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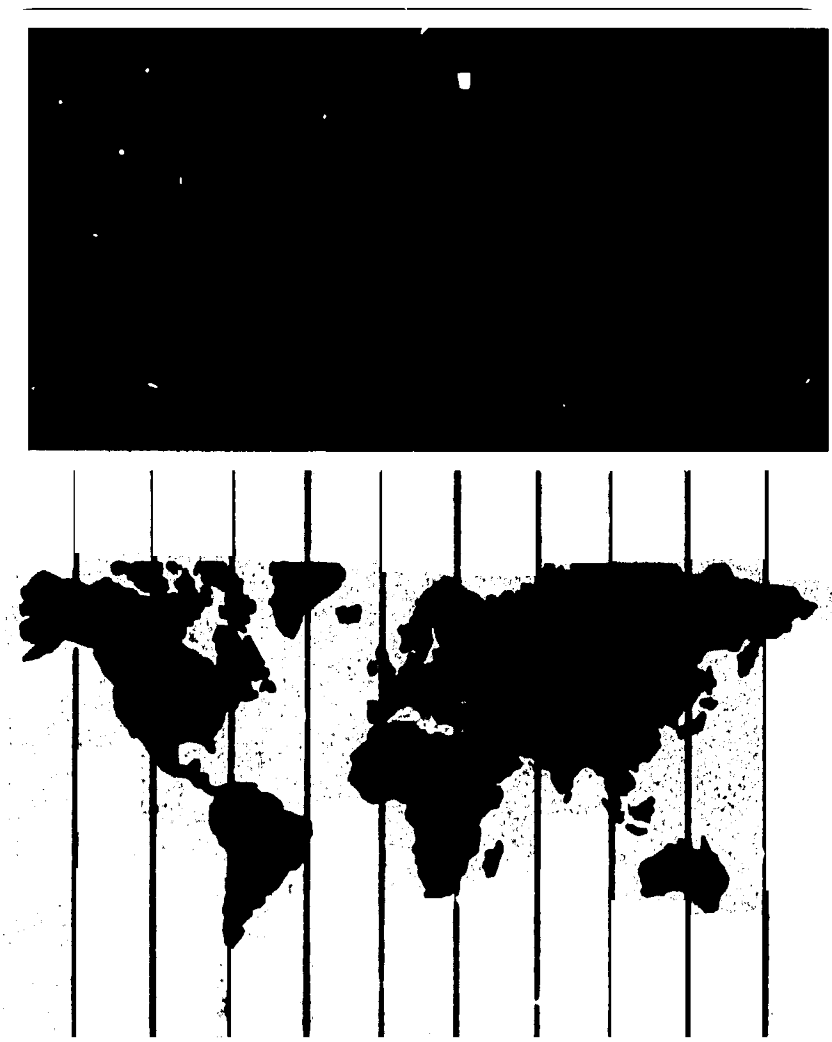

Regional Inspector General for Audit
CAIRO

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EGYPT'S GRAIN, TALLOW, OILS & FATS STORAGE & DISTRIBUTION FACILITIES ARE OPERATING BUT PROJECT NOT COMPLETED

PROJECT NO. 263-0037

AUDIT REPORT NO. 6-263-84-1

JANUARY 31, 1984

AID provided $37 million in loan funds to help Egypt improve its grain storage and distribution system for imported bulk commodities. Two project facilities in Alexandria are completed and operational. Thus the benefits to Egypt of a more effective and economically efficient storage and distribution system are being realized. However, completion was much later than the planned date of September 30, 1980.

Accordingly, benefits to Egypt were delayed and costs were substantially higher than originally estimated. Construction delays resulted in material cost escalations and the third project facility (the grain silo complex at the port of Safaga) was financed under a separate $80 million project.

Implementation and monitorship problems still exist, and USAID action is needed for satisfactory completion of the project by the project assistance completion date of September 30, 1984. USAID needs to: arrange for utilization of equipment costing $1.6 million; clarify the GOE ownership of project vehicles; arrange for timely procurement of spare parts; and justify the use of the bank letter of commitment method of financing for the Safaga construction contract.

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EXECUTIVE SUMMARY

Introduction

This project provided up to $37 million in loan funds toward the construction and equipping of facilities for the handling of imported grains, tallow, oil and fats at the Egyptian ports of Alexandria and Safaga.

After assistance to Egypt resumed in 1974, the Egyptian government requested AID assistance to improve the country's capacity for grain handling and storage. In May 1977, AID financed a feasibility study to examine Egypt's needs for additional handling and storage facilities. This feasibility study was made by Black & Veatch International (BVI) of Kansas City, Missouri. The study included a review of the existing system of handling imports of vegetable oil, tallow and fat in addition to grain. BVI's report of August 1977 recommended improvements in Egypt's commodity storage and distribution system. This project (Grain, Tallow, Oils and Fats Storage and Distribution, No. 263-0037) was authorized in response to a request from the GOE and designed to address recommendations in the BVI feasibility study.

Purpose and Scope of Audit

This audit covered project activities from inception on September 28, 1977 through December 31, 1983 to determine whether the project was effectively and efficiently managed, and to determine if project objectives were achieved. The audit was made in accordance with prescribed standards for government audits.

Project Facilities Completed

Two of the three project facilities are completed and operational. The completed facilities are the pier 81 and 82 bagging system and the tallow, oil and fats (TOF) storage and distribution terminal. Both are located in Alexandria. The third facility, a grain silo at the port of Safaga is being constructed under a separate project (No. 263-0165). By financing the Safaga facility under a separate project, AID was able to deobligate $5 million of the funds for this project.

The pier 81 and 82 facility is now operating and can store about 8000 metric tons of grain. The first grain was offloaded in January 1982.

The 60,000 metric ton tallow, oil and fats (TOF) terminal was completed on schedule, once construction started. The first vessel discharged oil at the terminal on October 11, 1983.

However, the bagging and TOF facilities were completed much later than planned. The delays resulted in material cost escalations. The engineering and construction supervision contract was amended seven times from the original amount of $3.8 million to $9.3 million. Originally, $9.3 million was programmed for the TOF terminal; final cost was $23.1 million. The initial planned completion date was September 30, 1980; the actual completion date was September 30, 1983. (See page 4).

USAID/Egypt needs to act to resolve the following implementation and monitoring problems before the Project Assistance Completion Date of September 30, 1984. (See page 4).

Better Equipment Utilization Needed

USAID/Egypt management needs to arrange for the utilization of $1.6 million of AID financed forklifts, conveyor bins, scales, bagging units and laboratory equipment. (See page 5).

Project Funded Vehicles Need to be Retitled

Four vehicles that were to be titled to the GOE are in fact titled to the consultant, BVI. Customs officials have blocked the relicensing of BVI vehicles on the basis of their private ownership. Project agreements and the BVI contract clearly provide that the ownership of these vehicles should be with the GOE. (See page 7).

Spare Parts Needed For Continued Operations

A list of needed spare parts valued at $375,000 was developed for the new TOF facility. However, at the time of our audit, no purchase orders had been placed. USAID/Egypt needs to arrange for timely procurement to avoid extended shutdowns. (See page 8).

Project Evaluation Needed

Provisions for periodic evaluations are contained in the loan agreement and in AID Handbooks. No evaluations of the project were carried out because USAID management placed a low evaluation priority on capital projects. We believe that evaluations would have been useful during this six year old project to identify implementation problems such as nonutilization of equipment. An evaluation would still benefit both this project from the standpoint of determining economic impact and the Safaga project from a standpoint of "lessons learned." (See page 10.)

