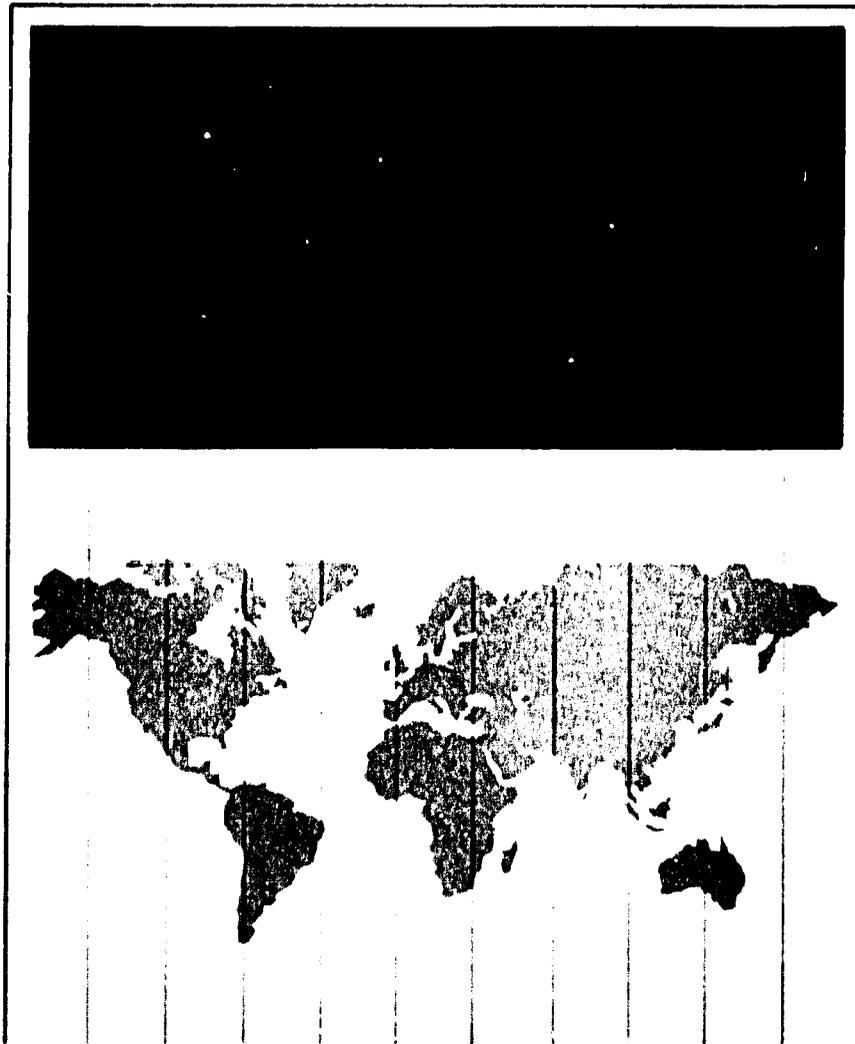


ISW 1419

PD - AAL - 276

UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
KARACHI

**BANGLADESH  
FOOD FOR WORK PROGRAM  
PROJECT NO. 388-0052  
USAID/BANGLADESH**

**AUDIT REPORT NO. 5-388-82-4**

**November 29, 1981**

## ACRONYMS

<b>AER</b>	-	<b>Annual Estimate of Requirements</b>
<b>BC</b>	-	<b>Bill for Collection</b>
<b>BDG</b>	-	<b>Government of Bangladesh</b>
<b>CARE</b>	-	<b>Cooperative for American Relief Everywhere</b>
<b>CDSS</b>	-	<b>Country Development Strategy Statement</b>
<b>CO</b>	-	<b>Circle Officer for Development</b>
<b>CS</b>	-	<b>Cooperating Sponsor</b>
<b>DO</b>	-	<b>Delivery Order</b>
<b>FFW</b>	-	<b>Food For Work</b>
<b>FFPO</b>	-	<b>Food For Peace Officer</b>
<b>FM</b>	-	<b>Fiscal Management</b>
<b>HB 9</b>	-	<b>AID Handbook 9</b>
<b>INFS</b>	-	<b>Institute of Nutrition and Food Sciences</b>
<b>LSD</b>	-	<b>Local Supply Depot</b>
<b>MORR</b>	-	<b>Ministry of Relief and Rehabilitation</b>
<b>MT</b>	-	<b>Metric Ton</b>
<b>PCD</b>	-	<b>President's Canal Digging Program</b>
<b>PES</b>	-	<b>Project Evaluation Summary</b>
<b>PIC</b>	-	<b>Project Implementation Committee</b>
<b>PIO</b>	-	<b>Project Implementation Officer</b>
<b>REG. 11</b>	-	<b>AID Regulation 11</b>
<b>SCF</b>	-	<b>Sub-Division Controller of Food</b>
<b>SDO</b>	-	<b>Sub-Divisional Officer</b>
<b>SDRRO</b>	-	<b>Sub-Divisional Relief and Rehabilitation Officer</b>
<b>USAID/B</b>	-	<b>USAID/Bangladesh</b>
<b>U. S. G.</b>	-	<b>United States Government</b>
<b>VolAgs</b>	-	<b>Voluntary Agencies</b>
<b>WFP</b>	-	<b>World Food Program</b>

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>BACKGROUND</b>	<b>1</b>
<b>AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS</b>	<b>6</b>
<b>A. PROGRAM IMPLEMENTATION STATUS</b>	<b>6</b>
Program Constraints and Loss of External Wheat Resources	<b>6</b>
<b>B. PROGRAM PLANNING</b>	<b>11</b>
Program Emphasis and Goals	<b>11</b>
Overall Project Activities	<b>12</b>
Project Selection Procedures	<b>13</b>
<b>C. COMMODITY LOSSES AND CLAIM ACTIVITIES</b>	<b>16</b>
Losses of Wheat on Delivery to the Project Sites	<b>16</b>
Underpayment of Wages to Laborers	<b>18</b>
Sale of Wheat-Cash Payments to Laborers	<b>24</b>
CARE/USAID Responsibilities for Reporting and Initiating Claims for Misuse of PL 480 Title II Wheat	<b>28</b>
Claims Against Third Parties	<b>29</b>
Claims Against Cooperating Sponsors	<b>30</b>
USAID/CARE Responses to Our Finding on Underpayments to Laborers, Sales of Wheat and Cash Payments to Laborers	<b>33</b>
<b>D. CARE MANAGEMENT RESPONSIBILITIES</b>	<b>42</b>
Revision of the CARE/BDG FFW Action Plan	<b>42</b>
CARE/USAID Monitoring Activities	<b>46</b>
Reporting on Program Losses	<b>51</b>
CARE Reimbursement Procedures	<b>52</b>
<b>EXHIBIT A - SCHEDULE OF ESTIMATES OF METRIC TONS AND COST OF WHEAT RECEIVED, UTILIZED AND REIMBURSED TO THE BDG FROM INCEPTION TO SEPTEMBER 30, 1981, AND PROJECTED THROUGH FY 1985</b>	<b>54</b>
<b>B - LIST OF RECOMMENDATIONS</b>	<b>55</b>
<b>LIST OF REPORT RECIPIENTS</b>	<b>58</b>

**AUDIT REPORT**  
**ON**  
**THE BANGLADESH**  
**FOOD FOR WORK PROGRAM**

**PROJECT NO. 388-0052**

**USAID/BANGLADESH**

**EXECUTIVE SUMMARY**

**Introduction**

The Ministry of Relief and Rehabilitation (MORR), with the assistance of the Cooperative for American Relief Everywhere (CARE), is implementing a Food For Work (FFW) program in Bangladesh using PL 480 Title II wheat as a wage and incentive for the rural poor to undertake rural earthwork projects.

This FFW program started in 1975 and is expected to continue through 1985 and will involve mainly the construction and reconstruction of earthen embankments and roads, excavation and re-excavation of earthen canals and tanks for fish breeding. The program is being implemented nationwide.

As shown in Exhibit A, 5,830 earthwork projects have been started from inception of the program in 1975 through the close of the FY 1981 program year. During the same period about 532,500 MTs of wheat valued at \$102.5 million had been provided by the USG and about 486,600 MTs of wheat valued at \$92.2 million has been absorbed in the program.

Under PL 480, commodities are provided to: (a) meet famine or other urgent or extraordinary relief requirements, (b) combat malnutrition, especially in children, and (c) promote economic and community development in friendly developing areas and for needy persons and non-profit school lunch and pre-school feeding programs outside the U.S. So far as practical, the assistance is required to be directed toward community and other self-help activities designed to alleviate the causes of need for such assistance.

Bangladesh is one of the most densely populated, disaster-prone and poorest countries in the world. Poverty, malnutrition, unemployment, and underemployment are high while, at the same time, the agricultural sector is considered unproductive. Thus, the FFW program has a primary goal to provide relief through direct employment and nutritional and income supplements for landless rural poor and unemployed. The secondary goal is to improve the productive capacity in rural areas of Bangladesh through rehabilitation of rural infrastructures.

The purpose of this audit was to determine if the FFW program is being implemented in compliance with AID policies and procedures and to identify problem areas requiring management's attention. We reviewed pertinent documents and records, conducted frequent discussions and visited 13 FFW project sites. Our examination included a review of implementation procedures, project records, and wheat distribution and control procedures. Audit emphasis was on review of the FY 1980 and FY 1981 work seasons through September 30, 1981. During those years 1,940 earthwork projects were approved for implementation.

### Findings, Conclusions and Recommendations

Our review of the FFW program in Bangladesh has identified several very serious programmatic, planning and performance problems that will require significant corrective efforts by the BDG, CARE and AID. This report points out extensive misuse and misappropriations of PL 480 commodities totalling almost \$5 million in just the last two years. According to CARE studies and records, this level of commodity diversion is a minimum and actual diversions may be much higher. Poor controls and lack of effective monitoring of the BDG distribution system permitted this situation to develop. Over the last few years there has not been sufficient action by the USAID to correct the problem even though CARE has repeatedly reported the diversions in thousands of monitoring reports.

#### -- FFW Program Control Requires Improvement

Implementation constraints within the BDG system and an excessive number of projects has contributed to less than satisfactory management control. We found acute wheat shortages throughout the system. Workers were not being paid on time due to distribution and transportation problems and poor management by BDG agencies. Up to 50

percent of USG supplied wheat was used for other purposes and the FFW projects were supplied with poor quality, or infested wheat from non-U.S. sources. We made two recommendations to improve management control and to reduce the authorized wheat programming level by at least 20,000 MTs annually (see pp. 6 to 10).

-- Relief Orientation of FFW Program Is Self-Defeating

USAID and MORR place primary FFW program emphasis on relief criteria which, we believe, has resulted in an undesirable emphasis on increasing commodity distribution and starting more projects than can be effectively managed. Overall, project selection priorities give limited emphasis to selecting projects for development purposes, for increasing agricultural production, or alleviating the need for such assistance. This FFW relief program will have gone on for 10 years by the end of the current 5 year program ending in FY 1985. It is our view, that some method must be found to substantially increase the permanence of the program's impact or the "poorest of the poor" in Bangladesh will not have progressed very far after ten years of intensive effort. In essence, the FFW program in Bangladesh is a never ending process with a primary focus on relief and is much too diffuse to be properly managed. We believe this concept of foreign aid is self-defeating because it focuses first and foremost on relief. It involves a continuous and costly transfer of wheat resources with a highly questionable cost/benefit ratio. In addition the current focus of this costly program runs counter to the proposition that aid should be directed at alleviating the need for the assistance. We have recommended the program be redirected to selection and completion of those projects that contribute most to development and alleviating the need for the assistance (see pp. 11 to 15).

-- Misuse and Diversion of Commodities is Extensive

The FFW program in Bangladesh has a long history of poor management that has generated frequent publicity and charges of misappropriation, waste and ineffective program administration. USAID financed three evaluation studies of the FFW program through FY 1979. Significant misappropriations of wheat were reported in

all three studies and losses were estimated at more than 20 percent of the total wheat reported on the records as disbursed to workers. The studies reported that project records were falsified, bribes were paid, landowners were improperly compensated with wheat and fictitious names were added to muster rolls. In our current audit, we found that most of the above deficiencies did occur and losses may have been even higher than the 20 percent factor cited above. At the present time, there are still significant diversions of commodities, poor controls and, more important, a lack of corrective action even though all program authorities were well aware of the overall deficiencies.

Overall, we identified misuse and misappropriation of wheat resulting in laborer underpayments in the FY 1980 and FY 1981 programs that totalled over 19,000 MTs of wheat valued at over \$4 million. We also found numerous sales of wheat valued at almost \$600,000 where there were clear indications of profiteering by BDG officials. It is our view, and CARE's view, that these underpayments and sales are the absolute minimum and that actual underpayments (and related diversions) are much higher. This conclusion is supported by thousands of CARE monitoring reports based on tens of thousands of interviews with workers. In addition, a recent CARE time and motion study indicates underpayments may exceed 30 percent for one factor alone. In practice, projects were reimbursed on a standard basis whereas actual worker productivity, according to the study, was at least 30 percent higher thereby further allowing for diversions of at least that amount.

We have included three recommendations for corrective action to improve host country funding, control commodity sales, and to recover the approximate \$5 million related to commodity diversions and cash sales. USAID and CARE have strongly objected to filing refund claims for reasons we consider to be invalid. Accordingly, we have retained the recommendation and have presented their comments in extensive detail (see pp. 16 to 41).

-- CARE's Management Responsibilities Require Clarification

CARE is responsible for overall management of the FFW program which includes the timely placement and supervision of international and local field staff, prompt submission of reports, prompt implementation of project responsibilities and application of corrective measures when approved or authorized by the MORR. CARE has been unable to effectively manage and monitor the FFW program because the Action Plan prepared pursuant to the BDG/CARE support agreement does not contain the necessary authority or leverage to enable them to adequately program projects or control implementation. This has resulted in costly deficiencies in programming and program implementation.

CARE has proposed Action Plan changes that are designed to facilitate increased efficiency in management. In particular the revised plan will eliminate reimbursing the BDG for wages not paid to the workers. Other important revisions to the plan will result in reducing the number of projects to a manageable level, improving project selection procedures, facilitating the calculation, formalized reporting and adjustment of BDG reimbursements for verified underpayments to workers and for unfit wheat used on FFW projects. CARE considers this procedure for adjusting for underpayments to workers and improved project selection procedures to be critically important to their continuation in the program.

We support CARE and have recommended that no additional wheat be called forward until the proposed changes are approved in a revision to the Action Plan that is acceptable to CARE and the USAID/B (see pp. 42 to 46).

