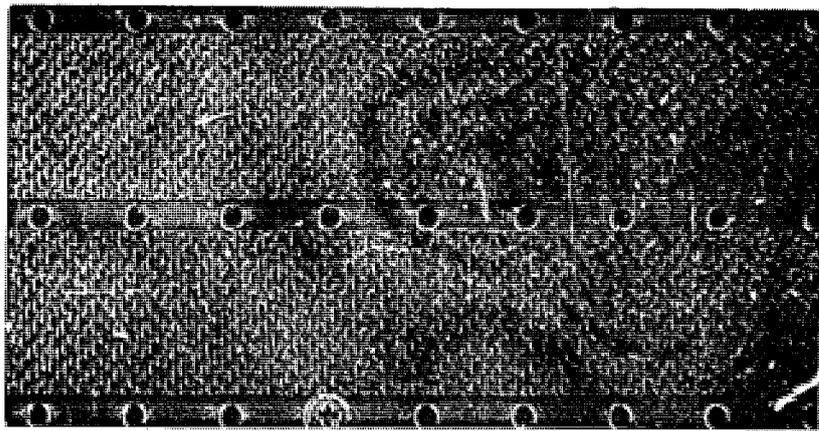


THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
ABIDJAN

THE OPERATION HAUTE VALLEE  
PROJECT IN MALI IS  
EXPERIENCING SERIOUS PROBLEMS

Audit Report No. 7-628-82-1  
Dated September 20, 1982

The Operation Haute Vallee Project has achieved few results after almost four years of AID support and the expenditure of \$8.8 million. Nor is the situation likely to improve as the project is now designed. In our view, the lack of results is due to:

- the project being too large and complex with an unrealistic assumption of what could be accomplished within the existing institutional and financial constraints; and,
- a number of unexcusably faulty assessments in the Project Paper on which some key project activities were developed.

AID needs to redesign the project making it simpler and more manageable by focusing on those aspects related to food crop production.

# Mali



Scale 1:500,000  
 Contour interval 100m  
 Map projection UTM  
 Datum WGS 84  
 Projection false easting  
 500,000m

Railroad  
 Road  
 Airport

THE OPERATION HAUTE VALLEE  
PROJECT IN MALI IS  
EXPERIENCING SERIOUS PROBLEMS

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
BACKGROUND	1
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	3
The Project Needs to be Redesigned	3
Project Results Have Not Met Expectations	12
Problems in Accounting for AID Funds	24
Problems With AID-Financed Procurement	34
AID Project Management Has Been Poor	38
EXHIBIT A:	
Operation Haute Vallee's Financial Results for 1977 to 1980/81	41
EXHIBIT B:	
Operation Haute Vallee Project Financial Status at March 31, 1982	42
EXHIBIT C:	
List of Report Recommendations	43
LIST OF REPORT RECIPIENTS	46

## EXECUTIVE SUMMARY

### Introduction

Agriculture is Mali's most important economic sector and the one with the greatest potential for growth. Achieving self-sufficiency in food grains is an important factor in Mali's development strategy. To assist the country in this task, AID and the Government of Mali (GOM) entered into a project agreement on September 29, 1978, to increase food production in the Haute Vallee region. AID-financed activities to be carried out under the project include animal traction, training and research, agricultural credit, road construction, irrigated rice production, functional literacy and health. Life of project funding of \$18.4 million was approved by AID to be provided incrementally over a five year period. Responsibility for implementing the project was assigned to Operation Haute Vallee, a semi-autonomous agency in the Ministry of Agriculture responsible for coordinating and promoting the integrated development of the Haute Vallee region.

### Purpose and Scope

This review was undertaken in response to a request received from the Director, USAID/Mali. The purpose of the review was to assess the results of the project's activities, to determine whether the project was effectively and efficiently managed and to ascertain whether AID funds were expended properly and in compliance with AID's policies and procedures. The examination included a review of Operation Haute Vallee's and USAID/Mali's records as well as discussions with appropriate host country and USAID officials. Site visits were made to selected locations in the Haute Vallee region.

### The Project Needs to be Redesigned

The AID-financed activities in this project have not achieved any significant results nor do they appear likely of doing so. The project, moreover, is presently drifting without any defined focus of where it is headed. In our view, this stems from the project being too large and complex with an unrealistic assumption of what could be accomplished within the existing institutional and financial constraints; and a number of inexcusably faulty assessments in the Project Paper on which some key project activities were developed. AID, therefore, needs to redesign the project, making it simpler and more manageable by focusing on those aspects related to food crop production (page 3). However, even before AID can redesign the project, it needs to assess whether there are practical solutions to the following issues:

- Operation Haute Vallee lacks the financial resources to absorb the recurring costs of the project. In the past four years the trend of the Operation's operating results has been larger and larger deficits. Not even AID's increasing contributions for operating support is adequate to offset these ballooning deficits. Unless the Operation is able to generate more revenues, and this appears highly unlikely, it will be unable to continue the project when AID support is phased-down and/or withdrawn. (page 6).

- Operation Haute Vallee has depended on another GOM agency to provide credit to farmers for the procurement of fertilizers and pesticides needed for cash crop (tobacco, cotton and peanuts) production from which the Operation's marketing revenues are generated. With the bankruptcy of this agency, the Operation has become dependent on using AID credit funds for cash crop farmers. A basic conflict has arisen from the fact that the AID credit funds have been primarily targeted for work animals and farm equipment. These inputs are needed to increase food grain (millet, sorghum, corn and rice) production from which the Operation derives little if any marketing revenues. Because of the Operation's dire need to obtain credit funds for cash crop farmers, the project's focus on food production has been lost (page 7).
- Operation Haute Vallee's extension system is inefficient and ineffective. This condition stems in part from overloading the poorly trained agents with too many responsibilities. In addition to their administrative and technical roles, the agents must also administer the credit program. The result is that this program is neither properly handled nor has sufficient internal controls, thus making it highly vulnerable to fraudulent practices (page 8).

#### Project Results Have Been Meager

Through March 31, 1982, AID had obligated approximately \$11.9 million of which \$8.8 million had been disbursed. Despite the significant expenditures, there is little to show after almost four years of AID support just what this project has contributed in the way of development. The status of the various activities is indicative that this project is in serious trouble:

- Almost nothing has been done to increase and improve the use of animal traction. Providing credit funds to farmers which would enable them to purchase work animals has not moved beyond the pilot stage, presently involving 20 farmers. Until such time that the problems of the credit fund are resolved, this activity will remain mired in the pilot stage (page 12).
- A viable revolving AID credit fund has not been established. The fund is experiencing a number of serious problems which stem from faulty assessments in the Project Paper. The Project Paper, for example, had stated that functioning village councils would assume collective responsibility for loan repayment, thereby ensuring a high repayment rate. These councils, contrary to what the Project Paper states, are not functioning, thus resulting in an appallingly low repayment rate of 38 percent. Though provision was made for a 12 percent interest rate, no interest was charged to the farmers. Subsidies which were provided to farmers on the credit sales of agricultural inputs were borne by the credit fund, though Operation Haute Vallee should have reimbursed the credit fund for the subsidies (page 15).
- There have been numerous changes in the road construction program which has adversely affected the number of kilometers to be improved.

Only 150 of the planned 398 kilometers at most will be completed. These roads are not only being constructed at a higher than planned design but also in locations that do not foster the marketing objective. Thus, in our view, this activity should be suspended until the Operation justifies what it is doing (page 18).

- Construction of the Bancoumana Polder has not started due to design problems. Because the Polder has had a history of failures by other donors, and since the Operation has not demonstrated the needed the management capability, we do not believe this activity should be undertaken (page 19).
- AID funding of the literacy program has been suspended pending corrective action of numerous problems (page 21).
- The health activity has not started nor does AID plan to initiate it at the present time (page 22).

#### Accounting for AID Funds is Inadequate

Of the approximately \$1.5 million AID provided in local currencies to defray the local operating costs associated with the project, we found that the equivalent of \$79,301 should be recovered by AID (page 24).

Accounting for the AID credit funds was almost non-existent. These funds were initially used to procure inputs such as farm implements and fertilizers which were then distributed to the farmers in the form of in-kind credit loans. The repayment of the in-kind loans were to revert to the AID credit fund with the cycle repeating itself. Inventory records controlling the farm inputs purchased with AID funds were in such deplorable condition as to be almost useless. The records maintained by the extension agents were either inadequate or non-existent as to loans made and repayments received. This absence of record keeping plus the absence of internal controls made the AID credit program highly vulnerable to abusive practices. Of the \$541,667 in local currencies provided for credit, AID should recover the equivalent of \$221,667. AID should also obtain a detailed accounting for the local currency equivalent of \$153,333 for which no accounting data was available (page 27).

#### Problems With AID-Financed Procurement

AID-financed technical assistance costing in excess of \$2 million has not been used effectively. In our view, this result stems in part from the USAID assigning host country contracting responsibilities to Operation Haute Vallee without assessing its capabilities. The USAID in part compounded the problem by taking a "hands-off" type approach in monitoring the Operation's activities (page 34).

Operation Haute Vallee has also written and negotiated contracts with various government agencies and local firms. Many of these contracts were not reviewed by the USAID, though they involve substantial commitments of AID funds. In some cases the purposes of these contracts have varied with project objectives (page 35).

### AID Project Management Has Been Poor

The USAID's management of the project has been deficient and ineffective. This ineffectiveness in USAID direction and guidance in part explains the aimless manner in which the project has been implemented. This result arises in large part from AID not staffing the project with a project officer for a period of some 21 months. This staffing problem has still not been fully addressed (page 38).

### Summary of Management Comments

USAID/Mali generally agreed with the findings and recommendations of this report. The USAID stated that as a result of the report it plans to redesign the project. The scope of the project is to be reduced with the focus on food production.

The USAID made the following specific comments about the report:

- While agreeing that the performance of the extension agent has been poor, it does not believe the burden placed on the field agents is as great as the report states. The USAID feels the extension agents' efficiency can be improved by defining their responsibilities, training them, providing them with the necessary support and installing mechanisms to monitor their performance.
- The USAID stated that the problem of carrying out an expansion of animal traction is not as simple as providing credit to purchase oxen and equipment. Equally as important as credit is a source of appropriate equipment. The project makes no provisions for the adaption or improvement of animal-drawn equipment. Thus, a program to design, test and manufacture farm equipment at a reasonable price is needed, but it is beyond the scope of the project.
- The USAID stated it made it clear in writing to Operation Haute Vallee that credit for fertilizer was given on a one-time basis to help it through a crisis during the 1981 season.

### Conclusions and Recommendations

The Operation Haute Vallee Project has so far been a failure and is likely to remain so as now designed. The project's implementation problems are due to a number of inexcusably faulty assessments upon which key activities were designed. AID's failure to provide adequate guidance and direction have contributed to the difficulties of this project.

AID needs to redesign this large, complex project which is overloaded with ambition. In undertaking this redesign, a number of issues and problems need to be addressed. In this regard, the report contains 18 recommendations listed in Exhibit C to this report.

## BACKGROUND

Mali, located in the Sahelian region of West Africa, is one of the least developed countries in the world. Its per capita gross national product of \$110 (1977 dollars) is the lowest in Africa. AID estimates rural per capita income in cash and kind somewhere between \$50 to \$75. Agriculture and livestock constitute Mali's most important economic sector and the one with the greatest potential for growth. The sector contributes about 64 percent of Gross Domestic Product, employs over 90 percent of the active labor force and is the source of nearly 99 percent of the country's export earnings.