Bank Letters of Commitment Overused

AID policy and USAID/Egypt mission orders require that AID direct letters of commitment be used to the extent possible because they are more economical, provide better internal control and reduce the risks involved in making payments to contractors. Departure from this policy is to be justified. USAID/Egypt used bank letters of commitment to finance 23 of the 24 project contracts and continued to use bank letters of commitment for the follow-on project at Safaga. Bank charges of $83,726 were authorized on this project and the bank made improper payments of over $137,000. We recommended that USAID/Egypt (a) justify the continued use of bank letters of commitment and (b) recover a $4.200 overpayment. (See page 12).

Summary of Management Comments

On January 26, 1983, USAID/Egypt provided written comments to our draft audit report. Management comments were considered in preparation of our final report. We have attached USAID/Egypt "Responses to Audit Recommendations" as Appendix II.

BACKGROUND

This project provided up to $37 million in loan funds toward the construction and equipping of facilities for the handling of imported grains, tallow, oil and fats at the Egyptian ports of Alexandria and Safaga.

After U.S. assistance to Egypt resumed in 1974, the Egyptian Government requested AID assistance to improve the country's port handling facilities. In May 1977, AID financed a feasibility study by Black & Veatch International (BVI) of Kansas City, Missouri to examine Egypt's needs for grain storage and handling facilities, and the existing system of handling imports of vegetable oil, tallow and fats. After completion of the study in August 1977, BVI submitted a report to the GOE's General Authority for Supply Commodities (GASC) with recommendations for improving Egypt's storage and distribution system for imported bulk commodities.

The Grain, Tallow, Oils and Fats Storage and Distribution Project (GTOF) No. 263-0037 was authorized in response to a request from the GOE. The project was designed to address the BVI feasibility study recommendations for the reduction of high losses of imported commodities due to spoilage, waste and infestation.

A Project Loan Agreement (No. 263-K-041) was signed September 28, 1977 to provide up to $42 million for the foreign exchange costs of project activities. The GOE contribution was for up to LE 14,889,000 (equivalent to $21.3 million at the exchange rate of LE 1.00 = $1.43)for the local costs of the project.

The planned project consisted of constructing and equipping three major facilities plus portable conveyors and laboratory equipment. The three facilities were: a grain bagging system at piers 81 and 82 in the port of Alexandria; a tallow, oil and fats (TOF) receiving, storage and distribution facility in the port of Alexandria; and a grain silo complex at the port of Safaga. The following chart gives a summary of the initial estimated costs of the various project activities:

Activity	U.S. $ (000)	GOE LE (000)
Pier 81/82 Bagging System	$ 6,770	LE 1,538
TOF Facility	9,324	2,655
Safaga Silo	24,127	10,687
Bag Conveyors	572	7
Laboratory Equipment	63	2
Unallocated	1,144	
	$42,000	LE 14,889
Dollar Equivalent of LE	21,291	
Total Project Cost	$63,291	

The General Authority for Supply Commodities (GASC), directly under the GOE Ministry of Trade and Supply, is the implementing agency for all activities of this project. In country, the General Company for Silos (GCS) is responsible for the operation and management of the pier 81 and 82 bagging system. The Alexendria Oil and Soap Company (AOSC) is responsible for the operation and management of the TOF terminal.

The Ministry of Trade and Supply requested that the engineering services for the project be performed by BVI because BVI had done the feasibility study and was considered the firm best qualified. AID agreed and a $3.8 million host country contract between BVI and the GOE was executed on June 17, 1978 for engineering services. The consultant was to design and supervise the construction and equipping of the pier 81 and 82 bagging system, a 50,000 metric ton storage and handling facility for grain at Safaga, and a 60,000 metric ton storage and distribution terminal for tallow, oils and fats in Alexandria. The BVI contract was amended six times under this project increasing the contract value to $5.5 million.

A seventh amendment to the BVI contract in February 1983 provided an additional $3.9 million from another project. AID granted the GOE $80 million on September 25, 1982 under a new project for the Safaga facility (agreement No. 263-0165) because most of the funds under the GTOF project were absorbed in the construction and equipping of the Alexandria facilities. The BVI contract was amended to provide construction supervision for Safaga. Funding for this $3.9 million amendment was from project 263-0165.

In July 1981, a fixed price construction contract in the amount of a $21.9 million was awarded to the U.S. firm of Harbert-Howard Companies to construct the Alexandria TOF facility.

At September 30, 1983, AID had issued 24 disbursing authorizations (DA) for the project with a value of $36.2 million. One DA was issued for the BVI engineering contract, one for the Harbert-Howard contract, and 22 DAs for IFB commodity procurement contracts. Details are shown in Exhibit A.

The September 1982 grant of $80 million for Safaga reduced the need for the full amount of the funds under this project and $5 million was deobligated in September 1983. The financial position of the project at September 30, 1983 is shown in Exhibit B.

Delays in project implementation necessitated extending the Project Assistance Completion Date (PACD) from September 30, 1981 to September 30, 1984.

Purpose and Scope of Audit

The purpose of this audit was to determine whether the Grain, Tallow, Oils and Fats project was effectively and efficiently managed, and to determine if AID's project objectives were achieved. Our audit was made in accordance with prescribed standards for government audits. We examined project documents and reports, held discussions with USAID, GOE and contractor management officials, examined AID financed contractor records, and visited project facilities in Alexandria. We inspected project equipment at project sites in Alexandria and Cairo.

Our audit work began in August 1983 and covered project activities from inception on September 28, 1977 through December 31, 1983, our audit cut off date. Project financial activities through September 30, 1983 were reviewed in this first audit of the project. We did not physically verify all project equipment because documents showing their location were not available for review.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

PROJECT FACILITIES COMPLETED

Two facilities planned under this project were completed and are in operation. The grain unloading, storage and bagging facility at pier 81 and 82 was completed in May 1983. The tallow, oil and fats facility was completed in September 1983. Thus the benefits to Egypt of a more effective and economically efficient storage and distribution system are being realized.

The pier 81 and 82 facility can store about 8000 metric tons of grain in its 20 storage tanks and 30 bagging bins. Daily bagging capacity at the 30 bagging stations is 7200 metric tons of corn or 9000 metric tons of wheat. This output capacity is considerably greater than the input capacity--offloading from vessels is limited to 3000 metric tons per day. The first grain was offloaded on pier 82 in January 1982.

Once construction started on the tallow, oil and fats terminal in November 1981, the facility was completed on schedule. The construction period of 683 days was met when the Harbert-Howard Companies received a provisional acceptance from GASC on September 30, 1983. The tallow, oil and fats terminal has a storage capacity of 60,000 metric tons. The first vessel arrived at the terminal on October 11, 1983, and began to discharge oil. The second ship arrived October 26, 1983 to discharge tallow. However, completion of both facilities was much later than originally anticipated. The pier 81 and 82 grain unloading, storage and bagging facility was completed almost four years behind schedule. The facility was scheduled for completion in March 1979; it was accepted for operation by the General Company for Silos (GCS) in May 1983. The general construction contract for the bagging facility was awarded to the Arab Contractors on December 23, 1979. Funds for this LE 3,007,050 ($4.3 million) contract were provided from the GOE contribution. The contract included all site work and construction of the bagging facility. Equipment and engineering services costing $7.6 million were financed by AID.

According to the project paper, a construction contract for the tallow, oil and fats terminal was to be awarded in September 1978. The plan called for the terminal to be operational in September 1980. The AID financed cost was estimated at $9.3 million. The first bids for construction were not received until July 1980, and after one year of rebids and negotiations with Harbert-Howard Companies the construction contract was awarded for $21.9 million. AID approved funding for this contract in July 1981, and the GOE Council of State approved the contract in September 1981. The effective date of the contract was November 15, 1981, when a letter of credit was opened for Egyptian pounds.

