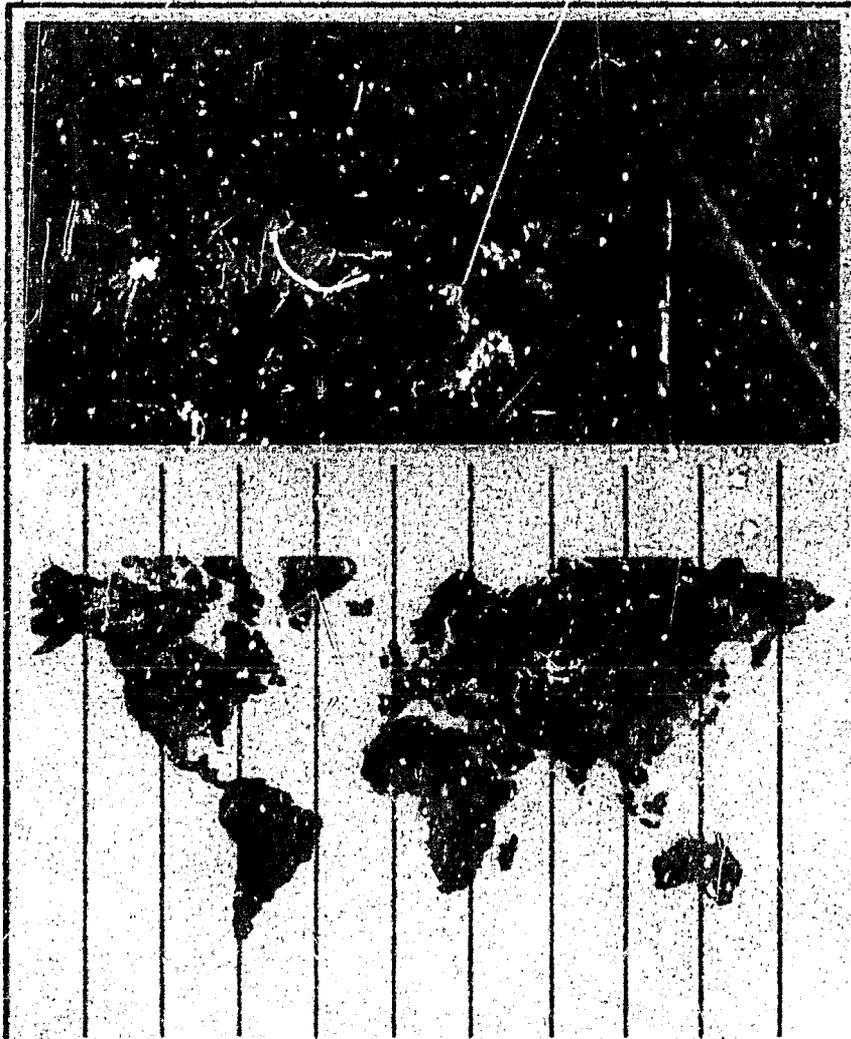


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UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
KARACHI

AUDIT REPORT  
ON THE  
RESOURCE CONSERVATION AND  
UTILIZATION PROJECT IN NEPAL

AUDIT REPORT NO. 5-367-83-8

JULY 26, 1983

This project is creating positive results toward improving the quality of life of Nepal's rural inhabitants. The goals of the project may not be achievable, however, due to a project scope that is out of proportion to project resources and other factors beyond the control of the project. The performance of the grantee and contractor and the monitoring of that performance by the USAID can be improved.

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AUDIT REPORT  
ON THE  
RESOURCE CONSERVATION AND  
UTILIZATION PROJECT IN NEPAL

EXECUTIVE SUMMARY

Introduction

Nepal is one of the world's poorest and least developed nations, with 15 million people earning an annual per capital income of about \$140. The people live mainly a rural existence; the hills and mountain regions have one of the highest rural population densities in the world at about 1,500 persons per square kilometer of arable land. About 94 percent of the population is engaged in agriculture. It is under these conditions that this project is attempting to help His Majesty's Government of Nepal (HMG/N) in the protection and restoration of the soil, water and plant resource base upon which the rural population is totally dependent.

The Resource Conservation and Utilization Project (RCUP) was initiated in May 1980 to attempt to halt the rapid degradation of Nepal's environment. Reforestation, better range management, development of alternative sources of energy to open wood fires, and improvement of agricultural methods and watershed management are resource conservation measures that are being implemented in an attempt to control the degradation. The U.S. contribution to the project is planned to be \$27.5 million of an estimated 5-year project cost of \$32.6 million. In February 1981 AID contracted with the Southeast Consortium for International Development (SECID) to provide technical assistance throughout the life of the project. As of January 1983 the estimated contract value was \$13.8 million. Consortium members participating in this project include Duke University, Western Carolina University and Virginia Polytechnic Institute and State University.

Purpose and Scope of Audit

The purposes of this audit were to assess the performance of the grantee, contractor and the USAID in implementing this project and to review the internal controls adopted to ensure the accountability of project funds. In conducting this review we visited the SECID, HMG/N and USAID project offices in Kathmandu, Nepal, and project field sites outside Kathmandu, as necessary. We interviewed responsible officials and reviewed project and financial records at these locations. The results of this review were discussed with mission, SECID and HMG/N officials and written comments were provided by the USAID.

Costs claimed by and reimbursed to the contractor were being reviewed by the Defense Contract Audit Agency (DCAA) concurrent with our review. At the time this report was prepared, the DCAA report was not yet available for incorporation herein.

#### Project Scope is Too Large

While the project is creating positive results toward improving the quality of life of Nepal's rural inhabitants, we believe the project scope does not fit the level of resources available. The project is providing nurseries, plantations, terraces, the demarcation of forests, buildings, solar water heaters, improved stoves and livestock. However, the project area is large and much of it is relatively barren, and we believe the limited resources of this project are not sufficient to make a significant impact on this barren area. Instead, we believe the project's resources should be concentrated in that proportion of the project area that has an existing resource base. The existing resources would complement project inputs and innovations and create a more viable project.

#### Lack of Reporting Requirements

The grantee is not required by the terms of the grant to report on project progress even though it is the grantee that is responsible for accomplishing project goals. HMG/N officials advised us that sufficient data was available from RCUP files for them to begin reporting to the USAID as soon as the mission advised them regarding the type of data wanted and the desired format. By the conclusion of our review USAID officials were still not planning to require periodic progress reporting by the grantee. We believe that reporting on project progress is appropriately a function of the entity responsible for accomplishing project goals and that an appropriate provision should be included in the grant.

#### Participation By Women Has Been Poor

Women have not participated in this project to the extent planned. It was the intention of this project in concept to include women in all phases including training, committee participation and village level involvement. While it was planned that 10 percent of the students enrolled in the university level certificate program would be women, none have been enrolled. Also, women were to be given grants to help them complete their basic education, but no grants have been awarded.

There has been planning for women to participate in this project, and there has been training for men on the importance of women in development. A few women have received a three-week introductory course in forestry or have received training to become village agricultural assistants. Women have been hired by the project as porters and to work in the nurseries but at lower pay than that paid to men for the same work. No women are employed in management or administrative positions at the SECID or RCUP offices in Nepal.

### More Villager Participation Needed

Villager participation in this program has not been as effective as it could be. Although the project is in its third year, the utilization of villagers as a project resource is still in the planning stages. As a result, misunderstandings about the purpose and scope of the RCUP have been expressed by villagers and significant potential manpower which could be channeled to the benefit of the project has not been utilized.

We found villagers puzzled by the kinds of projects the RCUP was undertaking and disappointed that their priority needs had not been addressed by the project. Explanations for why these needs were not being addressed had not been provided to them. We found villagers ready to help with project activities that met their needs but clearly less enthusiastic about those they perceived as forced on them. We found other instances where villagers were simply ignorant about development and how it is achieved. Some felt that all one needed for development to occur was money while others believed it had mystical qualities. The changing of such attitude requires careful but extensive effort, which is not currently being provided by the RCUP.