-- CARE Monitoring Has Limited Impact

CARE has carried out extensive field monitoring of the FFW program but they have had little impact in bringing about adequate corrective action. Over the years, they have prepared thousands of monitoring reports showing gross underpayments to laborers, sales of commodities, wage payments in cash, falsification of or non-existent

records, and other instances of non-cooperation by BDG officials. We concluded that CARE, USAID/B and the BDG did not make adequate use of the reports to either file claims or take other corrective action. We feel, to a large degree, that this complacency of all project officials toward the monitoring reports is the major reason why this FFW program has experienced significant levels of misuse and misappropriation of commodities. We also found that the basic agreement between CARE and the BDG is inadequate and requires clarification and strengthening of CARE's authority to monitor and manage the program. We made three recommendations for corrective action (see pp. 46 to 52).

## BACKGROUND

The Ministry of Relief and Rehabilitation (MORR), with the assistance of the Cooperative for American Relief Everywhere (CARE), has been implementing a Food For Work (FFW) program in Bangladesh using PL 480 Title II wheat as a wage and incentive for the rural poor to undertake rural earthwork projects.

The FFW program has been ongoing since 1975 and is expected to continue through 1985 and will involve mainly the construction and reconstruction of earthen embankments and roads, excavation and re-excavation of earthen canals and tanks (for fish breeding) throughout the country. The program is nationwide and encompasses 20 Districts throughout the country. Districts are further divided in sub-divisions and sub-divisions are divided in Thanas or village areas. Many of the project operations cut across several village and sub-division areas.

The FFW program is being implemented under the authority of PL 480, the Agricultural Trade Development and Assistance Act of 1954. More specifically, wheat is made available for the program under Title II of the Act. Section 201 of Title II provides for use of agricultural commodities on behalf of the people of the United States to:

- (a) meet famine or other urgent or extraordinary relief requirements;
- (b) combat malnutrition, especially in children; and
- (c) promote economic and community development in friendly developing areas and for needy persons and non-profit school lunch and pre-school feeding programs outside the U. S.

Section 202 of Title II requires the President to furnish commodities for these purposes, to the extent practicable, through non-profit voluntary agencies registered with and approved by AID. Section 202 also provides that, except in cases of emergency, the President shall take reasonable precautions to assure among other things that:

"Assistance to needy persons under this title shall be directed, in so far as practicable, toward community and other self-help activities designed to alleviate the causes of need for such assistance."

Bangladesh is one of the most densely populated, disaster prone and poorest countries in the world. A major contributing factor to poverty and malnutrition in rural Bangladesh is unemployment and underemployment for the growing number of landless and near landless people. A second contributing factor is an unproductive agricultural sector which has not yet achieved its potential output in part because of a lack of rural infrastructure. These are the problem areas which the FFW program addresses through CARE and the MORR.

The overall objective or goal of the FFW program is two-fold. The primary goal is to provide relief through direct employment and nutritional and income supplements for landless rural poor and unemployed. The secondary goal is to improve the productive capacity in rural areas of Bangladesh through the rehabilitation of rural infrastructures through embankment, canal, tank and road projects which will improve the productivity and accessibility of the nearby land.

The Government of Bangladesh (BDG) has made substantial progress administering and expanding their National FFW Program (the overall effort supported by all donors) which includes the AID/CARE sponsored program. Within the overall national program the AID/CARE program has supported over forty percent of the program in terms of tonnage of wheat used for wages for rehabilitation of rural infrastructure projects.

Although the AID/CARE FFW program has been ongoing since 1975, new program agreements were signed between AID and CARE, and the BDG and CARE in 1980. Under the agreements, funds are provided for CARE's dollar and local costs of continuing the program through Fiscal Year (FY) 1985.

On June 29, 1976, AID Grant No. ASIA-G-1171 was signed to cover CARE's foreign exchange costs of assisting the MORR in administering the program. The grant, as amended, amounted to \$1.468 million and covered costs from FY 1976 through the FY 1979. At the same time, AID also provided CARE with PL 480 Title II wheat to be used as in-kind payment for wages of laborers working on the hundreds of earth-work projects. Through FY 1981, an estimated total of 532,485 tons (MTs) of wheat will have been provided for the program (see Exhibit A).

An AID/CARE Grant (No. 388-0052) was signed on March 20, 1980 to cover CARE's dollar commitments from FY 1980 through FY 1985. These costs are estimated at \$3.0 million. The grant was amended

on December 12, 1980 to increase the FY 1980 obligation to \$916,000 to cover CARE's operations only through FY 1981. Authorized costs include salaries, benefits and allowances, transportation, vehicles, equipment, spare parts and overhead.

In addition to the new AID dollar grant to CARE, AID signed a limited scope grant agreement with the BDG on September 29, 1980. The agreement was amended on January 16, 1981 to increase the dollar funds to \$150,000 to provide the MORR with funding for activities critical and essential to the program through FY 1985. The activities funded include evaluation, in-country training, a technical consultant, vehicles and training for BDG officials abroad.

The CARE Bangladesh program plan for FY 1980 and FY 1981 through FY 1985 indicates that the BDG will contribute local currency for the FFW program equivalent to the following dollar amounts:

	<u>FY 1980</u>	<u>FY 1981 - FY 1985 Each Year of the Program Plan</u>
Miscellaneous*	\$ 5,520,000	\$ 5,692,500
Commodity Transport, Port to LSD	3,450,000	5,468,000
Commodity Transport, LSD to Project Site	1,026,950	1,627,750
BDG Administration	230,000	287,750
CARE Administration	415,723 2/	513,980 1/
Total Contribution	<u>\$10,642,673</u>	<u>\$13,589,980</u>

1/ With regard to CARE administration costs for FY 1981 a BDG local currency support grant was signed in August 1980 to cover CARE logistic costs through FY 1985. This agreement obligated 7 million Taka (\$452,000) of the programmed amount for FY 1981.

2/ For FY 1980 and prior years a BDG agreement provided local currency for CARE administration and logistic costs amounting to the Taka equivalent of \$1.37 million.

The new AID/CARE FFW grant concludes that several evaluations of the FFW program have found that the program has progressed well in terms of its original project goal which was to provide direct relief and employment for unemployed landless laborers. The program will have supported approximately 5,830 projects, creating roughly 115 million man days of work through FY 1981.

\*Defined as costs for signboards, printing costs for project related forms, storage costs, etc.

**Because the FFW program is considered responsive to AID's Congressional Mandate of benefitting the rural poor and unemployed and helping to increase agricultural production, AID approved continued wheat shipments for the program for a second 5 year period including FY 1981 through FY 1985. Another 600,000 MTs or 120,000 MTs per year have been allocated for the new program.**

**The FY 1981 CARE/FFW program was implemented under new procedural guidelines issued October 13, 1980. The BDG agencies sponsoring the FFW program include the MORR, the Ministry of Fisheries and Livestock, and the Ministry of Local Government, Rural Development and Cooperatives. The program is essentially relief oriented thus, the MORR acts as "Coordinator" for the entire program. A National Coordination Committee (chaired by the Relief Minister) will be formed from members of ten other ministries.**

**Other lesser sub-committees are to be formed at the project level. One of these is a Sub-Division Committee. This committee is chaired by a Sub-Divisional Officer (SDO) with members composed of various local and sub-divisional officials including a Sub-Divisional Relief and Rehabilitation Officer (SDRRO). The SDO maintains all records and the committee is responsible for smooth, efficient and timely execution of the FFW program throughout the sub-division. The committee is also responsible for the overall receipt and distribution of the wheat for their sub-divisions and for cash payments for inland transport charges.**

**At the Thana level, sub-committees are formed with a Circle Officer for Development (CO) as Chairman and staffed by various village officials and representatives of the sponsoring agencies. Thanas are composed of Unions and Unions are made up of groups of villages. The Thana sub-committees are responsible for selecting and forwarding project proposals to SDOs and for the timely and efficient execution of all projects within their jurisdiction. These sub-committees form additional local Project Implementation Committees (PICs) consisting of not less than 9 members for every project. Members of the PICs are nominated from various village political and social organizations with final approval and selection by the Thana sub-committees. The PIC Chairman and members of each project committee are charged with individual and collective responsibility for the proper implementation of each project.**

## Audit Purpose and Scope

The purpose of our audit was to determine if the FFW program is being implemented in compliance with PL 480, Title II and AID HJ 9 policies and procedures, and to identify problem areas requiring management's attention. We reviewed pertinent documents and records, held discussions with USAID/Bangladesh (USAID/B) officials and with CARE officials at three of their field offices and at their headquarters office in Dacca. We also visited 13 FFW project sites selected at random. Our examination included a review of implementation procedures, project records, and wheat distribution and control procedures. Audit emphasis was on a general review of management activities and implementation problems that were prevalent during the FY 1980 and FY 1981 work seasons through September 30, 1981. During these years 1,940 earthwork projects were approved for implementation. Our examination was conducted in accordance with generally accepted auditing standards and included such tests as we considered necessary under the circumstances. This report was reviewed with USAID/B and CARE officials and their comments were considered in finalizing the report.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### A. PROGRAM IMPLEMENTATION STATUS

#### Program Constraints and Loss of External Wheat Resources

Due to implementation constraints within the BDG system, and the large number of projects being implemented, many earthwork projects remain unfinished at the end of a work season. The large size of the program has contributed to reducing management control to less than satisfactory, a reduced project completion rate and thus, a reduced rate of transfer to the BDG of valuable wheat resources.

The FY 1980 program resulted in 913 projects being eventually approved in 20 districts. According to CARE's final reports 558 of the projects were completed. Three hundred eighteen projects were completed in varying degrees but one hundred forty-one of those projects were less than 76 percent complete. Nineteen projects never got underway due to land disputes, court injunctions, technical problems, duplication with WFP projects or conflicts with work being carried out by the BDG's Highway Department. Eighteen projects were implemented wholly or in part but CARE support was withdrawn for lack of cooperation from local officials or failure of the local PIC Chairman to submit project records to effect reimbursements at the close of the season. This indicates a lack of coordination between the local PICs and the BDG since it resulted in the loss of sizeable credits of wheat to the BDG.

The main reasons for finishing only 61 percent of the FY 1980 projects were stated by CARE to be the traditional operational problems which generally were not corrected during the work season\*. Generally, these were:

- (1) There was a general and acute shortage of wheat at Central, Local and Thana Supply Depots during the FY 1980 program. Therefore, workers were not paid on time. This caused delays in starts and periodic stoppages throughout the season. According to CARE's monitoring reports, many of the projects were proceeding slowly or ceased operations near the end of the season.

-----  
\*The FFW season consists of a five month period from January to the onset of the monsoons in early June. During this period there is limited regular agricultural work (harvesting or planting) available to laborers.

CARE representatives informed us that while there is no overall wheat shortage, problems exist in getting wheat to some supply depots for delivery to the projects. For example, in seven sub-divisions in the Mymensingh area, four had less than 26 percent of the wheat needed to complete their projects with only six weeks left in the work season. When wheat does become available in the Local Supply Depots (LSDs) it takes several weeks to process deliveries through the system and there are other programs that draw on these wheat positions. Janalpur sub-division had twice the requirements needed for the FFW program but it is difficult to transfer wheat between sub-divisions. For example, the D'Ganj Thana had only 1,783 maunds (a maund is approximately 82 pounds) of wheat but needed 13,000 maunds at the time of our review. At one project we visited in the Comilla area, we found that the project was 90 percent complete although laborers had not worked for the last 15 days because wheat payments were not made. The project owed the laborers for 21 days of work at the time they stopped working.

Considering the number and wide dispersal of projects, a wheat supply problem at the depots is not surprising even though the quantities of wheat harvested and imported should be sufficient to keep the program going. For example, CARE imported 119,000 MTs of wheat between June and November 1980 for the new FY 1981 program, but there was still a severe wheat shortage at some of the distribution centers.

The FY 1981 wheat shortages at local depots can be attributed largely to distribution and transportation problems, and poor management on the part of the BDG agencies involved. USAID/B officials advised us that sometimes AID/CARE supplied wheat is shipped and used to satisfy other needs. There is no assurance that AID supplied wheat will always be available for the FFW program. In fact, our review indicated that about 40 to 50 percent of the wheat used on the program is AID/CARE wheat with the balance originating from local supplies or other donors. Numerous instances were reported by CARE where poor quality, or infested wheat from non-U.S. sources had been supplied for use on FFW projects while USG supplied wheat was used for other purposes.

- (2) CARE's monitoring reports repeatedly refer to inefficient and untimely issuance of Delivery Orders (DOs) for release of wheat from the Local and Thana Supply Depots to the projects. There are allegations in the CARE files that issuance of DOs is often contingent upon paying a fee to local officials charged with approving requests and processing the DOs. In addition, some Sub-Divisional Officers (SDOs) are reportedly delaying the issuance of DOs by first requiring reviews of the muster rolls and other project records for purposes unknown to CARE representatives.
- (3) There is a simple lack of attention by the BDG and local officials to expedite projects, and to provide adequate technical supervision.
- (4) Often projects receive lower priority than the President's Canal Digging (PCD) Program. For the FY 1980 program, progress was delayed on many of the 135 projects in the Khulna area; on 97 projects in the Barisal area; and on 81 projects in the Sylhet area because of this lower priority. The Sylhet program was especially affected by delays because the short work season was further reduced as a result of early and heavy rainfall. In the Barisal area, midway through the work season DOs were still not issued in one sub-division in order to allow work to continue on the PCD Program. This reduced labor strength and progress on the FFW projects.

In FY 1981 the PCD Program and FFW programs have the same implementation time frame so the same priority problem persists. For example, CARE's first Monitoring Report for FY 1981 for the Chittagong field office indicates that the nationwide canal digging program has kept most BDG officials busy, resulting in less attention to MORR/CARE FFW projects. The Dacca Unit office reported that, "in some cases SDO's are not issuing DO's to those areas where the PCD Program exists in fear of losing laborers from this voluntary program." The Comilla District also reported that the nationwide canal digging program has been one of the major reasons for not commencing work on FFW projects. USAID officials advised that the MORR's own FFW program, funded from BDG domestic wheat resources, was also delayed because of priority given to the PCD program.

**USAID officials advised us that because of the high priority given the PCD Program, the BDG has not been receptive in the past to coordinating the two programs to prevent overlap and labor conflicts.**

**The USAID Project Evaluation Summary (PES) for the FY 1980 FFW program reports the BDG was also supporting public works schemes of their own, independently of the CARE and the World Food Program (WFP), with a supplemental allocation of 125,000 MTs of domestic wheat.**

- (5) Projects are delayed well into the work season because of slow BDG issuance of instructions for project preparation. During FY 1980, this resulted in a two-month delay in the entire process of project approval and implementation.**

**For FY 1981 more projects were accepted in the hope that this would increase the reimbursement levels to the authorized 120,000 MTs. A total of 139,000 MTs of wheat was programmed for 1,027 projects including 37 projects that were accepted as late as April 1981 or just before the monsoon season was to begin in early June. Consequently, delayed starts caused operations to continue into the monsoon season with less work being accomplished than was anticipated as workers switch to more regular harvesting and cultivating programs.**

**Based on our field visits and CARE's monitoring reports, we believe the same constraints to progress and the same procedural problems have continued to plague the FFW program in FY 1981 as in prior years. As in prior years, wheat reimbursements to the BDG were far short of the 120,000 MTs authorized for the FY 1981 program. In 1981 only 88,064 MTs were reimbursed and this reduced the BDG's food aid by about 32,000 MTs of wheat valued at about \$6.8 million. Thus, it is clear that if the program is to reach the planned level, it is essential that projects be started on time, free of major constraints (particularly shortages of wheat in the system) and delays in issuing DO's and other instructions.**

The history of this program shows that reimbursements have never exceeded 95,000 MTs in any one year and have averaged only about 90,000 MTs over the last four years. Even so, USAID is projecting that with a more timely program start for FY 1982, and less interference from the PCD Program, reimbursements could easily exceed 100,000 MTs. Given their past experience, the large number of projects and the continuing management problems that exist, we believe a more reasonable programming level would be 100,000 MTs or less. In view of the BDG's actual performance thus far, a reduced commitment level should be required until the deficiencies noted in this report are resolved and corrected. This would also allow 20,000 MTs or more of wheat to be made available for other world-wide requirements at a much earlier date in AID's allocation process.

