign advisors to the detriment of primary project purpose accomplishments. (See pp. 11-14.)
- The Agricultural Research Council has engaged in construction activities without prior USAID approval. The cost of some of this construction may be ineligible for AID financing. (See pp. 14 - 15.)
- The \$15 million loan tranche for the On-Farm Water Management Project appears to be excessive to present project needs. (See pp. 15-16.)
- Equipment purchased under the Precision Land Leveling Project had been dispersed to numerous locations and should be assembled for use in the On-Farm Water Management Project. (See pp. 17 - 18.)

- The regional Colorado State University contract needs to be revised to provide more definitive objectives and better controls over project activities. (See pp. 19 - 20.)
- GOP reporting on projects is generally lax, both in the quantity and quality of reports submitted to USAID/P. (See pp. 21 - 22.)
- The Mission needs to improve its control and monitoring of U.S.-owned local currency project activities. (See pp. 23 - 27.)

The report contains 11 recommendations which are listed in Exhibit C.

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. PLANNING AND PROGRAMMING

USAID planning activities are being hampered by lack of available planning information, delays in getting projects started and over-optimism regarding expected achievements. Thus efforts to keep funding levels high may result in a program that cannot be properly planned and managed.

Planning Information

Lack of base-line data

~~An information gap~~ is inhibiting the USAID's new strategy of expanding the number of people-oriented projects.

The USAID is in the process of planning several projects to provide credit to small farmers. Planning for these projects is hampered by lack of knowledge regarding the small farmers' credit wants, needs, and availabilities. The USAID is therefore faced with either delaying the proposed projects until the necessary planning data is obtained or going ahead with design and implementation without much of the need information.

The same situation exists in the grain and oil seed storage project. The GOP plans to greatly expand its storage capacity and USAID has indicated interest in supporting this GOP effort. However, USAID has little knowledge concerning the current storage capacity by types, location or size, total additional storage needed, or even the extent of participation to be expected from other donors.

The Nutrition Planning and Research Project is another case in point. The purpose of the project is to assist the GOP to create a competence to undertake nutrition planning and design research at the National Planning Commission level. When the project agreement was signed on December 20, 1974, a Project Implementation Plan (PIP) had not been prepared. AID/W had requested that the PIP be prepared after the arrival of the contractor. The project therefore lacked a plan for at least seven months because the contractor did not arrive until July 29, 1975.

Overall nutritional planning and design research could not be effectively undertaken until data from a projected National Nutrition Survey was gathered and analyzed. The project design erroneously assumed that the results of this survey would be available early in the life of the project, but the survey was never implemented. Thus, as an alternative, the GOP, with the assistance of the contractor, initiated a Micro-Nutrition Survey. The results of this survey were expected to be compiled and analyzed by the end of March 1977. Although other components of the project were initiated in the interim, the delay in getting a nutritional survey underway hampered the project.

Delays

The USAID is experiencing delays in getting some of the new projects started.

Some projects, once they have been identified, languish for years before being approved for implementation. The following projects, for example, were shown in the USAID's FY 1976 Annual Budget Submission (ABS) with the indication that initial fund obligations would occur in FY 1975 for the first three projects and in FY 1976 for the last two:

- Integrated Rural Development
- Fortification of Tea
- Fortification of Atta
- Rural Roads
- Rural Electrification

The USAID was unable to get these projects started as planned. As a result, they were carried forward to the FY 1977 budget submission and then to the FY 1978 ABS. The projects still have not been started and it is unlikely that they will begin in this fiscal year. This means they will probably appear in the FY 1979 ABS again as proposed new projects.

Overoptimism

Overoptimism has affected recent project planning.

Projects do not seem to be meeting their implementation targets on time and our conclusion is that the targets themselves often are not realistic. Just as there is a tendency to rush projects from conception to project agreements, there is a tendency to schedule insufficient time for implementing projects. This is partially due to scheduling events according to American methods and desires instead of

according to GOP capabilities. For example, it is known that it takes a considerable period of time for the GOP to negotiate borrower/grantee contracts. Yet, for both the Technical Services Loan and the Village Level Food Processing grant, project schedules seem to be based on American negotiating processes, not GOP practices. Both projects are now behind schedule due to GOP negotiating problems.

The Agricultural Research project is not meeting its targets on time. In fact, this project is in such serious trouble that it is to be redesigned in the near future. It is a prime example of overoptimistic planning. Part of the reason no doubt is that this project was designed several years ago, when there was less knowledge of the problems to be encountered in this type of complicated technical assistance. Someone summarized the planning situation on the Agricultural Research project this way: "We are trying to do a 15-year project with a 5-year loan."

Lack of available planning information, delays in getting projects started and problems with overoptimism are all adversely affecting the Mission's planning activities. These factors are all impediments which cast doubt on the successful implementation of the current Mission strategy.

Recommendation No. 1

We recommend that USAID/P restrict its annual project funding to levels that can be properly planned and managed.

