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AUDIT OF
RURAL ELECTRIFICATION PROJECTS I, II,
AND III IN BANGLADESH
PROJECT NOS. 388-0021, 388-0054,
AND 388-0070

Audit Report No: 5-388-88-4
January 15, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

U.S. POSTAL ADDRESS:
American Embassy
AID/RIG
FPO San Francisco 96699

INTERNATIONAL ADDRESS:
c/o American Embassy
30 Hill Street
Singapore 0617
Tel: 225-1033

January 15, 1988

MEMORANDUM FOR Ms. Priscilla Boughton
Director, U.S.A.I.D./Bangladesh

FROM: *Richard E. Dettick*
Richard E. Dettick, RIG/A/Singapore

SUBJECT: Audit of the Rural Electrification Projects
I, II, and III in Bangladesh (Project Nos.
388-0021, 388-0054, and 388-0070)

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of the U.S.A.I.D./Bangladesh Project Nos. 388-0021, 388-0054, and 388-0070. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains seven recommendations. Recommendation No. 4(b) is considered closed and requires no further action. Recommendations Nos. 1, 2, 3, 4(a), 4(c), 5, 6, and 7 are considered resolved and will not be closed until completion of planned or promised actions. Please advise me within 30 days of any additional actions taken to implement these recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The goal of the Rural Electrification projects was to improve the standard of living and the quality of life in rural Bangladesh. The goal was to be achieved by developing the capability of the Rural Electrification Board to a level in which it was able to establish rural electrification societies that would be self-sustaining, financially viable, and properly managed. The established societies would provide reliable electric power to rural residents. There were three separate rural electrification projects. Rural Electrification I project (No. 388-0021) was initiated on December 15, 1977; Rural Electrification II project (No. 388-0054) was initiated on August 20, 1981; and Rural Electrification III project (No. 388-0070) was initiated on August 31, 1986. The projects were authorized to expend \$179.3 million.

The Office of the Inspector General for Audit/Singapore made a program results audit of the Rural Electrification projects to review U.S.A.I.D./Bangladesh's assistance to the Government of Bangladesh in the expansion of electricity into rural areas. The specific audit objectives were to assess the progress and effectiveness of the project, evaluate U.S.A.I.D./Bangladesh's management of the projects, and review compliance with A.I.D. policies and regulations.

The Rural Electrification projects have made progress towards their basic objective of providing electricity to rural areas. However, the financial viability of A.I.D.-financed rural electrification societies was questionable. With the exception of monitoring project commodities, U.S.A.I.D.'s project management was satisfactory. In implementing the project, the Mission generally complied with A.I.D.'s policies and regulations.

A.I.D.-financed rural electrification societies have been established, and electricity has been extended to 188,000 consumers. The A.I.D. rural electrification projects assisted the Government of Bangladesh in the acquisition of equipment and materials. To date, A.I.D. has obligated \$113 million to procure electrical substation equipment, transformers, conductors, meters and other materials and equipment. A.I.D. has also financed a technical assistance contractor costing \$22.7 million to upgrade the capability of the Rural Electrification Board and the rural electrification societies.

Although progress has been made in providing electricity to rural areas, the financial viability of the rural electrification societies, which are primarily responsible for implementing the rural electrification program, was questionable. Also, a sufficient future supply of

electricity to the societies may be inadequate and management of A.I.D.-financed commodities needed improvement.