#### Recommendation No. 1

The Director, USAID/B should require the BDG to substantially improve their management control over the program by improving their procedures to:

- (a) assure an adequate supply of wheat is available at the LSD's, (b) assure DOs are issued promptly and that wheat deliveries are made to projects in a timely manner, and (c) provide better coordination to reduce overlap and labor conflicts between the PCD Program and the FFW program.

#### Recommendation No. 2

The Director, Office of Food For Peace, (FVA/FFP) should reduce the authorized wheat programming level for FFW projects in Bangladesh from 120,000 MTs annually to 100,000 MTs or less until procedural changes recommended in this report have been implemented and until such time as actual program implementation experience warrants increased commitment levels.

## **B. PROGRAM PLANNING**

### **Program Emphasis and Goals**

The program emphasis on relief in this FFW program addresses objectives which are consistent with Section 201 of PL 480, i. e., to furnish commodities; (1) to meet famine or other urgent relief requirements; (2) to combat malnutrition and (3) to promote economic and community development in friendly developing areas. But, because the program is basically relief oriented, the projects do not fully respond to the agricultural and economic development priorities stressed in PL 480, AID Handbook 9 or the Project Paper. In our opinion, given the emphasis on relief, the program intent is primarily to increase commodity distribution on a country-wide basis. As a result, many more projects are being started than can be effectively managed.

A major contributing factor to poverty and malnutrition in rural Bangladesh is unemployment and underemployment for a growing number of landless and near landless people. A second contributing factor is an unproductive agricultural sector which has not yet achieved its potential output in part because of a lack of rural infrastructure. The FFW program addresses these problems even though the actual earthwork does not provide a long term or viable solution due to annual monsoon rains which destroy much of the progress each year.

The Bangladesh Country Development Strategy Statement (CDSS) for FY 1983 states that one of the important objectives of the Mission is employment generation because of the income and employment situation in rural areas. The rural population living below the poverty level is estimated at 59 percent when defined on the basis of food consumption only and much higher if expanded to include other necessities. Agricultural laborers are at the bottom of the ladder with an average per capita income of only \$48 as compared with a poverty level income estimated at \$78. Furthermore, according to USAID officials, rural income distribution continues to be grossly disproportionate despite growth in the agricultural sector because the rural labor force continues to grow at a 2.4 percent rate annually and current unemployment is estimated at about 30 percent. Given the dimensions of poverty and unemployment among the rural labor force, the USAID feels that this FFW program is critically necessary to assist the rural landless people.

Accordingly, the primary goal of the FFW program has been to provide employment and nutritional and income supplements for landless and near landless rural unemployed and underemployed. The secondary goal, to improve the productive capacity in rural areas of Bangladesh through the reconstruction of rural infrastructure, was added in recent years to orient the project as much as possible toward advancing Bangladesh to their national goal of self-sustained economic growth.

Under Handbook 9 Chapter 8F, priority is to be given in FFW projects to sound activities that are consonant with host-government plans and priorities as well as USAID program emphasis and strategies. The HB 9 goal for food-for-work projects is the achievement of needed agriculture, economic and community improvements by providing commodities to support the labor of underemployed local workers. A wide variety of projects can be selected in many areas, but priority is to be given to projects which will contribute to an increased food supply in areas where the supply is inadequate. Section 202 (b) of Title II requires assistance to needy persons to be directed insofar as practicable toward community and other self-help activities designed to alleviate the causes of need for such assistance.

### Overall Project Activities

During FY 1980, a total of 913 projects were worked on and a 61 percent completion rate was experienced due to the many implementation problems encountered. Nevertheless, the FY 1981 program was increased to 1,027 projects with most of the activities being a continuation of prior year projects.

For the FY 1981 program the MORR forwarded 1,145 proposals to CARE. CARE screened 990 projects at the outset and programmed 137,000 MTs of wheat or 17,000 MTs more than authorized in the Annual Estimate of Requirements (AER). Eventually CARE was requested by the MORR and USAID to add another 37 projects for a total of 1,027 projects. The 37 additional projects were small and required programming only 1,817 MTs more of wheat. The main purpose of programming so many projects was to bring the total of programmed wheat to a sufficiently high level so that the actual amount of wheat paid to workers, and reimbursed to the BDG after the usual program shortfalls of cancelled projects and CARE's post-survey adjustments, would come as close as possible but not exceed the approved AER program target of 120,000 MTs.

## Project Selection Procedures

Project proposals are initiated at the Thana level and processed from the local sub-division and district offices to the MORR. The MORR reviews them on the basis of pre-established priorities and guidelines for selecting projects and then forward their selections to CARE for approval. MORR priorities (in order) include:

1. Incomplete projects started in the prior year;
2. Repair and maintenance of completed projects;
3. Link roads and feeder canals for previously completed projects;
4. Reconstruction and re-excavation; and
5. New construction, except activities of the Livestock and Fisheries Department.

In essence, the MORR priorities give limited emphasis to selecting projects for development purposes, for increasing agricultural production, or alleviating the need for such assistance.

CARE reviews MORR's project proposals and selects those that they support for implementation based on other criteria. These criteria include technical adequacy and design, distance or accessibility to project areas, and limitations on project approvals to a pre-set number and tonnage of wheat for each Thana, sub-division or district. This accounts for the wide distribution of projects throughout the country. Prior to approval, CARE also attempts to verify whether the project is free of land disputes or potential labor problems.

Of the 37 late add-on projects in FY 1981, 26 were previously rejected by CARE on the basis of their review criteria. However, at times the MORR takes issue with CARE's rejection of projects. Their position is that CARE should approve all projects based on the needs of laborers and not, for example, on the proximity of CARE's office to the project site. Where the capabilities of the localities to implement projects are limited, the MORR takes the position that additional personnel can be assigned to implement the projects.

In short, CARE has no authority to select projects but only to de-select or reject projects submitted by the MORR. Such rejections can be based only on the technical inadequacy of the proposal (such as faulty design) and has little relationship to the development potential of

a project. However, USAID contends that the CARE/FFW program, as it now functions, does respond constructively to the Title II legislative mandates of combating famine and malnutrition and promoting economic and community development. They also believe the program contributes to institution building at the local level in that local officials are being trained in the development and management of FFW projects.

We agree that the FFW projects do promote some economic and community development even though their value in this frame of reference is sometimes difficult to assess. For example, we noted several road projects that were being used extensively by local residents. Actually, the roads more closely resembled enlarged, elevated dirt paths than roads. Yearly monsoon rains inundate two-thirds of the country, thus much of the earthwork lacks permanence. There are few materials available at the project sites with which to add stability to the earthwork. Therefore, the projects will probably need repeated maintenance or even partial reconstruction.

In essence, the FFW program in Bangladesh is a never ending process with a primary focus on relief and is much too diffuse to be properly managed. We believe this concept of foreign aid is self-defeating because it focuses first and foremost on relief. It involves a continuous and costly transfer of wheat resources with a highly questionable cost/benefit ratio. In addition, the current focus of this costly program runs counter to the proposition that aid should be directed at alleviating the need for the assistance. We believe the program should be re-directed to selection and completion of those projects that contribute most to development and alleviating the need for the assistance.

In effect, with no specific development criteria for selecting projects, we do not believe they are selected in accord with HB 9 or the Project Paper of November 1979. Those documents call for engineeringly sound projects with a potential for contributing to both employment and food production and to the extent possible alleviating the cause of need. In actual practice, many of the selected projects are not completed in the year started. In a number of instances there were significant deviations from approved project designs. Accordingly, Project Paper criteria for increased employment and nutrition may have been met, but the secondary program goal of soundly designed projects to benefit increased production was often not attained.

The FFW program has stressed employment to combat malnutrition and famine (with limited development) by implementing as many projects as possible so as to distribute the most wheat to as many workers as possible. This emphasis, coupled with serious implementation constraints, is contributing to mismanagement, misappropriation and wastage of wheat and funds through support of marginal projects. As a result, certain elements of the program are less than adequately controlled.

USAID considers the first and foremost purpose of the program to be relief; in effect, an employment program of last resort in one of the most disaster-prone countries of the world. USAID believes there is a development potential in the program, but the program emphasis is on providing the poorest of the poor with relief in terms of nutritional income supplements during a part of the year when employment is difficult to find. The program employs the BDG's most abundant resource, labor not capital. USAID points to other aspects of HB 9 that relate to the meeting of critical emergency needs in a country as disaster and famine-prone as Bangladesh. They believe that because of the economic, social and political realities of Bangladesh, the FFW program is on target both programmatically and legislatively. Hence, in reviewing our draft report, they have strongly objected to Recommendation No. 3. They feel that FFW priorities, in a country as poor as Bangladesh, must of necessity be both relief and development. Nevertheless, we continue to believe that implementing so many projects, in the current manner, is not conducive to the pursuit of the development aspects of the program.

This FFW relief program will have gone on for 10 years by the end of the current 5 year program ending in FY 1985. It is our view, that some method must be found to substantially increase the permanence of the program's impact or the "poorest of the poor" in Bangladesh will not have progressed very far after ten years of intensive effort. Accordingly, we believe more emphasis should be given to selecting projects that are well designed, engineeringly sound and economically productive in terms of their potential to increase production as well as employment in order to alleviate the need for such assistance as mentioned in the Project Paper and stressed in HB 9 and Section 202 (b) of PL 480.

Development criteria should be established against which the BDG and CARE could judge and select the best projects that would have a lasting impact. The number of earthwork projects selected under the revised goal should be kept to a manageable level. We believe that fewer projects, managed more efficiently, could result in improved results and increased commodity utilization. With better management more work could be done and more projects could be completed. Clearly, the long-term effectiveness of each sub-project must be a major decision criteria if adequate progress toward alleviating the need for assistance is ever to be achieved.

#### Recommendation No. 3

The Director, USAID/B should: (a) restructure project goals to place primary emphasis on selecting and implementing soundly designed projects that have a potential for increasing food production and alleviating the need for such assistance, (b) in coordination with CARE, develop criteria for judging and selecting projects that will best accomplish the revised goals, and (c) assist the BDG in revising their project selection procedures so that priority is given to fewer projects that best accomplish the revised goals.

### **C. COMMODITY LOSSES AND CLAIM ACTIVITIES**

The FFW program in Bangladesh has a long history of poor management that has generated frequent publicity and charges of misappropriation, waste and ineffective program administration. For example, USAID financed three evaluation studies of the FFW program through FY 1979. Significant misappropriations of wheat were reported in all three studies and losses were estimated at more than 20 percent of the total wheat reported on the records as disbursed to workers. Other major conclusions of the studies were:

- (a) project records were falsified to help make up for transportation and handling loss of wheat which was beyond the control of the project committees;
- (b) at least one percent of the wheat transferred was used for bribing local persons to prevent trouble;
- (c) certain landowners were compensated with wheat for the use of their land; and
- (d) fictitious names were added to muster rolls and group leaders were paid less than what was recorded.

In our current audit, we found that most of the above deficiencies did, in fact, occur and losses may have been even higher than the 20 percent factor cited above. At the present time, there are still significant diversions of commodities, poor controls, and more important a lack of corrective action even though all program authorities were well aware of the overall deficiencies. Supporting details of our findings follow.

#### **Losses of Wheat on Delivery to the Project Sites**

Based on discussions with local BDG project officials, CARE's field representatives estimate that from the time wheat is transferred from local supply depots and delivered to the projects, an average of five percent of the total weight charged to the project will disappear. These losses are made up in part through underpayments to laborers.

We were informed of these shortages by CARE's representatives during our field visits. In addition, CARE's end-of-year summary reports from their nine field offices confirmed our conclusions that the shortages are experienced nationwide and involve most of the FFW projects.

**CARE officials believe the misappropriated commodities are used, at least in part, to alleviate the following conditions or problems:**

- (a) The PICs often pay for transportation of wheat from the LSDs to the projects, but are not being totally reimbursed by the SDOs. While SDOs seldom pay the full carrying costs to the PIC Chairman, the Chairman does sign statements acknowledging receipt of the funds. The balance is reportedly taken by the SDO. It is also alleged that many SDOs demand gratuities from the Project Chairman for approval of DOs.**
- (b) Actual DO issuances are reportedly often delayed by the Sub-Division Controller of Food (SCF) until gratuities are paid.**
- (c) Also, CARE officials advise that reports from local project officials indicate that payments to BDG officials are often required for preparation and approval of project proposals.**
- (d) Other miscellaneous projects costs for signboards, printing of documents, and storage charges are not being provided from BDG support funds.**

**As a result of the above activities, PICs are withholding wheat from the workers' wages and either selling the wheat or using it to cover transportation charges, payment of gratuities, miscellaneous project costs or other unauthorized uses. These shortages contribute to or result in: (a) underpayments to laborers of both basic and allied factor wages, (b) incompleting projects due to lack of wheat, and (c) misappropriation or misapplication of wheat to defray BDG program support costs or other unauthorized purposes.**

**The approved BDG local support budget included local currency funds equivalent of \$1 million and \$1.6 million for FY 1980 and FY 1981 respectively to specifically cover transport costs from LSDs to project sites. If at times these costs are not being paid from the BDG support funds, then the BDG funds are either not being received at the local level or they are being used for other purposes. CARE officials advised us that while the budget looks good on paper it does not necessarily reflect the actual situation. They said many PIC Chairmen claim they must wait until the next year's program or longer for**

finalization of project transportation payments. In any case, we concluded the BDG is not fulfilling their commitment to defray all local costs of the program.

Recommendation No. 4

The Director, USAID/B, as a condition to continuing the FFW program, should require the BDG and CARE to develop adequate local cost funding procedures that will guarantee the provision of local funds for logistical support costs of the program on an advance basis and thus eliminate the apparent necessity to sell U.S.G. provided commodities to defray such costs.