Mission Comments

We believe that current actions of the Mission reflect the Mission endorsement of this recommendation. In fact, in our draft 78 CP, which was forwarded to AID/W, we proposed that certain projects be put on the shelf as it appeared that they would not be ready for implementation in FY 1978, but we were overruled. Part of the problem on the new initiatives is that AID should have a much longer lead time to staff up and develop plans and projects. It would therefore be appropriate to direct this recommendation not only to the Mission but to AID/W who plays an important role in setting funding levels and implementation time frames.

Audit Response to Mission Comments

We have directed this recommendation to USAID/P because it is in the best position to recognize what funding levels can be properly managed and planned at any given time. When funding levels are higher than the Mission properly can handle, AID/W should be fully informed of the circumstances so the situation can be corrected.

B. IMPLEMENTING PROGRAMS AND PROJECTS

1. GOP Counterparts

Lack of GOP counterparts is hindering progress of USAID projects.

In virtually every USAID project, there is a requirement for the GOP to provide counterparts. This provision is often not carried out in the manner intended. Either no counterparts are provided, insufficient counterparts are provided, or the needed numbers are provided but, after being trained and becoming familiar with their jobs, some are transferred to other jobs.

The Precision Land Leveling project is a case where counterpart problems developed. In this project, 320 counterparts were to have been trained in precision land leveling. Only 179 were actually trained. Although 179 counterparts were trained, they were not all assigned to assist in project implementation. After receiving their training the counterparts usually returned to their original agencies.

Many of the 89 counterparts trained in the Sind were prevented from doing project work because their parent agency supervisors refused to relieve them from their regular duties. Consequently, the work that was done in the Sind was accomplished by only 10-15 people. In the Punjab, the Chief Minister transferred the Integrated Rural Development Branch (IRDB) of the Punjab Department of Agriculture to the Punjab local government. Since most of the precision land leveling trained counterparts were in the IRDB, the program lost 57 of the 90 counterparts trained in the Punjab.

This counterpart situation is especially serious in that the counterparts which were supposed to have been provided for the Precision Land Leveling project are now required under the On-Farm Water Management project. If this situation continues there is limited hope for success in this new loan project.

The Primary Education Research project is another example of the counterpart problem. Under this project the GOP Ministry of Education, Bureau of Educational Planning, assigned five individuals to

assist the U.S. contractor in his research efforts. However, within a few months, four of the five had been pulled off the job, leaving one to be responsible for the project. No replacements were ever assigned for the four counterparts who were pulled off the project.

The USAID, in our opinion, should seek means to assure itself that GOP counterparts are assigned to projects as needed.

Recommendation No. 2

We recommend that USAID/P explore the use of additional conditions precedent or covenants in agreements with the GOP to assure itself that counterparts for projects are provided as planned.

2. Provincial Governments

Provincial government agencies, which are assuming more responsibilities for project functions under the new rural projects, are frequently not performing effectively.

The Malaria Control program plan calls for the Federal Government to provide necessary funding and procurement of commodities and equipment. The provinces are to implement the program. The GOP has performed its functions effectively; but the provincial government agencies, responsible for implementing the program, have not always fulfilled their responsibilities. Funds earmarked for the Malaria Control program in Sind were not always well used. Coverage for the second cycle of spraying in Punjab was poor due to the fact that malaria workers were discontent because they had not yet been integrated into the Provincial Health Services system. Both the Directorate Office for Malaria Control and Secretary of Health for the Punjab profess to have little control over the provincial malaria control program.

On the Precision Land Leveling project, poor provincial government performance has resulted in delays in completing objectives, which in turn has inflated project costs. In reviewing accomplishments against the stated objectives of the project, it became evident that the targets with least accomplishments were those that depended most on the timely support of the provincial governments. The manner in which some of the activities were carried out shows a lack of administrative responsibility at the provincial level.

Lack of AID and GOP leverage with the provinces, we believe, is one reason for the weak provincial governments' performance. USAID itself does not have working agreements with the provinces. On precision land leveling, for instance, the project agreement states that the Director of Integrated Rural Development in the Punjab and the Director of Agriculture in the Sind shall work as project directors of the project, and shall have full operational control over the project. However, neither these nor any other province officials were parties to the agreement. Only the Secretary, Economic Affairs Division, and a GOP project director signed the project agreement representing the Central Government. The GOP project director had limited involvement in the project.

We believe some additional mechanism is needed to more clearly define the provincial responsibilities.

Recommendation No. 3

We recommend that USAID/P obtain assurances from the GOP that provincial governments responsible for implementing AID-financed projects will do so in accordance with applicable agreements.

Mission Comments

The Mission took issue with the finding. It commented that the audit discussion does not give ample recognition to the Mission for the job it has already done in this area. The USAID also contended that this recommendation is unnecessary because it is already doing the recommended action.

Audit Response to Mission Comments

Since problems with the provincial governments' performance continue, we believe that the recommendation is valid.

3. Advisor Support

Some project activities have suffered because of a lack of support to U.S. advisors.