Villager participation in this project has been studied for some time by the WFP staff and by outside organizations under contract to SECID. Schemes for participation and outreach have been developed but none have yet been implemented. We are concerned that the planning for villager participation and outreach may take so long that misunderstanding will persist and villagers will not have a meaningful role in determining current and near future project activities.

### Were Credit Funds Used Properly?

The Local Resource Conservation Coordination Fund is apparently not functioning as anticipated. The fund was provided \$44,000 to stimulate farmer interest in converting degraded land to environmentally sound uses and to contribute to Nepal's Agricultural Development Bank (ADB). The mission performed an analysis of the credit fund and determined that the funds provided were not being utilized and apparently were not needed in the first place. A SECID report stated that the ADB had absorbed the funds into its regular program without making additional funds available in the catchment areas, as required by the grant. RCUP officials were of the opinion that the funds were probably distributed correctly but that the ADB had simply failed to report properly on their use.

There is confusion and disagreement among the principal parties to this grant as to how the ADB is functioning with respect to this project and whether the funds provided have been utilized properly for project purposes. This matter needs to be clarified and the funds returned to the USAID if they have gone unutilized or have not been utilized properly.

### Contractor Lacks Authority

The contractor expatriate specialists lack the authority needed to accomplish their tasks and goals in the context of RCUP management. Also, the terms and conditions of the contract do not provide measurable criteria for determining

whether or not these specialists have accomplished their goals. The specialists are frustrated by their lack of authority which they feel is necessary to create actions important for the accomplishment of project goals. They feel the management structure of their counterparts' agencies allow little flexibility for changes to be made in project design and approach.

We believe that adequate authority can be provided to the expatriate specialists through a reorganization of the RCUP and improved lines of communication with higher level RCUP officials.

#### Accountability for Project Commodities Is Lacking

Although certain commodity arrival accounting procedures are employed by the contractor, the overall accountability for commodities received to date is not adequate. The problems with accountability result from the fact that commodity arrival recordkeeping began in Nepal about January 1982 while commodities have been received since September 1981 and local purchases have been made since December 1980.

There has not been an inventory and corresponding reconciliation of receipts and disbursements of commodities, and receiving reports have not been prepared. As a result, records relating to the total disposition of a quantity of like items does not exist. This situation needs to be corrected in order to assure the accountability of commodities purchased and provide integrity to the commodity arrival recordkeeping function at SECID in Nepal.

#### Trained Participants Were Not Assigned to RCUP

Eleven participants have returned to Nepal after having received long-term training financed by RCUP funds, five from design and six from implementation funds. Only four of these participants are currently working on the RCUP. The fact that seven of the first eleven returnees trained with project funds are working on projects not funded by RCUP seems inconsistent with project goals. While we believe these trained personnel can be utilized effectively on other projects, it seems logical that the project providing the funding for their training would have first priority for their services.

#### Construction Plan Needs Revision

The plan for construction of RCUP funded buildings, water systems, irrigation projects and mini-hydros needs to be revised to reflect more realistic targets for completion of individual components and cost. Performance under the architectural and engineering phase for water and irrigation projects has been slow. Construction of these projects is behind schedule. Construction of the buildings is also behind schedule.

The numbers of buildings to be constructed has been reduced; however, any savings anticipated have been offset by modifications to the buildings being constructed which have tended to increase costs. The mission is aware of the need for a revised construction schedule and cost estimate but is waiting for the right time to request it. We believe that a revised schedule and cost estimate would be useful now for monitoring the contractor's performance.

### Conclusions and Recommendations

The report identifies areas where the USAID, the grantee and the contractor can take actions to more effectively manage and implement the RCUP. To this end, we made recommendations on revising the scope of the project, improving the participation in project activities by women and villagers, reorganizing project management to give the expatriate specialists greater authority and better lines of communication to high-level project managers and on using long term participants trained with project funds. We also made recommendations aimed at improving project administration, including the need for greater control over project resources and the need to improve project planning and reporting.

### Summary of Management Comments

The mission provided written comments on our draft report while USAID, HMG/N and SECID officials all presented their views on our findings as they were presented during and as summarized at the conclusion of our field work. While SECID and HMG/N officials generally agreed with our conclusions, USAID officials did not. Their comments have been included in the report where appropriate.

## BACKGROUND

Nepal, a country about the size and shape of Tennessee, lies between the Tibetan Autonomous Region of the People's Republic of China to the north and India to the east, west and south. The Himalayas straddle its northern border with eight of the world's ten tallest mountains wholly or partially within its borders. Nepal's ethnic makeup reflects large-scale immigration of both Tibeto-Burman-speaking and Indo-Aryan-speaking groups. About 30 languages and dialects are spoken in Nepal although the first language of about half the population is Nepali.

Nepal is one of the world's poorest and least developed nations with an annual per capita income of about \$140. The average annual growth in per capita income was only two-tenths of one percent between 1960 and 1980. Nepal's 15 million people live mainly a rural existence with Kathmandu (about 400,000 population) the only major urban center. The hills and mountain regions have one of the highest rural population densities in the world at about 1,500 persons per square kilometer of arable land. About 94 percent of the population is engaged in agriculture compared to 1 percent for manufacturing. Population growth is about 2.5 percent and the average life expectancy is 44 years. It is estimated that about 19 percent of the adult population is literate.

### The Project

To assist His Majesty's Government of Nepal (HMGN) in the protection and restoration of the soil, water and plant resource base upon which the rural population is totally dependent, AID initiated the Resource Conservation and Utilization Project (RCUP) in May 1980. RCUP is a multifaceted and integrated project that is attempting to halt the rapid degradation of Nepal's environment. Reforestation, better range management, development of alternative sources of energy to open wood fires, improvement of agricultural methods and watershed management are resource conservation measures that are being implemented in an attempt to control this degradation.

Primary sector goals addressed by this project are to relieve food deficit and malnutrition in the country by increasing food production and raising the nutritional standards of the population. A secondary goal is to generate employment and decrease migration from the hills to the plains.

Two catchment areas were selected for the initial stages of this project. They are the Daraundi in Gorka District and the Kaligandaki in Mustang and Myagdi Districts. To obtain the necessary people to carry out the project in these areas a multi-tiered training program was developed. Inventory and monitoring systems will record changes in environmental conditions and social support systems will facilitate villager participation in planned activities. If successful the project is expected to be expanded into other catchment areas and is projected to require 15 years for completion.

On August 31, 1980, AID granted HMG/N \$2.4 million as the first increment of an estimated \$27,498,200 U.S. contribution toward the success of this project. The HMG/N contribution is expected to total \$5,060,500 over the 5-year life of the project. Through grant amendment 4, dated December 17, 1982, the U.S. contribution has been increased to \$14,188,000. By Project Implementation Letter 2, dated September 23, 1980 it was agreed that a contract be signed by AID for technical expertise to be provided by the Southeast Consortium for International Development (SECID).

SECID was awarded contract ASB-0132-C-00-1021-00 on February 6, 1981. The obligated amount was \$1,545,880 with an estimated contract value of \$8,803,196. Through amendment 9, dated June 9, 1982, the obligated and estimated amounts have been increased to \$5,792,169 and \$13,805,285, respectively. Although this contract was awarded several months after the grant, SECID had been an active participant in this project throughout the interim period and before through a predecessor contract with AID. Contract AID/ASIA-C-1391 awarded on March 23, 1979, provided for SECID's participation in the design of this project and by modification 4 for initiation of the implementation phase. The total value of this contract at completion was \$980,514.