Self-sufficiency in food grains is an important factor in Mali's development strategy. Therefore, on September 29, 1978, AID and the Government of the Republic of Mali (GOM) entered into a project grant agreement to increase food production in the Haute Vallee region. The region, which covers about 13,800 square kilometers, lies on both sides of the Niger river between Bamako and the Guinea border (see map). About 35 percent of the region's soils are suitable for agriculture. The population totals about 211,000, with 94 percent engaged in agriculture. Cereals (paddy, millet, sorghum and maize) accounts for about 75 percent of the cultivated hectareage and cash crops (mainly cotton, tobacco and peanuts) for about 22 percent of cultivated hectareage.

AID approved funding of \$18.4 million is to be provided to the project incrementally over its five-year life. The activities to be carried out under the project are as follows:

- Animal Traction, Training and Research.  
Purpose: To establish traction and training research centers to demonstrate more rational use of work oxen teams.
- Agricultural Credit.  
Purpose: To meet a demand by farmers in the project area by setting up a \$1.3 million credit fund to enable farmers to buy oxen and farm implements.
- Road Constuction.  
Purpose: To provide access to markets in Bamako and elsewhere for the surplus production resulting from this project. A total of 398 kilometers of existing roads and tracks will be improved.
- Irrigated Rice Production.  
Purpose: To rehabilitate a 640 hectare polder in Bancoumana which will permit complete water control and a changeover from floating paddy varieties to irrigated paddy rice varieties.

- Functional Literacy.  
Purpose: To establish functional alphabetization centers, with the number of such centers reaching 100 by the end of the project.
  
- Health.  
Purpose: To make an assessment of health conditions and to design a limited health intervention. A total of \$500,000 is to be provided for this health component.

GOM responsibility for implementing the project was assigned to Operation Haute Vallee. The Operation is a semi-autonomous agency of the GOM under the Ministry of Agriculture which is responsible for coordinating and promoting the integrated development of the Haute Vallee region.

#### Purpose and Scope

This review was undertaken in response to a request received from the Director, USAID/Mali.

The purpose of this review was to assess the results of the project's activities, to determine whether the project was effectively and efficiently managed and to ascertain whether AID funds were expended properly and in compliance with AID's policies and procedures. The examination included a review of Operation Haute Vallee's and USAID/Mali's records as well as discussions with appropriate host country and USAID officials. Site visits were made to selected locations in the Haute Vallee region.

## FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### THE PROJECT NEEDS TO BE REDESIGNED

The viability of the Operation Haute Vallee Project is very much in doubt. The activities being financed by AID have resulted in few tangible results. Moreover, the activities, as now designed, do not show much potential for doing so. In our review, this is attributable to the following:

1. The Project Paper made a number of very inexcusably faulty assessments that were critical to the success of the activities. The lack of progress in many of the activities is directly traceable to these faulty Project Paper assessments. The design of the project is also much too large and complex in terms of the demands placed on the Operation's institutional and financial capabilities and USAID management resources. In a word, too much is expected, resulting in the project being overloaded with ambition.
2. Operation Haute Vallee lacks the financial resources to absorb the recurring costs of project activities. Unless it is able to generate more revenues from the marketing of cash crops, and this appears questionable, it will be unable to continue the activities when AID's financial support is withdrawn.
3. Operation Haute Vallee had depended on another GOM agency to provide credit for the procurement of fertilizers and pesticides needed for cash crop production from which its revenues are generated. With the demise of this agency, the Operation has become dependent on using AID credit funds to procure these inputs for cash crop production which is so vital to its financial existence. A conflict of interests arises from the fact that the AID credit funds have been primarily targeted for work animals and farm equipment and are critical to the success of those activities.
4. Operation Haute Vallee's extension system is inefficient and ineffective. This condition stems in part from overloading the poorly trained agents with too many responsibilities. In addition to their administrative and technical functions, the agents must also administer the credit program. The result is that this program is neither properly handled nor has sufficient internal controls.

### Project Design Is Too Complex And Ambitious

The Operation Haute Vallee Project is much too complex and ambitious, with few results having been achieved. Few, if any, of the activities are thus progressing as designed.

Mali is one of the least developed countries in the world. It lacks, among other things, human skills, education and health facilities, infrastructure and financial resources. In view of Mali's many needs, it is probably natural for donors to design large projects addressing as many of these needs as possible. Viewed in this context, the large integrated rural development projects are full of good intentions. But these good intentions are often the very reason why the projects become overloaded with ambition and thus fail.

Operation Haute Vallee is an exceedingly large and complex integrated rural development type project, consisting of some seven different activities. Anyone of the activities could and should be a project in itself. In overloading the project with so many activities, unrealistic burdens have been placed on Operation Haute Vallee's institutional capability and financial resources as well as USAID/Mali's project management. The consequence is that few results have been achieved. Some examples: The animal traction program has not progressed beyond a few pilot farms; the credit program has stalled due to an inadequate credit system; rehabilitation of the Bancoumana polder has not been started. About the only tangible results have been the construction of some roads and an office building, neither of which have been effected as originally planned.

There are clear indications, as discussed in the next section of this report, that the project is out of control and drifting with no clearly defined objectives. Implementation is thus presently performed on an ad hoc rather than planned basis.

It is questionable whether the Operation has the capability to implement all those aspects assigned to it under this ambitious and faultily designed project. The Operation Haute Vallee is struggling financially, barely able to keep its head above water. And the capability of its staff, as indicated by the extension system, is ineffective. The USAID has also not demonstrated the capability to manage the project.

In our view, since some activities have not yet started, and others are drifting, the time is opportune for a critical USAID review to determine whether it makes much sense to continue with the project as now designed. It is our opinion that those diverse activities of the project not directly related to food production should be dropped from the project. However, even before this project can be redesigned, it has to be determined whether a number of issues and problems discussed in this report have practical solutions.

It should be noted that AID is not the only donor in Mali experiencing problems with large projects. A World Bank report dated October 9, 1981, and entitled "Seventh Annual Review of Project Performance Audit Results", discusses the Bank's sad experience with the concept of integrated development projects. Below is a citation regarding a project in Mali which is instructive:

" The concept of integrated development and the issue of excessive project complexity are probably most germane in agriculture. The Mali

" Integrated Rural Development Project is a case in point. It set out with a promise at appraisal of 91% economic rate of return; the reestimate at audit was negative. There were many problems. But the central problems were those of design and complex institutional requirements much beyond the local capabilities. The audit concluded that integration should, at first, concern all necessary functions related to a single or a few closely related objectives."

In discussing this project with a World Bank representative in Mali, we found that the project was almost identical to Operation Haute Vallee. It is thus pertinent to note the World Bank redesigned the project and reduced its scope to a few related activities.

#### The Financial and Credit Aspects Need to be Reassessed

The Project Paper was inexcusably deficient in assessing the Operation's financial viability and the soundness of the credit program. These inaccurate assessments led to the faulty assumption that Operation Haute Vallee was able to implement the project.

One of the primary purposes of the project is to increase agricultural productivity and production. To achieve this purpose, the project follows a design characteristic of food grain production projects in the Sahel; namely: expanding the use of animal traction and related inputs financed by a credit program; applied research to introduce improved seed varieties and agronomic practices; and expansion and training of the extension system.

The average farm size in the Haute Vallee area is about 12 hectares of which approximately 5 hectares are cultivated. Of the cultivated acreage, about 22 percent is used for growing cash crops, mainly cotton, tobacco and peanuts. The other 75 percent is used to grow millet, sorghum, corn and rice.

Operation Haute Vallee derives its income primarily from the commissions earned on the marketing of cash crops for other government agencies. The Project Paper assessed that, since the income from these commissions covered expenses, the Operation was financially viable. It also assessed that a sound credit program was operating. The source of this credit was SCAER, (the Agency for Agricultural Credit and Rural Equipment) a government supply agency for different government operations and responsible for the purchase of farm inputs (fertilizers, chemicals and small farm equipment).\* Therefore, in assessing that Operation Haute Vallee was financially viable and had a functioning credit program, the Project Paper assumed it was possible for the Operation to implement a food production project from which it would derive no income.

---

\* These inputs were channelled by SCAER through the Operation to the farmer, with Operation Haute Vallee receiving a commission on the sales of the inputs to cover the cost of its collecting the loans from the farmer.

In the past four years the trend of Operation Haute Vallee's financial operating results has been larger and larger deficits. To make matters worse, SCAER went bankrupt in late 1980, leaving the Operation with no credit for cash crop production so vital to its existence. The consequence is that Operation Haute Vallee is now straggling financially. In view of this financial struggle, particularly for credit, the project focus on food crop production has been lost. These aspects are discussed in more detail below.

#### 1. Financial Viability

The financial situation of Operation Haute Vallee has grown progressively worse, with ever larger operating deficits. Only AID's contributions to the support of the recurring operating costs keeps the Operation running. There does not now appear to be any possibility for the Operation to absorb the recurring operating costs when AID's contribution is phased down or withdrawn.

Operation Haute Vallee derives its income from commissions on the buying and selling of cash crops. Since there is no parallel (private) market for tobacco and cotton, the farmers have no alternative but to sell this production directly to the Operation. Peanuts is the only cash crop that has a parallel market and gives the farmer an alternative in disposing of his/her production. In the past four years Operation Haute Vallee's financial viability has been adversely affected by changes in the production and marketing of these cash crops.

The marketing of tobacco production, which used to account for the largest share of the Operation's revenue, has dropped so significantly in the past four years that it no longer generates any revenues. This situation has been due to a weakness in price and demand for the product. Though demand for the product is again increasing, farmers are unable to increase their production because pumps for the irrigation system have fallen into a state of disrepair.

Revenues generated from the marketing of cotton production now accounts for the largest share of income. Though the marketing of cotton production has dropped from 8,600 tons in 1979/80 to 4,500 tons in the 1981-82 season, the commissions earned on marketing cotton has risen, thus resulting in a generally stable level of revenues. The drop in cotton production has resulted from the lack of financial incentives to the farmers.

Revenues earned from the marketing of peanuts in the past four years shows an inconsistent picture, dropping substantially during the 1980/81 season. This situation in part reflects that more farmers are marketing the production themselves when prices on the parallel market are higher than government set prices.

Non-cash crop production revenues are largely earned from trucking the crops to government buyers. Revenues from this source is now at a peak level and may possibly continue in view of the new trucks provided under the AID project.

On the expenditure side, salaries and contract labor account for well over half of the cash expenditures. In the past four years these expenditures have doubled. The other major cash expenditure, petroleum, oil and lubrication, has also almost doubled. The reasons for these rapidly rising expenditures

are due to an increase of staff and the provision of mopeds to give the agents more mobility to cover their territories. Both of these expenses have been fostered by the AID project.

In Exhibit A we have presented a financial statement on Operation Haute Vallee's operating results for the past four years. These figures, however, must be taken with a good deal of caution in view of the Operation's poor accounting practices. Below is a summary presentation of the results (figures express in 000's MF):

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>
Revenues	205.6	231.3	264.1	238.7
Expenditures	221.7	250.5	397.9	418.0
Operating Profit/(Loss)	(16.1)	(18.6)	(133.8)	(179.3)
AID Operating Support			110.0	152.7

These figures clearly indicate a sharp upward trend in deficits as a result of the AID project. To alleviate the impact of these results, AID is contributing grant funds to pay a share of the Operation's operating expenses, a large percentage of which is for salaries and fuel. It is evident that without this AID support Operation Haute Vallee would have to reduce its staff and activities significantly.