The USAID formerly provided logistic support to PASA and contract-funded U.S. advisors. In order to transfer these functions to the GOP, the USAID tried to build a GOP capability to support advisors with secretarial, office, transportation and home services. The Agricultural Research project accordingly called for the Agricultural Research Council (ARC) to provide all of these services, and for the GOP to provide office and secretarial services on the Barani project.

On both the Barani and Agricultural Research projects, the GOP did not provide adequate office and secretarial services. In fact, the Experience Incorporated advisors to the Barani project in Islamabad have moved their offices from the Barani complex to another building near USAID because of inadequate GOP support. By being several miles from the project site, their effectiveness is diminished.

The USDA and Experience Incorporated advisors both told us that they spend inordinate amounts of time trying to get typing and other office work done. The International Maize and Wheat Improvement Center (CIMMYT) advisor, funded under the Agricultural Research project, has stayed at his former office at Ford Foundation, rather than move to ARC, as ARC's office facilities are inadequate.

The USAID has tried to ease the situation by making its typists available at certain hours. They are also trying to make arrangements for the Experience Incorporated advisors to hire their own office help.

The USDA advisors also stated that their work suffered because ARC did not provide adequate housing, maintenance, vehicle support and related services. To resolve these problems the USAID, Ford Foundation and ARC set up a non-profit organization called the Logistic and Program Support Agency (LAPSA).

LAPSA is now operating and the Mission is considering using LAPSA to provide support to other project advisors. There are problems with LAPSA, however. First, it is almost certain to be considerably more expensive for LAPSA to perform the functions instead of USAID. This is because a whole new overhead apparatus has to be set up. Furthermore, LAPSA itself cannot import duty-free items such as refrigerators and spare parts. This must be done by LAPSA through the U.S. advisors, an inconvenient process. LAPSA does not have significant inventories of refrigerators, airconditioners,

etc., for new contractors arriving in Pakistan. Therefore, long delays in getting new advisors set up are likely to occur. LAPSA is not now able to support advisors in cities outside Islamabad, so USAID will have to continue to provide support to advisors outside the capital. Finally, there is the problem of American supervision. Until now, Ford Foundation provided an American to oversee the LAPSA operation on a part-time basis. He is now gone and it is uncertain how much time his successor will devote to LAPSA. The general feeling is that LAPSA will not provide adequate support without foreign supervision.

The goal of building an in-country capability to support foreign advisors is worthwhile. We believe, however, that it is of secondary rather than primary importance on USAID projects. Efforts at achieving this secondary goal have adversely affected the Barani and Agricultural Research projects.

Notwithstanding the USAID's efforts to develop a GOP capability to support foreign advisors, it is apparent that the GOP will not develop a capability to support foreign advisors in the near future. And LAPSA, while it may have limited effectiveness, cannot be depended on with much certainty. It seems to us that under the circumstances USAID itself perhaps should support its AID-financed advisors. That would allow USAID project officials to spend more of their efforts in achieving the main project objectives.

Recommendation No. 4

We recommend that USAID/P (a) phase out its support of the LAPSA activity, and (b) reassess the value of trying to build a GOP capability to support foreign advisors.

Mission Comments

The Mission took exception to this recommendation, contending that the audit analysis does not justify phasing out support of the LAPSA activity. USAID also noted that, "if the goal (of providing an in-country capability to support foreign advisors) is worth-while, why not make extra efforts to achieve it? "

Audit Response to Mission Comments

For the reasons stated in the report the LAPSA activity is almost certain to encounter significant problems that will lessen its usefulness, and increase the cost of performing the needed services. Since the projects have already suffered through efforts to build an in-country capability to support foreign advisors, we believe that more emphasis now should be placed on achieving primary project goals instead of putting more time and effort into LAPSA.

4. Agricultural Research Project

ARC has begun project construction without prior AID approval and the USAID needs to promptly decide which if any of these costs AID will fund.

A new central research facility was envisioned as the show-piece of the Agricultural Research project. Construction and equipment for the center were to cost \$1.7 million in foreign exchange and Rs. 8.6 million. Construction was to begin soon after signing the loan and project agreements, with construction to be 80 percent completed at the end of the second year and 100 percent completed at the end of the third year. This means that the agricultural research center was expected to be completed by April 1977.

Land allocated for the center has been encumbered by villagers living there. This has been a hinderance to construction plans. Final plans for the overall facilities have also not yet been agreed upon. The American advisor on the research center estimated that selection of the architect, drawing plans, awarding contracts and construction will take about three years -- if all goes well. Yet only two years remain in the project's life.

In the meantime, ARC went ahead on its own with construction of cowsheds, office rooms, employee housing and related buildings at the research center site. This work, costing Rs. 2.8 million, was done without the USAID's approval. ARC had submitted some rough drawings to the USAID, but the USAID had questions and held up its approval. ARC nonetheless authorized the GOP Public Works Department to award construction contracts and the work was done. We were told that construction was more or less completed before the Mission learned that it was going on. The construction work was not of good quality, and the cowsheds, at least, were not part of the original project plan.