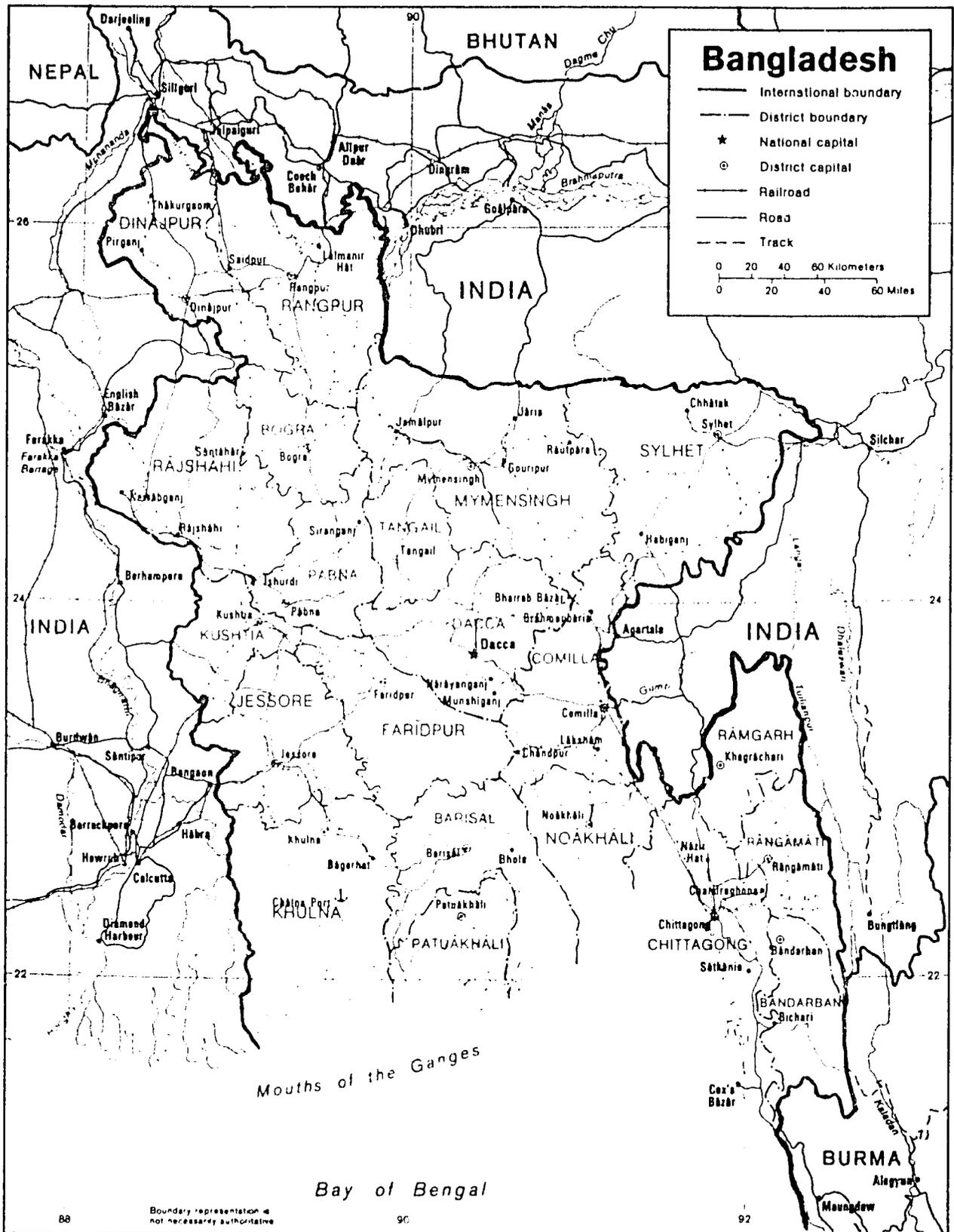
Project agreement covenants required that rural electrification societies financed by U.S.A.I.D./Bangladesh achieve financial self-sufficiency. Of the 13 A.I.D.-sponsored societies that have operated for an extended period of time, only two societies were financially self-sufficient as of June 30, 1987. The management practices of the Rural Electrification Board and the societies themselves detrimentally affected the societies self-sufficiency. The inability of the societies to obtain self-sufficiency jeopardized U.S.A.I.D./Bangladesh's investment in its rural electrification projects. The report recommends actions to improve the financial viability of the rural electrification societies. U.S.A.I.D./Bangladesh agreed with the finding and recommendations.

A condition precedent in the Rural Electrification III project agreement required the Government of Bangladesh to provide a plan to ensure that power generation, transmission, and substation capacity would be sufficient to meet forecasted load capacity within each of the societies served by the Rural Electrification Board. The Government of Bangladesh has not met this condition precedent because they have not produced an electricity generation plan including the source of funding for that plan acceptable to U.S.A.I.D./Bangladesh. In addition, available power loss data raises questions on the capacity of the Government to provide sufficient electricity to meet future demand. If demand is not met, the Government will have to further reduce the power supply through load shedding which will detrimentally affect the rural electrification societies. The report recommends that the Government of Bangladesh develop a plan to ensure an adequate future supply of electricity to the rural electrification societies. U.S.A.I.D./Bangladesh concurred with the finding and recommendation.