At some point in time AID support for operating expenses must be discontinued. With revenues stagnant, and with little apparent expectation of a dramatic upturn, one has to be less than sanguine that the Operation will retain the extension system at its present level as AID operating support is withdrawn. This means that a large part of the funds AID is now contributing for operating support of the extension system may have been for nought. In our view, USAID/Mali must therefore review this situation to determine whether it makes sense to continue with a project Operation Haute Vallee has little chance of supporting financially.

## 2. Credit Program

There is a conflict in this project that arises from the Project Paper inaccurately assessing the soundness of the credit program that was being run by SCAER through Operation Haute Vallee. With the demise of SCAER, the Operation needs the AID credit funds to buy mostly fertilizers to serve farmers raising cash crops. If project objectives are to be maintained, the AID credit funds must be largely targeted for longer-term credit for work animals and farm equipment.

It is important to Operation Haute Vallee's financial viability that farmers growing cash crops are provided credit to finance needed inputs, particularly fertilizers and pesticides. Without these inputs, production and the marketing of that production would drop.

Until recently, SCAER had provided this credit in the form of small farm implements, fertilizers and pesticides. But in late 1980, SCAER went bankrupt. A factor contributing to this situation was the non-repayment of farmer loans. Operation Haute Vallee alone, for example, owes SCAER over MF 1 billion on in-kind loans made to farmers. Thus, with the demise of SCAER this source of credit is no longer available to the Operation.

Because of this situation, Operation Haute Vallee requested AID to release the equivalent of \$576,500 in local currency for the credit fund. With AID approval, over 80 percent of these funds were utilized for procurement of fertilizers for the 1981/82 season. These commodities were then given to farmers in the form of in-kind loans. To obtain these loans the farmers had to grow cash crops. Not a single Malian franc was used to buy traction animals, one of the primary objectives of the AID credit funds.

No further releases of AID credit funds have been made since AID is not presently able to certify that Operation Haute Vallee has an acceptable accounting system to control the use of the funds. Nor is it likely that this certification can be made in the near future.

With no AID credit funds available for the 1982/83 season, Operation Haute Vallee received a short term advance of funds from CMDT (Malian Company for Development of Textile Fibers), to procure MF 508 million (\$847,000)\* of fertilizer and pesticides. CMDT is now putting pressure on Operation Haute Vallee for repayment of that advance. In turn, Operation Haute Vallee is urging AID to release the credit funds so they can be used to repay the advance.

Credit funds are critical to the success of the AID-financed animal traction program. The lack of progress in this activity is reflective of the fact that no funds have been made available to it. Unless funds are provided and targeted for this activity, there is no way it can even begin to function.

Credit funds are equally critical to Operation Haute Vallee's cash crop farmers. The Operation is thus counting on AID funds to serve this group by using the credit funds to buy mostly fertilizers. There is thus a basic conflict between project interests and the Operation's own interests that needs to be addressed.

#### The Extension System Needs to be Improved

Operation Haute Vallee's extension system is ineffective and inefficient. The poorly trained agents have been overloaded with responsibilities they cannot perform.

The extension agents are the instrument through which Operation Haute Vallee's operational activities are conducted. These agents have a number of vital roles:

---

\* Conversion rate used was \$1.00 equals MF 600.

- Technical Role - Under the Haute Vallee Program they have the responsibility for promoting the use of the Operation's technical package for cash crops. With the inception of the AID project, the agents have also acquired monitoring responsibilities for the blacksmith program, animal traction program, functional literacy, etc.
- Credit Role - Each agent is responsible for the administration of the credit program in their area. This entails ordering commodities, and accounting for stock, loans, and loan repayments.
- Administrative Role - In this role the agents are responsible for the planning and reporting on the program. Each agent has an assigned territory which includes about 350 farms.

In our field visits we found that the agents had so many duties they could not service the farms in their respective territories. And this is at the present low level of project implementation. Were the AID activities such as animal traction to be in full operation, the situation would be even worse. The overloading of the agents with these various roles has resulted in none of them being performed well. The deficiencies of the credit program discussed later in this report is but one example.

The project Consultant, in discussing the inefficiency of the extension agents, states the following in its Annual Report of 1982:

"The value of the system can also be determined by judging the efficiency of its agents. A quote from a recent World Bank publication sums up the situation: at OHV "The extension work program is usually ad hoc in nature, defined by the sector chief. Little guidance is available on its content, presentation, or means of execution. There is no monitoring of program effectiveness. The extension agent is a 'general agricultural agent', with tasks that range from promoting new technology, organizing credit schemes, and supplying inputs, to general administrative duties. The wide-ranging responsibility normally results in little organized work being done. Since working conditions, general support facilities, and supervision of extension agents is poor, salaries low and educational requirements for recruitment minimal, it is not surprising that, in general, extension results are negligible, and morale in the service is low."

In our view, if the efficiency of the extension agents is to be upgraded, then steps must be taken to reduce some of their responsibilities. The most appropriate way of doing this is to lessen their responsibilities for the credit program. This step should be taken in any event since the credit

program presently has no internal controls. Under the present decentralized arrangement, the agents have total responsibility over the commodities, accounting and collections. Assigning these functions to one individual makes the system highly vulnerable to devious practices. The worst part about this is that there is also no effective oversight exercised at higher levels of the organization over the agents' activities. An agent can thus do just about anything in manipulating the commodities, accounting and loan collections to serve his/her own advantage, knowing the records are not subject to verification.

The obvious solution, were it possible, would be to transfer the credit function to the newly operating National Agricultural Development Bank and the commodity supply function to the private sector. But it is questionable whether this can be done at present. This means finding a way of doing so within the existing organizational framework. In our view, this could be done by transferring the accounting and commodity accounting responsibilities to the next higher organizational level.

At the base of Operation Haute Vallee's decentralized organization are the agents. Approximately six to eight agents report to the ZER (Rural Development Zone). The next step up in the organization is the sector which consists of approximately six ZERs. The sectors, of which there are four, in turn report to headquarters. In the terms of this organizational framework, we believe the credit program should be administered at the ZER level. Additional personnel costs, however, may be involved and those would have to be considered in any such organizational change.

The extension agents have to be made more efficient and effective. In determining how this can be done, AID concurrently has to address the lack of controls now so apparent in the credit program.

#### Conclusions and Recommendations

The AID financed activities in this project have not resulted in any significant results. The project, moreover, is presently drifting without any defined focus of where it is headed. In our view, this stems from the project being too large and complex with an unrealistic assumption of what could be accomplished within the existing institutional constraints; and a number of faulty assessments in the Project Paper on which some key project activities were developed.

Since some activities have not started and the others are not progressing as planned, we believe that this is an opportune time to consider a redesign of the project. We believe that in redesigning the project, AID should make it more manageable by focusing on those aspects only related to food crop production.

In the redesign of the project, USAID/Mali needs to assess the Operation's financial situation and whether it will be able to absorb the recurring costs of the project. The credit program needs to be assessed in terms of how that program can be restructured and reconciled in terms of AID's project interests and the Operation's cash crop interests. And finally, USAID/Mali must assess whether the Operation's extension system can be made efficient and effective

in view of the funds being invested in it. Unless these problems are addressed, we question whether the project merits continued funding.

Accordingly, we have recommended that:

Recommendation No. 1

USAID/Mali should redesign the Operation Haute Vallee Project before any additional obligations are made, making it less complex by focusing on only a few activities directly related to food production.

Recommendation No. 2

USAID/Mali should assess and demonstrate that Operation Haute Vallee has the financial capacity to finance the project.

Recommendation No. 3

USAID/Mali should assess and demonstrate how Operation Haute Vallee's credit needs can be fulfilled without jeopardizing the availability of sufficient credit funds for the animal traction program.

Recommendation No. 4

USAID/Mali should assess and determine how the extension system can be made effective to justify the investment of additional AID project funds. In this regard, it should consider divesting the extension agents of the accounting responsibilities for the credit system.

## PROJECT RESULTS HAVE NOT MET EXPECTATIONS

AID has obligated approximately \$11.9 million of which \$8.8 million had been expended as of March 31, 1982 (see Exhibit B). Despite these significant expenditures, there is little to show after three years of AID support just what this project has contributed in the way of development. The status of the various project activities, as described below, is indicative that this project is in serious trouble.

### The Animal Traction Program Has Stalled

Very little has been done to increase and improve the use of animal traction as a means of increasing food crop production in the Haute Vallee region. Providing credit funds to farmers which would enable them to purchase work animals has not moved beyond the pilot stage. Few blacksmiths have been trained. Nor has there been any new or improved innovations evolving from the applied research component of the project.

There is a concensus among AID and other donors that, if agricultural production is to increase in the Sahel, efforts must be made to introduce more modern farming techniques. Those AID projects relating to food production, particularly cereal grains of which this is one, are thus very similar. Technical packages have been developed which are based largely on animal traction and the use of farm implements, fertilizers and better varieties of seeds. These off-farm inputs are then provided to small farmers on an in-kind credit basis.

The Project Paper identified a need for an increased usage of animal traction in the Haute Vallee region to expand areas of cultivation and to increase yields of food production. Adequate credit was not available to farmers for the purchase of the animals (oxen), related equipment, and other inputs. Accordingly, the primary purpose of this project was to provide the necessary credit to farmers which would enable them to obtain these inputs. In addition, eight animal traction centers were to be constructed in the Haute Vallee region to provide:

- Training to farmers in the use of animal traction.
- Demonstration plots for applied research on improved uses of animal traction equipment and cultural practices.
- Blacksmith shops for experimenting, developing, and improving implements such as yokes, seeders, etc.
- Training for extension agents in order that these practices can be extended by them to the village farm level.

Under a host country contract, technical assistance was to be provided to assist Operation Haute Vallee's extension agents in crop research and animal

traction. By the end of the project, 1,500 teams of oxen (financed from the AID Credit Fund) and 1,500 farmers were to have been trained, as well as 90 blacksmiths.

### 1. Pilot Farms

The design of the animal traction activity was changed in 1979, during the early implementation phase of the project. Although four animal traction centers were constructed at a cost of \$25,000, they were quickly abandoned and never used. No documentation could be found in USAID/Mali's records for discarding the concept of animal traction centers. Operation Haute Vallee, however, cited the following reasons:

- There were no accommodations for farmers at the centers.
- Farmers could not leave their farms for the two week training.
- The cost to operate and construct centers was not a worthwhile investment.
- The procedures ran counter to the Operation's extension system of providing assistance to farmers on their farms.

At the initiative of the project Consultant, Louis Berger International, the concept of the pilot farms was introduced to replace the animal traction center concept. The Consultant envisioned that:

" The pilot farms would serve as a base for complex data in which it could formulate an optimal action program around the human and equipment resources at the farm level in order to maximize farm income. By using linear programming techniques, the traditional farm was to be transformed into an efficient unit carrying out numerous income generating activities."

Operation Haute Vallee, however, viewed the pilot farm concept differently. It believed that the farmers only needed the means by which they could increase their production to become a model. These means would be supplied by the AID credit fund for animals, implements, and other inputs. Operation Haute Vallee was of the opinion that the farmers were capable of increasing their welfare with these means and needed very little support and guidance from its technical division and extension system.

The pilot farm concept was applied to 80 farms in the Haute Vallee region during the 1980/81 crop season. These farms were furnished with a technical package which included a pair of oxen and a new Consultant developed innovation - the double row seeder. The cost of this technical package was financed from the project operating account and sold to pilot farmers on credit.