Accordingly, benefits to Egypt were delayed and costs were substantially higher than originally estimated. Exhibit B compares project financial status at September 30, 1983 with original cost estimates.

Implementation and monitorship problems still exist and USAID action is needed for satisfactory completion of the project by the project assistance completion date of September 30, 1984. USAID/Egypt needs: to arrange for utilization of equipment costing $1.6 million; to require transfer of ownership of project vehicles from BVI to the GOE; and to assure that spare parts are procured in a timely manner.

Better Equipment Utilization Needed

Project equipment costing $1.6 million was not utilized as intended, and insurance claims for items damaged during shipment to Egypt were not resolved. As a result, the equipment in question has not been efficiently and effectively used for the project.

Four forklifts trucks costing $68,520 have never been used on the pier 81 and 82 bagging facility for which they were procured. They arrived in country in April 1981 and were turned over to the General Company for Silos in September 1982. In September 1983, we were told that the forklifts had not been used and had not been licensed; they were still in the GCS's warehouse in Alexandria. In November 1983, GCS officials told us the forklifts were no longer in Alexandria. The GCS storekeeper said they were sent to Safaga. When we requested documentation, the storekeeper told us the documents were confidential, and to see them required approval from the Director of Stores, who was not available. The Chief Engineer at pier 81/82 said the forklifts were not needed there.

- Sixty-nine conveyors costing $583,000 were purchased for this project. We could confirm the utilization of only one. According to the GCS storekeeper, a total of 35 units had been distributed to various locations, but as with the forklifts, he was unable to produce documentation to show the distribution. The one unit we observed in operation was located at an Alexandria flour mill. GCS officials told us that 34 units were located at other flour mills in the area. Distribution to flour mills does not comply with the project agreement which calls for the conveyors to be used at inland and port grain storage locations.

  The remaining 34 units are still in GCS's Alexandria warehouse. Seven are in good conditions, the other 27 are damaged. Some of the damage is minor and the units can be repaired for use or salvaged for spare parts. An insurance claim was filed in 1982, but has not yet been settled.

- Screw conveyors costing $102,000 for pier 81 and 82 are not being used because GCS contends that actual capacity is between one and two metric tons per hour whereas the IFB called for a capacity of six tons per hour. The supplier contends that the IFB specifications were met: the problem is overloading of the conveyors. On November 7, 1982 the conveyor system was accepted by both GCS and BVI. However, the GCS engineer now claims that the conveyors are underpowered and do not meet specifications.

- Equipment to test food grain for protein and moisture content, valued at $35,000, arrived in Egypt in September 1979. The equipment has never been used because component programs were not available, and calibration of lab equipment was not satisfactory to GASC.

- Bins, scales and bagging units valued at $784,000 arrived in Alexandria during the period December 1979 to February 1982. These items were procured for Safaga, but there was no plan for their installation and use. Project officials told us that a specific timetable for installation will be included in the Harbert-Howard construction schedule for Safaga under the new project 263-0165.

Conclusion and Recommendation

USAID needs to arrange for utilization or disposition of AID-financed equipment in accordance with the project agreement. In response to our audit findings, the project officer wrote to GASC on December 15, 1983 requesting that GASC make available the transfer documents and arrange for USAID to inspect the forklifts, provide the locations of 35 portable bagged grain conveyors, and prepare a plan for repair and distribution of the 27 damaged conveyors. In addition GASC is to provide utilization plans for the screw conveyors and the test equipment. In their written response to our draft report, USAID management concurred in our audit finding and agreed to implement our recommendation. They have outlined a specific timetable to complete all actions necessary to locate and arrange for utilization of project funded equipment. We recognize USAID's prompt action in response to the audit, but include the following recommendation to assist project officials in their efforts to resolve equipment utilization problems.

Recommendation No. 1

USAID/Egypt locate and inspect damaged and unutilized AID-financed project equipment, and arrange for utilization for the project or obtain from GASC a refund of the purchase price.

Project Funded Vehicles Improperly Titled

BVI obtained ownership of four AID-financed vehicles intended for the GOE to facilitate clearing the vehicles from customs.

Four AID-financed vehicles were titled to BVI, although BVI's host country contract (Section 16.10) requires that all AID-financed equipment, materials and supplies be titled to the GOE or such other public or private agency as the Government may designate. The contract also states that all equipment materials and supplies shall be in the custody and control of the engineer until owner of the title directs otherwise or completion of work at which time custody and control shall be turned over to the owner of title or disposed of in accordance with instructions. According to the contract, all materials and equipment required shall be exempted from all taxes, fees, levies, and duties imposed under Egyptian law.

Two of the vehicles could not be used at the time of our audit because the licenses had expired and GOE Customs refused to extend the duty-free status necessary for re-licensing. The licenses on the other two vehicles expire in July 1984.

The problem with Customs stems from BVI's ownership. Customs authorities view the vehicles as privately owned and subject to Ministerial Decree No. 171 (effective August 1, 1983) which provided that private vehicles could be exempted from duty for a maximum three-year period. Although the AID Bilateral Agreement provides for exemption from customs duties of all AID-financed "supplies, material and equipment," Customs insisted on applying Decree 171 because:

- The two vehicles were cleared in April 1979 in the name of BVI although sponsored and guaranteed by GASC.

- Decree 171 did not provide for "temporary releases of private sedan vehicles of foreign consultants."

- The two vehicles have been in Egypt more than three years.

In response to our audit finding, USAID stated that transfer of ownership of private vehicles to the GOE is not easy to accomplish. The instant case is further complicated because payment of the duties is entangled by intra-governmental red tape, the vehicles are three years old, and customs duties would still be payable on the value at the time of importation. The gaining ministry has no funds to pay duties, duties must be paid in foreign exchange and/or the gaining ministry will not accept old vehicles.

In a letter to the Minister of Finance on November 10, 1983, the USAID Senior Legal Officer explained that the AID Bilateral Agreement covered several points including the matter in question that "any supplies, materials or equipment" brought into or purchased in Egypt by the U.S. Government or by any American Contractor financed by the U.S. Government for purposes of the AID programs shall be exempted from customs duties. He also expressed that it was important for the Customs Department to have the views of the Minister of Finance on the extent of the terms of the Bilateral Agreement. He concluded his remarks by recognizing that a high level meeting of Government of Egypt officials and USAID officials was scheduled to look into the issues and resolve them at the earliest possible time.

This is another example of the problems that USAID has with the management of project vehicles in Egypt. (See Audit Report No. 6-263-83-2 issued February 21, 1983.)

Conclusion and Recommendation

Because of recent efforts to resolve the Customs issue with the Ministry of Finance we are not making a recommendation. However, we encourage USAID to pursue the matter of customs' actions being in conflict with the Bilateral Agreement. USAID should arrange for transfer of ownership of project vehicles from BVI to the GOE. Ownership by the GOE would place the vehicles outside the purview of Decree No. 171. In written response to our draft report, USAID management stated that the vehicles would be transferred to the Safaga Grain Silos Project 263-0015 for the remainder of their useful lives. We agree with this action but the transfer of ownership should still be made; therefore, we retain our recommendation

Recommendation No. 2

USAID/Egypt arrange for the transfer of project vehicles' ownership to the GOE.

Spare Parts Needed for Continued Operation

USAID needs to followup to assure that an adequate supply of spare parts exists for the tallow, oils and fats facility. The facility is now in operation and a basic inventory of spare parts is needed to avoid extended shut-downs of operations should breakdowns occur. Procurement needs to be initiated soon because the procurement process takes about six months.

The construction contractor established a two and five year list of recommended spare parts, and on October 30, 1983 BVI recommended that GASC proceed with the purchases valued at $375,000. At the end of our audit field work in December 1983, no spare parts had been ordered.