Underpayment of Wages to Laborers

CARE's interim monitoring reports disclosed that both basic wheat wages and additional payments due for allied factors\* for exceptional and difficult work were not always paid to the laborers by project officials. Because CARE reimbursed the BDG based on earthwork moved at the full wage rate, the BDG was over-paid in wheat to the extent of whatever amounts of basic and allied factor wages were not paid to the laborers. The failure of project officials to maintain accurate wheat wage records made a determination on underpayments of wages very difficult, and also prevented CARE officials from effectively performing their monitoring responsibility as required by the BDG/CARE and AID/CARE agreements. CARE's interim monitoring reports and other project records contain project performance and statistical data indicating that many workers were being underpaid. Many of CARE's monitoring reports state that at the time of their visit to the project, wheat payments of allied factors were not being made at all or wage payments for basic earthwork were well under the standard rate of 3 seers (about 6 pounds) per 70 cft. of earthwork moved which is usually considered the basic wage for one day's work. However, sufficient information was not available in the reports for us to readily determine the extent of underpayments to laborers for basic wages which are computed under a rather complex system. Therefore, for FY 1980 we limited our review of underpayments of laborers to the allied factor portion of total wages. The calculation of underpayments in this area was simplified by the fact that the monitoring reports indicate that generally no allied factor wages were paid to the workers. To perform our tests we selected a random sample of 89 projects out of 880 projects reimbursed by USAID/B under the completed FY 1980 FFW

-----  
\*The major allied factors include lifting of soil, carrying distance, working with adverse soil, and bailing water from work sites.

program. In making our calculations and projections on total allied factor underpayments on the FY 1980 program, we assumed that the underpayments reported in CARE's monitoring reports continued for the life of those projects on which underpayments were reported.

A basic problem in observing wage payments is that wages are paid on an irregular basis. Therefore, in verifying wheat distributions, CARE must often rely on questionable project records or the word of workers. However, CARE officials believe that with hundreds of projects drawing on LSD's resources that may be short at times, together with normal administrative problems, a regularized system of wheat payments would be unworkable. CARE officials believe the only practical way of determining payments to workers with reasonable certainty is through extensive discussions with workers during their monitoring visits to project sites. CARE officials feel that in order to assure reasonably uninhibited responses from the workers, these discussions must not be held in the presence of the BDG's local project officials.

Our examination of CARE's documentation for the 89 projects completed in FY 1980 indicated that major items of allied factor wage payments for lead, lift, adverse soil and bailing water were not being paid to the laborers on 71 of the 89 sampled projects. We then calculated that these unpaid allied factors amounted to 52.44 percent of the total allied factor wages claimed on the 89 sample projects. We then applied this percentage of underpayments to the 19,623 MTs of wheat that was reimbursed to the BDG in FY 1980 for allied factors. We calculated that approximately 10,290 MTs (19,623 MTs x 52.44) of allied factor wheat wages valued at \$2.188 million were not paid to the laborers out of the total universe of 880 projects.

Our review of CARE's FY 1981 monitoring reports and records, field visits to project sites and discussions with laborers and local project officials indicated that underpayments to laborers also continued to be the general practice for the FY 1981 program. We were unable to observe any distributions because they are not made on a regular basis and local PICs normally do not permit or arrange for CARE or USAID officials to witness wheat payments.

CARE recently completed a number of studies of various aspects of the FY 1981 program. One such study, completed in August 1981, and based on data reported in CARE's monitoring reports, again revealed significant underpayments to laborers. The study disclosed that as of early May 1981 CARE had made about 1,700 monitoring

visits to project sites with many of the projects visited twice. During their visits, CARE officials estimate they discussed underpayments with an average of 50 workers per visit with an estimated total of 85,000 workers being contacted. Underpayments to workers were found on 688 projects. The underpayment rate by types of projects ranged from 8.82 percent on 544 roads and embankment projects, 14.24 percent on 120 canal projects, to a high of 18.87 percent on 24 tank projects. CARE officials point out that the 688 projects cited in the study are not all the projects on which underpayments were reported on the FY 1981 program of 1,027 projects. Many more were found underpaying workers as a result of monitoring visits made on other projects subsequent to the summarizing of data used for this particular study.

The study did not cite the overall percentage of projects underpaying in relation to the total projects monitored. However, our review of CARE's supporting data for the portion of the study done by CARE's Faridpur Unit Office showed that out of 150 active projects checked, workers were reported as underpaid on 129 or 86 percent. Workers were reported as overpaid on three projects. This underpayment rate is considered a minimum because the unit was unable to obtain wage payment data on 17 projects. The Mymensingh Unit Office reported that out of 113 active projects, workers were being underpaid on 101, overpaid on six and wage data was unknown on the remaining six projects. This equates to 89 percent of the projects being underpaid. The Rajshahi Unit reported that out of 174 active projects, workers were underpaid on 129, overpaid on twenty-seven and payment data was unavailable on another seventeen projects. The minimum underpayment rate for Rajshahi was 74 percent of the projects.

CARE officials stated that the reasons for the underpayment rates being higher on canal and tank projects was because the allied factor rate was much higher on those type of projects. Workers, however, are paid at about the same rate regardless of the type of projects on which they work. Seventy-seven percent of all the projects were road or embankment activities which experienced the lowest underpayment rate, thus, the overall average underpayment rate was 10.17 percent. CARE advised that this rate was the average of all projects monitored under the study, not just the 688 found underpaying, therefore the rate is considered applicable to the total program. CARE asserts there is no question concerning this actual rate of minimum underpayments. Accordingly, we concluded that underpayments occurred on most projects and calculate that at least 10.17 percent of the 88,064 MTs of

wheat reimbursed to the BDG on the FY 1981 program was not paid to the laborers, but was used to reimburse improper project implementation costs or for other unauthorized uses by BDG project officials. This amounts to approximately 8,956 MTs of wheat valued at \$1.904 million.

CARE considers this rate of underpayment to be an absolute minimum because the following factors are not reflected in the rate:

- (1) The study was not based on actual observation of distributions. It was based on what the workers said they received or what they were told they would receive. CARE believes the laborers responses to their questions on wage payments were often influenced by the presence of or instructions from local PIC Chairman that resulted in inflated rate reports due to coached answers.
- (2) Work leaders'(usually one for each 20 laborers) wage payments that are programmed in the proposals and reimbursed at the end of the project are often not paid to the leaders but are retained by the PIC Project Chairman as payments for his services. In turn, the leaders then keep a percentage of each laborer's food earnings to compensate themselves.
- (3) During March, April and May, 1981, CARE completed a time and motion study of earthwork done by workers on a daily basis. The study indicates that workers have been moving considerably more than the 70 cft. of earth per day (the basis on which they are paid). The study concluded that the PIC Chairmen usually do not measure the work actually done by workers but assume and pay on the standard basis. The study indicated that workers actually moved about 100 to 113 cft. of earth per day which allows the work to be finished sooner than programmed and the unpaid wheat is either taken by the PIC Chairman or left in the LSDs. Based on their annual review of wheat drawdowns from LSDs, CARE advised that in the vast majority of cases the Chairman withdrew the maximum allotted wheat against their report of earth moved. Therefore, by paying laborers on the assumed productivity of 70 cft. per day, the project Chairman and other PIC members could be diverting a minimum of 30 percent of the

commodities provided to these projects. CARE feels, however, that more time and motion studies are necessary before a firm estimate can be formed.

The results of the time and motion study are currently under review by CARE and USAID to determine if revisions of the manday work standards in terms of cft. per day of earth moved are necessary. USAID is also reviewing the preliminary results of a recent USAID financed Institute of Nutrition and Food Science (INFS) study on the same subject. This study tends to support the findings of the CARE study. We believe any underpayments to workers indicated by these time and motion studies are due in large part to faulty assumptions on daily productivity. However, we find it noteworthy that after 5 years such information is not well established. We have also noted that the percentage of direct underpayments to laborers by project officials that we calculated for allied factors in FY 1980 based on CARE's monitoring reports was also consistent with CARE's FY 1981 findings even though CARE included both the basic and allied factor rates in their study.

CARE officials are convinced that their wage payment study indicated conclusively to them that allied factors are not being paid to the laborers. They assert that if allied factors are not paid during the season, workers will not wait around for them at the end of the season. In effect, the underpayments were reimbursed to the BDG because USAID and CARE policy has been to reimburse the BDG at the full wage rate for earthwork moved without regard to actual wages paid to the laborers. As a result, U.S. Government provided wheat resources meant for the poor, landless, unemployed or underemployed workers and their families, are being misappropriated or misapplied to support BDG program costs or for other unauthorized uses by BDG project officials.

The only reason given by project officials for not paying full wages was that if workers were paid in full, many would leave the projects before the end of the season. The MORR operating instructions do not provide for withholding wages. In fact, the operating instructions for the FY 1981 program state that laborers' wages in wheat should not go unpaid. If there is a shortage of wheat, work may continue according to the instructions, but the SDOs are to improve the availability of wheat. Another requirement of the instructions is that certifications of work done should be completed twice a week so that workers get their wheat at least twice a week. While project officials are given some leeway to change these rules to fit local

conditions, we found no intent to authorize withholding of wages until the end of the work season. Many of the monitoring reports showed the projects to be 80 to 90 percent complete with no allied factor wage payments having been made.

Other than the word of the workers, there was no proof that the full wages were paid or not paid. Project records consisting of "Record of wheat withdrawals from LSDs" (Form 8A) and "Record of Wheat Payments to Laborers" (Form 8B) and other related records were either not being maintained or were not available for inspection by CARE field representatives during their monitoring visits. For example, the monitoring report of April 16, 1980 prepared by CARE's Dacca field office reported that with one-third of the work season gone, project records and related papers were either not maintained or were characteristically not available for inspection on nearly all 25 projects visited. For the same period CARE's Rajshahi field office reported that Form 8A and 8B on the whole, were not available for inspection or were not being maintained. This district office monitored 114 projects during 1980. Near the end of the work season, both the Khulna and Rangpur field offices reported the general negligence by PICs in maintaining project records and related papers. They said the absence of records was a common problem that continues to hamper implementation and monitoring.

CARE experiences difficulty in getting these wheat utilization records in a timely manner at the end of the season. The records are used by CARE in conjunction with post-surveys of work done in order to calculate reimbursements due the BDG. Eighteen FY 1980 projects were not reimbursed because records were never made available to CARE as required at the end of the season.

In general, it is our conclusion that project officials do not keep adequate records. In some cases the records are prepared at the end of the work season merely to obtain reimbursement. Accordingly, the records cannot be relied upon to reflect actual payments to laborers or as an adequate basis for audit review. Hence, there is an urgent need to devise a method for reducing reimbursements to the BDG for underpayments to laborers. CARE has already proposed that the FFW Action Plan be revised to include, among other control features, a formalized system for calculating, recording and adjusting reimbursements to the BDG for underpayments to laborers which we will discuss later in this report along with a recommendation that USAID/B not approve any additional wheat imports for the program unless CARE's proposed system is accepted by the BDG.

In failing to maintain and make records available for inspection during the work season, project officials prevented CARE from effectively discharging their monitoring responsibilities thereby violating pertinent terms of the BDG/CARE agreement. This agreement requires CARE, among other things, "to monitor and assist the project supervisors in maintaining proper accounting and supervision of the actual work performed on each FFW project". In addition, the lack of accurate records precluded the achievement by CARE of a major purpose of the AID/CARE grant agreement under which CARE's dollar costs were financed. Under that agreement, a BDG/CARE system or organization was to be established that would provide accountability for the PL 480 wheat reimbursements to the BDG. In practice, there has been a flagrant disregard for this record management requirement coupled with the fact that there is strong evidence that the withheld food wages were diverted for unauthorized purposes. (A discussion of CARE and USAID responsibilities with a recommendation for initiating claims for misuse of commodities is presented on pages 28-33).

#### Sale of Wheat-Cash Payments to Laborers

Some of the AID-financed wheat provided for use as wages on earthwork projects is being sold and the cash paid as wages to the laborers. These sales are in violation of HB 9, Chapter 5 regulations governing Title II program implementation, and the BDG's operating guidelines for the FFW program.

In order to assure that Title II commodities do not disrupt or interfere with sales which might otherwise be made, Section 5J of these regulations prohibits sales of Title II commodities by the host country, cooperating sponsor, distributing agencies and recipient agencies except when, (1) commodities are unfit for human consumption, (2) sales are made under a Title II Section 206 sales program, and (3) AID/W authorizes such sales to (a) assure that commodities reach the intended recipients in urgent or emergency situations, and (b) for certain selected development activities. None of these exceptions apply to the Bangladesh FFW program.

The BDG's new operating guidelines for the FY 1981 FFW program dated October 1980 also forbid sale of AID-financed wheat for the purpose of paying cash wages to the laborers. Section 14 of the guidelines states that: "Under no circumstances will wheat that has been sanctioned for the project be allowed to be sold. Only wheat should be paid to the laborers. If wheat is not provided as a wage, the concerned officers of the sponsoring agencies will be held responsible . . . ."

Our review of project files and CARE's summary monitoring reports on the completed FY 1980 program, disclosed that cash wages were paid to laborers on 16 projects. Despite the payment of cash wages, wheat reimbursements to the BDG on these projects totaled 1,210 MTs valued at \$257,000. Eight of the sixteen projects were located in the district of Chittagong. On these 8 projects, 561 MTs of wheat valued at \$119,000 were reimbursed to the BDG. The remaining 8 projects were located in 6 other districts around the country. Six hundred forty nine MTs of wheat, valued at \$138,000, were reimbursed to the BDG on these latter projects. CARE and USAID/B representatives stated that the reason wages are paid in cash in the Chittagong area was because laborers are not available in this area due largely to the high labor rates being paid there. As a result, migrant laborers who come from long distances away are engaged on the projects and they greatly prefer to have their wages paid in cash.

Aside from wages being paid in cash, which in itself is a violation of AID regulations, the substitution of migrant workers on projects to make up for a shortage of underemployed local workers results in projects that do not fit the criteria or intent of the FFW wheat grant. In our opinion these projects, as well as projects paying cash wages, should not have been reimbursed.

Our review of project files, CARE's monitoring reports and field visits to 13 projects in the FY 1981 program disclosed that FFW project officials are continuing to make cash payments to the laborers in violation of Title II regulations and BDG's program guidelines. We found that laborers were being paid in cash on four of the 13 projects visited. Because of the high incidence of cash payments of wages found during our field visits and the fact that CARE's monitoring reports did not disclose these particular payments, we believe the practice of paying laborers in cash may be more prevalent throughout the FFW program than generally thought to be the case.