Since the 80 pilot farms were scattered throughout the Haute Vallee region, this meant that monitoring could not be effected without the full cooperation and assistance of Operation Haute Vallee's extension system. However, with the extension agents being poorly trained and overburdened with responsibilities, no reliable data was collected. The first year of the program was consequently left with no data from which to make a valid evaluation.

The number of pilot farms for the 1981/82 season was reduced from 80 to 20 to facilitate effective monitoring. However, in its monthly report for February, 1982, the Consultants stated that:

" with most of the pilot farm study information sheets in, it appears that information will not permit us to make any significant conclusions."

The Consultant informed us that the same 20 pilot farms will be monitored again, during the 1982/83 season.

Though no effective evaluations have been made to confirm the soundness of the technical package, both the Consultant and Operation Haute Vallee are convinced that animal traction is the obvious means of increasing productivity and production.

Very little progress has been made under the animal traction program. With the exception of the 80 teams of oxen purchased for the pilot farms in 1980, no AID credit funds have been expended or programmed for the purchase of traction animals. In order to increase the number of trained oxen, credit funds are needed. Unless the problems with the AID credit fund are resolved, as discussed in this report, there is little indication that any further progress beyond the pilot farms will be made.

## 2. Blacksmith Program

The purpose of the Blacksmith Program was to develop more appropriate and less expensive implements for work oxen and to train local blacksmith to make them. A total of 90 local blacksmiths were to be trained. Training courses were also to be conducted by the Consultant which would enable the blacksmiths to develop a capability to make and repair the implements.

In discarding the animal traction center concept, the Blacksmith Program was revised to equip one blacksmith for each of the 28 ZERs (Rural Development Zones). During the 1980/81 season, five blacksmiths were provided with equipment on three year credit terms. No blacksmiths, however, were trained by the Consultant.

In February, 1982, the Consultant conducted a 15 day training course for eight blacksmiths. Six of these blacksmiths have been equipped and the other two are in the process of being equipped. No additional training is planned for the 1982/83 season.

The Blacksmith Program is related to the objective of increasing the use of animal traction in the Haute Vallee region. However, with the animal traction program not functioning, this program has also stalled.

### 3. Applied Research Center - Samanko

A government experimental center at Samanko replaced the demonstration plots that were to be adjacent to the planned animal traction centers for animal traction equipment research and agronomic testing. A recent AID project evaluation concluded that "essentially no research was conducted on animal traction per se, although limited trials on feeding of confined animals were carried out at Samanko". The evaluation also stated the double row seeder developed by the Consultant was of marginal utility. A modification of the 1982/83 pilot farm program is to transform the double row seeder into a single row model in order that farmers will be able to utilize this farm implement.

The evaluation report on the results of agronomic testing concluded that very little has been introduced in the way of an improved technical package and that Operation Haute Vallee lacked the capability to conduct applied research on its own.

The Semi-Arid Food Grains Research and Development Program (SAFGRAD), within the Institute of Agricultural Economics of the Ministry of Agriculture, is capable of producing improved agricultural technology appropriate to the needs of the Operation. For the 1982/83 season, SAFGRAD has agreed to integrate its activities with those of Operation Haute Vallee. A proposed budget of MF 12.4 million to finance this activity under the project is currently being reviewed by AID. This plan of action for applied research activities seems valid. But we question whether this program should be undertaken at this time in view of the poor results of the animal traction activities.

### Problems Hindering the Viability of the Credit Fund Activity

The establishment of a viable revolving credit fund envisioned in the Project Paper has not materialized. No viable fund can be established until the difficult problems of low repayments, interest charges and subsidies are satisfactorily resolved.

The Project Paper ascertained that more extended credit terms were needed to enable farmers to finance the purchase of agricultural implements and work oxen. The credit terms for fertilizers, seeds, and pesticides were one year, and for small farm equipment three years. No credit, however, was available for work oxen. The AID credit activity was designed to address this need by establishing within the Operation a \$1.3 million loan fund which would offer credit to farmers for periods of up to five years. The project proposed to build upon the existing credit system by modifying it to:

- a) Allow for longer repayment schedules (5 years) for specific farm implements.
- b) Permit loans for the purchase of work oxen.

- c) Introduce an insurance program for the oxen purchased on credit.
- d) Make loans available for necessary land-leveling at the Bancoumana Polder.
- e) Increase the current interest rate for all commodities purchased on credit in order to ensure a viable credit program from the outset.

A critical assumption made in the Project Paper was that loans made under the Operation Haute Vallee credit system were approved and guaranteed by village councils or associations. Consequently, when the project credit fund was formally established in March, 1981, with the issuance of Project Implementation Letter No. 4, a provision was included that a village loan committee would certify to the qualification of any producer for a loan. If a villager was in arrears on a loan, the entire village would be ineligible for further credit until the arrears were repaid.

The Project Paper's assumption that village councils guaranteed farmers' loan repayments proved to be erroneous. In this regard, we found no evidence of this occurring at any of the field locations we visited. The extension agents we interviewed stated they made the decision which farmers would be given credit and that no village councils guaranteed the loans.

The participation of the village associations was to be an important aspect of the credit fund, since this would result in a high rate of loan repayments and thereby ensure the viability of the credit fund. The Project Paper, in our view, glossed over what has proven to be a very poor repayment rate in the Operation Haute Vallee region. A study by the Consultant disclosed the following (figures in millions of Malian francs):

<u>SEASON</u>	<u>TOTAL DUE END OF SEASON</u>	<u>TOTAL REPAYMENTS</u>	<u>OUTSTANDING</u>	<u>RATE OF COLLECTIONS</u>
1979/80	388,795,620	275,601,060	113,194,560	70.9%
1980/81	421,251,721	225,907,220	195,344,501	53.6%
1981/82	536,900,913	205,321,245	331,579,668	38.2%

As indicated, the collection rate has been getting progressively worse. Officials at The National Agricultural Development Bank informed us that it would grant credit only to those Malian entities having a 90 percent repayment rate. With a current rate of 38.2 percent, this would clearly make Operation Haute Vallee ineligible for any credit from this organization.

Project Implementation Letter No. 4 also provided that an interest charge of 12 percent would be applicable to all loans made to farmers for the 1981/82 season. In addition, for any commodities financed out of the credit fund and sold to farmers below cost, the amount of the subsidy was to be deposited to the credit fund. For the 1981/82 season, Operation Haute Vallee was unable to enforce the interest and subsidy provisions of Implementation Letter No. 4.

Farmers refused to buy fertilizers at higher prices than those charged in the neighboring operations. Operation Haute Vallee was consequently forced to sell fertilizer on credit without an interest charge and at subsidized prices. Lacking funds, the Operation Haute Vallee has not reimbursed the credit fund for subsidies granted to farmers.

The Project Paper envisioned that the AID credit fund would finance the purchase of oxen by farmers in the Haute Vallee region. Previously, there were no credit sources available to farmers for the purchase of work animals. The Project Paper envisioned that a 25 percent down payment would be made by the farmer on the cost of the oxen; credit terms would be for five years with an annual interest rate of 12 percent and that a 2-1/2 percent charge on loans would be used to contribute to an insurance fund to provide for the replacement of oxen that might die. The only oxen financed under the project are the 80 teams for the pilot farmers. These farmers were given five year credit terms for the purchase of the oxen; however, no down payments were made, no interest charges were levied, nor were loans assessed the 2-1/2 percent for the insurance fund.

The implementation of the credit fund activity has had many shortcomings. In our view, a viable credit fund cannot be established unless the following impediments are resolved:

- The appalling low repayment rate needs to be addressed. It seems obvious that without village council participation in the credit system, the rate of collections will remain very poor. Unless this aspect can be successfully implemented, there is no chance of establishing a viable credit fund.
- The amount of interest to be imposed on loans is another factor critical for the viability of the credit fund. However, the rates must be consistent with what other organizations are imposing in Mali. The credit fund provision for an interest charge of 12 percent on all loans differed radically with the other operations that charge no interest on loans, resulting in the credit fund provision not being enforced. Officials of the Agricultural Development Bank informed us that the bank's interest rates on loans varied from 7-1/2 to 11 percent. A solution to the interest problem may be for donors and GOM organizations dealing in agricultural credit to adopt the interest policy of the Agricultural Bank.
- The amount of subsidies granted by Operation Haute Vallee to farmers on credit sales of agricultural commodities and not reimbursed to the credit fund by Operation Haute Vallee also hinders the viability of the credit fund. If subsidies are to be provided, Operation Haute Vallee must be able to generate sufficient revenues from its income sources to be able to reimburse the credit fund. It does not have the resources to do this.

Unless these major impediments can be resolved, a successful and viable credit fund activity cannot be achieved under the project. In our view, the USAID needs to make a determination whether these impediments can be resolved and, if not, whether the credit fund activity should be continued.

### The Road Program Needs to Be Reassessed

There have been numerous changes in the road activity which have adversely affected the number and type of kilometers to be improved. The result is that this activity is not now fully addressing the marketing aspect which is its main purpose.

Under the road program 398 kilometers of existing roads and trails in the Haute Vallee region were to be improved, making them passable year around. A total of 203 kilometers were to be improved to class "B" standards, including laterite surfacing. The remainder were to be graded and made all-weather by installation of drainage structures. The purpose of these improved roads and trails was to facilitate the marketing of surplus agriculture production resulting from the project.

The Project Paper states that there were five all-weather roads in the project area. The remaining roads were mostly bush tracks which could not be used during the rainy season because of poor surfacing and difficult stream crossings. When the villagers reopen the tracks in the dry-season, most of them are unsuitable for use. Scraping of these trails would enable them to be used by oxen-drawn carts and pedestrians to move farm output to the numerous collection points along the all-weather roads where government marketing agencies pick up the produce.

The Project Paper provided a listing of the roads to be improved each year. No economic evaluation of the proposed roads was considered necessary since the program was presumed appropriate to the project. No analysis was given to determine the choice of roads proposed, their design criteria, or their intended effect on agricultural production. Nor were any base line studies included against which later progress could be measured.

In a January 1980 meeting with the Operation Haute Vallee, Travaux Neufs (TN), the government road building unit, and USAID/Mali, the decision was made to modify the Project Paper plans. Under this modification the concept of access trails would be dropped and all roads would instead be upgraded to a modified class "B" standard.

No analysis was provided to indicate the impact on the number of kilometers of road that could be rehabilitated during the project period or the impact on the project budget by eliminating access trails. In fact, in December 1981, Operation Haute Vallee and TN were still referring to access trails as a viable project component.

Additional changes were again made during implementation. These changes included dropping the access trails and up-grading sections of the five existing main roads to a modified class "A" design. There was very little documentation supporting the basis for these changes. In early 1981, for example, the Consultant complained that technical decisions on road construction had been made in a haphazard manner and that changes were repeatedly made hindering construction.

Construction of the road program is progressing much slower than planned. Only 84 kilometers have been completed so far. It is now believed that less than 150 of the planned 398 kilometers will be completed by the end of the project in July 1983. A significant factor contributing to this much lesser result is that the roads are being upgraded to a higher than planned design.

During our review, we travelled over a number of roads constructed under the project. Without exception, the roads appear to be of good quality. But in virtually every instance, there was no traffic to be seen on any of them. In our view, AID needs to assess whether it makes much sense to build quality roads where there is virtually no traffic. In this regard, it needs to evaluate whether this emphasis on quality roads at the expense of the feeder trails is addressing the marketing aspect which is the purpose of this project activity.

#### 1. Road Maintenance

The AID financed roads are not being maintained.