Both BVI and AOSC considered the lack of spare parts critical, and told us that immediate attention was needed to assure the successful continued operation and maintenance of the facility.

Conclusion and Recommendation

USAID should closely monitor this procurement to assure that an adequate supply of spare parts is on hand for project operations. While we recognize that lists of spare parts valued at approximately $375,000 have been developed for the TOF terminal, no purchase orders had been placed at the close of our audit in December 1983. We agree with the Director of the AOSC and BVI that spare parts are critical for proper maintenance and are needed to avoid extended shut-downs of operations. In written comments to the draft report USAID stated that a procurement change order for spare parts had been expected from GASC since August 1983. They now expect to receive this procurement change order for review and approval by February 15, 1984. We retain our recommendation until procurement is initiated.

Recommendation No. 3

USAID/Egypt assure that spare parts required for the TOF terminal are procured in a timely manner.

PROJECT MODIFICATION NOT APPROVED

In July 1981, USAID/Egypt authorized an amendment to the BVI contract that changed the design of Safaga from a 50,000 metric ton facility to a 100,000 metric ton facility. AID policy provides that project documents be modified when substantive changes occur in a project. In this case USAID/Egypt did not initiate modification of project documents for this substantive change in the planned size of the Safaga facility until January 1982. At that time a project paper amendment was submitted to AID/W for approval of a 100,000 metric ton facility at Safaga. The amendment was rejected by AID/W in May 1982. By approving the BVI contract amendment, the planned size of the Safaga facility was physically doubled without benefit of AID's project development and review procedures. A subsequent AID project (September 1982) for $80 million was developed and approved to finance completion of the Safaga facility. The project paper for this follow-on project was therefore developed after USAID/Egypt and the GOE had agreed to double the size of the facility.

AID's Project Loan Agreement (No. 263-K-041) earmarked funds of $24.1 million for a 50,000 metric ton silo at Safaga complete with pneumatic ship unloading equipment. Planned completion was September 1981. In response to a May 1981 GOE request, USAID/Egypt agreed in July 1981 to finance an $863,000 amendment to the BVI contract which changed the design for Safaga from a facility of 50,000 metric tons to a facility of 100,000 metric tons.

AID Handbook 3, Chapter 13, requires that project documents be amended to reflect substantive changes. USAID/Egypt submitted an amended project paper in January 1982, six months after approving the design change doubling the size of the Safaga silo. The project paper proposed $70 million in additional financing to cover the cost of completing Safaga. In May 1982, AID/W rejected the proposed Safaga facility. The reasons given for AID/W's decision were the already costly and frustrating delays in implementing another ongoing AID assisted silo project, the added difficulties of distance and environment that Safaga would have created, and uncertainties over the estimated final cost of the Safaga facilities.

Under year-end pressure to obligate funds and strong support for the project from the GOE, the decision not to fund Safaga was reversed. A new project providing an $80 million grant for a 100,000 metric ton facility was executed on September 25, 1982.

Conclusions

Even though USAID approved changes to the BVI contract, AID policy was not followed because the amendment to the project paper was not approved by AID/W prior to the amendment to the BVI design contract.

We are not recommending a change in project documentation now that the project is nearing completion and the construction of Safaga has been funded under a new $80 million grant. However, we believe this is a matter to be covered in a final project evaluation.

PROJECT EVALUATION NEEDED

A project evaluation is needed to assess the overall development impact of the project. Project planners believed that an evaluation was needed to measure progress toward attainment of project objectives. In fact, the loan agreement called for evaluations to be conducted early during project implementation and one or more times thereafter. This project had not been evaluated because USAID management placed a low priority on evaluation of capital projects. As a result, an opportunity was lost for USAID and the GOE during the early implementation stage of the project to assess the changes in project scope, and to identify problems affecting the management and utilization of project funded equipment.

AID's policy on evaluation is contained in Handbook 3 (Chapter 12), and conforms to the guidance provided in Section 621 (b) of the Foreign Assistance Act. The Act requires that AID establish a management system to include: development of quantitative indicators of progress toward program objectives; orderly consideration of alternative means for accomplishing such objectives; and adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken.

The purpose of evaluation is to provide an objective and rational basis for making decisions about current and future projects, programs, policies and procedures. The GTOF loan agreement specifies an evaluation program to include measurement of (a) progress toward attainment of project objectives and (b) overall development impact of the project. We were advised during our entrance conference with the Mission that an evaluation had not been made or scheduled because capital projects hava a low evaluation priority. Also, USAID project management stated that this project had no log-frame or designation of beneficiaries and few stated objectives in the original design; therefore, evaluators would have nothing to evaluate against.

Conclusions

The absence of amendments or revisions to project documents for changes in project scope set the stage for an evaluation on a high priority basis rather than the low priority assigned by USAID. We believe an evaluation during implementation would have provided a basis to officially document the reasons and justification for the substantive changes in funding and scope of this project. Additionally, an evaluation would have been particularly useful in giving reasons why the 100,000 metric ton grain facility was designed under this project rather than the new Safaga grant itself. An evaluation would also have provided the means to identity problems with commodity utilization and deal with them at an early stage of the project.

Evaluation is a valuable tool not only for technical assistance projects, but for capital projects as well. As AID's Handbook points out, an evaluation provides an objective and rational basis for making decisions about current and future projects, programs, policies and procedures. The problems and accomplishments of this project should be made a matter of record to provide a basis for making decisions on this project and the follow-on project at Safaga.

According to project planners, this capital project was designed to reduce economic losses through facility improvements. The project evaluation should therefore address the degree of progress made in improving distribution and storage systems in Egypt, reducing losses due to waste and spoilage, and saving freight and demurrage charges.

Our draft report included a recommendation that:

> USAID/Egypt schedule a completed project evaluation to measure the degree of progress made in reaching the project objectives.

USAID management stated: "...recent Mission policy and action on evaluation ...consciously have downplayed evaluations of capital development projects in favor of greater emphasis on evaluation of less tangible development impacts of technical assistance projects in the portfolio. Although we believe this policy is justifiable (and has been appropriate in the specific instance of Grain/TOF), we currently are reviewing our philosophy and approach to evaluation for new and productive ways to gather meaningful and useful information on capital development projects....Whatever decision is reached by the Executive Committee will have an impact on our approach to evaluating the Grain/TOF project. At the current time, however, we are awaiting background information and opinions from AID/W on approaches to and options for evaluating capital development projects....We have been promised materials to assist us in our consideration of this matter, but these have yet to arrive in the Mission from AID/W...." (See Appendix II for full detail of USAID response.)

USAID reports that their request for information and assistance in rethinking its approach to evaluation of capital development projects has stimulated considerable discussions at the highest levels of Bureau management in AID/W. The result, they believe, may eventually produce a more thoughtful and productive policy and practice on capital development evaluations not only in USAID but throughout AID.

USAID expects to receive AID/W response by February 15, 1984. At that time discussions toward a new, more satisfactory and useful policy on the evaluation of capital development projects in the Mission can be initiated.

We believe that USAID management's approach to address this evaluation issue and their actions taken in response to our audit finding are well supported and provide reasonable approach to resolve the evaluation issue for the Grain, Tallow, Oils & Fats project. Their proposal for example, "evaluations of groups of projects by sector, by common implementation problems, by common design on implementation elements..." is appropriate for evaluating AID assistance to the grain storage and handling projects in Egypt.

Although we are not making a formal recommendation in this report, we strongly urge USAID management to continue their efforts with Bureau management in AID/W to establish a useful policy on evaluation of capital development projects. We do request the USAID Executive Committee to submit interim reports of their progress to resolve this issue.