Another large construction item envisioned during project planning was housing for ARC employees. This item was estimated to cost Rs. 21.5 million, and provide housing for all ARC and research center employees. When we began this review in January 1977, USAID officials told us that staff house construction had not yet begun, and that the construction site had not yet been decided upon. Later in January 1977, the AID-financed American contractor, who advises on design of the research center, visited Islamabad. Somehow, he discovered that ARC had already begun construction of staff housing at a site away from the research center. This was done without advance approval by the USAID. Initial costs of this unauthorized construction have been included in ARC's quarterly expenditure reports to the USAID. Reimbursement for Rs. 4.1 million has been requested, but the total cost is expected to run to Rs. 9.1 million.

ARC has thus begun or completed unauthorized construction on facilities that eventually will cost an estimated Rs. 11.9 million. How much the USAID decides to fund and how much it decides is ineligible is likely to be controversial, but the issue should be decided promptly.

Recommendation No. 5

We recommend that USAID/P review unauthorized ARC construction costs with GOP officials and promptly decide which activities AID is willing to finance.

5. On-Farm Water Management Project

The \$15 million loan tranche requested for the On-Farm Water Management project appears excessive and should be reconsidered.

The On-Farm Water Management project is a five-year program which began in 1976. Loan 391-T-172, for \$7.5 million was to cover project financing for the first three years, and an additional \$15 million has been requested in the FY 1978 Congressional Presentation for the final years of the project.

Within the five years, loan implementation will consist of three elements: (1) the precision land leveling operation using counterparts trained under the preceding project 454. The counterparts will train others who in turn will train farmers in the mechanics of precision land leveling and associated water management practices. According to the

loan agreement, it is planned to level 425,000 acres of farmland; (2) watercourse planning, design and improvement of 1,500 watercourses; and (3) training counterparts in extension or water management practices applicable after the water reaches the farmers' fields.

Implementation of the project is progressing slowly. Mainly because of lack of provincial support, there were limited accomplishments under the previous Precision Land Leveling project 401. It will require lengthy periods to recruit and train thousands of personnel for the project, and to establish private contractors to support the activities. Adequate credit may not be available to encourage farmer participation. Provincial budgets submitted by the three major provinces making up about 95 percent of the program, already reflect a decrease in the program from that specified in the loan description of the project. They show only 1,132 watercourses to be improved and 323,000 acres to be leveled versus the 1,500 water courses and 425,000 acres of farmland called for in the loan.

These factors indicate that not all of the \$15 million loan requested will be needed in FY 1978.

Recommendation No. 6

We recommend that USAID/P re-evaluate the need for the full amount of the \$15 million On-Farm Water Management loan tranche requested in the FY 1978 Congressional Presentation.

Mission Comments

We advised Washington in December 1976 of our projection that the second tranche of the On-Farm Water Management loan should be postponed until FY 1979. In spite of this, it was included by Washington in the 1978 CP. We expect to include the same recommendation in our 1979 ABS.

Additional Audit Comments

We are retaining the recommendation pending completion of Mission action.

6. Reprogramming of Equipment

Equipment purchased under the prior project needs to be accounted for and transferred to the On-Farm Water Management project.

Most of the precision land leveling equipment procured under the prior Precision Land Leveling project (401) is supposed to be used on the new On-Farm Water Management Loan program. Hundreds of the items were stored at many locations in Punjab and Sind provinces when project 401 terminated about June 30, 1976. This condition resulted from a spreading out of precision land leveling work areas by the provinces during the life of the project. Consequently, it has been difficult to locate and regroup the equipment in equipment pools for use on the new loan program.

Recent location reports received from Punjab and Sind province officials show many major and minor items to be located at about 30 locations all over the provinces. However, we noted that some major items of equipment that were apparently purchased were not included on the provincial listings. The U.S. Soils Conservation Services (SCS) advisors on project 401 estimated that the lists probably were not too accurate and it would be difficult if not impossible to account for all the equipment. USAID officials stated that a survey is currently underway to locate and effect transfer of a substantial portion of the equipment to new loan program equipment pools for use on the precision land leveling element.

We believe that the USAID should require full accountability of all major precision land leveling equipment and control equipment transfers to the new On-Farm Water Management loan program.

Recommendation No. 7

We recommend that USAID/P require a complete accounting of all major items of equipment procured under the prior Precision Land Leveling project 401 and control transfers of the equipment to the On-Farm Water Management project.

Mission Comments

The Secretaries of Sind and Punjab have issued orders for the equipment to be collected and put into three or four equipment pools within the project areas. We estimate 60% of this equipment will be used in the On-Farm Water Management Project. The remainder is for the Precision Land Leveling project outside the project area. This is not inconsistent with the original Precision Land Leveling project objectives nor the Water Management Loan.

We would note that equipment is not the cause of delay in the Water Management Loan. While the loan project activity was delayed, the equipment was more useful at old project sites, being made available for farmers who desired to level their land - the project objective.

Additional Audit Comments

We are retaining the recommendation pending the accountability and transfer of the subject equipment.