SECID is a nonprofit corporation founded in March 1977 to advance and serve the international potential of its member institutions. Its membership includes more than 30 academic and research institutions in 17 southern and eastern states. The consortium allows its members to participate in international projects which are unusually large or which require scarce language or technical skills that are not available at a single institution. Its members are committed to collaborating on projects which improve the quality of life in developing countries through training, research and extension. The consortium's central office in Chapel Hill, North Carolina, handles contract management, financial services and communications services for its participating institutions.

SECID member institutions participating in this project include Duke University which is responsible for all long-term training, Western Carolina University which is responsible for all short-term training, and Virginia Polytechnic Institute and State University which is responsible for assisting HMG/N with the institution building effort for the new Institute of Renewable Natural Resources. Most of the expert staff provided to the project have come from these three institutions. However, the consortium also utilizes non-member institute expertise when needed as represented by the sociologist/anthropologist on this project who is from Washington State University.

A special evaluation of the project was conducted by a private contractor, Development Associates, Inc., in January and February 1983 at the request of the USAID. The purpose of the evaluation was to examine the basic assumptions on which the project rests and reassess their validity in light of progress achieved and problems encountered over the first years of the project. The results of that evaluation are incorporated in this report as appropriate.

### Purposes and Scope of Audit

The purposes of this audit were to assess the performance of the grantee, contractor and the USAID in implementing this project and to review the internal controls adopted to ensure the accountability of project funds. We had planned to evaluate the adequacy of documentation in support of costs claimed by and reimbursed to the contractor, but we found that all contractor claims were being processed by AID/Washington and that the Defense Contract Audit Agency (DCAA) was evaluating those claims concurrent with our review in Nepal. At the time this report was prepared, the DCAA report was not yet available for incorporation herein.

In conducting this review, we visited the SCG, HMG/N and USAID project offices in Kathmandu, Nepal, and project field sites outside Kathmandu, as necessary. We interviewed responsible officials and reviewed project and financial records at these locations.

The audit was performed in accordance with generally accepted auditing standards including such tests of records and procedures as was considered necessary in the circumstances.

**Best Available Document**

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Project Scope Is Too Large

We visited the larger of the two catchment areas included in the project and walked most of the length of that portion being funded by AID. The upper portion of the catchment area is restricted to foreigners, and project activities in that zone are being funded by HMG/N. For most of the catchment areas observed we believe the project can and is creating positive results toward improving the quality of life of the area's inhabitants. Nurseries have been built and are being utilized, plantations have been fenced and planted, terraces have been built or improved, the demarcation of forests has begun, construction sites have been surveyed, solar water heaters and improved stoves have been installed and livestock has been provided.

Much of the project area still has basic resources, including a water supply, stands of timber and grasslands. The people living here were attempting to manage these resources, long before the RCUP. The area certainly has serious problems, however, including a river that makes its own course and has taken away much needed farm land, erosion from mountain streams, landslides that threaten villages and forests, a diminishing supply of wood for fuel and construction, and vanishing grasslands from over-grazing and encroachment of people.

However, some of the project area has few resources. The upstream portion of the catchment appears barren. There are few trees and sparse grasses grow in the meadows. Rain seldom falls and the river is of little use for moistening the soil due to the steepness of the topography. Mostly, the land is used for summer migratory grazing on the sparse grasses. The disastrous spring snowstorm of 1982 killed large numbers of the animals that normally grazed here and has temporarily relieved some of the pressures of over-grazing. The people who live here have to carry firewood or pay to have it carried to their homes. It is estimated that the average hill family spends 132 days a year collecting firewood.

While we were not allowed to view the restricted zone, it is likely as barren as the area described above since it lies adjacent to and up river from the area we visited. We were advised by local people that this was the case. While AID is not directly contributing to project activities in the restricted zone, it is doing so indirectly by subsidizing HMG/N funds that were transferred from the AID-funded portion of the project to the restricted zone. When the determination was made that U.S. personnel would not be allowed in the restricted zone, the USAID agreed to transfer an equivalent amount of funds from the restricted zone to the unrestricted portion of the project area as the HMG/N was transferring from the unrestricted area to support activities in the restricted zone. Thus, AID is funding a greater proportion of the unrestricted area than originally intended while HMG/N is supporting all, or about \$730,000 worth, of the activities in the restricted zone.

Surely, the desolate upper portion of the catchment area, including the restricted zone, is much in need of the potential benefits of this project. However, with its limited resources we do not believe there is any practical way this project can make a significant impact on the problems of this area. Instead, we believe a more logical approach would be to concentrate the project's resources in the lower regions of the catchment area where there is an existing resource base. Here, improvements in managing the existing resources would complement project inputs and innovations to create a more viable project.

In oral comments provided by USAID at the completion of our review it was stated that the conceptual framework of the integrated project concept would be violated by not focusing on the entire watershed area. It was also stated that the project concept was expected to be fully vindicated by the special evaluation team's report. In written comment the mission stated that the auditors suggestion is contrary to the principles of sound watershed management, and that one can ignore the upper parts only at the jeopardy of the lower parts, witness the world-wide experience with downstream floods and droughts.

While we agree that it is conceptually preferable to include the entire watershed area in the project, we believe the magnitude of the project does not equate with the project concept in practical terms. Trying to do too much with too little could result in less accomplishment than could be made by matching limited levels of resources to realistic goals.

Regarding mission comments on downstream flooding and drought, the project includes no interventions directly related to the flow of the river which is responsible for the flooding. In fact, on another matter mission officials thought the auditors were naive to suggest that limited interventions to preclude the river's destroying more of the valley's agricultural land were possible and should have been included in the project.

The special evaluation draft report concludes that the project is feasible and should be continued. The report states that project targets seem sensible and appropriate in themselves but they are not linked to the strategic purposes of the project. It concludes that even if the project targets are achieved over a 15-year period as planned, it can not be stated reliably that there is a reasonable likelihood that the environmental decline of these areas can be arrested. In fact, it goes on to state that another factor, sustained population growth in the hills, might well overwhelm all the activities being carried out by the project.

The special evaluation team's solution is for the RCUP staff to undertake on a periodic basis a re-examination of project targets in both quantitative and qualitative terms. We agree that such a re-evaluation is warranted but believe the first such evaluation should be conducted as soon as possible, include on its agenda consideration of whether the project scope should be reduced consistent with the discussion presented above, and result in a project policy decision that is coordinated with and agreed to by the Asia Bureau.

### Recommendation No. 1

The Director, USAID/Nepal should initiate as soon as possible a re-evaluation of project targets which results in an AID policy on the scope of project interventions and considers revisions to that scope as presented in the discussion above.

### Grantee Performance

The grantee has made progress toward the goals of the RCUP by (1) expanding its principal conservation line agencies, (2) identifying and nominating personnel for long-term participant training, (3) creating conservation committees at national and local levels, and (4) constructing conservation projects within the catchment areas such as nurseries, plantations, terraces, barriers, stoves, solar water heaters, and others. Despite these accomplishments, the grantee's performance and USAID's monitoring of that performance can still be improved.

### Lack of Reporting Requirements

The grantee should be required to submit periodic progress reports. The grant and other project agreements make the grantee responsible for accomplishing project goals. The responsibility and authority for the project are vested in the grantee with the contractor acting as little more than advisor, particularly with regard to field activities. Yet, it is the contractor and not the grantee that is required to submit biannual and annual substantive reports on progress made, plans for future periods, and current needs.

The grant document does not require the grantee to periodically report on project progress, accomplishments, or problems encountered. The only reference to grantee reporting is in Project Implementation Letter 10 issued on March 13, 1981, about six months after the grant documents were signed. This letter states that "annual reports of accomplishments for the subproject activities should be submitted to USAID during the life of the project." One IMG/N progress report was appended to the SECID August 1981 biannual report. It was presented in the form of a table and contained little information about problems and their resolution or about accomplishments or the reasons for lack of accomplishment.

