

PD-AAV-608
50105

**AUDIT OF
THE RURAL ELECTRIFICATION
PROJECT IN INDIA
PROJECT NO. 386-0462**

**Audit Report No. 5-376-87-4
May 28. 1987**

May 28, 1987

MEMORANDUM FOR U.S.A.I.D./India, Director, Owen Cylke
FROM: *Richard E. Ferrick*
Richard E. Ferrick, RIG/A/Singapore
SUBJECT: Audit of the Rural Electrification Project in
India (No. 386-0462)

This report presents the results of audit of the Rural Electrification Project in India. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

The purpose of the India Rural Electrification Project was to provide electrical energy for productive and social services to "backward" areas by constructing area-based rural electrification schemes which would provide the infrastructure necessary for distributing electricity from existing grids to rural areas. These schemes were primarily aimed at energization of pumpsets to use groundwater resources for increasing agricultural production. In addition, electricity was also provided for small scale industries and the lighting of rural homes, commercial establishments and rural streets.

U.S.A.I.D./India and the Government of India (GOI) signed the project loan agreement for \$58 million on June 30, 1979. The loan funds were to be used for the procurement of electrical hardware such as transformers, conductors, insulators, and meters. The GOI was to match the A.I.D. loan with a contribution of \$58 million for project costs.

Because of accountability problems, U.S.A.I.D. discontinued funding commodity procurement by revising the project design through a January 1984 amendment to the loan agreement. Instead, U.S.A.I.D. decided to reimburse the GOI using a modified fixed amount reimbursement (FAR) method for increases in kilowatt load capacity within project areas. See Exhibit 2 for further information on the cause and purpose for the change in project design.

The project was fully disbursed in February 1987 and the project assistance completion date is September 30, 1987. U.S.A.I.D. does not anticipate any follow-on rural electrification projects in India.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made a limited program results audit of the Rural Electrification Project. The audit objective was to determine the project's impact in providing electricity to rural areas to increase the income of the rural poor.

U.S.A.I.D. and GOI officials were interviewed and project files examined. Tests were made to determine compliance with policies and procedures on the use of A.I.D. monies. Internal control reviews focused primarily on administrative controls to measure project impact. The audit was performed in March 1987 and covered the period from June 30, 1979 through February 28, 1987. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

Although the project succeeded in extending electricity into rural areas, U.S.A.I.D. and the GOI have not measured the project's impact in delivering electricity to the rural poor.

U.S.A.I.D. reimbursed the GOI \$58 million for increasing the electrical load capacity in the project areas by 380,000 kilowatts. The increases in load capacity were calculated by accumulating the increase in kilowatts attributable to new consumers in the project areas.

U.S.A.I.D. and the GOI have not established an evaluation program to determine if the project was reaching its target population, the rural poor. Therefore, we recommended that U.S.A.I.D. ensure the GOI perform a final evaluation to measure the project's impact on the poor. U.S.A.I.D. should use the evaluation results in preparing the project assistance completion report.

Effectiveness of the Rural Electrification Project Was Not Measured - U.S.A.I.D. provided \$58 million to the GOI to extend electricity into rural areas without adequate information as to whether its assistance reached the rural poor. A special covenant of the project loan agreement required the GOI to establish an evaluation program which would measure project progress and the overall development impact of the project. However, U.S.A.I.D. did not ensure that the GOI complied with the covenant. Therefore, the impact of U.S.A.I.D.'s project was not measured.

Discussion - The project was targeted for economically disadvantaged areas with the primary beneficiaries being the small farmer. It was anticipated that electricity would increase the small farmers' income and improve their way of life.

A special covenant in the loan agreement (Section 6.1 -- Project Evaluation) specifically required the GOI establish an evaluation program to determine if the project was reaching its objectives. While the GOI has performed several evaluations, none were specifically related to the A.I.D. project. Little information was available as to whether the project's primary beneficiaries, the small farmers, benefitted from the project. On the contrary one of the GOI evaluations, performed on the rural electrification program in the Indian state of Uttar Pradesh, concluded that the affluent class received most of the benefits from the electricity.

Although not specifically dealing with the project, U.S.A.I.D. still considered the GOI evaluations as sufficient to cover the loan covenant's purpose. We do not agree. U.S.A.I.D. failed to ensure that the GOI evaluations addressed the rural poor. As such, information to measure project impact is still needed.

The project assistance completion date (PACD) is September 30, 1987. Six months after the PACD, the project officer is required to prepare a Project Assistance Completion Report. The report should address project accomplishments and lessons learned. In order to make a meaningful report, U.S.A.I.D. should require the GOI complete an evaluation to measure the project's impact and include the evaluation results in the completion report.