Project Agreements required the Government of Bangladesh to ensure that A.I.D.-financed commodities are effectively used. In addition, A.I.D. Handbook 15, Chapter 10, required U.S.A.I.D.s to monitor A.I.D.-financed commodities to ensure that commodities are properly accounted for, expeditiously moved to their proper destinations, and effectively utilized for their intended project purposes. Because U.S.A.I.D./Bangladesh did not adequately monitor A.I.D.-financed commodities, they were not in a position to detect and resolve Government of Bangladesh commodity control problems such as the transfer of A.I.D.-financed commodities to non-project activities. The report recommends that U.S.A.I.D./Bangladesh formally establish

guidelines for monitoring A.I.D.-financed commodities to ensure their effective use. U.S.A.I.D./Bangladesh agreed with the finding and recommendations.

Office of the Inspector General



AUDIT OF
RURAL ELECTRIFICATION PROJECTS I, II, AND III
IN BANGLADESH

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AUDIT OF
RURAL ELECTRIFICATION PROJECTS I, II, AND III
IN BANGLADESH

PART I - INTRODUCTION

A. Background

Over 84 percent of Bangladesh's population live in rural areas. In 1976, less than 3 percent of the rural population had access to electricity. At that time, the Government of Bangladesh decided to extend the supply of electricity to rural areas to improve the quality of life and stimulate economic growth through the development of agriculture and small-scale agro-industries.

U.S.A.I.D./Bangladesh has funded three rural electrification projects. The first project agreement was signed on December 15, 1977 with a completion date of December 15, 1984; the second was signed on August 20, 1981 with a completion date of December 31, 1987; and the third was signed on August 31, 1986 with a completion date of September 30, 1991. The projects are authorized to expend \$179.3 million.

The Rural Electrification Board (REB), under the Government of Bangladesh's Ministry of Energy and Mineral Resources, has overall responsibility for the development of rural electrification. The REB relies upon the Power Development Board, an agency of the Government of Bangladesh, to supply electricity for rural electrification societies. The societies are independent cooperatives established by the REB in association with rural communities.

The projects' principal objective was the establishment of 17 rural electrification societies. The societies were organized with the assistance of the Rural Electrification Board in coordination with rural communities. The Board provided loans to the societies for initial working capital, to cover the cost of construction of substations and electrical lines, and for various other costs. The loans were provided with an initial five year grace period during which the societies need not make principal or interest payments.

Project funds have principally financed the procurement of commodities. The commodities were used to assist in the construction of the societies' electrical substations and the extensions of their lines to consumers. The commodities procured were transformers, conductors, insulators and other materials and equipment. In addition to the procurement, the project has financed a U.S. technical assistance

contract. The contract is a joint venture consisting of the National Rural Electric Cooperative Association and Commonwealth Associates Inc. (NRECA/CAI). The original contract with an estimated cost of \$22.7 million was signed on January 11, 1978. The technical assistance was provided to upgrade the institutional capability of the Rural Electrification Board and the rural electrification societies.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made a program results audit of Rural Electrification projects I, II and III in Bangladesh to review A.I.D.'s assistance to the Government of Bangladesh's efforts to extend electricity into rural areas. The specific audit objectives were to assess the projects' progress and effectiveness, evaluate U.S.A.I.D./Bangladesh's project management, and review compliance with A.I.D.'s policies and regulations.

The audit was conducted in Dhaka at the offices of U.S.A.I.D./Bangladesh and included trips to three rural electrification societies at Jessore, Tangail, and Dhaka, and the Rural Electrification Board's central warehouse at Khulna. Visits were made to the offices of the Rural Electrification Board and the technical assistance contractor located in Dhaka. Discussions were also held with one of the other donors to the Rural Electrification projects, the World Bank. The audit was conducted in two phases. The survey phase was conducted in February and March, 1987 and the audit phase was conducted in August and September 1987. The audit phase was delayed at the request of U.S.A.I.D./Bangladesh, because of the absence of key personnel. The audit covered the period December 15, 1977 through August 31, 1987 and expenditures amounting to \$111.2 million. The reviews of internal controls and compliance were limited to activities related to the report findings. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF
RURAL ELECTRIFICATION PROJECTS I, II, AND III
IN BANGLADESH

PART II - RESULTS OF AUDIT

The Rural Electrification projects have made progress towards their basic objective of providing electricity to rural areas. However, the financial viability of A.I.D.-financed rural electrification societies was questionable. With the exception of the monitorship of project commodities, U.S.A.I.D.'s management of the project was satisfactory. In implementing the project, the Mission generally complied with A.I.D.'s policies and regulations.

A.I.D.-financed rural electrification societies have been established, and electricity has been extended to 188,000 consumers. The A.I.D. rural electrification projects assisted the Government of Bangladesh in the acquisition of equipment and materials. To date, A.I.D. has obligated \$113 million to procure electrical substation equipment, transformers, conductors, meters and other materials and equipment. A.I.D. has also financed a technical assistance contractor costing \$22.7 million to upgrade the capability of the Rural Electrification Board and the rural electrification societies.