Reporting on project progress is appropriately a function of the entity responsible for accomplishing project goals. For much of this project that entity is IMG/N, which should be required to submit a report of its activities and accomplishments to date and periodically thereafter. We believe every six months would be reasonable. IMG/N officials advised us that sufficient data was available from RCUP files for them to begin reporting to the mission as soon as the mission advised them regarding the type of data wanted and the desired format.

## Conclusions, Recommendation and Agency Comments

The draft report recommended that the grant be amended to require periodic progress reporting by the grantee. Mission officials commented orally that the reporting done by the RCUP to the HMG/N planning commission would be adequate for mission needs if translated into English. However, in written comments the mission advised that it was already receiving adequate data from HMG/N for its monitoring needs and was working with project officials to improve the timeliness and accuracy of these materials. It concluded that there was no need to amend the grant agreement in this respect.

We do not agree that the reporting responsibilities of the grantee need not be made a part of the grant document. Reporting requirements are spelled out in agreements to provide a record of project activities and assist in the USAID's monitoring responsibilities. We see no justification for an exception in this case.

### Recommendation No. 2

The Director, USAID/N should assure that the grant to HMG/N is amended to require periodic progress reporting by the grantee, including but not limited to accomplishments to date, progress toward achieving additional accomplishments, and problems encountered with corresponding actions planned or taken to resolve them.

### Participation by Women Has Been Poor

Women have not participated in this project to the extent planned. It was the intention of this project in concept to include women in all phases, including training, committee participation and village level involvement. The project paper states that RCUP recognizes the major role that women play in agriculture, including the control of seed production, storage and composting. It is also women who plant and manure the fields. Therefore, it was the plan of this project to select a minimum of 10 percent female students for the 2-year university level certificate program at the Institute of Renewable Natural Resources. It was envisioned that this would enable women to be in a position to compete for more advanced training.

To date no women are enrolled in the certificate program although 10 percent of the program's funding is to be reserved for women. We recognize that the whole Institute training program has been set back by the delay in opening the new Pokhara campus, which was to accommodate half of the certificate candidates. Also, women were to be given grants to help them complete their basic education leading toward a School Leaving Certificate, which they need to qualify for entry to the Institute certificate program. To date, no such grants have been awarded.

SECID prepared a paper in October 1982 to show how its efforts are involving women in the resource development process. Despite the intent of this paper, it still points out that most of the effort so far involves the

planning for women to participate in this project rather than their actual participation. This, despite the fact that the project is in its third year. It points out that there are plans for the education of women as discussed above and that there has been training for men on the importance of women in development. SECID has contracted for studies on social action and the availability and motivation of female candidates for the Institute of Forestry.

On the positive side this paper points out that 14 women extension workers were given a three-week introductory course in forestry and that four women were trained with RCUP inputs as village agricultural assistants. It further points out that women have been hired by the project as porters and to work in the nurseries. Unfortunately, women are paid less than men for the same work regardless of productivity. No women have been employed in management or administrative positions at the SECID and RCUP offices in Nepal.

Commenting orally on our draft report, USAID officials stated that including women in projects is a psychological and cultural problem in Nepal. They thought that we did not give adequate recognition to their efforts and were looking to the special evaluation team's assessment of women's participation in this project to lend perspective to their efforts.

The special evaluation team found that the RCUP had not been as effective as it should have been in including women in its activities. Its report concluded that while recommendations have been made on ways to involve women in the project, few successful actions to comply have been initiated. It goes on to state that the project is unnecessarily over-emphasizing and reinforcing the power of men and, especially, elite men such as HMG/N employees and district and village officials in an unbalanced way. It points out that on such a large project there is not one resident professional woman although smaller teams in Nepal have expatriate women on them. The report expressed concern that the absence of women in the project may hinder the achievement of project goals concerning conservation, resource management and production since women are usually the fuel and fodder collectors and play a major role in agricultural tasks.

#### Recommendation No. 3

The Director, USAID/N should obtain a firm commitment by RCUP officials as to the extent that women are to participate in project activities, including employment by the RCUP, education at the Institute of Renewable Natural Resources, and participation in village and district level activities.

#### More Villager Participation Needed

Villager participation in this program has not been as effective as it could be. Although the project is in its third year, the utilization of villagers as a project resource is still very much in the planning stages. As a result, misunderstandings about the purpose and scope of the RCUP have been expressed by villagers and significant potential manpower which could be channeled to the benefit of the project has not been utilized.

During our field visit to the one catchment area we discussed the project with village representatives. Although grateful for what the project had provided, we found them to be generally puzzled by the kinds of projects RCUP was undertaking and disappointed that their priority needs had not been addressed by the project. For example, at one village the greatest need was agricultural land because the river had claimed much of their arable land over the years and the price of staples, especially rice, had risen greatly in recent years. As a result, many people of the village were finding it increasingly more difficult to obtain enough food to eat. These people had hoped that the project could do something to control or channel the river so that the villagers could reclaim some of the land in the broad river plain for farming.

At another village we found the people most concerned about flash flooding through the center of the village resulting from the sudden overflow of a nearby stream. Such flooding killed 22 villagers 11 years ago and 12 cattle as recently as last year. At both of these villages, RCUP was financing the construction or improvement of terraces. These terraces are on private lands which is another concern of the villagers who would like for the projects to benefit all the villagers instead of certain individuals.

Other priority needs that were not being addressed by the project were reported by villagers to contractor representatives during field visits. Some examples follow:

- Two villages needed something done to control earth slides which had already caused damage to one village and were a constant threat to both.
- Several villages had herders who needed breeding stock because of losses suffered in the unusually heavy snowfall in the spring of 1982. Part or most of many herds starved to death and the loss of products from the herds affects not only the herder but the villagers as a whole.
- Several villages were in need of water projects.
- The need most often expressed was for extension and training for self development projects and for the training of women in cottage or alternative income industries.

All of these needs fit within the scope of the RCUP. Why these needs were not addressed during the design phase or were not subsequently incorporated as project objectives has not been explained to the villagers. As a result, some villagers feel that the project is being forced upon them without considering their views and perceived needs. Also, village leaders indicate their willingness to bring the total labor force of the village to bear on projects that they favor while they are clearly less enthusiastic about those that are forced on them.

Another factor that needs to be addressed by RCUP is the simple ignorance on the part of some villagers about what development is and how it is achieved. There are those that feel that development somehow just happens if you have

enough money while others believe there is a sort of mysticism about it. One example was the providing of baby chicks and feed to one village as a demonstration project. The chicks began dying but the villagers took no action to resolve the problem. When the problem was looked into by the RCUP staff, it was found that the feed was too large for the chicks to swallow and they were starving. The villagers could have easily determined this for themselves based on their own farming skills and remedied the problem. The fact that they didn't shows the reluctance of some to become a part of development or to intervene with their own native skills in a process they do not understand. The changing of such attitudes requires careful but extensive effort on the part of RCUP.

Villager participation in this project has been studied by the SECID sociologist/anthropologist and by outside organizations under contract to SECID. Two schemes for assuring villager understanding and participation in project activities are now being tested - "gumallah", or village discussion method, and the "USDA method", which is a more centrally directed approach. Both methods involve inventories of resources and socio-economic conditions and culminate in a plan for resource development. They are distinguished by the fact that gumallah is more of a grass roots approach while the USDA method is more directed downward from higher government levels. However, both plans have the characteristic of requiring extensive resources from outside established administrative channels to be successful. This fact prompted the special evaluation team to question the usefulness of either approach and support a third method involving existing institutions and village level officials.

Whatever method is to be used we believe it is time to move from studying villager participation to actual villager involvement in an approved villager participation program. However, our feelings are tempered by the special evaluation conclusion that much remains to be done in developing workable planning systems based on village and district level participation. The team also concluded that extension activity was a weak link in the whole project with ordinary residents not understanding the role of RCUP or its relationship to established institutions. The team also noted that the RCUP could be more effective in soliciting villager cooperation if it addressed more of the villagers' perceived needs, even if their desires were not the most critical from a soil and water conservation standpoint.