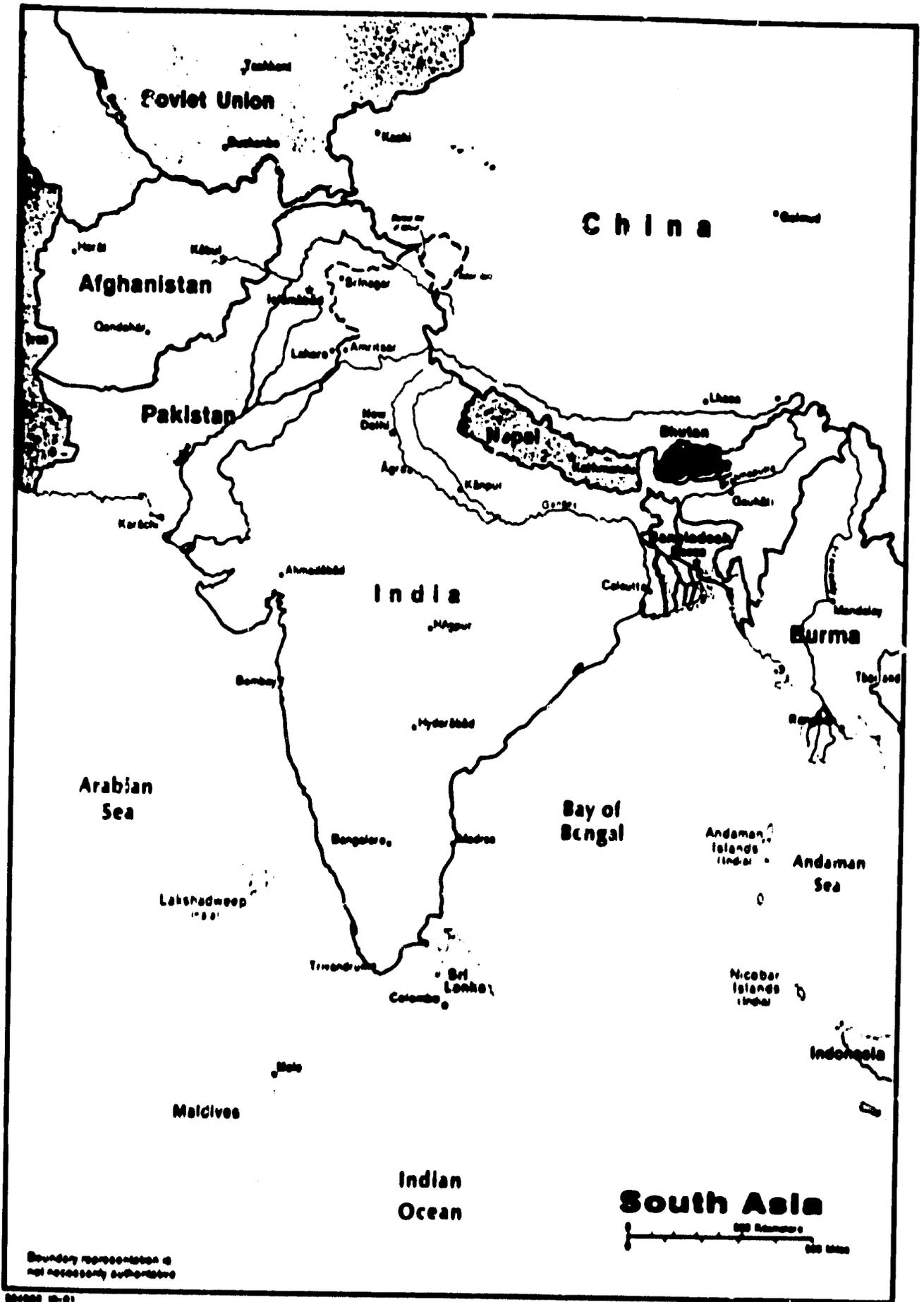
Recommendation No. 1

We recommend U.S.A.I.D./India (a) request the Government of India perform an evaluation to determine if the project objective to improve the financial status of small farmers was achieved and (b) include the evaluation results in the project assistance completion report.

U.S.A.I.D./India concurred with the recommendation and has started to take the necessary corrective action. They expect the Government of India to complete the evaluation effort within a three to six month period. They will include the evaluation results in the project assistance completion report. Based on U.S.A.I.D./India's comments (See Appendix 1), the recommendation is resolved and will be closed upon completion of the corrective action.

**AUDIT OF
THE RURAL ELECTRIFICATION
PROJECT IN INDIA
PROJECT NO. 386-0462**

EXHIBITS AND APPENDICES



00000 10-01

Cause And Purpose Of The Change In Project Design

As originally designed, the project was to finance the procurement of \$58 million of material and equipment. All procurement was to be performed in India. The GOI was to pay the suppliers in rupees and in turn be reimbursed by U.S.A.I.D. in equivalent U.S. dollars.

In early 1982, U.S.A.I.D. personnel reported that U.S.A.I.D.-financed materials and equipment were being diverted to non-project areas. The GOI was told that all materials diverted to ineligible areas would have to be replaced with comparable materials. The estimated value of the diverted commodities was \$5.18 million. The controversy over the commodities lasted into 1983. The GOI stated that there was no reason to return the diverted commodities as the GOI had used their own materials and equipment in A.I.D. project areas. U.S.A.I.D. quoting the loan agreement, stated that project commodities were to be used for project purposes.