One effect of paying wages in cash is that it gives some local PIC officials an opportunity to sell the wheat for profit. The workers are paid less than the wheat is worth on the market especially if it is milled before marketing. For example, on one project we found the laborers were getting 10 Taka (60¢) per day supposedly as an advance against wheat due them. We calculated that the laborers should be getting a minimum of 5 seers of wheat per day which is worth about 15 Taka at the local market rate. We then visited the local PIC warehouse where wheat was stored to support this project. We found that

2,000 maunds of wheat were recently received from the LSD but had not yet been distributed to the laborers. We noted this warehouse was operated by the PIC Chairman who was also operating a milling machine in the same building. Since milled wheat was selling on the market at 175 to 190 Taka per maund, a minimum of 100 percent profit could be made by milling and selling the wheat and then making cash payments to the laborers as was apparently being done. On another project we visited, laborers were reported to be receiving 100 Taka in cash for each maund of wheat earned. The local market rate in the area for one maund of wheat was reported to be 115 Taka.

According to BDG operating procedures, in cases of legitimate wheat shortages, projects can be continued in anticipation of receiving wheat later. In these cases SDOs are to do everything possible to improve the availability of wheat and accelerate deliveries of the grain. We believe this practice could result in the following undesirable conditions:

- (a) reporting wheat shortages to laborers as an excuse for paying cash, thereby permitting illegal profits to be made from the sale of wheat by project committee officials;
- (b) underpayments to laborers; and
- (c) violating PL 480 Title II regulations and the BDG's own operating guidelines prohibiting the sale of commodities.

On thirty of the 1,027 FY 1981 projects it is known that wages were being paid in cash. Fifteen hundred and sixty nine MTs of wheat valued at \$333,600 has been reimbursed to the BDG on 26 of these projects. For the remaining four projects, CARE refused reimbursement on three because the project records used to calculate reimbursements were not submitted to CARE by the required date. For the other project, CARE refused reimbursement because wages were being paid in cash and CARE officials thought the PIC Chairman was profiteering by milling and selling the wheat and paying laborers in cash. This situation is similar to the situation we found in reviewing the FY 1980 activities. For example, 18 of the 30 FY 1981 cash paying projects were located in Chittagong and were paying wages in cash for the same reasons. The other 12 were located in 6 other districts around the country.

USAID officials provided us with a copy of a MORR wireless message dated February 20, 1981. That message notified the SDO of Chittagong to take immediate action against committee officials of two projects for making cash payments to laborers. The MORR also stated, "... work will be stopped if payment was not made according to rules." CARE's representatives informed us, however, that to their knowledge no projects have been cancelled for making cash payments to workers even though CARE continues to report cash payments to workers on other FY 1981 projects in the same district. In effect, we found no record of any substantive corrective actions taken by the BDG to curtail the selling of wheat and paying laborers in cash.

The above sales activities are in violation of Title II regulations in addition to violating the BDG's operating guidelines for the program. Therefore, we believe that USAID/B and CARE should (a) not have reimbursed the BDG for wheat programmed on projects where CARE has established that laborers wages were paid in cash, and (b) charge the BDG's FFW program wheat account for the 2,779 MTs of wheat reimbursed on projects that did not meet program criteria or where wheat was being sold and wages paid in cash during the FY 1980 and FY 1981 program years.

In response to this finding CARE stated: "It should be noted that one site visit monitoring report of cash payment on a project cannot be taken as evidence that cash payments were made throughout the project's duration. In fact, except in the cases of Chittagong and Sylhet, cash payments have often been found occurring only sporadically on a given site in response to the Project Committee's need to pay in cash rather than incur laborer disaffection over tardy wheat deliveries. CARE feels this action is understandable. For these projects, in any case, CARE believes it would be unjust to disallow all wheat spent on the project because of one cash payment. Yet the monitoring reports on any given project are rarely so numerous (three or more) to document conclusively the persistent use of cash in lieu of wheat."

In our opinion CARE's policy concerning reimbursements to projects paying wages in cash is not consistent. CARE refused to reimburse on a previously mentioned project because of apparent profiteering by the PIC, but on numerous other reimbursed projects, there was no clear indication in the monitoring reports what the reasons were for paying wages in cash. We feel it is not necessary to have three or more monitoring reports to document misuse of wheat meant for paying wages especially since PIC officials generally do not allow

CARE officials to observe distributions. To disqualify a project it should only be necessary to determine that wages were paid in cash. Wheat sales and payment of wages in cash are direct violations of the FFW operating guidelines and HB 9-5J Title II regulations. AID/W has never approved sales of wheat for this program for any of the reasons cited in Chapter 5J. USAID and CARE feel that because wheat sales and cash wages were not specifically disallowed in the FFW Agreement and related Action Plan and the BDG has already been reimbursed in full on these projects, filing refund claim actions on an ex post facto basis would constitute a breach of faith with the BDG. In our opinion, these factors cannot override AID policy and regulations prohibiting the sale of Title II wheat without prior AID/W approval. USAID and CARE were aware of these restrictions before the projects were accepted and reimbursements made to the BDG. The fact that the BDG was aware of this overall situation and has not taken effective action to control it also supports the need for prompt and decisive corrective action now by both USAID and CARE.

Accordingly, we see no alternative but to file refund claims for wheat reimbursed on all FY 1980 and FY 1981 projects involving sales of wheat and payment of worker wages in cash. The following report section on CARE/USAID responsibilities includes a recommendation for initiating claims for misuse of commodities by selling wheat and paying cash wages to laborers.

#### Recommendation No. 5

The Director, USAID/B should, require the BDG/CARE Agreement and related Action Plan to be amended to require CARE to withdraw food support from any projects where commodities are sold and wages are paid in cash.

#### CARE/USAID Responsibilities for Reporting and Initiating Claims for Misuse of PL 480 Title II Wheat

Neither USAID nor CARE have properly exercised their responsibilities under AID regulations for pursuing and initiating claims for misuse of the PL 480 Title II wheat provided for this program. The liability of CARE and third parties for loss and damage and for improper distribution of PL 480 Title II commodities is covered in HB 9 Chapter 6 and Section 211.9 of AID Regulation 11 (Reg. 11).

## Claims Against Third Parties

Cooperating Sponsors (CS's) have the basic responsibility for establishment and followup of claims against third parties for misuse of PL 480 Title II commodities. HB 9 Section 6A provides that Voluntary Agencies (VolAgs) implementing projects under agreement procedures are responsible for pursuing claims for losses beyond the end of ship's tackle. Section 6B states that CSs have the responsibility to report losses, damage and improper distribution, and institute and pursue claim actions against third parties. This Section also provides; (1) USAID's are to, (a) review the reports submitted by the CSs, (b) institute and pursue claim actions against CSs, and (c) monitor CSs claims against third parties, and (2) FVA/FFP monitors claims and when requested, advises on claim actions instituted by USAIDs.

Section 211.9 (e) of Reg. 11 concerning the liability of others in the country of distribution provides that; upon the happening of any event creating any rights against a warehouseman, carrier or other person (emphasis added) for the loss of, damage to or misuse of any commodity, the CS shall make every reasonable effort to pursue collection of claims against the liable party or parties for the value of the commodity lost, damaged or misused and furnish a copy of the claim and documents' to USAID.

Cooperating Sponsors who fail to file or pursue such claims shall be liable to AID for the value of the commodities lost, damaged or misused. Provided, however, that the CS may elect not to file a claim if the loss is less than \$300 and such action is not detrimental to the program. Any proposed settlement for less than the full amount of the claim must be approved by the USAID. When the CS has exhausted all reasonable attempts to collect a claim, it shall request the USAID to provide further instructions.

Section 6D concerning inland losses provides that the CSs promptly notify the USAID of any loss, damage or misuse of commodities. If the loss, damage or misuse is the fault of a third party, the CS issues a claim against the third party. The report is reviewed by USAID's Food For Peace Officer (FFPO) and then is referred to the officer responsible for fiscal management (FM) with appropriate comments and recommendations. FM then determines whether the circumstances support the issuance of a bill for collection (BC).

## Claims Against Cooperating Sponsors

Section 211.9(d) regarding liability of the CS for loss and damage or improper distribution of commodities in country, provides that; if the CS improperly distributes a commodity or knowingly permits it to be used for a purpose not permitted under the Food For Peace Program Agreement or this part, or causes loss or damage to a commodity through any act or omission or fails to provide proper storage, care and handling, the CS shall pay to the United States the value of the commodities lost, damaged, or misused (or may, with prior USAID approval, replace such commodities with similar commodities of equal value) unless it is determined by AID that such improper distribution or use or such loss or damage, could not have been prevented by proper exercise of the CS's responsibility under the terms of the agreement. Normal commercial practices in the country of distribution shall be considered in determining that there was a proper exercise of the CS responsibility.

Section 6D of HB 9 provides that the USAID FFPO maintains a followup file for each claim, and issues reminder notices as appropriate to the CSs. Any proposed settlement for less than the full amount due must be approved by the USAID Director, with the advice of the FFPO and FM. If settlement of the claims has not taken place within a reasonable time the USAID may: (a) institute claim actions against the CS if it has failed to make every reasonable effort to pursue collection, or has failed to provide for the right of the CCC to assert the claim. When FM concludes that claim action against the CS is justified, this is noted in the loss and damage report. FM then issues a BC to the CS for the value of the commodities lost, damaged or misused with instructions for payment, or (b) closes the file against the CS after finding that the CS has exhausted all reasonable attempts to collect the claim. The USAID may assume responsibility for the collection of third-party claims when requested by the CS.

From the above, it is quite clear that both USAID and CARE have key responsibilities to ensure that claim action is taken when commodities are misused. Nevertheless, neither office has properly responded to this responsibility. CARE has indicated that their August 1980 agreement with the BDG precludes them from taking certain unilateral penalty actions having to do with violations of project implementation procedures. On the other hand, USAID feels the filing of claim actions for underpayments to workers would result in a breach of faith with the BDG since authorizing letters of reimbursement for FY 1980 and FY 1981 have already been sent by CARE to the BDG. These letters

approved reimbursements at the full wage level. However, we believe the BDG/CARE FFW Agreement and the reimbursement letters cannot override AID policy and regulations or subsequent audit findings that require the filing of claims for misuse of PL 480 wheat. Both CARE and USAID were aware that there were underpayments well before the authorizing reimbursement letters were sent to the BDG. CARE had reported these underpayments in its monitoring reports constantly during FY 1980 and FY 1981. The CARE study on the FY 1981 program showed underpayments on most of the projects. In our opinion, CARE recently demonstrated that the BDG/CARE FFW Agreement does not preclude CARE from filing claims for underpayments to workers. For example, CARE refused to reimburse the BDG on fifty-nine FY 1981 projects, nineteen of which involved, among other things, gross underpayments to workers. We consider this non-reimbursement action as tantamount to initiating claim actions against the BDG on the nineteen projects.

Underpayments to laborers are also a violation of the terms of CARE's General Agreement with the BDG effective on and from June 7, 1974. Part I of the BDG/CARE FFW Agreement specifically cites the BDG/CARE General Agreement of 1974 as being applicable to PL 480 Title II wheat imported by CARE for the PL 480 FFW Relief Program. The primary purpose of the General Agreement of 1974 is "to facilitate and maximize the utilization of voluntary gifts of commodities and services by individuals and organizations outside of Bangladesh to qualified recipients in Bangladesh. This agreement may be limited by mutual agreement of the parties to include specific commodities and services, but in the absence of such limitations, the term shall refer specifically to commodities and services for development projects, relief, rehabilitation and reconstruction programs."

Part 3c1 of the General Agreement provides that "The Government will undertake that the commodities equipment and supplies required to be imported by CARE and furnished by CARE will not be subject to uses other than intended by the donors, before or after delivery to the ultimate recipients in Bangladesh. In the event of such diversion by the Government of Bangladesh or any of its designated and representative governmental agencies, the Government of Bangladesh agrees to reimburse CARE for the cost of the said commodities (emphasis added), equipment, materials and supplies and the incidental delivery costs including unloading, handling, warehousing and transportation of the said commodities." Part 3c2 of the General Agreement states that "The Government of Bangladesh agrees to hold CARE harmless against any claim or claim of any government providing commodities

to CARE that may result from the failure of the Government of Bangladesh or any of its designated agencies to carry out its obligations under agreements on the basis of which CARE will obtain commodities from the providing governments for delivery and distribution in Bangladesh." The BDG/CARE General Agreement indicates to us that the BDG must accept responsibility for underpayments to laborers, accept claims from CARE for such underpayments while holding CARE blameless against similar claims filed by the U.S. Government. Thus, we have concluded that neither CARE nor USAID has properly exercised their responsibilities under AID regulations and the BDG/CARE General Agreement of 1974 for filing claims for underpayments to laborers. We also conclude that USAID was remiss in not following up and requiring CARE to fully document underpayments and formalize claims against the BDG.

CARE's procedures for determining the magnitude of underpayments to workers were not developed on the FY 1980 program to the same extent the CARE study evaluated underpayments on the FY 1981 program. The study on the FY 1981 program, conducted on a project by project basis, and utilizing payment data reported in interim monitoring reports, clearly indicated a minimum underpayment to workers of 10.17 percent of the 88,604 MTs of wheat reimbursed to the BDG on the FY 1981 program. The total underpayments amounts to 8,956 MTs valued at \$1.904 million. Accordingly, USAID should require CARE to comply with the requirements of HB 9 Chapter 6 and Section 211.9 of Reg. 11 and its own General Agreement with the BDG of 1974 by filing individual claims on all projects found underpaying laborers on the FY 1981 program or file one claim for 8,956 MTs of wheat valued at \$1.904 million which is equivalent to 10.17 percent of the FY 1981 reimbursements. CARE should also be required to file a claim against the BDG for 10,290 MTs of wheat valued at \$2.188 million which we determined were underpaid on the FY 1980 program or alternatively, require CARE to establish their own claim amount for FY 1980 through a full review of the underpayment data reported in their FY 1980 monitoring reports.

In our view, it is unfortunate that the unemployed rural poor families for whom our aid was intended, and who are already living near or below the poverty level, are being shortchanged through underpayments, wheat sales and other forms of diversion that preclude wheat from arriving for distribution at the work sites. We believe there is a clear requirement to correct this situation and that ultimately, the BDG must be held accountable in accordance with their agreement as emphasized on the preceding page of this report.

As required by HB 9 Section 6A, USAID should monitor CARE's claim actions and in the event CARE fails to file claims against the BDG for underpayments to laborers, wheat sales and for paying laborers in cash on the FY 1980 and FY 1981 FFW programs, then USAID should file appropriate claims against CARE.

### Recommendation No. 6

The Director, USAID/B should, in compliance with the requirements of HB 9, AID Reg. 11 Section 211.9 and the terms of the BDG/CARE General Agreement of 1974, (a) require CARE to file either individual claims against the BDG on all FY 1981 projects determined to be underpaying laborers, or based on CARE's average underpayment rate, file one claim for 8,956 MTs to cover underpayments on the total FY 1981 FFW program, (b) require CARE to file a refund claim against the BDG for 10,290 MTs of wheat for unpaid "allied factors" on the FY 1980 FFW program or alternatively require CARE to analyze the underpayment data reported in their FY 1980 monitoring reports and establish an average underpayment rate for all projects and then file one refund claim on the total FY 1980 FFW program, (c) require CARE to file claims against the BDG for 1,210 MTs of wheat and 1,569 MTs of wheat reimbursed to the BDG for the FY 1980 and FY 1981 FFW projects where the wheat was sold and the laborers paid in cash, and (d) under the provisions of Reg. 11 Section 211.9, file claims against CARE in similar amounts in the event CARE fails to comply with parts (a), (b) or (c) above within a reasonable period of time.