#### Conclusions, Recommendations and Agency Comments

Our draft report recommended that a villager participation program be approved and implemented at the earliest possible date. Mission officials responded that it takes four to five years to complete all the planning for a village participation program like the one being developed for this project. They expressed concern that our report gives the impression that they are not doing anything to provide outreach to villagers and include them as active participants in this project.

While we agree that planning for villager participation is being conducted, we believe the planning is taking too long to allow villagers to have a meaningful role in determining current and near future project activities. We believe the special evaluation conclusion that the planning process should

work through the existing district and village level officials should be adopted because it appears to permit the earliest participation by the most villagers and is more likely to be institutionalized than the other methods being tested. We also believe the outreach and extension program of villager education should be expanded as soon as possible.

Recommendation No. 4

The Director, USAID/Nepal should make a determination of which approach provides the soonest meaningful participation by villagers in the RCUP and the greatest potential for subsequent institutionalization and adopt that approach without delay.

Recommendation No. 5

The Director, USAID/Nepal should take action to expand the villager extension and outreach program to promote education and understanding among villagers about the resource conservation and utilization activities of this project.

Were Credit Funds Used Properly?

The local Resource Conservation Coordination Fund (LROCF) is apparently not functioning as anticipated. The grant provided that an initial credit fund would be established to stimulate farmer interest in converting degraded land to environmentally sound land uses and that the project would contribute to established credit institutions such as the Agricultural Development Bank (ADB). PILs 22 and 26, dated November 10, 1981, and January 26, 1982, respectively, established procedures for the LROCF and provided about \$4,000 to supplement ADB's regular lending program in the RCUP areas and about \$4,000 to cover ADB staff expenses and farmer training activities affiliated with this credit fund.

Established procedures provided that ADB would submit quarterly expenditure reports to USAID/N covering the \$4,000 advance until all funds were expended. They also provided that the ADB would submit to USAID quarterly reports on the use of the \$4,000 USAID revolving fund. These reports were to include

- total funding held by each ADB office in the project area broken down between ADB loan volume and the USAID revolving fund, and
- a breakdown of loans given and payments received by office for each lending program and loan objective, including notation of those accounts in delinquency or in default.

A second increment of funds under the program was to be made available to ADB after receipt and acceptance by the USAID of at least two quarterly reports as described above.

On August 16, 1982, ADB submitted to the USAID a statement of office operating expenses for the first three quarters of fiscal year 1981/82. While the report did not comply specifically with the established procedures, the USAID Controller accepted this statement and cleared the \$4,000 advance from USAID's books. To date, no reports of loan activity with respect to the \$44,000 revolving credit fund have been submitted by ADB to the USAID.

The mission performed its own analysis of the credit fund in December 1982 and determined that the funds provided were not being utilized and apparently were not needed in the first place. For the Nepal fiscal year ended in July 1982, loan targets in the three districts covered by this project totalled about \$319,000 while actual loans made equalled only \$179,000. The \$44,000 provided by the project was to be supplemental to the regular program and, therefore, was unutilized. The Mission further noted that no revolving fund had been set up and no quarterly reports had been submitted. The memorandum resulting from this analysis pointed out that supporting the ADB as it is presently constituted is not consistent with current AID policy.

The SECID semi-annual project report for the period ending . 1982 presented a different but equally disturbing view of the credit fund. It stated that ADB had absorbed both loan and overhead funds into its regular program without making additional funds available in RCUP catchments. SECID concludes, therefore, that funds available for loans and administration of ADB were the same with the RCUP contribution as they would have been without it. Further this report states that ADB accounts are not kept in a way that identifies recipients of RCUP funds and that there is no way of ascertaining whether funds are going to socially disadvantaged groups.

We discussed the operation of the revolving fund with RCUP officials who stated that they believed the funds had been utilized for the project and that the problem was simply lack of reporting on ADB's part. They admitted, however, that USAID/N had dealt with ADB directly and that RCUP was really not involved in monitoring ADB actions. Therefore, they really had no more firm data on project operations relating to this fund than did SECID or the USAID.

#### Conclusions, Recommendation and Agency Comments

It is clear that there is confusion and disagreement among the principal parties to this grant as to how the ADB is functioning with respect to this project and whether the funds provided have been properly utilized for project purposes. We stated in our draft report that steps need to be taken through appropriate HMG/N channels to obtain an accurate report of ADB loan activities and use of project funds. The USAID's response advised that action had been initiated to acquire the information needed for a determination on fund usage; therefore, that portion of our draft recommendation has been deleted from the report.

#### Recommendation No. 6

The Director, USAID/N should make a determination whether funding provided to ADB was or was not utilized in accordance with grant provisions. If the funding provided was either not utilized or not properly utilized, the return of these funds to USAID/N should be requested from HMG/N.

### Budgetary Support Needs Review

The payments to HMG/N for budgetary support of this project need to be reviewed for allowability under the grant terms. Because HMG/N did not possess the financial resources needed to conduct activities through its line agencies in support of ICUP, AID granted the necessary funding through budgetary support to 11 HMG/N agencies. As of November 30, 1982, this support amounted to \$1.7 million. The funds are provided in trimester increments with outstanding funding limited to the total of current and next subsequent trimester needs. The grantee is not allowed to carry over unused funding from prior trimesters but must apply for reimbursement as expenditures against prior advances occur. By the end of the current trimester the grantee must submit to the USAID a certified statement of expenses for the prior trimester.

While the certified statement of expenses is presented to the USAID in English, all supporting financial records are retained by HMG/N and are in the Nepali language. Although claims were first submitted in December 1981, to date, the supporting records have not been reviewed to determine the validity of the grantee's claims against advances and additional claims for reimbursement. The mission has local voucher examiners employed who perform a desk audit of the claim at the mission for mathematical errors and any obvious questionable items. As a result of this process, \$5,070 for tea and snacks was disallowed from the grantee's claim of September 23, 1982.

The mission had in its employ a locally-hired financial analyst whose job was to conduct financial project reviews. He indicated that his reviews covered the allowability of project costs and the adequacy of internal controls. At the time of our audit he was planning to begin reviewing HMG/N reimbursements under this project in August 1983. A financial evaluation of the grantee's claim is warranted but should have been performed much earlier. The grantee had already been provided \$1.7 million by November 1982 and the total will be higher by the time the evaluation is conducted in August 1983. An evaluation which assesses whether the grantee has an adequate system for controlling the use of AID funds should be performed during the early stages of project activity to be most useful. This project is in its third year.

### Conclusions

Based on the fact that a financial evaluation of costs claimed by the grantee will be conducted this fiscal year, we are making no recommendation but a few certain considerations are worth noting. Should the scheduled review of costs claimed reveal few items of a disallowable nature, the reviews should continue but on a periodic and selective basis. However, should significant costs be identified as not allowable according to AID Regulations, we would suggest that a complete audit of all claims be conducted, the results of the audit be discussed with appropriate HMG/N officials, and the internal controls of the grantee be reviewed and revised to preclude disallowable items being included in future claims.

### Pokhara Campus Delays Training

The delay in opening the Institute of Renewable Natural Resources campus at Pokhara has delayed the implementation of the certificate program at that location. As a result, the RCUP is not likely to meet its goal of providing 1,524 school years of certificate study over the life of the project. It was expected that 110 students would enter the certificate program each year beginning with the 1982/83 school year with graduation of the first of the 2-year program students occurring in 1984. It is now expected that the Pokhara campus construction will not be completed until 1984 or 1985 with classes delayed until probably 1985.