In 1983, U.S.A.I.D. in conjunction with the GOI redesigned the project and amended the project paper and agreement. Under the redesigned project, U.S.A.I.D. would no longer finance the procurement of materials and equipment. They would instead finance the increase in kilowatt load capacity in project areas. The change in financing was made retroactive to the inception of the project.

In order to restructure project financing, the GOI was requested to provide information on the increase in kilowatt load capacity within the project area since project inception. The GOI stated that within the project area the load capacity had increased by 190,000 kilowatts. A.I.D. divided the amount spent on the materials and equipment, \$29 million, by the increase in load capacity 190,000 kilowatts to arrive at an amount of \$152.63 for each kilowatt increase in the project areas.

The GOI issued a reimbursement voucher stating that total costs, including the \$29 million were for increases in kilowatt load capacity. No longer was it recognized that materials and equipment valued at \$29 million had been procured. According to the project officer, the redesign was done to alleviate the problem with the diverted commodities.

UNCLASSIFIED

NEW DELHI 012476 APPENDIX 1

(4) ACTION AID2 INFO AMB DCM

VZCZCOP0949

RR RUEHQP

DE RUEHNI #2476 1398935

ZNR UUUUU ZZ

R 198935Z MAY 87

FM AMEMBASSY NEW DELHI

TO AMEMBASSY SINGAPORE 5766

BT

UNCLAS NEW DELHI 12476

LOC: 255-257 018
19 MAY 87 0644
CN: 3298C
CHRG: AID
DIST: AID

AIIAC

PCR: RIG/A/S RICHARD DERRICK

E.O. 12326: N/A

SUBJECT: DRAFT AUDIT REPORT ON THE RURAL ELECTRIFICATION
PROJECT, INDIA.

REF: DERRICK/CYLKE MEMO OF 4/22/87

1. PURSUANT TO THE DRAFT AUDIT RECOMMENDATION, USAID/INDIA HAS HAD DETAILED DISCUSSIONS WITH REC CONCERNING A FINAL EVALUATION TO MEASURE THE PROJECT'S IMPACT ON THE ECONOMICALLY DISADVANTAGED AREAS AND THE RELATIVELY DISADVANTAGED FARMERS. THE DATA ALREADY EXISTS WITH REC FOR SUCH AN ANALYSIS, BUT IT WAS TO BE EXTRACTED FROM THE LARGER EVALUATION EFFORT CARRIED OUT BY REC.
2. USAID/INDIA HAS PROVIDED THE REC WITH AN OUTLINE OF THE ANALYSIS REQUIRED TO ADDRESS THE ISSUES RAISED BY THE AUDIT REPORT. REC IS ANXIOUS TO COOPERATE, BUT IS UNDER CONSIDERABLE PRESSURE TO COMPLETE OTHER WORK AS WELL. REC HAS STATED IT WILL ATTEMPT TO COMPLETE THE ANALYSIS WITHIN A THREE TO SIX MONTH PERIOD.
3. WE EXPECT SUCH AN ANALYSIS WILL DETERMINE IF THE PROJECT OBJECTIVE TO IMPROVE THE FINANCIAL STATUS OF SMALL FARMERS WAS ACHIEVED. THIS WILL SERVE THE PURPOSES OF A FINAL EVALUATION AND USAID WILL INCLUDE THE RESULTS THEREOF IN PROJECT ASSISTANCE COMPLETION REPORT. STRIBB
BT
#2476

NNNN

UNCLASSIFIED

NEW DELHI 012476

APPENDIX 2**REPORT DISTRIBUTION**

	<u>No. of Copies</u>
Mission Director, U.S.A.I.D./India	5
Assistant Administrator, Bureau for Asia and Near East (ANE)	1
Office of South Asian Affairs (ANE/SA)	1
Audit Liaison Office (ANE/DP/F)	1
Assistant Administrator, Bureau for External Affairs (XA)	2
Office of Press Relations (XA/PR)	1
Office of General Counsel (GC)	1
Office of Legislative Affairs (LEG)	1
Assistant to the Administrator for Management (AA/M)	2
Office of Financial Management (M/FM/ASD)	2
Office of Agriculture (S&T/AGR)	1
Office of Rural and Institutional Development (S&T/RD)	1
Commodity Support Division (M/SER/OP/COMS)	1
Center for Development Information and Evaluation (PPC/CDIE)	3
Inspector General	1
Deputy Inspector General	1
Office of Policy, Plans and Oversight (IG/PPO)	2
Office of Programs and Systems Audit (IG/PSA)	1
Office of Legal Counsel (IG/LC)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General for Investigations and Inspections (AIG/I)	1
Regional Inspector General for Investigations/ Singapore (RIG/I/S)	1
RII/A/Cairo	1
RII/A/Dakar	1
RIG/A/Manila	1
RIG/A/Nairobi	1
IIG/A/Tegucigalpa	1
RIG/A/Washington	1