BANK LETTERS OF COMMITMENT OVERUSED

Agency cash management policy and Mission orders require that the AID direct letter of commitment method of financing be used to the extent possible. Direct letters of commitment are more economical, provide better internal control, and reduce the risk involved in making payments to contractors. The policy was not followed because USAID officials believed that the direct letter of commitment method of financing required excessive administrative oversight. As a result, the project documents earmarked bank charges of $83,726 (See Exhibit A), and the bank paid a supplier $137,000 before payment was due. The bank also paid a supplier $4,200 that should not have been paid.

USAID authorized project disbursements of $36.2 million under 24 separate contracts. Of these, bank letters of commitment were used for 23 and only one was disbursed under an AID direct letter of commitment.

AID's cash management procedures require, and prior AID/IG audits strongly support, the use of AID direct letters of commitment. AID's October 1979 Cash Management Procedures as approved by the Deputy Administrator established criteria for letter of commitment financing. These procedures state in part that the direct letter of commitment method is particularly appropriate and generally preferable to bank letters of commitment for borrower or grantee type contracts, high bulk commodity shipments, and for any type of transaction when it is necessary or advisable for AID to review documentation before making payments.

Mission Order No. 19-7, dated January 20, 1981, requires that the direct letter of commitment be used as the primary method for financing host country contracts in Egypt.

Prior AID/IG audits have also found that direct letters of commitment are more economical and provide better internal control over disbursements. RIG/Washington audit report No. 82-38 concluded that the bank letter of commitment method of financing should be discouraged because no AID official reviews the voucher and supporting documentation prior to payment. Further the bank's responsibility is limited to a determination of whether or not the documents required by the applicable letter of commitment are submitted. If the documents are submitted, the bank pays. As a result of the audit, AID established a task force to review AID's financing procedures. On August 6, 1982, the task force recommended that AID direct letters of commitment be used rather than bank letters of commitment, and that Missions submit a justification to AID/W whenever there is a departure from this policy.

RIG/A/Cairo Audit Report No. 81-1 concluded that bank charges of about $566,000 annually could have been saved if AID direct letter of commitment had been used in place of bank letters of commitment for certain transactions. In another report No. 83-6, RIG/Washington noted that the Agency paid $1.2 million in bank charges in FY 1981.

The latest IG functional audit report (No. 83-66) on the matter of letter of commitment financing was issued by RIG/Washington on May 27, 1983. This report summarized previous IG reports and concluded that bank letters of commitment were overused and were the highest risk compared to other methods of financing. In addition, the RIG/Washington believed that if the use of bank letters of commitment was limited to the maximum extent possible, the Agency could save significant amounts annually. The auditors found however that AID had continued to overuse bank letters of commitment and pile up commissions and interest charges.

USAID's non-compliance with Agency policy in the GTOF project has resulted in bank charges of up to $83,726 and payments by the bank to suppliers of $141,200 that were improper under the terms of their contracts. In one case, the bank paid a supplier a ten percent retention balance of $137,000 upon presentation of documents by the supplier. The payment should not have been made at that time because the supplier's documents did not contain the provisional acceptance certificate required by the bank letter of commitment. The engineering consultant (BVI) telexed the bank to hold up payment pending resolution of a claim; however, the bank had already paid. For this payment, the bank received its usual commission. The bank's payment advice contained a statement that "We assume no responsibility for the genuineness of the documents or the quality or quantity of the merchandise represented thereby."

In two other instances, the bank made payments to suppliers that should not have been made. GASC sent the bank stop payment orders in April 1981. The stop payment orders were issued because of disputes over late delivery of equipment under American Export Group (AEG) supply contract No. 263-K-041-E301 and No. 263-K-041-E302. In November 1982 GASC rescinded the stop payment orders, and provided provisional acceptance certificates for both AEG contracts. GASC deducted $3,356 from AEG contract E301 for liquidated damages authorizing the bank to pay $899 of the final retention payment. In addition, GASC deducted $862 from AEG contract E302 for liquidated damages, authorizing the bank to pay $5,191. According to AID/W financial records the supplier (AEG) received full payment from the bank. These transactions demonstrate the risks involved in bank payments to suppliers when technical provisions of procurement contracts are not adhered to.

Bank letter of commitment financing has continued under the Safaga project (No. 263-0165). USAID requested AID/W to issue a $55 million bank letter of commitment for full financing of the construction contract. The request included bank charges of $170,000. However, AID/W chose to pay mobilization and advance payments under a direct letter of commitment thereby reducing the bank charges to $97,000, a saving to the Agency of $73,000.

In explaining the use of the bank letter of commitment method of financing for the Safaga project, USAID project officials stated that USAID's experience with multiple procurements and multiple letters of commitment under another project convinced them that the AID direct letter of commitment method of financing was not cost effective and required excessive administrative oversight. It was clear that there would be multiple procurements under the Safaga project that lent themselves best to the bank letter of commitment method of financing. They also pointed out that AID/Washington reviewed the project design and approved the use of bank letters of commitment for construction when the project was authorized. Subsequently, the IFB and the contract documents were drafted to incorporate the AID/W approved method of financing, and the Controller in AID/W agreed to issue bank letters of commitment for the construction and procurement under project 263-0165.

Conclusions and Recommendations

The financing of 23 out of 24 disbursing authorizations by bank letters of commitment in the GTOF project and continuation of the practice for the Safaga project (263-0165) was not consistent with AID's policy or Mission Order 19-7 which state that the AID direct letter of commitment will be used as the primary financing method for all host country contracts. Certainly the need to review documentation before making payment to suppliers has been demonstrated in prior IG reports and in the GTOF project.

We believe USAID needs to justify the use of bank letter of commitment financing for the Safaga project construction contract. This justification should be submitted to AID/W. The Mission's rationale that bank letter of commitment financing was appropriate for the project because there would be a substantial number of procurements of relatively small value does not apply to the construction contract of almost $55 million. While the Mission commented that the AID/W Controller agreed to issue a bank letter of commitment for the construction contract, we note a recent (December 2, 1983) cable from the Controller to the Mission which states that a total of $97,000 in bank charges could have been avoided by the use of a Mission issued direct letter of commitment.

In response to our draft audit findings, USAID management recognized a failure to strictly interpret cash management instructions pertaining to the use of bank letters of commitment. In a message to AID/W, Mission management stated steps had been taken to correct this deficiency and does not expect this situation to reoccur. We recognize USAID's actions to correct this problem; but we believe the $4,200 overpayments to AEG should be recovered. Also, USAID needs to document and justify to AID/W the use of bank letter of commitment financing for the Safaga construction contract. Accordingly, we make the following recommendations.

Recommendation No. 4

USAID/Egypt recover the $4,200 in overpayments to AEG for AID-financed commodities.

Recommendation No. 5

USAID/Egypt document and justify to AA/M the use of bank letter of commitment financing for the Safaga construction contract.

Exhibit A

GRAIN, TALLOW, OILS, & FATS PROJECT. No.263-0037.

STATUS OF DISBURSING AUTHORIZATIONS

AS OF SEPT. 30, 1983.