The diploma program was also scheduled to be taught at Pokhara but was moved to the Institute of Forestry's Hetauda campus. This 3-year program began on schedule in 1981; a second class began in 1982. Although each class was to have 40 students, or 80 total in school at this time, there are currently 66 students enrolled in the program. The first class is scheduled to graduate as planned in 1984.

### Conclusions and Agency Comment

The delays in constructing the campus at Pokhara are reportedly attributable to construction and funding problems being addressed by HMG/N and World Bank officials responsible for the financing and construction. Since neither group is supported or controlled by RCUP, no recommendation is made.

The mission commented that, in its opinion, the institute has done exceptionally well in moving forward toward its goals in view of the problems encountered. We agree with that conclusion.

### Contractor Performance

Generally, the contractor has performed adequately under the terms of the contract, especially regarding the providing of training, the purchase of commodities, assistance to the proposed Institute of Renewable Natural Resources, and progress in the construction program. In order to improve its performance, the contractor's expatriate specialists need more authority or better lines of communication to project management, and the contractor staff needs to provide better accountability for project assets and improve certain administrative procedures.

### Contractor Lacks Authority

The terms and conditions of the contract are of concern because they seem to be inconsistent with good contracting practices. Accepted contracting practices provide that contractor goals and tasks be designed so that their accomplishment can be determined or that the extent the contractor has proceeded toward their accomplishment can be measured. The terms and conditions under which the contractor is to provide technical specialists for the RCUP

do not provide measurable criteria for determining whether these specialists have done anything or not. The contract provides only that these specialists are to advise, assist, or work with their HMG/N counterparts. This is especially true for the specialists in range/pasture management, forest management, hydrology/meteorology, and sociology/anthropology although this problem exists to some extent for most of the expatriate specialist staff.

Also, the contract does not provide authority for the technical specialists to accomplish their goals or tasks in the context of project management. The contractor's specialists are understandably frustrated by their lack of authority, which they feel is necessary to create actions important for the accomplishment of project goals. They feel that their views and opinions are rejected in some cases by those possessing far less knowledge of the matters in question. They feel also that the management structures within their counterparts agencies allow little flexibility for changes to be made in project design and approach. This further frustrates the specialists whose basic job is to revise and improve the project on the basis of their expertise in the field.

The special evaluation team also expressed concern about the utilization of the expatriate specialists. It concluded that the management and coordination of RCUP central activities needs improvement. It received complaints from the specialists that they do not have the type of counterparts with whom they like to work and that the overlap with their counterparts' range of duties is often minimal. The team determined that a higher degree of integration of the expatriate staff among themselves, with the project coordinator, and with the HMG/N line agencies was needed and that the USAID could exert more of a problem-solving role in this process. It noted that the relationships among SECID, HMG/N and the USAID have not always been good and that reliable and mutually-understood channels of communication and supervision have not been easy to establish. The special evaluation team was especially critical of the role expatriate specialists perform as resident catchment advisors. It stated that the role of the catchment advisors was not initially understood by the SECID staff or local leaders and that the advisors have still not found a coherent or meaningful role in the project. The team believes the role of technical specialist performing as resident catchment advisor should be abolished and replaced by a headquarters-based generalist responsible for coordination and monitoring in all three districts. The team also suggested that some team-building type of management training for the project coordinator, the SECID team and key HMG/N officials could serve to set in motion some improved communication patterns and more efficient management practices.

#### Conclusions, Recommendation and Agency Comments

In our draft report we recommended that the USAID revise the SECID contract to provide the expatriate staff with more authority for project management or discontinue their services if the mission were unwilling to increase their authority and it was determined that continuation at this level was not productive in terms of project goals. The mission responded that such a suggestion was diametrically opposed to accepted development experience and

to AID project management policy and practice. The mission views the role of the advisors as working for HMG/N. and believes they derive their authority from their knowledge, professional skills and interpersonal abilities.

We believe that authority derived as a result of knowledge, skills and abilities is commendable but without substance in the context of a contractual project relationship. However, since the specialists role is apparently important to the success of this project, we now believe the authority needed by the expatriate staff can be acquired by reorganization within the RCUP without the need for contractual amendment. Such a reorganization must provide a higher degree of integration of the expatriate staff - a position supported by the special evaluation team.

#### Recommendation No. 7

The Director, USAID/Nepal should initiate action to accomplish a reorganization of the RCUP central staff which provides increased authority for and integration of the expatriate staff and improved lines of communication between SECID and HMG/N personnel.

#### Improvements Needed in Local Currency Control

While the control of local currency is a fairly simple operation involving the issuance of checks, disbursement of cash and minor bookkeeping, we found that certain improvements could still be made. Procedures supporting the local payroll need improvement while reimbursement procedures for personal use of project property are lacking entirely.

Local currency accounting procedures were prescribed by SECID/Chapel Hill on June 18, 1980. Basically these procedures provide that the SECID/Nepal function will involve only disbursement and control of cash plus record-keeping while the accounting and reporting functions are retained by SECID/Chapel Hill. All determinations of what costs are to be claimed against the contractor's letter of credit and the actual preparation of the public voucher are performed by SECID/Chapel Hill. SECID/Nepal is not advised of what actions have been taken regarding the submission of its cash disbursements report and all original invoices to SECID/Chapel Hill.

SECID/Nepal pays all vendors who will accept a check and all employees salaries by check drawn on its convertible foreign exchange account. A rupee account is not maintained. A petty cash fund is also maintained for minor cash payments and is replenished at least once each month. Cash up to 5,000 rupees is retained in a combination locked drawer in a key-locked desk which is considered adequate for its purpose. All cash or check transactions are recorded in the cash disbursements report.

Advances are recorded as disbursements but are also separately reported at the end of each month if still outstanding. Vouchers settling advances are also recorded in the cash disbursements report regardless of whether there

is a net payment to the claimant or a refund. Refunds were not properly recorded in the past; advances were shown as reimbursed in total by expenditure in some cases, when in fact, cash had been refunded but was retained and applied against petty cash reimbursements. This resulted in an overstatement of expenses related to the advance and an understatement of those related to petty cash. However, because of an increase in the volume of cash receipts, a cash receipts journal was established in September 1982 which now properly details all transactions involving the receipt of cash. Also, the cash disbursements report has been expanded to show the details of each cash transaction. Since the extent of cash refunds has not been significant in the past, we do not believe it necessary for the contractor to review his records and reallocate credits against applicable expenses.

Employees' salaries were at one time paid in cash but are now paid by check. Each employee is required to personally sign for his check in the presence of the accountant. Payroll records are made from time and attendance records kept by the project receptionist for each employee. The employee is not required to certify to the correctness of these records and no supervisor approves them. While the receptionist is able to view the comings and goings of a portion of the staff, basically it is an honor system. We believe these time and attendance records should be taken more seriously with employee certification and supervisory approval required before the employee is paid.

No procedures exist for reimbursing project funds for the personal use of project assets, and, correspondingly, no reimbursements for such use have ever been made. The project has vehicles which can be used for personal reasons as well as telephone and cable service. While the telephone service to the states was very poor in the past, the new satellite service makes calls to the states very convenient. Project vehicles can be used for personal reasons at anytime without detection since the reasons for trips are not made part of the log and the employee is not required to identify his trip as business or personal. We believe that procedures need to be developed to identify personal use of project assets and provide for reimbursement by the user as appropriate.

#### Conclusion, Recommendation and Agency Comments

In our draft report we made a recommendation designed to improve the procedures for certification of employee time and attendance reports and establish procedures for reimbursement for personal use of project assets. While the mission indicated that steps were being taken to comply with our recommendation, the recommendation is being retained in this report pending the outcome of the mission's actions.

### Recommendation No. 8

The Director, USAID/Nepal should assure himself that procedures have been adopted by SECID/Nepal for (1) certification of time and attendance reports by employees and approval of the reports by the employee's supervisor and (2) identification of and reimbursement by employees for the personal use of project assets.