(Audit Note:

Both CARE and USAID management officials have strongly objected to proceeding with claim action against the BDG for various reasons. Their comments are lengthy and reflect their views on an earlier draft report as well as on this final report which is essentially unchanged from what they reviewed in the first draft except to reflect their comments. We have carefully reviewed all their comments but have not been persuaded of their validity and have therefore retained Recommendation No. 6 as initially presented. The following report section has been expanded to present their comments on both the earlier draft report and this final report.)

### USAID/CARE Responses to Our Finding on Underpayments to Laborers, Sales of Wheat and Cash Payments to Laborers

CARE commented on our earlier draft report that:

While CARE fully agrees that these were direct violations of regulations and indeed continuously represented them throughout the years (as such) to the BDG, we consider punitive action taken at this time for prior offences would be neither strictly just, feasible nor productive.

As has been pointed out in the report, the program has lacked from the beginning a viable means of dealing with the numerous types of violations of regulations. Except for penalizing PICs for false reporting of earth-work done or unauthorized design changes by means of its pre and post-surveys, CARE has had neither the means nor authority to act against other forms of misappropriation. Though the ultimate right of withdrawal of CARE support from a project has been an option, it has rarely been invoked against projects allegedly violating regulations because an unreasonable amount of evidence was required before CARE's action could be approved. Furthermore, had CARE exercised this option, its just application would have demanded the cancellation of at least 80 percent of the projects mid-season in any given project year. Moreover CARE argues, the weak system impeded the effectiveness of the BDG's action against violations. CARE has been merely a reporter of violations on about a thousand projects throughout Bangladesh each season. By the time the BDG (MORR) received and processed CARE's reports and instructed its local officials to investigate, the project period was often about to close. When further checks convinced the BDG that action should be taken, very little could be done short of stopping the project altogether and trying the offenders in court. The wheat was rarely recoverable. While it is true the BDG might have been more active in deterring offenders, CARE feels it would be unjust to penalize the BDG for failure to act according to a system which should have been operative since the program's inception. A new system (described on pages 42 to 46) is still in the process of formulation; to attempt retroactive application of its procedures and sanctions against violations occurring under the old system would be, in CARE's opinion, neither fair nor feasible.

CARE is, moreover, deeply concerned that punitive claims made now against the BDG will unnecessarily strain relations between us at this crucial stage of our negotiating radical systematic changes. The successful formulation and rapid installation of this system will require the full cooperation and goodwill of all concerned parties. Failure to reach a rapid consensus on this

plan will almost surely result in the discontinuation of CARE-sponsored Food For Work Programming in Bangladesh.

CARE therefore requests that any recommendation requiring refunds of wheat by the BDG be reconsidered in light of the above concerns, their justice and probable impact of such refund claims.

USAID comments to our earlier draft wherein we recommended direct USAID claim action against the BDG were:

USAID believes that for USAID/B to file for refunds for underpayments to laborers and for selling wheat and paying laborers in cash would be inappropriate for the following reasons:

"The Regional Legal Advisor has confirmed (a) that the USG has no legal relationship or agreement under the PL 480 Title II program with the BDG which would enable the Mission to file a claim against the host-country government; (b) that any assumption of liability based on a hypothetical projection is, to say the least, of dubious validity, with the persuasive effect of such a projection being very limited, if non-existent; and (c) that "adjustments" should be used as leverage for the future, and then only in the event of evidence of BDG's inability to solve, within a reasonable time frame, the problem of underpayments."

USAID stated that the line of communication is between CARE and the BDG under their agreement of August 19, 1980. USAID said, as matters presently stand, there is no legal way for USAID to present a Bill for Collection to the BDG. In USAID's opinion, even if there existed a means by which USAID could bill the BDG, its sustainment would constitute a breach of faith to the BDG, since it would mean reneging on a joint understanding concerning reimbursements authorized in CARE letters to the BDG dated January 14, 1981 for FY 1980 and September 25, 1981 for FY 1981. These letters presented the BDG with final data on reimbursements relevant to the FY 1980 and FY 1981 programs calculated under a previously agreed upon method. Finally, USAID feels that the estimated underpayments cited by the auditors for FY 1980 is of questionable validity as it contains assumptions which would hardly constitute acceptable evidence in a court of law. Also, the USAID said, the evidence given was received by the auditor from secondary sources, and gathered on a random basis. Accordingly, USAID considers any attempt by USAID to claim a refund from the BDG for underpayments to laborers as unimplementable.

**Audit comments to CARE and USAID's above comments were:**

We agree with CARE that needed system changes should be required if this program is to continue. The system proposed by CARE is necessary for them to carry out their mandate as specified in the BDG/CARE and AID/CARE agreements, i. e., to establish a system that will control and account for the wheat used on the program. We believe this is a requirement that must be imposed and that the BDG be held responsible for any subsequent underpayments. We also believe it is not necessary to prove conclusively each diversion of wheat to the last pound before any recovery action can be taken. The CARE staff has continuously reported to the MORR and USAID that underpayments, wheat sales and cash wages and misappropriations are taking place. The BDG has apparently been trying to control the program but without much success. In our opinion, program records and discussions with CARE officials indicate misappropriations and violations of program procedures may be on the increase. There is little indication these deficiencies are being curtailed.

We believe our's and CARE's percentage estimates of misappropriations of wheat in the FY 1980 and FY 1981 programs are reasonable and represent the minimum (emphasis added) quantities being diverted for unauthorized purposes. Accordingly, we do not accept either CARE's or USAID's reasoning for not filing claims. The misappropriation of commodities is clear and thus, requires that the USG be reimbursed.

**As a result of CARE and USAID's above comments, Recommendation No. 6 was changed in our final draft report to read as stated above. USAID and CARE have since again objected to the recommendation and our analysis of their comments follows:**

USAID has taken exception to the CARE payment study referred to on page 19 of this report and underpayment data presented in CARE's monitoring reports. USAID stated that the study is invalid because it was undated, authors are unidentified, and its method and manner of implementation are unclear. Also, USAID said, there is no indication whether the study was based on project records or actual field work, or what sample was used and how the data was processed.

CARE also objects to using the study as a basis for billing the BDG but for different reasons. CARE objections center on use of information by auditors (for their estimates of underpayments) from an ongoing but then unfinished CARE internal study which they claim was intended only to evaluate the extent of underpayments and provide a basis for FY 1982 systemic changes in reimbursement procedures. The system changes were proposed in CARE's FY 1982 Action Plan formally submitted to the MORR and USAID in July 1981.

Secondly, CARE considers it inappropriate to use the study data or its monitoring reports as a basis for determining claim actions, regardless of whatever validity there is to the data, because this procedure would represent a change in operating mechanism which should not and cannot be approved with retroactive effect. CARE said that reimbursements prior to FY 1982 had always been based on calculation of earth moved, a system adopted by mutual agreement among USAID, BDG and CARE as fair/reasonable to all concerned parties. CARE stated that to do otherwise without a new agreement, as represented in the new proposed FY 1982 Action Plan, would be tantamount to ex post facto application of later insight and resultant changes in program operations or inditing someone for acts committed before legal sanctions existed. Furthermore CARE asserts, to retroactively apply a new unilateral method of calculations (by the auditors) to prior years is unfair because its assumptions cannot be tested in the field or validated for the respective program years.

We believe USAID's reasoning for considering the CARE study to be invalid are unfounded. The CARE Underpayment Study was forwarded to the MORR with three copies to USAID by transmittal letter of August 18, 1981. The letter stated in part that "several thousand monitoring reports on FY 1981 and thousands from previous years reveal, however, that the majority of FFW laborers are being paid on a daily rate basis of 3 to 4 seers which means they are not only being deprived of allied factor payments but some portion of their basic pay also. Their ignorance of how much earth they in fact do move in a day and the prevailing erroneous belief that 70 cft. per day is the norm contribute to the unchallenged pattern of their underpayment . . . ."

Therefore, it is clear to us that the FY 1981 underpayment study was based on data compiled in hundreds of interim monitoring reports prepared pursuant to visits to project sites and discussions with thousands of workers throughout the FY 1981 work season. These underpayments are constantly referred to as a common problem in CARE's bi-weekly summary monitoring reports, copies of which,

are regularly forwarded to USAID. The summary reports refer to hundreds of interim reports on projects visited as being attached to the summary reports. For example, the seventh summary report on the FY 1981 program mentioned that a total of 1,955 visits had been made to 1,021 projects by the end of April.

As far as the study being invalid because it was unfinished and meant only to evaluate the extent of underpayments in order to provide a basis for changes in reimbursement procedures, this is unacceptable. The study, when sent to the MORR and USAID, made no mention of being incomplete. CARE continually asserted that the 10.17 percent rate of underpayment determined from the study was a minimum. . Therefore, there is little chance of overcharging the BDG on a refund claim. Moreover, we do not think it necessary to enter into an agreement with the BDG before requiring reimbursement for wheat the BDG failed to provide to workers by not paying the "awarded rate". CARE also objects to filing a claim for not paying the "awarded rate" because it represents ex post facto application of program changes based on later insight. Later insight, in this case, is the discovery that the BDG is not paying the "awarded rate" to the workers which is not only a violation of FFW procedures but provides the means for commodities to be diverted or otherwise misappropriated. In our opinion, it is not necessary to revise procedures before compensating the USG for misuse of wheat. This is a valid right to which the USG is entitled under Reg. 11 of PL 480 and the terms of the existing agreements wherein it is provided that the BDG has agreed to reimburse for any such diversions.

Consequently, we do not agree that the CARE study is unsupported. The study is based on a compilation of underpayment data reported project by project. Such data has been regularly reported to USAID and involves input from all of CARE's field offices. The individual interim monitoring reports on each project are available at CARE. During our audit we found no instances where USAID questioned or determined from its own field visits that CARE's monitoring reports were inaccurate concerning underpayments.

USAID also advised that CARE monitoring reports are invalid because such reports are secondary source documents, not prepared on the basis of generally-accepted information-gathering techniques, and that they lack validity as a document to determine underpayments. We disagree with this view since, over the years, hundreds of interim visitation reports reflect underpayments to workers. In our opinion, discussions with thousands of workers would constitute a reasonable

method of data collection for determining whether the BDG was living up to its obligations to pay workers at the pre-established or awarded rates on which reimbursements are based. As noted elsewhere in this report, no provisions were made to regularize distributions or provide for CARE field representatives to attend distributions. Project records reflecting payments to workers were generally inaccurate, nonexistent or unavailable for review by CARE field representatives. Furthermore, little action was taken by USAID to correct these conditions.

In addition to claiming the study is unsupported and the monitoring reports unreliable, USAID stated it is convinced that workers are not being underpaid. This USAID conviction is based on the knowledge that in Bangladesh, to deliberately withhold wages from workers is to court trouble. They said that Bangladesh workers will not tolerate underpayments, and they are not patient with the individuals who are responsible for the underpayments. We believe this reasoning to be weak and completely unsupported in view of the voluminous evidence available to the contrary and particularly since USAID has left this data largely unchallenged during its field visits. During our audit, USAID reported nothing to us that would contradict CARE's findings on underpayments. It has been well known that the payment system involving allied factors has been complex and difficult for workers to understand. Workers were often unaware of what they should be getting particularly since there were no signboards at the sites that were supposed to state applicable wage rates. Moreover, the CARE transmittal letter of August 18, 1981 stated with regard to the attached "Consolidated Rate Projects Study" (Addendum 3) that "It is imperative that a clear system of FFW payment be instituted country-wide in order to accurately gauge and control the increasing incidence (emphasis added) of FFW labor underpayments, which continuing unchecked, threatens the existence of the program. The consolidated daily rate system backed by a procedure for calculating reimbursements of labor wheat based on actual wages paid, will discourage the unacceptable practice of underpayment."

USAID also stated that it recognizes that in Bangladesh commodities are lost, but minimizes these losses because the FFW system relies on a system that is analogous to the FAR system of reimbursing only for work accomplished. USAID agrees that commodities are lost during the period when the commodities are distributed within Bangladesh, but during that period, they contend that the commodities are the legal property of the BDG and more important, because of the existing reimbursement system, the FFW program is insulated from the losses by reimbursing only for earthwork moved with reimbursements determined by the amount of earth that is moved.

Given the system in use, reimbursements could be insulated for certain misuses of wheat such as padding of payrolls by listing non-existent workers and then stealing the wheat. In theory, since no work would be done by the non-existent worker, this should be detected during post surveys and reimbursements would be adjusted accordingly. But there is no such insulation for underpayments to workers. USAID has overlooked the fact that reimbursements are calculated at a predetermined "awarded rate" which includes both the basic and allied factor portions of wages that, according to the CARE study, were withheld from the workers. CARE asserts conclusively, through extensive documentation, that in nearly all cases allied factor portions of the wages and at times portions of the basic wages are not paid to workers.

Under a true FAR system there are agreed upon specifications and costs associated with the work being done that the host country agrees to follow or incur to qualify for full reimbursements. These requirements are verified, often on a percentage basis, prior to reimbursing the host country. In our opinion, aside from the design factors, the "awarded rate" for each project represents the cost factor that the BDG has agreed to finance in order to qualify for full reimbursement. CARE's monitoring procedures and the resultant reports are basically the only acceptable means available for verifying whether the BDG has provided the required inputs. Their verification of underpayments has been done on a much higher percentage basis than would normally be required to substantiate the charges of misuse and misappropriation. Yet, even then, CARE proceeded with reimbursements at the "awarded rate" because they felt they had no authority or support to do otherwise.

The USAID FAR concept of reimbursing strictly on the basis of estimates of earthwork moved ignores underpayments to laborers as well as other mismanagement problems as mentioned in the CARE proposal to the BDG of September 23, 1981. The CARE proposal points out a number of non-insulated areas of mismanagement where penalty actions in the form of reduced reimbursements are suggested. CARE states that all of these violations of regulations directly contribute to defraudation of FFW laborers and contravention of Title II regulations. CARE stated that they are deliberate violations of well-understood rules that directly result in, or contribute to, shortchanging the workers. Deficiencies mentioned by CARE are: (a) underpaying workers, (b) sale of wheat and cash payments to workers, (c) issuing wheat to laborers that is unfit for human consumption, (d) refusal of project officials to present project records to CARE representatives during monitoring visits, (e) failure to

display signboards on FFW projects or to record proper information thereon such as wage rates, and (f) the late submission of project records to CARE at close of the work season. As can be seen from the above, reimbursing on the basis of claimed earthwork moved ignores virtually all the serious underpayments to workers that this program has experienced on an extremely high percentage of the projects assisted. Unless reimbursements are adjusted for the percentage of underpayments, as determined from CARE's monitoring reports, this gross diversion of USG provided resources will continue unabated. Finally, reimbursing strictly on the level of claimed earthwork moved, on the basis that the commodities are the legal property of the BDG, is absurd since the USG clearly has a right to insist that CARE and the BDG use all commodities solely for the purposes for which they were donated.