D.A. No.	PAYEE	L/COMM. AMOUNT	CONTRACT AMOUNT	BANKING CHARGES	DISBURSED	BALANCE
01	BVI	$ 5,487,787	$ 5,487,787	$ =0=	$ 5,178,204	$ 309,583
02	CITIBANK	37,248	36,944	304	30,095	7,153
03	CITIBANK	1,990,305	1,984,588	2,551	1,986,705	3,600
04	CITIBANK	44,857	42,554	100	42,843	2,014
05	CITIBANK	155,078	151,802	310	138,205	16,873
06	CITIBANK	102,085	101,719	300	102,085	=0=
07	CITIBANK	238,714	238,300	477	238,714	=0=
08	CITIBANK	1,683,218	1,679,858	3,360	1,658,498	24,720
09	CITIBANK	1,373,387	1,370,650	2,708	1,372,794	593
10	CITIBANK	63,362	63,162	200	63,362	=0=
11	CITIBANK	87,120	86,946	174	81,719	5,401
12	CITIBANK	181,687	181,325	362	132,949	48,738
13	CITIBANK	14,604	14,554	50	13,583	1,021
14	CITIBANK	163,808	163,481	327	163,805	3
15	CITIBANK	137,565	137,289	275	129,875	7,690
16	CITIBANK	98,042	97,850	192	95,325	2,717
17	CITIBANK	454,014	447,713	1,500	451,977	2,037
18	CITIBANK	968,587	966,654	1,933	=0=	968,587
19	CITIBANK	228,533	227,833	700	209,142	19,391
20	CITIBANK	65,827	65,691	135	62,294	3,533
21	CITIBANK	68,936	68,746	142	68,936	=0=
22	CITIBANK	68,478	68,310	210	68,478	=0=
23	CITIBANK	583,746	581,945	1,800	519,994	63,752
24	CITIBANK	21,937,598	21,871,982	65,616	20,322,235	1,615,363
		$36,234,586	$36,137,683	$83,726	$33,131,817	$3,102,769

UNCOMMITED BALANCE	$ 765,414
LOAN AUTHORIZED	$ 37,000,000

EXHIBIT B

GRAIN, TALLOW, OILS, & FATS PROJECT NO. 263-0037

ACTUAL COMMITMENT OF LOAN FUNDS FOR PROJECT ACTIVITY

AS OF SEPTEMBER 30, 1983

	ORIGINAL ESTIMATE ($000)	ACTUAL COMMITMENTS ($000)	DIFFERENCE ($000)
Pier 81/82 Bagging System	$ 6,770	$ 7,594	$ 824
TOF Facility	9,324	23,148	13,824
Safaga Silo	24,127	4,845 1/	(19,282)
Bag Conveyors	572	603	31
Lab Equipment	63	45	(18)
Uncommitted	1,144	765	(379)
	$42,000	$37,000	$(5,000)
Deobligation	(5,000)		5,000
Loan Authorized	$37,000	$37,000	$ -0-

1/ Includes $3,088,421 design costs of the 100,000 M.T. storage complex at Safaga; $784,091 for equipment; $968,587 commitment for freight charges; and $4,186 for other miscellaneous.

DA No. 18 ($968,587) cancelled October 21, 1983 reducing actual commitments for Safaga to $3,876,698.

LIST OF REPORT RECOMMENDATIONS

"USAID/Egypt locate and inspect damaged and unutilized AID-financed project equipment and arrange for utilization for the project, or obtain from GASC a refund of the purchase price."

USAID concurs in this recommendation, and proposes to implement it, assuming GASC and GOE cooperation, according to the following schedule:

A. Forklift Trucks

(1) Determine Locations	15 February 84
(2) Set appointments to inspect	29 February 84
(3) Inspect and report	15 March 84

B. Portable bagged grain conveyors

(1) Determine locations	15 February 84
(2) Set appointments to inspect	29 February 84
(3) Inspect and report	15 March 84

C. Portable bagged grain conveyors (damaged)

(1) Determine status of insurance claims	15 February 84
(2) Obtain repair schedule	15 March 84
(3) Obtain distribution plan	15 April 84

D. Screw conveyors.

We have determined that these conveyors will operate to specification if proper maintenance and operating procedures are observed by GCS.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

*U.S. GOVERNMENT PRINTING OFFICE : 1982 O - 361-526 (7290)

However, we will hold a technical level meeting with BVI and GCS personnel to review proper procedures.

(1)	Schedule on-site technical meeting	15 February 84
(2)	Hold meeting and report	15 March 84

E. Laboratory equipment

(1)	Meet with GASC to develop program; report	29 February 84
(2)	Issue Refund Claim, if indicated	15 March 84

F. Safaga Commodities

As already stated in our 20 December 1983 memorandum, these commodities have been identified and the list has been given to the prime contractor, Harbert-Howard Companies. Procurement of these commodities will not be duplicated. The commodities will be installed as per the design drawings and specifications. A specific timetable for installing this equipment will be included in HHC's construction schedule, which will be available by 29 February 1984. We will provide RIG/A a copy.

2. Recommendation No. 2

> "USAID/Egypt arrange for the transfer of project vehicles' ownership to the GOE or recover their original cost from BVI."

USAID and RIG/A agreed to delete reference to recovering the cost of the vehicles from BVI.

USAID has already arranged with the Ministries of Customs and Finance for extending the customs exemptions on project vehicles operated by BVI for project purposes.

USAID and RIG/A agreed that the recommendation should be revised to reflect that the vehicles will be transferred by BVI for use in the Safaga Grain Silos Project 263-0165 for the remainder of their useful lives.

3. Recommendation No. 3

> "USAID/Egypt assure that spare parts required for the TOF terminal are timely procured."

Mission concurs in this recommendation, on the understanding that (1) the word "timely" is inappropriate and should be deleted, and (2) the recommendation can be closed upon USAID approval of the procurement. A PCO for spare parts procurement has been expected from GASC since August 1983. After much prodding of GASC, USAID expects the PCO transmittal by 1 February 1984, which would enable USAID review and approval by 15 February 1984.

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4. Recommendation No. 4

> "USAID/Egypt schedule a completed project evaluation to measure the degree of progress made in reaching the project objective."

In its draft audit findings of the Grain/TOF project, RIG/A recommended an evaluation be performed. The USAID response of 20 December 1983 to this recommendation was that we could see no productive purpose in doing such an evaluation since, from our current perspective, no new information would be gathered and we merely would be repeating what is already known from project files and from the audit. This response was consistent with recent Mission policy and action on evaluation that consciously have downplayed evaluation of capital development projects in favor of greater emphasis on evaluation of less tangible development impacts of technical assistance projects in the portfolio. Although we believe that this policy is justifiable (and has been appropriate in the specific instance of Grain/TOF), we currently are reviewing our philosophy and approach to evaluation for new and productive ways to gather meaningful and useful information on capital development projects. (See the attached discussion paper entitled "Evaluation of Capital Development Projects.") Several options have been proposed -- for example, evaluation of groups of projects by sector, by common implementation problems, by common design or implementation elements. -- and will be considered by the Mission Executive Committee. The Mission is anxious to move ahead on a general policy toward evaluation of capital development projects. Whatever decision is reached by the Executive Committee will have an impact on our approach to evaluating the Grain/TOF project. At the current time, however, we are awaiting background information and opinions from AID/W on approaches to and options for evaluating capital development projects (see 83 Cairo 34517 for the Mission's request for such information.) We have been promised materials to assist us in our consideration of this matter, but these have yet to arrive in the Mission from AID/W. In several phone conversations with AID/W over the past two months, we understand that USAID/Cairo's request for information and assistance in rethinking its approach to evaluation of capital development projects has stimulated considerable discussion on a Bureau-wide basis and at the highest levels of Bureau management. While this eventually may produce a more thoughtful and productive policy and practice on capital development evaluations not only in USAID/Cairo but elsewhere in AID, it has in the short run prolonged our own process of consideration. As soon as these materials arrive (estimated to be sent on or about February 15, 1984) the Executive Committee can begin its discussions toward a new, more satisfactory and useful policy on the evaluation of capital development projects in the Mission portfolio.

Since RIG/A concerns will be addressed within the above overall context of evaluation of capital projects, this recommnedation should be deleted.

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5. Recommendation No. 5

> "USAID/Egypt recover the $4,200 in overpayments to AEG for AID-financed commodities."