C. REGIONAL ACTIVITIES

The regional Colorado State University contract needs to be revised to provide more definitive objectives and better controls over project activities.

Colorado State University is conducting various types of research in water management practices in Pakistan under regional contract AID/TA-C-1100. Total costs of this and a prior related regional contract are estimated at \$5.1 million. A three-year extension to the current contract is planned at an estimated cost of \$2.7 million, bringing total project costs to \$7.8 million. In addition, CSU is involved in several research/survey activities under USAID-funded local currency agreements.

Several kinds of difficulties are being encountered in CSU activities. The AID/W contract is too generalized to allow adequate control over CSU's work. Its objectives are broad and vague with a generalized work plan under which accomplishments cannot be compared to targets and time frames.

CSU has made slow progress on several of its activities over the years, partly because its efforts are diffused in many areas. One factor is CSU's preoccupation with the preparation of numerous publications, research reports, and papers for use by CSU in its regional activities instead of the Pakistan program.

As USAID is funding numerous activities in the same area of endeavor, coordination is needed so that USAID-funded and AID/W funded activities do not overlap in wasteful duplication. Coordination of CSU activities, however, has not been as effective as required. USAID was given no monitoring or managing authority under the terms of CSU's contract. Therefore, lacking authority and not being kept informed by AID/W of CSU's areas of endeavor, the USAID can do little to prevent overlapping and duplication of effort.

One means of bringing CSU activities under better control is to amend the AID/W contract to include a narrowed scope with well defined objectives, a more specific work plan, and meaningful reporting requirements. And USAID should be given increased authority over contract operations, particularly on those projects or activities financed by USAID with U.S.-owned local currency.

Recommendation No. 8

We recommend that the AID/W Bureau for Technical Assistance - Office of Agriculture (AID/W/TA/AGR), in conjunction with USAID/P, revise the CSU contract to include the following provisions: (a) a reduced scope with well defined objectives, (b) a specific work plan of well defined activities, (c) progress reporting to USAID and (d) designation of a representative of USAID/P to act as Project Manager for field operations.

Mission Comments

USAID stated that the text of this recommendation was reported to AID/W, and that AID/W had responded that the recommended changes are being incorporated in the new CSU contract currently being negotiated.

Additional Audit Comments

Our recommendation is being retained pending final actions by AID/W and USAID/P.

This situation raises the question of what happened to the fertilizer worth \$394,760 between its arrival in the port (if the survey reports were in fact accurate) and the time it was loaded in railcars. This has not been investigated by the GOP. (USAID was unaware of the shortages at the time of our audit.)

The Federal Directorate of Agricultural Supplies (FDAS) receives and records agricultural commodities in Karachi for the GOP. There are sometimes sizeable differences (up to 1,500 metric tons) in the amounts that FDAS records as having shipped and the provinces record as having received. We found no indications of any attempts by anyone concerned to reconcile the differences, however.

It is apparent that the system to account for and control the receipt and distribution of fertilizer is not functioning properly and casts doubt on the reliability of any provincial distribution and inventory statistics. USAID has largely been unaware of these major problems, because it has not enforced the reporting requirements of the loan agreement.

Throughout the audit we ran across instances of the GOP's lack of reporting to the Mission. Sometimes, no doubt, the reporting requirements are more strict than necessary. Other times, USAID has not pressed the GOP to furnish the reports. And in the background is always the question of how much accurate reporting individual GOP agencies are capable of providing. Clearly the problem is not simple. But at the same time the Mission is going more to projects that require increasing amounts of GOP participation and reporting. Given this situation, we think that the Mission should reassess its policies regarding GOP reporting. In those cases where reports are clearly needed, but will not be forthcoming from the GOP, alternative means will have to be found.

Recommendation No. 9

We recommend that USAID/P reassess its GOP reporting requirements on a project-by-project basis and (a) delete unnecessary reports, (b) exert more pressure on the GOP to provide needed reports, and (c) if the GOP cannot or will not comply, seek alternative means of obtaining the information.

2. Local Currency Control

Controls over the use of ^{excess} U.S.-owned local currency need tightening.

The Agricultural Research project, while admittedly an extreme case, illustrates the problems relating to local currency controls. One of the main goals of the Agricultural Research project is to strengthen the central GOP research organization, called the Agricultural Research Council (ARC). The Council had been in existence many years before this project started but it has not been very effective. Their accounting and managerial practices are so poor that now there is real danger of their mishandling or wasting U.S.-owned local currency on the project.

The USAID advanced ARC a total of Rs. 22 million as of December 31, 1976, for project activities. ARC submits quarterly expenditure reports to USAID which are used as a basis for replenishing the revolving fund. USAID has basically accepted the ARC expenditure reports -- as well as those from other GOP entities -- at face value.