As noted elsewhere in this report, CARE staff members expend a vast amount of effort in monitoring projects and preparing and processing monitoring reports. In our view, this is the best data currently available to monitor the program and we find it difficult to understand why USAID refuses to accept the reports as accurate or how they can possibly arrive at a position where they are "convinced that workers are not being underpaid". We submit that there are thousands of monitoring reports, and tens of thousands of worker interviews that refute the USAID conviction. Accordingly, we believe compliance with Recommendation No. 6 is essential.

#### **D. CARE MANAGEMENT RESPONSIBILITIES**

CARE is responsible for overall management of the FFW program which includes the timely placement and supervision of international and local field staff, prompt submission of reports, prompt implementation of project responsibilities and application of corrective measures when approved or authorized by the MORR.

Under the terms of the AID/CARE, General Food For Peace Program Agreement and the BDG/CARE operating procedures and local support agreement of August 1980, CARE (a) operates and acts as a Cooperating Sponsor under the terms of PL 480 Title II, and (b) is responsible for complying with the regulations governing this program as contained in AID Handbook 9.

CARE's major project implementation responsibilities under the above agreements and procedures are being carried out through maintenance of facilities in nine regional offices in Bangladesh and their Dacca headquarters. CARE provides qualified and experienced expatriate personnel to manage their Dacca headquarters and six of their nine regional offices. The other regional offices are staffed with local personnel paid from the BDG/CARE grant. In addition, CARE provides the full or part-time services of 230 Bangladeshi employees, office equipment, and logistic support for their headquarter and regional offices. These facilities and personnel are used (a) to review and evaluate BDG project proposals, (b) to conduct on-site project pre-surveys of work to be done, and post-surveys of work completed for reimbursement purposes, (c) to train BDG local level officials in project design and preparation of proposals, (d) to provide monitoring of construction of sufficient FFW projects to cover a meaningful percentage of the wheat tonnage reimbursed to the BDG, and (e) to cooperate with USAID/B and other entities in the evaluation of the FFW program.

#### **Revision of the CARE/BDG FFW Action Plan**

CARE is unable to effectively manage and monitor the FFW program because the action plan prepared pursuant to the BDG/CARE support agreement of August 1980, does not contain the necessary authority or leverage to enable CARE to adequately program projects or control implementation. This has resulted in costly deficiencies in programming and program implementation.

**For example, we recommended in our draft report that USAID, in conjunction with CARE, should require the wheat reimbursement system to be changed. We recommended the system be changed from reimbursing the BDG at the full wage rate for earthwork completed, to adjusting reimbursements for underpayments to laborers to be determined based on CARE's extensive monitoring checks. If done, it is likely that wheat wages to the workers would eventually be increased since underpayments would be borne by the BDG.**

**Partly as a result of management deficiencies disclosed in this report, CARE submitted a revised action plan to the BDG for approval on July 13, 1981. The plan, when approved, will have the effect of amending the BDG/CARE agreement of 1980. The proposed revisions to the plan are to apply to the FY 1982 and subsequent year programs and are designed to facilitate increased efficiency in management. In particular the revised plan will eliminate reimbursing the BDG for wages not paid to the workers. Important proposed revisions to the plan are:**

- 1. To reduce the number of projects to a manageable level, and improve project selection and implementation time frames, the following changes are proposed in the revised action plan:**
  - (a) CARE will accept project proposals that program MTs of wheat only up to the reimbursement level authorized for the program. In the past, wheat has been programmed in excess of those levels so that after project shortfalls the total authorized level could still be reimbursed.**
  - (b) In reviewing project proposals, CARE will apply basic and technical development standards for acceptance. Proposals will be rejected for such reasons as inaccurate data, unfeasibility of implementation, designs which are unsuited to achieve the project purpose, and where need for the project has not been justified in the proposal. Rejected proposals will be reconsidered only if suitably amended and re-submitted within one month.**
  - (c) CARE will pre-survey all projects selected for implementation and no unpreviewed projects will be accepted. All proposals will be submitted by August 15 with all**

pre-survey work to be completed by December 15. Post-surveys will start the following May 1 and will involve only a representative random sample of all projects within the jurisdiction of each CARE field office. This procedure will improve management since, in contrast with the practice of previous years, projects selected for post-surveys will not be made known until the end of the season. The temptation to falsify records as to work done and payments to workers was greatly increased when it could be predicted that a project would not be post-surveyed. In some cases this has caused over-reimbursements to the BDG because the records were the basis for calculating reimbursements.

2. To facilitate the calculation, formalized reporting and adjustment of BDG reimbursements for verified underpayments to workers, and for unfit wheat used on FFW projects, the following changes are proposed in the plan:
  - (a) Allied and basic wage rate factors will be eliminated and replaced by a single consolidated rate for each type of project. While this change may not reduce underpayments to workers, CARE officials believe it will simplify monitoring and calculation of underpayments and make workers more aware of wages due them on specific types of projects.
  - (b) CARE will institute a system of calculating reimbursements which will include a reduction for underpayments to workers. Within the total number of projects to be monitored each month, CARE proposes to select a representative random sample of projects for examination of actual payments to laborers on each type of project. A monthly summary report on actual payments versus set wage rates that should have been paid will be prepared by CARE and submitted to the MORR as the overall wage payment status for the month. This will enable the MORR to be continually apprised of CARE's findings in this area during the work season thus permitting the MORR to take corrective action as necessary. It will also make the MORR aware, during the work season, of the magnitude of adjustments to reimbursements that can be expected as a result of CARE's formalized testing of payments to workers.

- (c) **During August 1981 CARE planned to revise procedures and whatever old forms need revision, and devise new forms as necessary to formally implement the changes in the monitoring and reimbursement system as described in the proposed revisions to the action plan. In our opinion, the current system is not adequate to satisfy the BDG/CARE agreement provision calling for a control system that would provide improved accountability for the PL 480 wheat reimbursed to the BDG.**
- (d) **Samples will be taken of questionable quality wheat supplied to FFW projects. The samples will be analyzed and if found inedible due to the presence of insects, dirt or mould, the wheat used on the projects will not be reimbursed.**

**CARE considers acceptance of items 1c and 2b above as critical if CARE is to call forward additional wheat to continue the program.**

**These proposed changes should result in, (a) the automatic reduction in numbers of projects and the size of the program thereby reducing the waste associated with excessive programming and use of support funds, (b) the selection of more meaningful projects that serve to stress both relief and agricultural production, (c) the provision of a more simplified wage rate system that workers will understand and that will facilitate monitoring and reporting to USAID and the BDG on underpayments to workers throughout the work season, and (d) the formulation of a system of reimbursement to the BDG that will be determined from both post-surveys of work completed and underpayments of wages to workers determined from extensive monitoring checks by CARE's field staff.**

**In our opinion, no additional wheat should be called forward for the FY 1982 program until, as a minimum, the changes proposed in items 1c and 2b above are incorporated in a revised action plan acceptable to CARE and the USAID. Approximately 46,000 MTs of wheat are already available in the FFW wheat account for use on the FY 1982 program.**

### Recommendation No. 7

The Director, USAID/B should, as a condition to calling forward additional wheat for the FY 1982 or future year programs, require the critical proposed changes and the substance of the other proposed changes be approved in a revision to the Action Plan in a form acceptable to CARE and the USAID/B.

#### CARE/USAID Monitoring Activities

Due to constraints placed upon CARE by the BDG under the BDG/CARE Operating Procedures Agreement and Action Plan, CARE's monitoring role is essentially limited to reporting operational deficiencies to the BDG and USAID/B. This has resulted in limited corrective action.

The FFW program agreements and the FFW operation plan do not provide sufficient authority to CARE to enforce procedures or withdraw support to projects for significant violations of operating procedures involving wheat losses. Consequently, procedural violations involving wheat losses on the FFW projects often go unchecked and without penalty.

In connection with field visits to project sites, CARE determines if implementation procedures and regulations concerning such things as payments to laborers, adherence to specifications and maintenance of project records are being followed. CARE's field staff also assists the field project supervisors in maintaining proper accounting records and supervision of the actual construction work.

Each PIC member is to ensure that proper records are being maintained and that the project is properly implemented. The principal records to be maintained by the PICs consist of CARE-designed Form 8A for recording and control of withdrawals of wheat from LSDs and Form 8B to record payments to workers. Other pertinent records for each project are the MORR's Muster Roll and Attendance of Employees that worked on the project and measurement books. The records are to be kept with the PIC Chairman and are to be produced when an authorized officer wishes to inspect them.

At every ongoing project there must be a notice board containing the following information: the project name, quantity of wheat allotted, names of the PIC Members and its Chairman, total target of the volume of work, rate of payment of wheat and benefits to be derived from the

project when completed. If a project is found lacking in any of these requirements the project is to immediately lose its grant and no wheat is to be programmed for that project. If any misuse or misappropriation is detected in any project, the government is to take drastic action to curb such abuses. This decision was the result of three USAID financed evaluation studies of the previous FFW programs and the monitoring reports of CARE concerning deficiencies in project implementation, availability of principal records, and adherence to other BDG directives.

Under the terms of the CARE/BDG agreement, CARE brings to the attention of the MORR all project related deficiencies and recommends remedial action as necessary. Under the new FY 81 operating guidelines, the MORR was to attempt to correct irregularities within a reasonable period of time.

For the FY 1980 program, CARE made 1,636 field visits on 913 projects. As of April 13, 1981 CARE had completed 1,438 field visits on 903 projects out of a total of 1,027 projects approved for the FY 1981 program. CARE prepares individual monitoring reports on each project outlining significant violations of operating procedures and management problems inhibiting progress. CARE also prepares a summary report consolidating findings on the interim monitoring reports on a program basis. The reports are prepared on a biweekly basis and forwarded to the MORR with a copy to USAID.

CARE officials feel that due to constraints placed upon them under their agreement with the BDG, their role is viewed by BDG counterparts as essentially a reporting function with the VolAg being given little authority to take or require corrective action involving deficiencies in wheat distributions, maintenance of records, adherence to project designs, etc. In the past, CARE did attempt without success, to initiate corrective action through their monitoring reports and meetings held with the MORR. For example, CARE advised that an attempt was made to adjust reimbursement downward on projects where there was serious non-adherence to certain design requirements. However, the MORR rejected this approach telling CARE it was only a voluntary monitoring agency with no authority to make unilateral decisions.

More recently on the FY 1981 program, CARE has recommended no reimbursement on 59 projects where in CARE's judgement, there were gross violations of procedures. These irregularities included

underpayments to workers ranging from 17 percent to 51 percent on nineteen of the projects in addition to other serious violations of procedures on many of the projects. Other irregularities included submission of project forms (used by CARE to calculate reimbursements) well after the established cut off date, refusal of certain BDG project officials to cooperate in performing post-surveys or to sign post-survey forms, and excessive falsification of project records on earthwork done and labor payments. However, there was no evidence that the MORR or USAID supported CARE's recommendations. The MORR requested full reimbursement on all but a few projects as a token penalty. USAID officials thought it would be unfair to dock the BDG for the full amount of wheat in all instances. CARE feels that, considering that violations were reported on almost all the 1,027 projects, this penalty for gross violations on only 59 projects is by itself, a token remedial action.

Overall, we found that the project interim monitoring reports were not being used by CARE, USAID/B or the BDG to determine underpayments to the laborers, to withhold reimbursement to the BDG for underpayments, or to take corrective action against the local project committee representatives. We can best describe the current attitude of CARE's field personnel with regard to the use of interim monitoring reports with a quote from a FY 1980 year-end report: "It is now felt that the monitoring reports are regarded with such nonchalance by government and project officials that they might just as well not be made. In nearly all cases underpayment, non-adherence to design, etc., are reported in the Form-10's and in subsequent visits it is found that nothing has changed."

CARE spends a lot of time preparing these reports as well as summary reports for forwarding to the BDG with a copy to USAID. This exercise represents a major effort that is not being fully utilized. For example, as of April 13, 1981, 3,074 interim field visit reports had been prepared and submitted on the FY 1980 and FY 1981 programs but, up to the start of our audit, there had been very limited use of the monitoring reports.

We were informed by USAID/B officials that during FY 1981, CARE, USAID and the MORR have been holding monthly meetings to discuss project problems such as underpayments to the laborers. As a result of these meetings, the USAID received copies of 31 MORR wireless messages sent during February through April 1981 to various SDOs throughout Bangladesh. The SDOs were informed of CARE's monitoring reports citing underpayments being made to laborers by

project committee representatives. Each SDO was requested to investigate the CARE charges and submit a report of their findings to the MORR. However, copies of SDO replies to the MORR request have not yet been received by the USAID. CARE has not yet had time to assess the results of the MORR's actions to improve management of the program.

Our review of the AID/CARE Grant Agreement No. AID/ASIA-G-1171, disclosed that there is no clear description of CARE's authority regarding the withholding of reimbursements to the BDG due to violations reported in their monitoring reports. Under Attachment "A", Part C, of the Agreement, CARE is responsible for assisting the BDG in monitoring construction and implementation of the projects to ensure proper construction and proper distribution of the wheat. In addition, Part D states that CARE is responsible for providing management for the program including application of corrective measures when prescribed. We believe the meaning of "application of corrective measures when prescribed" needs further clarification as to CARE's responsibility and authority.

We also found that BDG/CARE Operating Procedures Agreement of August 19, 1980, and the related action plan for the FFW program, does not contain a clear cut description of CARE's authority to initiate remedial action. Part IV of the BDG/CARE agreement states that "in pursuance of the purposes of this agreement both the Ministry and CARE agree that neither will take any unilateral decision without the concurrence of the other party in matters of (a) cancellation of an approved FFRW project, (b) increase or decrease of wheat allocation of an approved project." Part V states that . . . "the Ministry and CARE agree that in matters not specifically included in or covered by the contents of this Agreement both will consult with each other before taking any decisions." The action plan signed after the start of the FY 1981 program describes CARE's responsibilities essentially as assisting in the design and technical review of proposals, conducting training workshops, conducting pre and post-surveys and monitoring and reporting on project implementation. The plan calls for CARE to monitor projects "to ensure proper construction and distribution of wheat" but there is no indication of how enforcement would be carried out. Neither the BDG/CARE Agreement nor the action plan has a current requirement for adjusting reimbursements for underpayments to laborers. There are a few cases of CARE's withdrawal of support to a few projects but these were the result of adhoc decisions of field representatives rather than a formalized procedural authority.

CARE's latest monitoring report on 293 projects visited reflects continued serious violations of procedures as underpayments to laborers, improper signboards with wage rates not posted, project records and papers not up to date or available for inspection, design specifications not maintained and land disputes that hold up progress.