Although progress has been made in providing electricity to rural areas, the financial viability of the rural electrification societies, which are primarily responsible for implementing the rural electrification program, was questionable. Also, a sufficient future supply of electricity to the societies may be inadequate and management of A.I.D.-financed commodities needed improvement.

The report recommends that U.S.A.I.D./Bangladesh take action to improve the financial viability of the rural electrification societies; to develop a plan to ensure an adequate supply of electricity for the societies; and to improve the management of A.I.D.-financed commodities.

A. Findings and Recommendations

1. The Financial Viability Of The Rural Electrification Societies Was Questionable

Project agreement covenants required that rural electrification societies financed by U.S.A.I.D./Bangladesh achieve financial self-sufficiency. Of the 13 A.I.D.-sponsored societies that have operated for an extended period of time, only two societies were financially self-sufficient as of June 30, 1987. The management practices of the Rural Electrification Board and the societies themselves detrimentally affected the societies self-sufficiency. The inability of the societies to obtain self-sufficiency jeopardized U.S.A.I.D./Bangladesh's investment in its rural electrification projects.

Recommendation No. 1

We recommend that U.S.A.I.D./Bangladesh have the Rural Electrification Board exclude from the rural electrification societies' loans, all amounts related to expatriate consultancy costs and interest charged on materials and supplies.

Recommendation No. 2

We recommend that U.S.A.I.D./Bangladesh in conjunction with the Rural Electrification Board review the current financial status of the rural electrification societies to ensure that subsidies and the grace period on loans are adapted to the individual needs of the societies.

Recommendation No. 3

We recommend that U.S.A.I.D./Bangladesh require the Government of Bangladesh to transfer the Power Development Board transmission facilities to the rural electrification societies.

Recommendation No. 4

We recommend that U.S.A.I.D./Bangladesh assist the Government of Bangladesh in improving the management practices of the rural electrification societies by (a) reviewing the societies' administrative and general expenses to determine that increases are justified; (b) reviewing the societies' level and use of depreciation funds for other than replacement of capital equipment; and (c) establishing a policy for writing off the societies' bad debts.

Discussion

Covenants in all three Rural Electrification project agreements stressed the importance that rural electrification societies become financially self-sufficient. The rural electrification societies were established on the basis of Government of Bangladesh financial requirements. These requirements dictated that each society, once the five year grace period expired, should meet its operating expenses and begin repayment on the Rural Electrification Board (REB) loan.

While required by the project covenants to become financially self-sufficient, only two of thirteen societies who have completed their grace period have reached that status. Exhibit 1 provides an analysis of the A.I.D.-financed societies' revenues and expenses for the Bangladesh fiscal years 1986 and 1987 (July 1 to June 30). The analysis indicated that most societies were not meeting their costs of operation and were not self-sufficient. As an example of that lack of self-sufficiency, thirteen societies who completed their grace period owed \$1.4 million in interest payments and \$3 million in principal installments. Only a few societies have paid interest on their loans and none have made principal installments after the completion of their grace periods.

The lack of self-sufficiency could be attributed, in part, to the management practices of the Rural Electrification Board (REB) and the rural electrification societies.

Management Practices Of The Rural Electrification Board -
The REB was responsible for the management of loans to the rural electrification societies. The loans consisted of the initial working capital provided by the REB for the societies operational needs; the cost of construction, materials and supplies; the cost of assets transferred from the Power Development Board (PDB); and REB overhead. The REB overhead costs were for technical services provided by REB and the National Rural Electric Cooperative Association and Commonwealth Associates Inc. (NRECA/CAI), training, and early development costs for each society.

A review of the REB overhead charged to all societies for NRECA/CAI consultancy services showed that the overhead amounted to \$17.7 million. U.S.A.I.D./Bangladesh financed the NRECA/GCI contract, 75 percent with grant funds and 25 percent with loan funds. The addition of the NRECA/CAI consultancy services costs to the societies' loans has added a significant financial burden to the societies. Since most of the NRECA/CAI contract costs are financed on a grant basis which does not place any additional cost burden on the Government of Bangladesh, we believe these contract costs

should be retroactively eliminated from the society loans.