The ARC expenditure reports show only general expense categories, such as for construction of a new research center and support to American advisors, and do not show much in the way of details. We reviewed some of the items to test ARC's reporting controls and reliability. Some findings are cited below:

- (1) ARC did not keep a running check-book balance for the AID revolving fund, and could not tell us the current bank balance. They had not prepared a bank reconciliation for the account since December 1975.
- (2) ARC had inadvertently overstated reimbursement requests to USAID/P by Rs. 198,900 through duplicate recordings. We informed USAID personnel so that they can assure it is corrected.
- (3) ARC has been advancing revolving funds to provincial research institutes for their programs since June 1975. As of December 31, 1976, they had advanced a total of Rs. 10,892,508. The research institutes are supposed to report their actual expenditures to ARC, but have generally not done so, partly because ARC has not pressed them until recently.

- (4) In FY 1971 and FY 1972 USAID granted Rs. 3.4 million and Rs. 2.6 million to ARC for projects on-going at the time. However, their last expenditure reports to USAID were for the quarter ending September 30, 1975, when only Rs. 3.4 million of the total Rs. 6.0 million had been expended. Whether the remaining Rs. 2.6 million is still unexpended is unknown. In January 1977, USAID wrote ARC asking for an accounting of the funds. Our discussions with ARC personnel indicated that research on the status of the accounts will have to be done before they can reply.

We found other things wrong with ARC's control over local currency, but these instances indicate the situation. While ARC is the most striking case of loose internal control over U.S.-owned local currency, there are other examples, such as the Watercourse and Water Management Research project.

USAID advanced Rs. 1 million to the Watercourse and Water Management Research project in 1973. The project agreement expired on June 30, 1975. Only the December 31, 1975 expenditure report was received and it only showed the utilization of Rs. 139,048. No accounting has thus far been made for the balance of Rs. 860,952. We were told by the CSU advisor at the project site that it was his understanding that there were only Rs. 648,000 available from the initial advance. He indicated that additional expenditures were probably made after the first and only expenditure report.

CSU's advisors and the USAID project manager for the CSU contract assumed that the unreported balance of rupees remaining in the project account could be used for other purposes. They were unaware of the project agreement requirement that any unutilized funds will be subject to refund to USAID or reprogrammed jointly in a subsequent project agreement for the expanded research program.

This project appears to have actually terminated as of December 31, 1975, the date of the last expenditure report. But there was no apparent follow-up by USAID to determine the true unutilized balance and either request a refund or to take action to reprogram the funds as called for by the project agreement.

It seems to us that there is a clear danger in accepting GOP data without questions as is the USAID's practice. We believe that the

USAID should take a more active interest in local currency transactions. This should involve periodic field checks of expenditures of report line items, review of bank reconciliations, requirements that revolving account balances be reconciled with expenditure data submitted to USAID and any other needed controls.

Recommendation No. 10

We recommend that USAID/P increase surveillance over GOP use of AID-owned local currency funds.

Mission Comments

The USAID noted that it reviews the GOP expenditure reports, and if the situation warrants, a review team is dispatched to the project site or other locations to physically review the project progress and documentation supporting the reported expenditures. To date the latter step has only been initiated on an exception basis. The Controller's Office is not staffed to perform reviews of this nature on a comprehensive basis. To do so would require the establishment of a quasi audit function within the office of the Controller.

Audit Response to Mission Comments

The GOP expenditure reports contain only summary data with few details. Since our review disclosed that there are sometimes problems with the GOP data, we believe that the recommendation should be retained.

3. Release of Funds

The GOP is sometimes slow in releasing AID-furnished local currency to implementing agencies and provinces.

When USAID contributes U.S.-owned rupees to a project, it usually advances the money to the GOP Ministry of Finance, which in turn advances the funds to the implementing agency or province. Sometimes USAID holds the funds and makes disbursements for project activities itself. The latter method evolved in an attempt to avoid the GOP's cumbersome bureaucratic procedures, both in the release of funds and in the use of funds by implementing agencies. The red tape involved in fund transfers to implementing agencies often makes it next to impossible to use either GOP or USAID funds in a timely manner.

In the Primary Education Research project, for example, the GOP provided Rs. 300,000 of its own funds. The Bureau of Educational Planning by June 30, 1976, was only able to obtain about Rs. 70,000 for its use. As this was the end of the GOP fiscal year, the remainder of the funds reverted to the GOP Treasury. No further funds have been forthcoming from the GOP. The situation was similar for USAID project funds of Rs. 800,000. These funds were given to the GOP in May 1976, to become available for use on July 1, 1976. Due to the red tape involved, the Bureau of Educational Planning was unable to spend any of the funds until mid-November 1976. This delayed the project start by several months.

On the Precision Land Leveling project, Rs. 600,000 and Rs. 200,000 were released by USAID to the GOP Ministry of Finance in June 1976, to cover project costs in the Sind and Northwest provinces. The funds did not become available for use by the U.S. technicians until December 29, 1976.

The problem of GOP delays in getting money to the provinces and implementing agencies is an old one. The Mission is well aware of the problem, and has been studying it to find a solution for the past two years. But no solution has yet been found.