### Accountability for Project Commodities Is Lacking

Accountability for project commodities needs to be improved. The contractor is responsible under the contract for the administration of project commodity procurement. SECID hired a procurement service agent during the early days of the contract but delays ensued and the procurement function was subsequently taken over and is now being performed by the contractor. The receipt of commodities in Nepal is generally on schedule with the contractor well into what is known as Phase III procurement.

Although certain commodity arrival accounting procedures are employed by the contractor, the overall accountability for commodities received to date is not adequate. Currently, SECID/Chapel Hill does provide advice of shipment to SECID/Nepal through pouched copies of the invoices, airway bills and insurance documents although the shipments sometimes arrive in Nepal before the pouched documents. Also, these same documents accompany the shipment and are required in order to obtain an HMG/N exemption certificate for taxes and duties. The goods are inspected at the customs shed and advice on discrepancies and status of shipment is telexed to SECID/Chapel Hill. SECID/Chapel Hill makes all insurance claims related to loss and damage in transit. The invoice is used as the control document for all commodities received at the SECID compound and receipts are obtained for all commodities transferred to the HMG/N line agencies. Most goods are in fact destined for these line agencies.

The problems with accountability result from the fact that commodity arrival recordkeeping began in Nepal about January 1982 while commodities have been received since about September 1981 and local purchases have been made since about December 1980. There has not been an inventory and corresponding reconciliation of receipts and disbursements of commodities and receiving reports have not been prepared. Stock record cards are now being prepared as time permits. As a result, records relating to the total disposition of a quantity of like items does not exist although some individual records of receipt and or disbursement of individual items is available. This situation needs to be corrected in order to assure the accountability of commodities purchased and provide integrity to the commodity arrival recordkeeping function at SECID/Nepal.

We were advised by a SECID/Nepal official that SECID/Chapel Hill has been attempting to reconcile purchases with receipts and identify the ultimate recipient of the purchased commodities from data provided by SECID/Nepal. Volume two of the third SECID semi-annual project report is suppose to

contain the results of its efforts, but this part of the report has been delayed. The USAID responded to our draft report that it was waiting to review the contents of volume two of SECID's third semi-annual report before implementing the following recommendation.

Recommendation No. 9

The Director, USAID/Nepal should assure that a complete inventory of commodities on hand is performed at SECID/Nepal and that a corresponding reconciliation and documentation of all commodity receipts and disbursements is made. SECID/Nepal should also be directed to establish and utilize a stock record card or similar system of inventory control and begin preparing receiving reports for all future shipments.

Trained Participants Were Not Assigned to RCUP

Some long-term participants trained with project resources have not been assigned to the project on their return to Nepal. The contract provides that SECID will place 49 long-term and 63 short-term participants for training in the United States over the five years of the project. Duke University is to plan and monitor all long-term training, which is normally 2-year university programs leading to graduate degrees. Western Carolina University is responsible for all short-term training, which is normally expected to last from one to two months. In addition to training in the United States, 120 participants are to receive training in India.

To be on schedule for long-term training, Duke should have placed 30 students by September 1982. Duke had only placed 26 students as of that date because four of the students nominated had not made acceptable scores on their English proficiency examinations. Two of these students have now passed the examination and expect to be placed in early 1983. Special materials have been acquired for the other two who are still studying for the examination. Of the 26 placed, six have returned to Nepal having received their advanced degrees, one has been extended, and 19 are currently pursuing their studies on schedule. Of the six returnees to Nepal, two work at the project offices, two are lecturers and expatriate instructor counterparts at the Institute of Forestry, one works at the BMR integrated watershed management project, and one works at another Department of Soil Conservation and Watershed Management project not funded by RCUP. This last returnee received a masters degree in environmental engineering. At the time of our review, the project was seeking an engineering counterpart to the expatriate engineering instructor at the Institute of Forestry in Hetauda.

Additional long-term training was initiated for five participants during the design phase of this project. Three participants went to the Philippines and one went to Thailand for 2-year programs of study leading to advanced degrees. One participant went to the United States for one year of advanced degree training. Funding for the completion of these training programs was provided by the RCUP. All five participants earned masters degrees and have returned to Nepal. All five are currently employed by the Agricultural Projects Services Center; none are working at the RCUP.

### Conclusions, Recommendation and Agency Comments

The fact that seven of the first eleven returnees trained with project funds are working on projects not funded by RCUP seems inconsistent with project goals. While we believe these trained personnel can be utilized effectively on other projects, it seems logical that the project providing the funding for their training would have first priority for their services. Therefore, we believe that the USAID should obtain justification from HMG/N for the assignment of these personnel to other projects and agree to no more than a minor extension of time for these personnel to complete immediate tasks before they are returned to the RCUP. Our draft report recommended action to accomplish this purpose.

The USAID oral response at the conclusion of our review was that returning participants trained with project funds should not be required to work for this particular project but should be required only to work in the general subject areas supported by the project. In written comment, the USAID stated that accepting this recommendation would damage HMG/N's growing conservation program and AID's ability to support effectively that program.

We believe the mission's position is neither logical nor represents a sound management position. Therefore, the draft recommendation has been retained.

#### Recommendation No. 10

The Director, USAID/Nepal should take action to have the seven RCUP trained personnel now assigned to other projects returned to the RCUP at the earliest possible date.

Short-term training completed to date has involved the visit by 15 senior level officials of HMG/N to the United States for orientation and seminars. No additional short-term training is in process or planned to be conducted in the United States. Instead, a plan has been developed to train 96 persons over the last 3 years of the project in third-world countries. Training under this plan is less costly than that planned for the United States, allowing twice the number of personnel to be trained. Training would still be for one to two months duration and would likely be held in a South or Southeast Asian country. Should this plan be approved, Western Carolina University's participation in the participant training aspects of this project would no longer be required and they should be deleted from the contract to prevent unnecessary costs being charged to the project.

Training in India is for two to five years of undergraduate study leading to a college degree. There are currently 30 students studying in India under this program and the project expects to send 20 more next summer.

#### Construction Plan Needs Revision

The construction component of this project has experienced delays to date but project officials are hopeful that the overall completion date for all construction will be met. The plan for construction, however, needs to be revised to reflect more realistic targets for completion of individual components and cost.

This project incorporates a design and construction component for buildings, water systems, irrigation projects, and mini-hydros. SECID has or is contracting with local firms for the architectural and engineering planning, surveys, design and construction supervision of all buildings, exclusive of those in the restricted zone; of water and irrigation projects, including seven in the restricted zone; and of two mini-hydros. SECID is responsible for the construction of all buildings outside of the restricted zone. IBG/N is responsible for the construction of buildings within the restricted zone and all water and irrigation projects. Plans for the construction of the mini-hydros have not been finalized.

Performance under the architectural and engineering phase of construction for water and irrigation projects has been slow. There were originally 10 contractors but one defaulted and its contract was later awarded to one of the other contractors. Contracts were awarded to firms that did not possess the capability of performing on schedule. Contracts were also awarded without firm completion dates; scheduled completion dates were based on a project schedule prepared by IBG/N after the contractor actually began work without stating when the contractor was to begin working. A contractor had stated that it has also been difficult to get IBG/N line agencies to review the design reports in a timely manner.

IBG/N is responsible for constructing the water and irrigation projects, but according to expenditure reports is already well behind schedule. Only about 26 percent of funds provided for construction in fiscal year 1981/82 were utilized.

SECID submitted a plan of operations for design and construction of ICUP buildings in November 1981. This plan was incorporated into the contract by amendment on February 1, 1982. The work schedule included in the amendment showed activity beginning in November 1981, the actual start of planned activities occurred about June 1982. June 1982 was also the month in which construction was to have begun. Instead, it is now estimated that the first construction contracts will be awarded in February 1983. The design contracts (one for each district) are considered to be on schedule, according to the revised schedule now in use. Consequently, the phasing of construction activity has been significantly altered from the original plan.