The Malian Department of Public Works has been assigned responsibility to maintain the AID-financed roads. In this regard, Section 4.2 h (5) of the Project Agreement states:

" TP and the special brigade shall have the responsibility to maintain each road constructed or improved under this project as soon as construction or improvement of each road is completed, and maintenance costs shall be financed by the Cooperating Country. Within one year after execution of the project agreement, the Cooperating Country shall identify a satisfactory source of funding from its revenues for such costs."

At the time of our review the Government of Mali had yet to identify a source of funding for road maintenance, though it should have done so by September 29, 1979. Unless adequate funds are provided, it is not likely the roads will be maintained. Lack of maintenance, according to the Consultant, is already a problem and will become more serious in the next year. The USAID accordingly needs to address this problem.

#### Rehabilitation of the Bancoumana Polder Needs to be Reassessed

Construction of the Bancoumana Polder has not started.

The Bancoumana Polder is one of fifteen irrigation systems located in the Haute Vallee Region. The Polder is located on the left side of the Niger River. It consists of approximately 610 hectares of land divided into two sections, being farmed by 160 farm families.

Poorly designed and with unequal water levels, the Bancoumana Polder was first established with the help of the North Vietnamese in 1964 and later by the

French. The Polder's yields have been poor, resulting in the majority of the farmers abandoning rice cultivation for dry land crops. In 1981, about 20 percent of the polder was being cultivated.

The initial purpose of the rehabilitation of the Bancoumana Polder was to recondition the main canal system and to level and claim 100 additional hectares to be used as a demonstration area. With funds provided from the AID credit fund, farmers were to purchase oxen and equipment needed for land leveling of individual plots and cultivation.

A recent evaluation stated the project's design was based on several erroneous technical assumptions. First, despite questions raised regarding the adequacy of irrigation water supply, the Project Paper made no provision for any hydrological studies. Secondly, the use of animal traction by individual farmers seriously overestimated the capacity of weak local oxen to level the difficult soils in the Polder. And thirdly, the Project Paper over-estimated the potentially cultivable land as well as the possible rate of increased production. These assumptions resulted in a general underestimation of the size, complexity and hence, cost of design, construction and production of Bancoumana.

The necessary studies of the Bancoumana Polder, which should have been considered during the project's design, have now been completed. A feasibility study done by the Consultant indicates a number of problems remain with this project component, including:

- The farmers have neither the equipment nor the expertise to maintain the system in adequate operating condition.
- The plots of land are much too big for the farmers' capacity to work them.
- Because of past problems, Operation Haute Vallee has no desire to redistribute land.

At the present time, four different options for the Bancoumana Polder are being considered by the USAID. These options are:

- Not going ahead with the activity.
- Develop 77 hectares of land farther up the river and irrigate this land by pumps at a cost of \$3,000,000.
- Level and rehabilitate 100 hectares at the Polder at a cost of \$1,000,000.
- Level and rehabilitate 25 to 30 hectares at the Polder at an undetermined cost.

The history of the Bancoumana Polder is one of failures. We question whether the USAID/Mali's efforts will be any different. An effective Operation Haute Vallee management capability is an important factor in making this activity a success. In our view, Operation Haute Vallee has not demonstrated this management capability. Therefore, unless the USAID can demonstrate that the Operation has this capability, the activity should not be undertaken.

#### Misuse of AID-Financed Equipment

AID-financed equipment provided for Bancoumana Polder, costing more than \$200,000, was being used at Farabana. There were allegations that this equipment was being rented out and that officials of Operation Haute Vallee were benefiting from the rental fees. Action should accordingly be taken by USAID/Mali to ensure that the equipment is not used for such practices.

#### Functional Literacy Has Been Suspended

AID funding for the functional literacy program has been suspended pending corrective action of numerous problems.

The functional literacy activity was intended to provide villagers with basic literacy skills to enable them to accept, adapt and utilize more rapidly the new agricultural techniques to increase food production. Under this activity AID funding was to be provided for the establishment of 100 functional literacy centers.

The COM evaluated the functional literacy program in 1986. This report, issued in 1981, identified many program weaknesses which have still not been implemented. A recent USAID/Mali evaluation noted many of the same problems, recommending that the USAID suspend its financial support of the activity until corrective action has been taken. Among the problems identified were the following:

- Technical assistance intended for the activity has not been used.
- The functional literacy zone is more extensive than planned.
- There is little coordination between functional literacy and other project components.
- Although 136 centers are in existence out of a targeted 120, no reliable indications of performance have been established.
- Functional literacy Centers have not achieved the planned 25 percent participation rate for women.
- There is a high rate of center closings.

-- Many of the supplies purchased are stored at Operation Haute Vallee's headquarters, not having been distributed to the functional literacy centers.

With suspension of AID-funding, many functional literacy centers have closed. Centers still functioning lack supplies, supervision and adequately trained staff.

#### Health Activity Will Not Be Implemented

The USAID does not plan to implement the health activity.

The project provided \$500,000 for funding a health activity, subject to AID/Washington approval, before funds were obligated. This prior AID/Washington approval was required because a design was not included in the Project Paper.

In February 1981, a REDSO/WA official visited Mali to develop a health design. The design developed focuses on strengthening existing preventive and curative health services in the Haute Vallee region. Approximately \$430,000 is considered necessary to develop this health activity.

USAID/Mali officials informed us that the USAID lacks the staff to implement the proposed health activity during this, the first, phase of the project.

#### Conclusions and Recommendations

Very little has been done to increase and improve the use of animal traction. Providing credit funds to farmers which would enable them to purchase work animals has not moved beyond the pilot stage. Until such time that the problems of the credit program are resolved, this activity will remain mired in the pilot stage. Few blacksmiths have been trained or equipped, nor has any research results been forthcoming.

A viable revolving AID credit fund has not been established. Several factors need to be addressed before the fund can be made viable. The farmers' depressingly low repayment rate for loans has to be improved. Interest rates have to be charged. Establishing this rate should be developed in terms of what other government agencies and donors are charging. And any subsidies provided should not be charged to the credit fund. Subsidies should be borne by the Operation.

There have been numerous changes in the road construction program which has adversely affected the number of kilometers to be improved. Only 150 of the planned 398 kilometers at most will be completed. The result is that this activity is not now fully addressing the marketing aspect which is its main objective.

Construction of the Bancoumana Polder has not yet started. Unless the USAID can demonstrate the Operation has the management capability, we do not believe the activity should be undertaken.

AID funding of the functional literacy program has been suspended pending corrective action of numerous problems.

The USAID does not now plan to implement the health activity, nor do we think it should.

Accordingly, we have recommended that:

Recommendation No. 5

USAID/Mali, prior to releasing any AID funds for the credit program, should (a) address the problem of poor loan repayments by working with Operation Haute Vallee to establish village councils or associations; (b) establish an interest rate consistent with other Malian organizations, such as the National Agricultural Development Bank; (c) ensure that Operation Haute Vallee is capable of funding subsidies from sources other than AID funds; and, (d) ensure that down-payments are made as required.

Recommendation No 6

USAID/Mali should suspend funding for the construction of modified class "A" roads unless appropriate justification is provided by Operation Haute Vallee.

Recommendation No. 7

USAID/Mali should ensure that maintenance funds will be provided before releasing any further AID funds for construction.

Recommendation No. 8

USAID/Mali should assess that Operation Haute Vallee has the management capability before releasing AID funds for the Bancoumana Polder.

## PROBLEMS IN ACCOUNTING FOR AID FUNDS

AID is providing local currencies to Operation Haute Vallee to defray a portion of Operation Haute Vallee's operating costs associated with various project activities. It is also providing funds for credit purposes. Accounting for the AID operating funds, though generally acceptable, is being performed by the Consultant's financial advisor. In regard to these funds, we have questioned the propriety of use relating to MF 47,580,832 (\$79,301). Accounting for AID credit funds is totally unacceptable. In view of this, AID has suspended release of further funds for credit purposes. In reviewing those AID credit funds released, we have questioned the propriety of use regarding MF 133 million (\$221,667) as well as requesting the need for a detailed accounting of MF 92 million (\$153,333).

### Problems in Accounting for Operating Expenses

Operation Haute Vallee's accounting for AID project funds is adequate but only because the financial and administrative advisor of the Consultant is acting as project accountant. In our view, the USAID/Mali must take appropriate action to ensure that the accounting responsibilities are turned over to a counterpart within the Operation as quickly as possible.

As of March 31, 1982, AID had provided the equivalent of approximately \$1.5 million to defray the local operating costs associated with the project. These funds were advanced to Operation Haute Vallee in the form of local currencies. The Operation Haute Vallee in turn was responsible to AID for the accounting and reporting of these funds.

Under Section B.5.(b) of the Project Agreement with AID, Operation Haute Vallee is required to:

" maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the grant."

The Project Paper recognized that the project would place strains on the Operation's limited administrative and financial capabilities. Provision was accordingly made for an advisor to be recruited under the AID-financed host country contract to assist the administrative and accounting staff. Among the responsibilities of the advisor were the following.

" To advise on all financial matters relating to OHV. To determine what activities are too costly to continue and recommend changes or new activities which will generate more income for OHV and make it more economically viable. To study the finance administration system of OHV and to make recommendations for improving and

"simplifying existing accounting operations. To recommend training equipment and/or methods which will provide more meaningful finance information for management decisions."

The accounting for the project got off to a very poor start. The most important influencing factor was that Operation Haute Vallee neither had an accounting system compatible with AID requirements, nor the familiarity and experience necessary to maintain one required for project purposes.

The Operation maintains a simple accounting system, consisting of a petty cash fund from which all disbursements are made with no system of vouchers supporting the disbursements. The only evidence of a disbursement is an entry to a cash disbursement book indicating the nature of the expenditure. Viewed in the context of this system, the accounting for AID project funds with its requirements of budgets, disbursement vouchers and financial reporting imposed enormous responsibilities on Operation Haute Vallee's limited accounting staff and capability.

To assist Operation Haute Vallee with these responsibilities, AID should have issued Project Implementation Letters with guidance on handling the accounting for AID funds. This formal guidance should have been followed up with on-site visits. But with the USAID/Mali Controller's Office being understaffed, Implementation Letters were not issued and few, if any, on-site visits were made. This lack of communication between USAID/Mali and the Operation thus contributed further to the poor start. The reluctance of Operation Haute Vallee's chief accountant to accept the advice of the financial advisor, was another contributing factor.

In view of these various factors, the initial accounting for the project was totally inadequate. The Operation was unable to prepare meaningful budgets and reports and unable to maintain the operating accounts as required.

In September 1980, with the accounting becoming progressively worse, the financial advisor developed an accounting system which included quarterly budgets, recording expenditures by budget line items and reporting by budget line items. This system, however, was not accepted by Operation Haute Vallee's chief accountant. In May 1981, the Director of Haute Vallee replaced the chief accountant. A temporary replacement, who proved to be equal to the task, departed for a year's training in September of 1981. With the departure of this individual, the financial advisor was assigned responsibility for maintaining the AID operating accounts by the Director of Operation Haute Vallee. With this action, the advisor in effect became the project accountant. Since then, the project accounting has significantly improved and many of the earlier deficiencies have been corrected.

In response to Sub-Section 121 (d) of the Foreign Assistance Act of 1961, as amended, AID required that Mission Directors certify the adequacy of host country accounting systems of all on-going projects, as a condition to releasing local currency funds. On March 4, 1982, the Mission certified that Operation Haute Vallee's project accounting for operating funds was adequate. This certification was based on the system and records maintained by the financial advisor. Based on our review, this certification was appropriate.