USAID obviously has no direct control over internal GOP budgeting and accounting regulations concerning GOP funds. But it is responsible for the proper and efficient use of U.S. funds. As these funding delays are wasteful of U.S. funds (partially through idle time of consultants), some action should be taken to attempt to resolve the problem.

USAID Controller's Office officials told us that aggressive follow-ups with the GOP Ministry of Finance and other agencies have been effective in the past. However, this has been done on an ad hoc basis only, and the significant delays usually occur when there has been no aggressive Mission Controller's Office follow-up.

Recommendation No. 11

We recommend that the USAID/P Controller's Office institute a formal system for following-up on all rupee releases to assure that they are received at the project level as promptly as possible.

Mission Comments

The draft audit report states that "Mission Controller's Office officials told us that aggressive follow-ups with the GOP Ministry of Finance and other agencies have been effective in the past. However, this has been done on an ad hoc basis only, and the significant delays usually occur when there has been no aggressive Mission Controller's Office follow-up." This statement needs to be revised and amplified. Actually, the follow-up system on rupee releases currently in existence focuses only on those releases which have encountered excessive delays in reaching the implementing agency. Controller Office follow-up on these releases has resulted in expediting transfer action in most instances. However, this procedure consumes an excessive amount of staff time in initiating correspondence, arranging meetings with GOP officials and conducting necessary field trips to accomplish the objective. Further, the system depends primarily on "feed back" from the various project managers and/or their GOP counterparts to identify the problem releases. Again, the Controller's Office does not have sufficient staff to formally follow-up on all rupee releases from the time of initial disbursement through the various levels of the Federal, Provincial and District governments to the implementing agencies. Moreover, comprehensive Mission follow-up on all rupee releases is not a panacea in itself. The real problem lies within the GOP's fiscal system and the relationships between authorities vested in the various levels of government. The Mission considers this complex problem to be a priority issue and intends to pursue constructive dialogue with appropriate host government officials to facilitate implementation of streamlined GOP procedures for local currency transfers.

Additional Audit Comments

Our recommendation is being retained pending action contemplated by USAID/P.

BACKGROUND

U.S. economic assistance to Pakistan commenced in 1952. This assistance has amounted to approximately \$4.8 billion through June 30, 1976. Of the \$4.8 billion, about \$2 billion, including local currency sales, was provided for PL 480 food commodities and about \$2.8 billion was for capital assistance activities. This dollar assistance was made under grants of \$2.9 billion and soft term loans of \$1.9 billion.

USAID/P has revised its program strategy to conform with the emphasis on the rural poor. This strategy, which was spelled out in its Development Assistance Program (DAP) for FY 1975, states that it will support projects "that have a direct impact on social equity (or) which can be designed in such a way that the development benefits that we support are delivered to persons at the lower end of the economic spectrum". The level of assistance provided in support of these objectives during FY 1976, planned in FY 1977, and proposed in FY 1978 are as follows (see active projects on Exhibit A):

	U. S. \$ 000's			
	<u>FY 1976</u>	<u>T.Q.</u>	<u>FY 1977</u>	<u>FY 1978</u>
<u>Loans:</u>				
Food and Nutrition	47,500	25,000	43,700	74,000
Population and Health	-	-	18,500	39,500
Education	-	-	7,000	-
Technical Services	2,500	-	-	-
Sub-Total: Loans	<u>50,000</u>	<u>25,000</u>	<u>69,200</u>	<u>113,500</u>
<u>Grants:</u>				
Food and Nutrition	1,100	194	2,235	3,925
Population and Health	7,600	-	4,678	2,658
Education	300	-	618	-
Technical Services	-	-	-	4,760
Sub-Total: Grants	<u>9,000</u>	<u>194</u>	<u>7,531</u>	<u>11,343</u>
PL 480 - Title I	104,247	-	63,700	74,880
PL 480 - Title II	8,132	-	3,724	2,300
Sub-Total: PL 480	<u>112,379</u>	<u>-</u>	<u>67,424</u>	<u>77,180</u>
Total Program	<u>171,379</u>	<u>25,194</u>	<u>144,155</u>	<u>202,023</u>

The above data reflects the Mission's plans to sharply decrease PL 480, Title I inputs and increase development assistance to Pakistan in 1978 thereby maintaining the current funding level.

The Mission's authorized direct-hire American ceiling was 43 until recently. This ceiling has now been increased to 50. There are also 10 USDA advisors and 17 American contract personnel in country involved in AID-financed programs.

SCOPE OF EXAMINATION

We have performed an examination of AID-financed assistance to Pakistan to determine the effectiveness of the Mission's strategy and whether these program activities were planned and implemented effectively.

The examination covered activities in the agricultural sector, and the nutrition, malaria control and education programs through December 31, 1976. The field work was performed at the USAID in Islamabad and at other sites in Pakistan from January 5 to February 18, 1977.

Our examination was made in accordance with generally established auditing standards and included such tests of records, site visits and discussions as were deemed necessary.

A draft of this report was submitted to the USAID for comments. These comments were given due consideration in the preparation of the final report.