In its summary report to the MORR for the FY 1980 program, CARE expressed a disheartened attitude by pointing out that the program is in the last year of a 5-year program and yet many of the most serious and common problems are carryovers from previous years. So far CARE has been unable to initiate penalties for serious violations of approved procedures.

In essence, it appears that CARE has responsibility for reporting violations, but no defined authority to initiate corrective actions. It is also apparent that USAID/B has not adequately addressed these problems in the past. It is clear there are no guidelines or procedures for handling instances of gross non-compliance with FFW regulations. A system of penalties, (through adjusting reimbursements or withdrawal of support) for major procedural violations is necessary if the discipline required to properly implement the program is to be achieved.

On September 28, 1981 CARE submitted to the MORR a suggested procedure for penalizing the BDG for non-compliance with important FFW regulations such as underpaying laborers, cash payments to workers, and issuances of inedible wheat. This action as well as CARE's no-reimbursement action on the 59 FY 1981 projects indicates to us that both CARE and USAID could have done more much earlier in the program to curtail major abuses of FFW regulations. However, we recognize the restrictions and limited guidelines under which CARE has been operating and the lack of aggressive follow-up action by USAID/B in the past to require adoption of procedures for handling significant violations of FFW regulations.

For example, throughout our audit USAID/B officials have not been convinced that there were significant underpayments to workers or that the word of the workers was reliable. Accordingly, little interest was shown in CARE's monitoring reports. USAID was operating on the premise that no program of this type is perfect and that it is important to maintain the relief program at a high level. We believe this situation must change and that, if this program is to continue, CARE and USAID officials must develop a coordinated monitoring program.

#### Recommendation No. 8

The Director, USAID/B should as a condition to continuing the program, (a) require revision of the BDG/CARE Agreement and related Action Plan to clearly define CARE's procedural responsibility for reporting serious operational deficiencies and their authority to withdraw support to projects where serious violations of procedures occur or where corrective actions are not taken within a specified time period, and (b) revise the AID/CARE Agreement (No. AID/ASIA-G-1171) to conform with changes made in the revised BDG/CARE Agreement and Action Plan.

## Recommendation No. 9

The Director, USAID/B should establish written procedures that will cause CARE's monitoring reports to be effectively utilized in support of CARE in carrying out their broad monitoring and evaluation responsibilities of the FFW program.

### Reporting on Program Losses

CARE's monitoring reports are not as effective as they should be because underpayment data being reported has not been abstracted from general program data to point out the magnitude of the problem for corrective action by the BDG or USAID. In addition, CARE's monitoring reports do not provide sufficient data to facilitate determining the extent of underpayments to laborers.

Currently, CARE's reports state that workers are underpaid but not the amount of underpayments. Other useful data might be the daily rate for each manday of earthwork moved or other data used to determine underpayments. This additional information would be a valuable monitoring tool for calculating underpayments and for determining the magnitude of losses due to underpayments for the entire program.

Prior to our audit, and in order to address the inherent problems with the program, CARE instituted a FFW evaluation study covering four different areas effecting labor payments. This included time and motion studies, interviewing professional earth movers to determine labor rates for earthwork, comparison of borrow pits and alignment volumes, and observation of wheat distributions made to laborers. CARE will also (a) study the results of the Institute of Nutrition and Food Sciences (INFS) AID-financed evaluation of project distribution of wheat and payments to laborers; and (b) review and observe 30 WFP projects for work performance and wheat distribution methods. In CARE's opinion, these studies will help establish reasonable rates for a given amount of earthwork moved per manday and thus facilitate calculating wages due and underpayments to laborers on a more scientific basis. In addition, 17 experimental projects with new consolidated rates substituted for both basic and allied factor payments were authorized and implemented during FY 1981 by the BDG and CARE. The results from the use of consolidated rates will also help simplify the present complex system for programming and calculating wheat payments to laborers.

### Recommendation No. 10

The Director, USAID/B should, within the context of the tri-partite legal agreements and consultation with the BDG, amend the AID/CARE Grant Agreement to, (a) require CARE's interim monitoring reports to include (1) the wage rate for each person day of earthwork moved on the project, (2) the volume of earthwork constituting a person day, (3) the wheat wages actually paid to the laborers and (4) the amount of underpayments to laborers stated in both basic and allied factors as applicable, and (b) require CARE to periodically summarize the results of their monitoring activity and report on the magnitude of underpayments to workers.

### CARE Reimbursement Procedures

The CARE FFW program is conducted on a wheat reimbursable basis. No attempt is made to utilize the same wheat imported by CARE on the AID/CARE FFW projects, but AID supplied wheat already in the system may be distributed on those projects. BDG wheat, or any other donor's wheat in the system, is used to pay laborers. At the end of each year's program, CARE determines the amount of work accomplished on each project through post-surveys. They then determine quantities of wheat that should have been paid to laborers and reimburse the BDG on that basis except when project records (Form 8B) show less payment of wheat to workers. In these cases CARE usually reimburses at the lesser recorded amount of payments.

For FY 1980, CARE post-surveyed 536 of 880 projects on which some work had been done. As a result CARE reimbursed the BDG for 72,364 MTs of wheat or 87.9 percent of the wheat payments reflected on the BDG records. In addition, CARE reimbursed without post-surveys on the balance of 344 projects. CARE officials informed us that post-surveys on these projects were difficult to perform due to time constraints and the limited accessibility of some projects. The 344 projects were reimbursed at the same 87.9 percent rate on the theory that the rate of error in the BDG's records would be similar to that found on post-surveyed projects. In total for FY 1980, CARE reimbursed the BDG 91,290 MTs of wheat valued at \$19.5 million and refused reimbursement on 12,800 MTs of recorded payments valued at \$2.7 million. For FY 1981 CARE reimbursed 88,064 MTs valued at \$18.7 million and refused reimbursement on 26,097 MTs valued at \$5.5 million. As of September 30, 1981

(the end of the FY 1981 program) total savings accrued as a result of CARE's post-survey activities are expected to approximate \$13.1 million from inception of the program, see Exhibit A.

At the close of each year's program, wheat reimbursements are charged against total imports. This results in either a credit balance to apply to the next year program or a balance owed to the BDG to be deducted from future shipments.

Exhibit A shows (a) estimated quantities and cost of AID wheat imported, distributed through payments to workers for earthwork moved, and reimbursed to the BDG based on CARE's post-survey verification of work completed from FY 1976 through FY 1981, and (b) estimated quantities and cost of wheat programmed for continuation of the program through FY 1985.

**USAID/BANGLADESH  
FOOD FOR WORK PROGRAM  
SCHEDULE OF ESTIMATES OF METRIC TONS AND COST OF WHEAT RECEIVED, UTILIZED  
AND REIMBURSED TO THE BDG FROM INCEPTION TO SEPTEMBER 30, 1981, AND  
PROJECTED THROUGH FY 1985**

Program Year	Number of Ship-ment	Period Shipped	Wheat Shipped Per B/Ls M. T.	Cost of Wheat Plus Freight Per M. T.	Total Cost of Wheat Shipped (000)	Number of Projects Accepted by CARE	Wheat Paid as Wages by BDG per Pro-ject Records (MTs)	Wheat Reim-bursed to BDG by CARE Based on Post-Work Surveys (MTs)	Total Cost of Wheat Payments Reim-bursed (000)	Total Cost of Wheat Payments Not Reimbursed (000)
FY 1976/77	4	April/August 1977	99,973 <sup>1/</sup>	\$156.49	\$ 15,645	1,712	128,227	126,354	\$19,773	\$ 293
FY 1978	4	May/June 1978	66,369	188.09	12,483	1,020	96,347	85,991	16,174	1,948
FY 1979	4	October/December 1978								
	5	July 1979	<u>192,763</u>	189.67	36,561	1,158	108,605	<u>94,884</u>	17,997	2,602
		Sub-totals through FY 1979	359,105					<u>307,229</u>		
FY 1980	2	June/September 1980	<u>59,808</u>	214.08	12,804	913	104,123	<u>91,290</u>	19,543	2,748
		Sub-totals through FY 1980	<u>418,913</u>					<u>398,519</u>		
FY 1981	4	October/November 1980	59,572	212.63	12,667	1,027	114,161	88,064	18,725	5,549
	1	June 1981	54,000	229.04	12,368					
Estimated totals as of September 30, 1981			<u>532,485</u> <sup>2/</sup>	\$192.55	\$102,528	5,830	551,463	486,583	\$92,212	\$13,140
Additional Estimated MTs programmed for import for FYs 1982 thru 1985			<u>434,000</u> <sup>3/</sup>	\$254.00 <sup>4/</sup>	\$110,236	<u>5/</u>	<u>5/</u>	<u>5/</u>	<u>5/</u>	<u>5/</u>
Total Estimated MTs of Wheat and Dollar Cost from Inception of the Program Projected Through the FY 1985 Program Year			966,485		\$212,764					

<sup>1/</sup> Wheat shipped in FY 1977. Program began in 1976 using 42,812 MTs of BDG wheat.

<sup>2/</sup> Based on B/L quantities. Does not include adjustments for overages, shortages or damaged wheat on which claims were filed.

<sup>3/</sup> Additional MTs programmed for import FYs 1982 thru 1985 at 120,000 MTs per year adjusted for balance on hand of about 46,000 MTs to apply to the FY 1982 program. With arrival of 54,000 MTs in June 1981 CARE/AID had an excess of about 134,000 MTs to apply against the current FY 1981 program. Since reimbursements on the FY 1981 program were 88,064 MTs, about 46,000 MTs will be available for distribution in the FY 1982 work year starting in January 1982.

<sup>4/</sup> Cost includes estimated \$30 average cost increase per MT over next four to five years.

<sup>5/</sup> Unknown at time of review.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

The Director, USAID/B should require the BDG to substantially improve their management control over the program by improving their procedures to: (a) assure an adequate supply of wheat is available at the LSD's, (b) assure DOs are issued promptly and that wheat deliveries are made to projects in a timely manner, and (c) provide better coordination to reduce overlap and labor conflicts between the PCD Program and the FFW program.

10

Recommendation No. 2

The Director, Office of Food For Peace, (FVA/FFP) should reduce the authorized wheat programming level for FFW projects in Bangladesh from 120,000 MTs annually to 100,000 MTs or less until procedural changes recommended in this report have been implemented and until such time as actual program implementation experience warrants increased commitment levels.

10

Recommendation No. 3

The Director, USAID/B should: (a) restructure project goals to place primary emphasis on selecting and implementing soundly designed projects that have a potential for increasing food production and alleviating the need for such assistance, (b) in coordination with CARE, develop criteria for judging and selecting projects that will best accomplish the revised goals, and (c) assist the BDG in revising their project selection procedures so that priority is given to fewer projects that best accomplish the revised goals.

15

Recommendation No. 4

The Director, USAID/B, as a condition to continuing the FFW program, should require the BDG and CARE to develop adequate local cost funding procedures that will guarantee the provision of local funds for logistical support costs of the program on an advance basis and thus eliminate the apparent necessity to sell U.S.G. provided commodities to defray such costs.

18

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 5

The Director, USAID/B should, require the BDG/CARE Agreement and related Action Plan to be amended to require CARE to withdraw food support from any projects where commodities are sold and wages are paid in cash.

28

Recommendation No. 6

The Director, USAID/B should, in compliance with the requirements of HB 9, AID Reg. 11 Section 211.9 and the terms of the BDG/CARE General Agreement of 1974, (a) require CARE to file either individual claims against the BDG on all FY 1981 projects determined to be underpaying laborers, or based on CARE's average underpayment rate, file one claim for 8,956 MTs to cover underpayments on the total FY 1981 FFW program, (b) require CARE to file a refund claim against the BDG for 10,290 MTs of wheat for unpaid "allied factors" on the FY 1980 FFW program or alternatively require CARE to analyze the underpayment data reported in their FY 1980 monitoring reports and establish an average underpayment rate for all projects and then file one refund claim on the total FY 1980 FFW program, (c) require CARE to file claims against the BDG for 1,210 MTs of wheat and 1,569 MTs of wheat reimbursed to the BDG for the FY 1980 and FY 1981 FFW projects where the wheat was sold and the laborers paid in cash, and (d) under the provisions of Reg. 11 Section 211.9, file claims against CARE in similar amounts in the event CARE fails to comply with parts (a), (b) or (c) above within a reasonable period of time.

33

Recommendation No. 7

The Director, USAID/B should, as a condition to calling forward additional wheat for the FY 1982 or future year programs, require the critical proposed changes and the substance of the other proposed changes be approved in a revision to the Action Plan in a form acceptable to CARE and the USAID/B.

46

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 8

The Director, USAID/B should as a condition to continuing the program, (a) require revision of the BDG/CARE Agreement and related Action Plan to clearly define CARE's procedural responsibility for reporting serious operational deficiencies and their authority to withdraw support to projects where serious violations of procedures occur or where corrective actions are not taken within a specified time period, and (b) revise the AID/CARE Agreement (No. AID/ASIA-G-1171) to conform with changes made in the revised BDG/CARE Agreement and Action Plan.

50

Recommendation No. 9

The Director, USAID/B should establish written procedures that will cause CARE's monitoring reports to be effectively utilized in support of CARE in carrying out their broad monitoring and evaluation responsibilities of the FFW program.

51

Recommendation No. 10

The Director, USAID/B should, within the context of the tri-partite legal agreements and consultation with the BDG, amend the AID/CARE Grant Agreement to, (a) require CARE's interim monitoring reports to include (1) the wage rate for each person day of earthwork moved on the project, (2) the volume of earthwork constituting a person day, (3) the wheat wages actually paid to the laborers and (4) the amount of underpayments to laborers stated in both basic and allied factors as applicable, and (b) require CARE to periodically summarize the results of their monitoring activity and report on the magnitude of underpayments to workers.

52

## LIST OF REPORT RECIPIENTS

### USAID/Bangladesh

Director	5
<u>AID/W</u>	
Deputy Administrator (DA/AID)	1
Bureau For Asia	
Assistant Administrator (AA/ASIA)	2
Office of Bangladesh and India Affairs (ASIA/BI)	1
Audit Liaison Officer	1
Bureau For Food For Peace and Voluntary Assistance	
Assistant Administrator (AA/FVA)	2
Office of Food For Peace (FVA/FFP)	3
Audit Liaison Officer	1
Bureau For Technology and Science	
Office of Development Information and Utilization (T&S/DIU)	4
Bureau For Management and Budget	
Office of Evaluation (MBB/E)	1
Office of Financial Management (MBB/FM/ASD)	1
Bureau For External Relations	
Office of Legislative Affairs Office (EXRL/LEG)	1
IDCA Legislative and Public Affairs Office	1
Office of the General Counsel	1
Office of the Inspector General:	
Inspector General (IG)	1
Assistant Inspector General for Investigations and Inspections (AIG/II)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General for Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Panama	1
<u>OTHER</u>	
Regional Inspector General for Investigations and Inspections (RIG/II/Karachi)	1
New Delhi Residency	1