USAID is reviewing this issue to determine that there was in fact an overpayment and that GASC believes that charging liquidated damages is still in order. If recovery of payment is indicated, we will initiate appropriate action.

(1)	Confirm overpayment	15 February 84
(2)	Confirm GASC's decision to invoke liquidated damages	15 February 84
(3)	Issue Bill for Collection	29 February 84

6. Recommendation No. 6

> "AA/M require USAID/Egypt to provide justification for the use of bank letter of commitment financing for the Safaga construction contract."

The financial procedure used in the Safaga Grain Silo Project financed under 263-0165 was established prior to current strict cash management instructions. However, the Mission recognizes that there has generally been a failure to strictly interpret cash management instructions pertaining to the use of Bank Letters of Commitment. The Mission has since taken steps to correct this deficiency as shown in the attached 12/7/83 memo to G. Zarr from T. McMahon and cable, Cairo 36719, and does not expect this situation to reoccur. The memo in conjunction with the cable provides that the bank letter of commitment method of financing will not be utilized either for host country contracts or inclusion in IFBs, unless there will be a proliferation of invoices. If the bank L/Comm method is used, then certain requirements must be met and provided for in the request to open it.

The Mission believes that the past situation has been rectified and thus suggests that the recommendation directed to AA/M be deleted; alternatively if the RIG considers a recommendation necessary, we suggest that it be directed to the Mission for action to permit prompt closure.

IDPS:JPasticins:1/22/84 (ID#3447D)
Clear: IDPS:AdeGraffenreid(draft)
IDPS:JShea(draft)
FM:AGordon ____
FM:TMcMahon ____
LEG:DPressley ____
AD/DRPS:GZarr ____
DPPE:EBaldwin ____
DPPE:NSweet ____

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

December 07, 1983

M E M O R A N D U M

TO: Mr. G. Zarr, AD/DRPS

FROM: Terrence McMahon, AD/FM

SUBJECT: Use of Bank Letters of Commitment

REF: State 342343

The referenced telegram is self explanatory. Please advise members of your staff who approve IFB's and host country contracts that the bank letter of commitment method of financing should not be used for individual contracts resulting in one or two invoices per month. The bank L/Comm method is acceptable for CIP procurement and projects for which several suppliers submit documents under a single L/Comm to a U.S. bank.

If future contract awards must include the bank L/Comm method because existing IFB's so stipulated, please be certain that the request to open the bank L/Comm provides:

1) An L/Comm amount net of the mobilization payment

2) A request that FM/BFD pay the mobilization amount directly to the contractor
and
3) An explanation of why the bank L/Comm must be used, i.e. the IFB went to the street before the Mission began a more restrictive policy on use of bank letters of commitment.

cc:FM/FA:LCDrengler

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RR RUEHC
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FM AMEMBASSY CAIRO
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BT
UNCLAS CAIRO 36719

CLASS: UNCLASSIFIED
CHRGE: AID 12/??/83
APPRV: AD/FM:TMCMAHON
DRFTD: AD/FM:TMCMAHON:
CLEAR: AD/DRPS:GZARR
DISTR: AID-6 AMB DCM
CHRON

AIDAC

E.O. 12356:N/A
SUBJECT: ADVANCE PAYMENT TO CONTRACTORS UNDER BANK L/COMS

REF: (A) STATE 342343, (B) STATE 313635, (C) CAIRO 33022

1. FOR M/FM/C CHRISTENSEN FROM MCMAHON

2. MISSION APPRECIATES M/FM/BFD ASSISTANCE DESCRIBED REFTEL. WE WILL ENSURE THAT FUTURE IFB'S PROVIDE FOR THE BANK L/COMM METHOD OF FINANCING ON AN EXCEPTION BASIS ONLY, IN STRICT CONFORMANCE WITH CASH MANAGEMENT PROCEDURES. FUTURE CONTRACT AWARDS MADE PURSUANT TO PRESENTLY EXISTING IFB'S MAY REQUIRE USE OF BANK L/COMMS, AND IF SO, MISSION WILL ENSURE THAT MOBILIZATION PAYMENT IS PROVIDED AS DIRECT PAYMENT TO CONTRACTOR APART FROM BANK L/COMMS.

3. MISSION WILL APPRECIATE CONTINUING SUPPORT OF FM/BFD AS WE ADOPT MORE RESTRICTIVE POSITION ON USE OF BANK L/COMMS. THAT SUPPORT MUST NECESSARILY EXTEND TO TELEGRAPHIC REQUESTS FOR PAYMENTS UNDER EXISTING DIRECT LETTERS OF COMMITMENT PENDING ESTABLISHMENT OF USDO IN CAIRO. VELIOTES
BT
#6719

NNNN

EVALUATION OF CAPITAL DEVELOPMENT PROJECTS

The Mission's articulated policy on the nature and timing of evaluation, as stated in Mission Order 3-27, dated June 16, 1983, is "the information that must be gathered to assess project progress and impact -- therefore, the evaluation requirements needed to collect that information -- vary widely from project to project." The Mission order attachment goes on to say:

> By their nature, some projects require much more complicated and intensive/extensive evaluation efforts than others. Decisions regarding the frequency, timing and level of effort must be made on a case by case basis, determined by each project's need for information to check progress and achievements. In general, however, it might be said that the complexity and frequency of evaluation will increase as the stated project objectives become less and less tangible.

This policy reflects the reality of performing evaluations of capital development projects* versus technical assistance projects: (1) the progress and problems of capital development projects are relatively easier to identify and follow through information sources other than evaluation and (2) capital development projects tend to have a longer "lead time" before impact can be assessed, therefore evaluation is likely to be necessary less frequently than in technical assistance projects.

Mission policy also reflects the reality of evaluations in the USAID over time. As USAID/Cairo grew rapidly in the late 1970s, activities were focused primarily on the future rather than on the past, i.e., in the rush to design new projects and obligate funds, little thought seems to have been given to verifying the progress of what was already underway or of learning lessons to be applied systematically to the improvement of current and future efforts. Planning for evaluation in project designs is particularly uneven and typically not integrated into the project concept in any way. (This is as true for technical assistance projects as capital development.) Most evaluation sections in PPs, where they exist at all, are pro forma, scheduling evaluations, for example, only at the completion of the project ("final"), or annually, or after 36 and 60 months ("mid-term and final") of implementation. There is obvious confusion between monitoring and evaluation (e.g., in scheduling "annual" evaluations), and many PPs actually discuss monitoring under the evaluation section. Of the projects considered capital development for the purpose of this discussion, there is a typical lack of thoughtful planning for evaluation. In the IDPS portfolio, there is a higher than average lack of evaluation plans altogether (six of 16 PPs checked). All of the UAD and IT/IR projects checked had evaluation

* "Capital development" projects here will be considered roughly equal to the portfolios of IT/IR, DRPS/UAD and DRPS/IDPS.

plans, but all were rote efforts ("final only," "mid-term and final," or "annual"). In addition, all Project Agreements containing a covenant on evaluation (in most cases, section 5.1) had a "boiler plate" entry.*

Despite poor planning, evaluations were carried out throughout these years of rapid expansion. However, a systematic, thoughtful and logical means of selecting projects for evaluation on a Mission-wide basis (either based on PP design or through a separate planning exercise) does not appear to have been applied; instead, evaluations seem to have been done on an <u>ad hoc</u> basis, as determined by the information needs identified in the appropriate project office. Actual performance of evaluations of the capital development projects as scheduled in the PPs is difficult to criticize since many scheduled no evaluations or only "final" or "annual" evaluations (that were once an Agency requirement and that can be considered equivalent to monitoring in value offered); for those with mid-term as well as final evaluations scheduled, performance has been adequate (of three projects in this category, one has been done, one is scheduled to be done in FY 84, and one has not been done). It is not clear, however, if this record is the result of adherence to the PP design or coincidence.