Financial Status of Active Local Currency
Projects per Mission Records as of January 31, 1977
(Mondale and Section 204 Funds)

<u>Project Title</u>	<u>A m o u n t s</u>			
	<u>Number</u>	<u>Obligated</u>	<u>Released</u>	<u>GOP Expenditures</u>
		(Pak Rupees 000's)		
<u>Mondale Funds:</u>				
Agriculture Research	296	73,500	22,000	17,998
Precision Land Leveling	401	2,500	800	76
Institutional Grant	366	2,376	2,101	664
Upland Agriculture Development	403	23,700	2,971	1,593
Malaria Control	139	65,838	65,838	-
Basic Health Services	4150	250	-	-
Primary Education Research	4100	800	800	186
Rural Electrification	4080	2,110	1,045	-
Expanded Population Planning	393	35,000	24,320	- 5/
Sub-Total - Mondale Funds	1/	<u>206,074</u>	<u>119,875</u>	<u>20,517</u>
<u>Section 204 Funds:</u>				
	<u>Agreement Nos.</u>			
Agriculture Research	73-12	6,000	2,400	1,995
National Nutrition Survey	75-2	495	495	-
Water Management Research	75-3	1,314	657	834 2/
Water Course Improvement	75-4	1,421	710	474
Water Management Survey	76-1	411	249	162
Study of Fertilizer Distribution	76-2	1,193	988	642
Integrated Functional Education	76-3	755	228	191
WDP Research	76-4	1,143	572	-
Construction of Food Storage				
Decdown at Quetta (CARE)	76-5	1,768	-	-
On-Farm Water Management				
(N.W. Frontier Province)	77-1	1,346	-	-
Sub-Total - Section 204 Funds	3/	<u>15,846</u>	<u>6,299</u>	<u>4,298</u>
Total Local Currency Funds		<u>221,920</u>	<u>126,174</u>	<u>24,815 4/</u>

Mission has retained Mondale Funds Rs.15,545,850 for Procurement of Equipment and International Travel costs.

Reflects over expenditures of Rs.177,000 under review by USAID/P.

Mission has retained Section 204, Rs.4,593,600 for procurement of equipment.

Current rate equivalency Pak Rs. 9.90 = U.S. \$1.00.

Population activities were excluded from this current audit.

Recommendations

	<u>Page No.</u>
<u>Recommendation No. 1</u>	
We recommend that USAID/P restrict its annual project funding to levels that can be properly planned and managed.	7
<u>Recommendation No. 2</u>	
We recommend that USAID/P explore the use of additional conditions precedent or covenants in agreements with the GOP to assure itself that counterparts for projects are provided as planned.	10
<u>Recommendation No. 3</u>	
We recommend that USAID/P obtain assurances from the GOP that provincial governments responsible for implementing AID-financed projects will do so in accordance with applicable agreements.	11
<u>Recommendation No. 4</u>	
We recommend that USAID/P (a) phase out its support of the LAPSA activity, and (b) reassess the value of trying to build a GOP capability to support foreign advisors.	13
<u>Recommendation No. 5</u>	
We recommend that USAID/P review unauthorized ARC construction costs with GOP officials and promptly decide which activities AID is willing to finance.	15
<u>Recommendation No. 6</u>	
We recommend that USAID/P re-evaluate the need for the full amount of the \$15 million On-Farm Water Management loan tranche requested in the FY 1978 Congressional Presentation.	16

Recommendations

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Recommendation No. 7

We recommend that USAID/P require a complete accounting of all major items of equipment procured under the prior Precision Land Leveling project 401 and control transfers of the equipment to the On-Farm Water Management project. 17

Recommendation No. 8

We recommend that the AID/W Bureau for Technical Assistance - Office of Agriculture (AID/W/TA/AGR), in conjunction with USAID/P, revise the CSU contract to include the following provisions: (a) a reduced scope with well defined objectives, (b) a specific work plan of well defined activities, (c) progress reporting to USAID and (d) designation of a representative of USAID/P to act as Project Manager for field operations. 20

Recommendation No. 9

We recommend that USAID/P reassess its GOP reporting requirements on a project-by-project basis and (a) delete unnecessary reports, (b) exert more pressure on the GOP to provide needed reports, and (c) if the GOP cannot or will not comply, seek alternative means of obtaining the information. 22

Recommendation No. 10

We recommend that USAID/P increase surveillance over GOP use of AID-owned local currency funds. 25

Recommendation No. 11

We recommend that the USAID/P Controller's Office institute a formal system for following-up on all rupee releases to assure that they are received at the project level as promptly as possible. 26

REPORT RECIPIENTS

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Auditor General, Office of Oversight Coordination,
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Auditor General, Office of Operations Appraisal Staff (AG/OAS) 1

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Office of Development Program Review and Evaluation
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Office of Management Operations (SER/MO) 1

Office of Financial Management (SER/FM) 1

Office of International Training (SER/IT) 1

Office of Contract Management (SER/CM) 1

Office of Commodity Management (SER/COM) 1

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