The financial advisor has been project accountant for almost a year with no end in sight. In our view, using the financial advisor indefinitely as project accountant is neither a prudent use of AID project funds nor contract expertise. While this action may have been necessary as an interim step, efforts should have been made to recruit a suitable counterpart within Operation Haute Vallee to whom these responsibilities could have been reassigned. This action should be taken now.

Salient comments on specific accounting aspects requiring USAID/Mali's attention are cited below.

#### 1. Reporting of Operating Expenses

Reporting on the expenditure of AID local currency funds advanced to Operation Haute Vallee is not performed on a timely basis.

Under AID procedures local currency funds are usually advanced to Operation Haute Vallee to cover its estimated costs for a 90-day period. Operation Haute Vallee is then required to submit monthly reports to USAID/Mali accounting for the expenditures of the advances. These reports are then reviewed and certified by USAID/Mali to liquidate the advances.

In reviewing these procedures, we found Operation Haute Vallee has been remiss in not submitting the monthly reports on expenditures as required. The last report, for example, was submitted in October 1981, covering expenditures for the period May through August 1981. AID has also been remiss in making additional advances without obtaining an accounting for prior advances. Thus, as of March 31, 1982, Operation Haute Vallee had not provided an accounting for \$202,204 advanced by AID through December 31, 1981.

Our review of these unreported disbursements revealed that MF 8,711,478 (\$14,519) lacked supporting documentation. If claimed, the USAID will have to disallow these expenditures.

In our view, to ensure that advances do not get out of control, the USAID must insist that Operation Haute Vallee provide more timely reporting on the use of the AID funds. No operating funds should therefore be advanced until reporting for the outstanding advances has been provided. Hereafter, USAID/Mali should insist that reports be submitted on a monthly basis as is now required.

#### 2. Revolving Fund for Mopeds

Operation Haute Vallee did not establish a revolving fund for mopeds as it was required to do. Loan repayments received from the extension agents, which should have been deposited to the revolving fund, reportedly were used for the Operation's operating expenses, though this could not be confirmed.

The Project Paper assessed that Operation Haute Vallee's extension agents, who were using bicycles, needed a more effective means of transportation to cover their territories. The Paper indicated that if loans were provided, the

agents would buy mopeds, which were identified as the answer to this transportation problem. Provision was accordingly made in the project to provide loans to the agents from the AID operating funds to purchase the mopeds. The agents' repayments of these loans, deducted in monthly installments, were to revert to a revolving fund for the purpose of financing replacement mopeds.

Through March 31, 1982, AID had provided MF 48,782,386 (\$81,304) in loans to finance the purchase of mopeds. Of this amount, MF 45,159,296 (\$75,265) had been repaid. However, contrary to the understanding that these repayments would be deposited to a revolving fund, Operation Haute Vallee claimed it used these funds to defray the costs of its regular operations.

Several extension agents informed us during our field trips that their mopeds are in poor condition and some need to be replaced. However, because the revolving fund was not established, their requests for loans to finance replacements have been turned down. Unless something is done, it is only a matter of time before the extension agents will be back to the use of bicycles. In our view, Operation Haute Vallee should be required to establish the revolving fund and make restitution to that fund of the repayments it improperly used for its operating expenses.

### 3. Interest Earned on AID Funds

Interest earned on AID funds should be recovered and deposited to the U.S. Treasury account.

Pursuant to AID procedures all AID advances were deposited by Operation Haute Vallee to a separate commercial bank account for operating expenses. Funds were then withdrawn from this account for making disbursements.

In reviewing this bank account, we found that MF 855,436 (\$1,426) had been credited to the account as interest earned on the outstanding balances. U.S. Treasury regulations (TFRM 6-8000) require that interest earned on Federal funds by recipient organizations be paid over to the Treasury. Accordingly, USAID/Mali should take the necessary action to recover these funds and deposit them in the appropriate U.S. Treasury account.

### 4. Refunds Not Reported

Refunds received on the return of tires purchased with AID funds were not reported by Operation Haute Vallee.

On April 4, 1981, Operation Haute Vallee received MF 1,566,100 (\$2,610) in refunds on tires returned to the vendor. Although the money was appropriately deposited in the operating account, it was not offset against expenses on the financial report to USAID/Mali. The USAID should therefore deduct this amount from the next report accounting for the expenditure of AID advances.

### Accounting For AID Credit Funds Is Inadequate

Operation Haute Vallee has not properly accounted for the use of AID credit funds. This is in part due to AID's failure to clarify how the credit system

should operate and in part due to Operation Haute Vallee's limited accounting capabilities. Until substantive remedial efforts are made to improve the system, no further AID funds should be released for the credit program.

In general, the AID credit program should work as follows. Operation Haute Vallee should establish a separate bank account for AID credit funds. AID releases of local currency funds programmed for credit should then be deposited to this account. Since credit is provided on an in-kind basis, withdrawals from the account should be used to purchase such off-farm inputs as traction animals (oxen) and implements. These off-farm inputs, when received, should then be distributed through Operation Haute Vallee's extension system to the farmers in the form of loans. The repayments of these loans should flow back to the AID credit fund bank account with the cycle repeating itself for the next crop season.

The AID credit program commenced during the 1980/81 crop season. Since AID did not indicate how the program was to operate, MF 52 million (\$86,667) was withdrawn from the AID operating account rather than the credit program to buy traction animals, implements, seeds, etc. These inputs were then sold on credit to farmers and blacksmiths in the Haute Vallee region. Repayments on these loans were collected by Operation Haute Vallee and reportedly used to pay its operating expenses, though this could not be verified. In view of Operation Haute Vallee's poor accounting practices, it was impossible for us to determine the amount collected on these loans. Therefore, in our view, the USAID should attempt to obtain an accounting for repayments on the MF 52 million (\$86,667) and have the repayments restored to the AID credit fund.

In April 1981, AID released MF 290 million (\$483,333) for the 1981/82 crop season. Pursuant to USAID guidance provided in Implementation Letter No. 4, Operation Haute Vallee was to have opened a separate bank account for the deposit of the credit funds. These funds, however, were deposited into the operating account. A separate account was established in July 1981. Though the Operation subsequently diverted funds from this account to pay its operating costs, the funds were later restored to the AID credit program.

In reviewing this account, we found that MF 273 million (\$455,000) was withdrawn and commingled with the Operation's own funds to procure fertilizers, implements, etc., which were then provided to the farmers in the form of loans. When repayments from the 1981/82 season were made, Operation Haute Vallee arbitrarily determined an amount to be applicable to the inputs financed from the AID credit fund. The Operation's financial reports indicate that repayments of MF 132 million (\$220,000) were attributable to the AID credit fund. Of this amount MF 100 million (\$166,667) was deposited to the AID credit account. Based on the Operation's calculations, MF 32 million (\$53,333) should still be deposited to the AID credit account. USAID/Mali should therefore recover that amount.

The USAID should also obtain a detailed accounting from Operation Haute Vallee for the MF 92 million\* for which no accounting data was available. If the Operation is unable to provide this data, then appropriate refund action should be taken to recover these funds as well.

USAID/Mali has restricted Operation Haute Vallee from using the funds in the AID credit account. This action was taken by the USAID since it could not certify that the Operation has an acceptable system to control and account for the use of AID credit funds. In this regard, we concur with USAID/Mali's action.

Our comments on the deficiencies of Operation Haute Vallee's credit system are presented below.

1. Procurement of Inputs

In reviewing Operation Haute Vallee's records, we found that the MF 52 million provided for the 1980/81 season were used to procure the following items:

	<u>MF (Millions)</u>
Animals (oxen)	19
Farm Implements	10
Paddy Seeds	18
Other Seeds	3
Blacksmith Materials	<u>2</u>
Total	<u>52</u>

A total of 80 teams of oxen were procured. In regard to this procurement, the financial advisor reported the following in his Annual Report of 1981/82:

" . . . Purchase by OHV of the animals was begun late and resulted in poor quality animals being purchased at elevated prices. In discussions with USAID anthropologist, the Financial Expert has been told that most farmers in the Haute Vallee feel that OHV paid too high a price for the animals. The average price per animal was MF 110,000 (\$183) while the farmers have stated they felt the true value of the animals was more nearly MF 75,000 (\$125)."

\*NOTE: This balance obtained as follows:

MF 273 million	Released
MF(122) million	Attributed to Repayments
<u>MF( 49) million</u>	Fertilizer not received
<u>MF 92 million</u>	Total

For the 1981/82 season Operation Haute Vallee procured MF 233 million (\$88,333) in fertilizer and MF 76 million (\$126,667) in equipment. Of the fertilizer, MF 120 million (\$200,000) was procured from SCAER, MF 109 million (\$181,667) from CMDT and MF 4 million (\$6,667) from SONAREM.

The procurement from SCAER was for 600 tons of fertilizer. Since SCAER had no funds, the procurement contract could only be honored if the Operation paid for the fertilizer before shipment. This procurement of MF 120 million (\$200,000) was paid with AID credit funds in July 1981. SCAER, however, only delivered 355 tons of the fertilizers ordered and paid for with AID credit funds. The amount of MF 49 million (\$81,667) paid for the 245 tons not delivered is therefore due to the AID credit fund. The USAID should recover this amount.

## 2. Operation Haute Vallee's Credit System

The Project Paper made the faulty assessment that the Operation had a sound functioning credit program. In reality, the credit system that existed was the credit system of SCAER. Under that system, Operation Haute Vallee only acted as agent for SCAER in selling agricultural inputs to farmers and collecting the amounts due on those sales. Any losses or non-repayments of loans were borne by SCAER.

When SCAER went bankrupt in late 1980, the role of Operation Haute Vallee changed from that of agent to that of principal in furnishing credit for the agricultural program in the Haute Vallee region. The Operation took over all SCAER materials on hand and the loans due to SCAER. At this time a physical inventory of materials on hand should have been made. In addition, the outstanding loans due from farmers should have been verified. This was not done with the result that the amount of inventory Operation Haute Vallee assumed from SCAER and shows in its financial statements would appear to be grossly overstated. The following example illustrates this point:

	<u>MF (Millions)</u>
Inventory assumed by OHV from SCAER beginning 1980/82 season . . . . .	648
Purchase of Agricultural materials 1981/82 seasons:	
OHV . . . . .	168
Credit Fund . . . . .	273
	441
	1,089
Inventory at the end of 1981/82 season . . . . .	432
Sales 1981/82 season . . . . .	657

Sales of inputs for the 1981/82 season reported by Operation Haute Vallee were MF 342 million (\$570,000). The above computation discloses a discrepancy of more than MF 300 million (\$500,000) in sales. The condition of the Operation's records so bad that we are unable to ascertain the validity of its financial data. Our test of its ending inventory report for the 1981/82 season, for example, disclosed MF 5 million (\$8,333) just in mathematical errors.

The Operation Haute Vallee credit system is decentralized with control at the lowest organizational level, that of extension agents. The extension agent is required to maintain the inventory records and the records on loans and collections made.

We visited several extension agents and found that there is no consistency in the maintenance of the records. Records for loans to farmers were lacking. Amounts collected by extension agents and remitted to the next supervisory level, the ZER, could not be verified. Records were not maintained in a manner so that amounts in arrears by farmers could be determined.

Operation Haute Vallee's credit system is presently inadequate to control and account for the use of AID credit funds. The financial advisor is endeavoring to introduce a system of records; however, much still remains to be done in this respect. Even with the introduction of better records, we question whether the system will work properly. As stated earlier in this report, there are no internal controls when the administration of the credit program is concentrated in one individual. Moreover, with all the various responsibilities placed on the extension agents, it is conjectural whether any system of records, however well-designed, will be properly maintained.