In the last few years, the Mission has given attention to more thoughtful evaluation planning and organization (outside the PP evaluation design), but the system and the practical application of policy still are evolving. Given limited staff time and resources as well as the nature of information needs, even recent evaluation efforts have continued to focus more heavily on technical assistance than on capital development projects.

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* The evaluation covenant found in Project Agreements reads as follows:

"<u>Project Evaluation.</u> The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the evaluation program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;
(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;
(c) assessment of how such information may be used to help overcome such problems; and
(d) evaluation, to the degree feasible, of the overall development impact of the Project."

It is important to note that the existing policy and practice do not preclude evaluation of capital projects at the appropriate time and under the appropriate circumstances. In fact, there is a trend toward increasing the proportion of capital projects in the Mission evaluation schedule over the next few years. In FY 83, the Mission completed eleven evaluations, none of which were of capital development projects; in FY 84, twenty-four evaluations and assessments are planned, four of which might be considered to cover capital development projects (Misr Spinning and Weaving, Low Cost Housing and Community Upgrading, Telecommunications I, II and III, and Canal Maintenance); in FY 85, sixteen evaluations are scheduled tentatively, of which five concern capital development projects (Ismalia Power Plant, Urban Electric Distribution, National Energy Control Center, Alexandria Water/Wastewater I and II, Cairo Sewerage). Thus, our past as well as recent performance is clear: we have not evaluated many capital development projects relative to technical assistance projects. However, this has been due less to "accumulated neglect" than to a stated evaluation policy based on very practical and rational considerations.

Given the amount of discussion devoted to evaluation, particularly as it concerns capital development projects, at the November portfolio review, it may be appropriate now to consider if the USAID perhaps has been pursuing an inadequate or unnecessarily biased approach to evaluation across projects. There are undoubtedly lessons to be learned from evaluating capital development projects. What are the lessons that the Mission -- and the Agency as a whole -- should be sure to document from its capital development experiences? What are the recurring implementation problems in capital development projects that cut across projects? What is it we want to know and/or document about capital development activities? and how best can we go about gathering and recording this information?

It is clear that we cannot document everything -- nor is it desirable to do so. The important point would seem to be to identify a few priority questions or areas to be evaluated that will provide the most productive and broadly applicable information regarding capital development experiences. There are several ways that capital development projects could be grouped in order to gather broadly applicable and useful lessons. For example, evaluations (or broader assessments) could be done by sector -- electricity, telecommunications, water/wastewater, etc. (In fact, the three telecommunications projects will be evaluated as a group in May, 1984; in 1982, an electricity sector assessment was scheduled, then cancelled -- a scope of work remains in the files). Other approaches might be to group projects by problem (e.g., construction, type of contract) or age/length of time overrun from the original design expectations or by GOE implementing agency or by issue (e.g., private sector credit). Obviously, several of these approaches might overlap (e.g., the telecommunications sector with ARENTO, the electricity sector with EEA, recurring construction problems with length of time overrun).

Which of these approaches would be most useful? Are there other approaches that might be better? In what key areas do we want and need information that an evaluation could provide?

There are advantages and disadvantages to each of the approaches suggested above. A sector grouping has the potential advantage of drawing together similar AID experiences and assessing their cumulative development contribution to Egypt. While not all projects in a sector will be at the same stage of implementation (therefore assessing cumulative impact may be difficult), lessons learned from one project in the sector may be applied immediately to the benefit of another. The main drawback to this sector approach may be only that it potentially generates information that already exists -- i.e., progress, problems and solutions within a sector already may be relatively clear through other information sources. Problems and solutions that appear across sectors might be lost in this way. These same advantages and disadvantages seem to apply equally to an evaluation approach based on GOE implementing agency.

Grouping projects for evaluation by problem and/or age/length of time overrun would be more likely to generate new information, unavailable from other sources and potentially useful across a broader variety of projects. The drawback to these approaches, however, rests in the fact that they anticipate -- indeed are founded on -- certain expected findings. By defining an evaluation's scope of work as a particular problem area, other unrecognized problem areas may be ignored or the appropriate interconnections between problems may not be identified adequately.

A combination of these approaches may yield the best array of information. Given the long lead time of capital development projects and the fact that impact in a sector may not be visible and verifiable until years after project completion, it might be advisable to postpone evaluations and/or assessments on a sector basis until such time as a cumulative impact reasonably can be expected. Evaluation on a "problem" basis, however, almost by definition requires a mid-implementation timing. In the short run, then, it would seem most useful for the Mission to undertake evaluations of one or a few priority problem or issue areas that appear across projects (e.g., construction); in the longer run, we should plan to evaluate and/or assess priority sector experiences as projects mature and impacts can be expected.

The next step in refining USAID/Cairo's evaluation policy and practice is Executive Committee discussion and recommendations regarding what evaluation information would be most useful and valuable from capital development projects. DPPE would recommend that we consider one major

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effort in the near term (by end of CY 1984) that would provide information from several important aspects simultaneously. For example, evaluation of construction projects (i.e., ones in which the explicitly stated purpose is tangible) by age, type of contract, and host governmen implementing agency might serve to point out patterns that we have not identified previously. Over time, as projects in specific sectors are completed, we should consider several more evaluations and/or assessments, along broadly defined sector lines -- e.g., electricty, water/wastewater, silo construction, telecommunications. These are e nples for discussion and consideration, although there may be alternatives that could provide more useful information and/or answer questions more efficiently.

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CLASS: UNCLASSIFIED
CHRGE: AID 11/22/83
APPRV: AD/DPPE:NSWEET
DRFTD: DPPE/PAAD:FBALDWI
F
CLEAR: NONE
DISTR: AID-6 AMB DCM
ECON

AIDAC

E.O. 12356: N/A
SUBJECT: EVALUATION OF CAPITAL DVEVELOPMENT PROJECTS

1. DURING THE NOVEMBER, 1983 PORTFOLIO REVIEW, THE SUBJECT OF EVALUATION WAS RAISED FREQUENTLY. IN PARTICULAR USAID/CAIRO WAS QUESTIONED ON OUR POLICY AND PRACTICE IN EVALUATING CAPITAL DEVELOPMENT PROJECTS. AS WE REVIEW OUR APPROACH TO SUCH EVALUATIONS, WE WOULD VERY MUCH APPRECIATE INPUTS FROM AID/W. WHAT ARE AID/W'S MAJOR PRIORITY INFORMATION NEEDS AND INTERESTS IN EVALUATION OF CAPITAL DEVELOPMENT PROJECTS? HOW WOULD YOU RECOMMEND THAT WE APPROACH THE EVALUATION OF CAPITAL DEVELOPMENT PROJECTS -- I.E., WHAT CRITERIA SHOULD WE USE TO SELECT PROJECTS FOR EVALUATION? HOW SHOULD WE GROUP PROJECTS? (OR SHOULD WE GROUP THEM?) YOUR THOUGHTS AND SUGGESTIONS WOULD BE MOST WELCOME AND USEFUL.

2. WE PLAN TO RAISE THIS SUBJECT FOR DISCUSSION IN AN EXECUTIVE COMMITTEE MEETING WITHIN THE NEXT FEW WEEKS. IT WOULD BE PARTICULARLY HELPFUL TO US IF WE COULD HAVE YOUR INPUTS AS A PART OF THE BACKGROUND FOR THIS MEETING.

3. THANKS FOR YOUR HELP. VELIOTES
BT
#4517

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LIST OF REPORT RECIPIENTS

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