The currently scheduled completion dates for construction are March 1985 for Mustang and Myagdi districts and April 1985 for Gorkha district. The number of buildings to be constructed has also been revised from 164 to 151 with 40, 48, and 70 planned, respectively, for Mustang, Myagdi, and Gorkha districts. While the reduction in buildings to be constructed should have lowered the estimated cost, revisions desired by IBG/N to the design of the buildings have tended to increase costs. Therefore, there is need for revised budgetary data as well.

#### Conclusion, Recommendation and Agency Comments

Our final report concluded and an appropriate recommendation was made that a revised construction plan should be submitted so that more accurate data would be available for USAID's monitoring of the contractor's performance. The USAID responded that AID and SECID had planned to do this and had been awaiting a stage in construction design work which would allow a comprehensive effort to be made rather than a piecemeal approach.

Since the award of construction contracts was to begin in February 1983, we believe that an update of construction costs, numbers of buildings and their locations, and construction schedules including estimated completion dates should already have been submitted for the mission's review. Therefore, our original recommendation is restated as follows:

Recommendation No. 11

The Director, USAID/N should require SECID to update the existing construction plan or submit a revised one, as appropriate, to provide USAID/N with more accurate data with which to monitor the contractor's performance.

Assistance to the Institute of Renewable Natural Resources (IRNR)

SECID is responsible for providing technical assistance for the development of the IRNR. Due to the delay in constructing the Pokhara campus, the Institute of Forestry at Hetauda is the only operating IRNR facility at present. Contractor staff are assisting in developing a program of instruction and research in forestry, soil and water management, range management, and food production. They are teaching classes at the Institute and training their counterparts. They are also helping to select and obtain the library materials and teaching resources for the permanent collection to be housed at the IRNR library.

We believe that effective assistance is being provided by the expatriate staff and that progress toward Institute curriculum development is satisfactory given the limited facilities currently available and the delay in arrival of some of the expatriate staff. The latter factor is given as the reason little has been accomplished towards development of a program for training personnel in extension and outreach. Also, the special evaluation team believed that Institute curriculum development needed to focus more on local participation in project activity location and planning.

Reporting Was Not Timely

Contractor reporting on project progress has not been timely because the USAID did not provide adequate reporting criteria. The contract provides that SECID will submit biannual and annual substantive reports to the USAID indicating progress made during the prior period, plans for the ensuing period, and recommendations regarding current needs in the field activities covered by the contract. By the completion of our review, the contractor had submitted three biannual reports covering the contractor's performance through July 15, 1982. Part of the first report covering the period through July 1981 was not submitted until November 1981. The next report covering activity through January 1982 was submitted in May 1982, and the last report of activity through July 1982 was received by the USAID in January 1983.

Delays by the contractor in submitting these reports appear primarily attributable to indecisiveness on the contractor's part about the format and content of the reports. While USAID officials critiqued each of the reports, specific reporting criteria was not provided to or agreed to with the contractor during the early stages of this contract. As a result,

the current reporting format and content have evolved through a process of trial and error. This process has consumed considerable time through correspondence between the principals: USAID/N, SECID/N, and SECID/Chapel Hill. USAID officials could probably have minimized the reporting delays and time wasted developing an acceptable reporting format by providing the contractor with specific requirements relating to what information was needed and how it should be presented.

Commenting on our draft report, the mission stated that our conclusion was "unjustified in view of the need to involve all parties in the process of developing a format meeting a diverse range of information requirements and expectations, and the need to ensure that the quality of information generated is sufficient to support decisions made with respect to the evolution of project activities. We do not view the time and energy spent on this process to be wasted. To the contrary, we believe the reporting requirements to be more fully met because of the procedures followed."

Since much of the information needed by the USAID from one project to the next is similar in content required and format desired, we do not understand why each contractor should be required to develop a reporting format from scratch. Providing some basic guidelines to the contractor could speed up development of the reporting process and enhance the mission's monitoring capability. Concerning this project, the most recent contractor report appears to be generally acceptable to both the mission and contractor; therefore, we are making no recommendation.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 1

The Director, USAID/Nepal should initiate as soon as possible a re-evaluation of project targets which results in an AID policy on the scope of project interventions and considers revisions to that scope as presented in the discussion above.

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Recommendation No. 2

The Director, USAID/N should assure that the grant to HMG/N is amended to require periodic progress reporting by the grantee, including but not limited to accomplishments to date, progress toward achieving additional accomplishments, and problems encountered with corresponding actions planned or taken to resolve them.

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Recommendation No. 3

The Director, USAID/N should obtain a firm commitment by RCUP officials as to the extent that women are to participate in project activities, including employment by the RCUP, education at the Institute of Renewable Natural Resources, and participation in village and district level activities.

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Recommendation No. 4

The Director, USAID/Nepal should make a determination of which approach provides the soonest meaningful participation by villagers in the RCUP and the greatest potential for subsequent institutionalization and adopt that approach without delay.

Recommendation No. 5

The Director, USAID/Nepal should take action to expand the village extension and outreach program to promote education and understanding among villagers about the resource conservation and utilization activities of this project.

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Recommendation No. 6

The Director, USAID/N should make a determination whether funding provided to ADB was or was not utilized in accordance with grant provisions. If the funding provided was either not utilized or not properly utilized, the return of these funds to USAID/N should be requested from HMG/N.

LIST OF RECOMMENDATIONS

Page No.

Recommendation No. 7

The Director, USAID/Nepal should initiate action to accomplish a re-organization of the RCUP central staff which provides increased authority for and integration of the expatriate staff and improved lines of communication between SECID and HMG/N personnel.

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Recommendation No. 8

The Director, USAID/Nepal should assure himself that procedures have been adopted by SECID/Nepal for (1) certification of time and attendance reports by employees and approval of the reports by the employee's supervisor and (2) identification of and reimbursement by employees for the personal use of project assets.

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Recommendation No. 9

The Director, USAID/Nepal should assure that a complete inventory of commodities on hand is performed at SECID/Nepal and that a corresponding reconciliation and documentation of all commodity receipts and disbursements is made. SECID/Nepal should also be directed to establish and utilize a stock record card or similar system of inventory control and begin preparing receiving reports for all future shipments.

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Recommendation No. 10

The Director, USAID/Nepal should take action to have the seven RCUP trained personnel now assigned to other projects returned to the RCUP at the earliest possible date.

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Recommendation No. 11

The Director, USAID/N should require SECID to update the existing construction plan or submit a revised one, as appropriate, to provide USAID/N with more accurate data with which to monitor the contractor's performance.

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LIST OF REPORT RECIPIENTSUSAID/Nepal

Director	5
<u>AID/W</u>	
Bureau For Asia	
Assistant Administrator (AA/ASIA)	2
Office of Pakistan, Nepal and Sri Lanka Affairs (ASIA/PNS)	1
Audit Liaison Officer	1
Bureau For Science and Technology	
Office of Development Information and Utilization (S&T/DIU)	4
Office of Agriculture (S&T/AGR)	1
Bureau For Program and Policy Coordination	
Office of Evaluation (PPC/E)	1
Bureau For Management	
Assistant to the Administrator For Management (AA/M)	1
Office of Financial Management (M/FM/ASD)	2
Bureau For Program and Management Services	
Office of Management Operations (M/SER/MO)	1
Office of Contract Management (M/SER/CM)	1
Bureau For External Relations	
Office of Legislative Affairs (EXRL/LEG)	1
Office of General Counsel (GC)	1
Office of Public Affairs	2
Office of Inspector General:	
Inspector General (IG)	1
Communications and Records Office (IG/CS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General For Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Latin America	1
RIG/A/Abidjan	1
<u>Other</u>	
RIG/II/Karachi	1
New Delhi Residency, RIG/A/K (AAP)	1