#### Conclusions and Recommendations

Operation Haute Vallee lacks the accounting capability to account for AID funds properly. In regard to those funds provided for operating purposes, the accounting responsibility has been assigned to the Consultant's financial advisor. In our view, efforts must be undertaken to recruit a counterpart for Operation Haute Vallee to whom these responsibilities can be reassigned. Prior to issuance of this report the USAID informed us that the Operation assigned a qualified Malian accountant to be trained by the financial advisor. The recommendation related to this finding was consequently deleted.

Reporting on the use of operating funds needs to be improved. Reporting on the use of AID funds advanced to the Operation should be performed monthly; however, reporting is several months in arrears. Advances of AID funds are thus being made without obtaining an accounting of prior advances.

Operation Haute Vallee failed to establish a revolving fund for repayments on loans made to extension agents for the purchase of mopeds. Repayments totalling MF 45,159,296 (\$75,265) were thus improperly used to pay its operating costs. Interest earned on AID funds totalling MF 855,436 (\$1,426) should be recovered and deposited to the appropriate U.S. Treasury account, and refunds of MF 1,566,100 (\$2,610) received on the return of tires procured with AID funds were not reported to USAID/Mali.

The accounting for AID credit funds is not adequate. The credit system is decentralized with administration of the program being performed at the extension agent level. Few, if any agents, are able to administer the program properly. Records are incomplete and not properly maintained over the inventory of inputs, loans and repayments made. The system as such is not auditable. In Recommendation No. 4, we have recommended that efforts be made to reassign the accounting for the credit program to a higher organizational level. This would also establish internal controls, which presently do not exist in the system.

A detailed accounting for the MF 52 million (\$86,667) withdrawn from the operating account for credit purposes should be obtained. All credit repayments plus any non-repayments that Operation Haute Vallee is unable to support should be recovered by AID and deposited to the AID credit account. AID funds in the amount of MF 49 million, \$(81,667), which were used to pay for fertilizer that was not delivered, should be recovered and deposited to the AID credit account. Also the MF 32 million (\$53,333) in repayments attributable to AID for the 1981/82 season and not deposited to the AID credit account should be recovered. A detailed accounting should be obtained for the MF 92 million (\$150,333) for which no accounting data was available. Any non-payments Operation Haute Vallee is unable to support should be recovered from Operation through refund action.

Accordingly, we recommend that:

Recommendation No. 9

USAID/Mali should withhold further advances for operating funds until reporting on the use of prior advances has been brought up-to-date by Operation Haute Vallee.

Recommendation No. 10

USAID/Mali should request Operation Haute Vallee to establish a revolving fund for the repayments on mopeds and recover the MF 45,159,296 (\$75,265) that was inappropriately used by Operation Haute Vallee for its operating expenses.

Recommendation No. 11

USAID/Mali should request Operation Haute Vallee to return the MF 855,436 (\$1,426) earned as interest and deposit the funds to the account of the U.S. Treasury.

Recommendation No. 12

USAID/Mali should recover MF 1,566,100 (\$2,610) which Operation Haute Vallee received as a refund on the return of tires purchased with AID funds.

Recommendation No. 13

USAID/Mali should determine the repayments on loans made with AID's MF 52 million (\$86,667) released for the 1980/81 season. These funds should be deposited to the AID credit fund account.

Recommendation No. 14

USAID/Mali should recover the MF 49 million (\$81,667) in AID funds used to purchase fertilizer which was not delivered.

Recommendation No. 15

USAID/Mali should (1) recover the MF 32 million (\$53,333) in repayments that Operation Haute Vallée owes to the AID credit fund; (2) obtain a detailed accounting for MF 92 million (\$153,333) that Operation Haute Vallée has not accounted for; and, (3) recover those amounts that the Operation is unable to document.

## PROBLEMS WITH AID-FINANCED PROCUREMENT

The USAID assigned Operation Haute Vallee host country contracting responsibility without assessing its capability to perform them. The result is that the Operation has performed those responsibilities poorly. The USAID has compounded this problem by taking a hands-off type approach in monitoring the Operation's implementation of these responsibilities.

### Use of Host Country Contracting Mode is Questionable

AID-financed technical assistance has not been fully and effectively utilized. This result, in our opinion, stems from the USAID decision to assign Operation Haute Vallee country contracting responsibility.

AID Policy Determination No. 68, Host Country Contracting Mode, encourages that the host countries contract for AID-financed goods and services necessary in the implementation of bilateral projects. The objectives of this policy are to reduce AID staff participation in the contracting process and thereby improve host countries' contracting capability.

Under the host country contracting mode, Operation Haute Vallee was assigned responsibility for recruiting the services of the Consultant. In recruiting the technical assistance team, the Operation was supposed to obtain the services of a credit specialist. The Project Paper recognized the need for this specialist because an effective operating credit program was regarded as critical to success of the project. Operation Haute Vallee, however, did not include a credit advisor in the technical assistance team fielded by the Consultant. Nor has the Operation insisted that the project consultant provide an experienced replacement for the chief of party whom the Operation requested be recalled 18 months ago.

A recent AID evaluation noted that the Consultant's performance has been disappointing and provided very little assistance to the Operation in general planning and improvements. In our view, this result evolves from the Consultant's advisors being treated like employees of Operation Haute Vallee, thus being subject to the Operation's total control.

The Consultant's reports frequently state it has no voice in project decisions nor leverage over decisions or actions it deems to be unwise or uninformed. It can only provide assistance in those areas specifically requested by Operation Haute Vallee. One result is that the financial advisor has been made project accountant. Another result is that the Operation has given the Consultant directions that are contrary to AID regulations and project objectives. The Operation, for example, has:

- Required the Consultant's mechanic to spend at least half of his time repairing personal vehicles, including the car of the Operation's Director and those of his friends.
- Reassigned use of project vehicles, giving them to various officials of other GOM entities, and

- Used project commodities for personal use, an example being the three tractors intended for work at the Bancoumana Polder which may be worn out from private use prior to the start of work at the polder.

Operation Haute Vallee has been very sensitive about any direct communications between the Consultant and the USAID. The Consultant has attempted to develop direct communications with USAID on a confidential basis. One such Consultant report stated that it was aware of the problems that existed in the project and had tried to keep USAID informed of them in order to aid in overall management. It noted, however, that such communications were not a contractual obligation and that reference to the action could be compromising.

These infrequent and indirect communications between the Consultant and USAID have led to a lack of timely information which, combined with the USAID's staffing problems, have not allowed the USAID to keep the project firmly on track.

AID policy requires that the Project Paper contain an assessment indicating whether the host country institution does or does not have the capability to implement the host country contracting mode. Our review of the Haute Vallee Project Paper disclosed little information that would constitute the required assessment of the Operation's capability.

In our view, Operation Haute Vallee should not have been assigned host country contracting responsibilities. As this report shows, the management capability of the Operation has been lacking, resulting in the inadequate use of the Consultant's services. The justification for a 'Learn by your mistakes' management approach can be taken too far which seems to be the case in this project.

#### The Operation's Contracting Needs to be Reviewed

The USAID's review of host country executed contracts has been inadequate. Under the host country contracting mode, the Operation Haute Vallee was assigned responsibility for executing contracts with various Malian government entities. A number of contracts were drafted and negotiated by Operation Haute Vallee for such activities as construction of roads and an administration building.

In reviewing these contracts, we found that not only did the contracts omit many standard AID contract clauses and provisions, but also the purpose of the contracts did not adhere to project plans. A common clause included in the contracts was: "If no written objective was received within 10 days to various proposals, then the proposal would be considered approved." Many actions were thus "approved", when USAID for various reasons failed to do anything. The result is that certain activities were effected contrary to project plans. One example is the administration building for which \$190,000 was budgeted. The building was conceived as a modest single-story structure with a garage. The building constructed is an elaborate two-story edifice, costing well over \$600,000. The building, which contains no garage, is one of the nicest in Bamako. Another example is road construction. Under these contracts a much higher class road than needed and planned has been constructed.

In our view, the USAID should review all contracts to ensure they are consistent with project plans. In those instances where the USAID lacks the legal knowledge to draft, review, and/or approve contract provisions, it should call upon the legal and contracting resources of the REDSO/WA located in Abidjan, Ivory Coast.

#### Procurement Changes Should Be Documented

Changes to the approved procurement plans should be documented.

All procurement under the project was assigned to Operation Haute Vallee. Under the Operation's host country contract with the Consultant, Louis Berger International, the Consultant was assigned responsibility for procuring and managing the project's spare parts. Operation Haute Vallee subsequently decided, however, that it would facilitate matters by having the USAID perform the offshore procurement. All offshore procurement was consequently performed by the USAID.

In reviewing offshore procurement, we found that the AID-financed commodities were generally procured in conformance with AID's competitive bidding requirements. We noted, however, that the procurement occasionally deviated from the procurement plan outlined in the Project Paper. These deviations, which were not documented, resulted in some small items being excess to the needs of the project.

The major deviation concerned the deletion of an initial supply of spare parts for the equipment and vehicles financed by AID. This deviation by the USAID was predicated on the rationale that too often the spare parts delivered by the suppliers were not the ones needed or even usable and that such a large supply requires an adequate storage facility with trained personnel which were not available under the project. It was, therefore, decided to require the equipment suppliers to have a local dealer representative in Bamako who would be charged with stocking an adequate supply of spare parts for the equipment.

The two major items financed under the project were heavy equipment from Caterpillar and vehicles from International Harvester. In general, there have been few problems with the Caterpillar equipment. This equipment has had good spare part support from the local dealer in Bamako. The International Harvester vehicles, however, have had serious maintenance problems and have been poorly supported by the local dealer.

Presently, six of the fourteen International Harvester vehicles are not working due to lack of funds to obtain spare parts. As a result, the Consultant has been renting vehicles at a cost to the project of more than MF 2.5 million (\$4,166) per month. (In February 1982, the Consultant's vehicle rental bill exceeded MF 4 million). At the time of our review the USAID was seeking bids on procurement for a five-year supply of spare parts. It is our opinion that the expense involved in this deviation could have been obviated had the USAID carefully reviewed the situation and been required to document in detail its reasons for departing from the procurement plan.

### Conclusions and Recommendations

In giving Operation Haute Vallee host country contracting responsibilities, the AID-financed technical assistance has not been used effectively. Reflective of this is the Consultant's lack of voice in project actions it deems uninformed or unwise. This ineffectiveness of the Consultant in project management, combined with the lack of USAID project management, has resulted in a meandering of the project. While agreeing in principle with the concept of the host country contracting mode, we question its use when the host country institution clearly lacks the capability to administer the responsibilities. Therefore, in our view, when projects are designed in Mali, the use of the host contracting mode must be justified based on a thorough assessment of the host country's institutional capabilities.

Operation Haute Vallee has written and negotiated contracts with various government agencies and local firms. These contracts have often not been reviewed by the USAID, though they involve substantial commitments of AID funds. In some cases the purposes of these contracts have varied with project objectives. All contracts, in our view, should be reviewed by the USAID, using the resources of the REDSO/WA when necessary.

The USAID deletion of the offshore procurement of spare parts for the AID-financed equipment and vehicles was not based on a full assessment. When changes are made in procurement plans, the USAID must ensure that these changes are fully justified and supported.

Accordingly, we have recommended that:

#### Recommendation No. 16

USAID/Mali should establish administrative procedures to ensure that all host country contracts financed by AID are reviewed prior to receiving approval.

#### Recommendation No. 17

USAID/Mali should establish administrative procedures to ensure that all significant modifications of project plans are fully justified and documented.

## AID PROJECT MANAGEMENT HAS BEEN POOR

USAID/Mali's management of the project has been deficient and ineffective. This lack of effective USAID direction and guidance in part explains the aimless manner in which the project has been implemented.

Project management has been described as the process whereby AID oversees and monitors all aspects of an AID-financed activity from its conceptualization through its design, approval, funding, implementation and evaluation. Project management is a continuum encompassing the roles and interactions of AID assistance recipients and intermediaries such as contractors and grantees. Varying with the scope and complexity of a managerially accepted oversight methods and mechanisms. These include approval of prescribed activities of the assistance recipient, liaison with the intermediaries, progress reporting, problem identification, site visits and approval of disbursements.

In reviewing the AID management of this project, we found that virtually none of these responsibilities were performed effectively. One example is the changes that were made in the project design which were neither justified nor documented. The following comments from the Evaluation Report are instructive:

" There have been a number of deviations in project plans, e.g. animal traction, roads, building construction, credit. In addition, there has been delayed action or inaction in disease control, functional literacy and Bancoumana rehabilitation. In none of these cases does it appear that the kind of analysis discussed preceded the decision to modify original project plans. In some cases, it appears that decisions were unilateral. In any case, they were not properly documented.

" As a result, there has been considerable modification of the original project, apparently without the concurrence of the responsible parties, the GRM Minister and USAID Director. At best, this reflects sloppy management practices; at worst, it has caused delays in project implementation and risked the achievement of project objectives. Possibly it would have been avoided with proper management supervision, particularly on the part of USAID."

Another example was the lack of evaluations. Evaluation is a key element of the AID management process. As such, the evaluations enable management to appraise whether the activities are meeting its objectives and whether changes in plans are necessary. Though regular evaluations are required and a key element of the management process, we found that only one evaluation was recently performed and that evaluation was of questionable value.

The following comments from the Consultant's annual report describes the situation best:

" USAID's inability to set policy and make decisions was the dominant constraint of the past 12 months. The main reason why decisions were blocked was USAID's general lack of knowledge of the project. Since they did not have an official project manager for almost two years, there was no familiarity with the project; therefore, every issue, no matter how minute, needed to be studied.

" When forced to make a quick policy decision, as with the credit program, inappropriate policy was the result.

" The evaluation was an example of the USAID approach to date. There were a large number of experts who had little to no contact with the OHV Direction and the technical assistance team who, nonetheless, wrote reports on their impressions concerning their respective fields. Though the final draft evaluation was accurate on some points and quite even-handed, its credibility was put into question due to the poor methodology of the evaluation team members.

" As a result, though the evaluation has some key recommendations that need immediate attention, the flaws in its approach (and general USAID operational delays) have caused the document to be abandoned."

USAID/Mali's management of this project can only be characterized as unsatisfactory. AID/Washington must share some of the responsibility. In February 1980, the project officer initially assigned to the project was transferred. Not until November 1981 was AID/Washington able to recruit and assign a new project officer. During this lapse of 21 months, other USAID/Mali personnel had to cover the project and their own responsibilities. As this report indicates, this arrangement was unsatisfactory and resulted in a lack of needed USAID direction and guidance.

In November 1981, the new project officer assumed responsibility for the project. In May 1982, this USAID officer was elevated to the position of Assistant Agricultural Development Officer for Crops. This officer will now have multiple duties including that of project officer for Operation Haute Vallee. In view of the many issues and problems confronting this project, we believe that the attention of a full-time project officer is required.

This is not the only project in Mali that has not been properly staffed and managed. This problem was touched upon in our audits of the Action Ble

Project (Audit Report No. O-688-81-139) and Mali Livestock II Project (Audit Report No. O-688-80-67). It seems clear to us that the poor performance of these, and perhaps other projects, in Mali is in part due to this lack of adequate staffing. The recent Evaluation Report, despite some of its weaknesses, has some very relevant points to say on this subject. Below is a partial excerpt from the Evaluation Report.

" In Mali, and apparently elsewhere in the Sahel, AID has been trying to do more with less for a number of years, and the results are coming home to roost. There is now a mad scramble to initiate financial training programs as a means of ameliorating one of the most glaring and consistent problems raised in project evaluations and other assessments. There is a real danger that senior AID management will conclude that some financial management training for selected host country nationals and more Project Implementation courses in the field will largely solve the problems raised. While both of these training courses are badly needed, it is high time that AID Administrators, Ambassadors, Directors of Budget and Congress stop kidding themselves that efficient and effective AID programs can be run without people--qualified people."

In our view, AID must address the staffing problem. This and other projects in Mali clearly demonstrate what kind of results are being achieved without adequate and proper project management. Fewer projects may be the answer.

#### Conclusion and Recommendation

AID has been remiss in its staffing the project with a full-time project officer. The absence of a USAID project officer for a period of 21 months greatly contributed to the drift of this large, complex project. Moreover, with the new project officer having other responsibilities as well, we question whether this project will get the attention it requires. In our view, the project urgently needs a full-time project officer who is able to address the many issues and problems confronting it.

#### Recommendation No. 18

USAID/Mali should ensure that adequate project management is provided for the Operation Haute Vallee project before any additional funds are obligated.

OPERATION HAUTE VALLEE'S  
FINANCIAL RESULTS FOR PERIOD  
1977 TO 1980/81  
(In Billions of Melfian Francs)

	<u>1977</u>	<u>1978</u>	<u>1979/80</u>	<u>1980/81</u>
<u>REVENUES</u>				
Peanuts	40.1	45.3	74.6	5.4
Cotton	47.6	64.6	111.5	107.0
Tobacco	90.2	78.8	38.7	(.4)
Other	<u>27.7</u>	<u>43.2</u>	<u>39.3</u>	<u>126.7</u>
Total Revenues	<u>205.6</u>	<u>231.9</u>	<u>264.1</u>	<u>233.7</u>
<u>EXPENSES</u>				
Personnel	94.9	112.8	149.1	200.6
P.O.I	41.7	39.6	65.1	75.2
Contract Help	29.8	46.3	50.3	67.3
Transport/Per Diem	16.0	22.5	52.6	28.0
Misc. Expenses	12.8	17.2	30.3	8.1
Taxes	7.1	3.4	7.5	1.1
Other	<u>19.4</u>	<u>8.7</u>	<u>43.0</u>	<u>37.7</u>
Total Expenses	<u>221.7</u>	<u>250.5</u>	<u>397.9</u>	<u>418.0</u>
Operating Profit/(Loss)	<u>(16.1)</u>	<u>(18.6)</u>	<u>(133.8)</u>	<u>(179.3)</u>

## EXHIBIT B

OPERATION HAUTE VALLEE  
PROJECT FINANCIAL STATUS  
AT MARCH 31, 1982

	(U.S. \$000)		
	<u>Obligations</u>	<u>Expenditures</u>	<u>Balance</u>
Technical Assistance	2733	2049	684
Agricultural Credit	644	543	101
Construction	3130	1039	2091
Participants	241	135	106
Operating Costs	1643	1599	44
Commodities	<u>352</u>	<u>3399</u>	<u>122</u>
Total	<u>11912</u>	<u>8764</u>	<u>3148</u>

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	
USAID/Mali should redesign the Operation Haute Vallee Project before any additional obligations are made, making it less complex by focusing on only a few activities directly related to food production.	11
<u>Recommendation No. 2</u>	
USAID/Mali should assess and demonstrate that Operation Haute Vallee has the financial capacity to finance the project.	11
<u>Recommendation No. 3</u>	
USAID/Mali should assess and demonstrate how Operation Haute Vallee's credit needs can be fulfilled without jeopardizing the availability of sufficient credit funds for the animal traction program.	11
<u>Recommendation No. 4</u>	
USAID/Mali should assess and determine how the extension system can be made effective to justify the investment of additional AID project funds. In this regard, it should consider divesting the extension agents of the accounting responsibilities for the credit system.	11
<u>Recommendation No. 5</u>	
USAID/Mali, prior to releasing any AID funds for the credit program, should (a) address the problem of poor loan repayments by working with Operation Haute Vallee to establish village councils of associations; (b) establish an interest rate consistent with other Malian organizations, such as the National Agricultural Development Bank; (c) ensure that Operation Haute Vallee is capable of funding subsidies from sources other than AID funds; and, (d) ensure that down-payments are made as required.	23
<u>Recommendation No. 6</u>	
USAID/Mali should suspend funding for the construction of class modified "A" roads unless appropriate justification is provided by Operation Haute Vallee.	23

	<u>Page</u>
<u>Recommendation No. 7</u>	
USAID/Mali should ensure that maintenance funds will be provided before releasing any further AID funds for construction.	23
<u>Recommendation No. 8</u>	
USAID/Mali should assess that Operation Haute Vallee has the management capability before releasing AID funds for the Bancoumana Polder.	23
<u>Recommendation No. 9</u>	
USAID/Mali should withhold further advances for operating funds until reporting on the use of prior advances has been brought up-to-date by Operation Haute Vallee.	32
<u>Recommendation No. 10</u>	
USAID/Mali should request Operation Haute Vallee to establish a revolving fund for their repayments on mopeds and recover the MF 45,159,296 (\$75,265) that was inappropriately used by Operation Haute Vallee for its operating expenses.	32
<u>Recommendation No. 11</u>	
USAID/Mali should request Operation Haute Vallee to return the MF 855,436 (\$1,426) earned as interest and deposit the funds to the account of the U.S. Treasury.	32
<u>Recommendation No. 12</u>	
USAID/Mali should recover MF 1,566,100 (\$2,610) which Operation Haute Vallee received as a refund on the return of tires purchased with AID funds.	32
<u>Recommendation No. 13</u>	
USAID/Mali should recover the MF 52 million (\$86,667) in credit funds released from the operating account for the 1980/81 crop season. These funds should be deposited to the AID credit fund account.	33
<u>Recommendation No. 14</u>	
USAID/Mali should recover the MF 49 million (\$81,667) in AID funds used to purchase fertilizer which was not delivered.	33

Recommendation No. 15

USAID/Mali should (1) recover the MF 32 million (\$53,333) in repayments that Operation Haute Vallee owes to the AID credit fund; (2) obtain a detailed accounting for MF 92 million (\$153,333) that Operation Haute Vallee has not accounted for; and, (3) recover those amounts that the Operation is unable to document.

33

Recommendation No. 16

USAID/Mali should establish administrative procedures to ensure that all host country contracts financed by AID are reviewed prior to receiving approval.

37

Recommendation No. 17

USAID/Mali should establish administrative procedures to ensure that all significant modifications of project plans are fully justified and documented.

37

Recommendation No. 18

USAID/Mali should ensure that adequate project management is provided for the Operation Haute Vallee project before any additional funds are obligated.

40

LIST OF RECIPIENTS

	<u>No. of Copies</u>
DEPUTY ADMINISTRATOR	1
ASSISTANT ADMINISTRATOR/AFR	5
USAID/MALI	5
REDSO/WA	1
MALI DESK	1
AFR/EMS	1
AFR/SWA	1
DIRECTOR/LEG	1
M/FM	1
GC	1
S&T/DIU	4
FPC	4
IG	1
IG/PPP	1
IG/EMS	12
IG/II	1
RIG/II/ABIDJAN	1
RIG/A/W	1
RIG/A/CAIRO	1
RIG/A/MANILA	1
RIG/A/KARACHI	1
RIG/A/NATROBI	1