Interest charges were added to societies' loans for A.I.D. grant-financed materials and supplies. Interest charges were calculated at a flat rate of 1.5 percent which was 0.75 percent per annum for two years. The REB based its interest time period on their contention that it takes two years for the materials and supplies to be shipped from a U.S. port until their distribution to the societies. We estimated the interest charged to the societies on A.I.D. grant-financed materials and supplies at \$900,000. We believe these interest charges should also be retroactively removed from society loans because the societies should not be charged interest costs on grant-financed materials and supplies.

The Rural Electrification Board provided annual subsidies to the rural electrification societies during the five year grace period of the loan to offset operating losses. However, the subsidies were not always provided based on the individual needs of each society to cover operating losses. For example, Tangail I society had an operating margin loss of \$62,400 in FY 1986 and received a subsidy of \$92,650. On the other hand, the Comilla I society had an operating margin loss of \$235,500 in FY 1986 and received no subsidy. When provided, the subsidies appeared to have no real connection between the subsidy provided and the individual needs of the society.

The REB's inability to have the Power Development Board (PDB) transfer transmission facilities to the societies affected the societies' financial condition. As stated in the Rural Electrification I project agreement, the Power Development Board was to turn-over responsibility for rural electric distribution to the societies. However, approximately 1,000 kilometers of transmission lines have not been transferred to the societies. REB officials stated that these transmission facilities were in areas that service the more lucrative industrial consumers. PDB unions have shown strong resistance to the handover of the transmission facilities because of their lucrative nature. As a result, some societies could not be fully energized due to their inability to take over these lines.

Society general managers stated that their inability to take over the PDB facilities affected their financial condition. The societies need the PDB facilities to provide a better mix of consumers. Absorbing the more lucrative PDB areas would help the societies offset the cost of the less lucrative domestic consumers and would improve the societies financial condition.

Management Practices Of The Rural Electrification Societies
- One of the significant reasons for the societies lack of

self-sufficiency was due to the substantial increase in costs. For example, administrative and general expenses incurred by the societies rose substantially between FY 1986 and FY 1987. Societies' administrative and general expenses increased 23 percent on average between the two fiscal years. In some societies these expenses have risen 40 to 50 percent. Reasons for the increase could be attributed to increases in payroll costs, societies having to absorb costs previously absorbed by the Rural Electrification Board, and added provisions for employees pensions and benefits. After completion of the audit, U.S.A.I.D./Bangladesh employed an accounting firm and planned to use the project's technical assistance contractor to review the financial conditions of the societies.

Use of depreciation funds for other than the replacement of capital equipment was another management practice of the societies which affected their self sufficiency. Depreciation funds were set aside by the societies to be used at a later date to replace capital equipment. An amendment to the Rural Electrification III project allowed the societies to use the funds to also service debt. However, we noted during a visit to the Jessore I society that the depreciation funds were used to offset energy costs. It was unclear what effect the current use of depreciation funds for other than the replacement of capital equipment will have on the future of the societies. But if continued, the societies will not have the needed financial resources to replace equipment.

In their comments to the draft report, U.S.A.I.D./Bangladesh stated that Government of Bangladesh regulations preclude the use of depreciation funds for other than replacement/improvement of capital assets. The use of the depreciation funds by the Jessore I society was an exception to the regulations which was approved in advance by the Rural Electrification Board. The depreciation fund will be replenished once the Jessore society receives its subsidies.

The societies' weak financial management was demonstrated by their practice of not writing-off bad debts in a timely manner. The societies had a provision for uncollectibles but they had not used the provision to write-off bad debts. Aging of the societies' accounts receivables showed that 37 percent of the receivables were over ninety days as of June 30, 1987. The societies were of the opinion that long outstanding accounts receivable will eventually be liquidated. It is prudent management to regularly write-off bad debts to properly reflect financial conditions. The write-offs should be based on a policy which reflects a reasonable period of time upon which recovery is not expected.

Conclusion - In summary, the rural electrification societies were handicapped by the management practices of the Rural Electrification Board (REB) and their own management practices. The REB charged the societies for questionable costs, did not provide subsidies in a systematic manner, and was unable to persuade the Power Development Board to turn over their facilities to the societies. The societies were substantially increasing their administrative and general expenses, were not properly using their depreciation funds, and were not writing-off their bad debts.

The REB and the societies needed to substantially change their practices and procedures to allow the societies to obtain self-sufficiency. An examination of the societies should be performed by REB to determine that the current grace period is a justified period of time to expect societies to be self-sufficient. Without self-sufficiency, the societies will slowly deteriorate. The deterioration of the societies may adversely affect the extension of electricity to rural areas which is the objective of U.S.A.I.D./Bangladesh's Rural Electrification projects and may also hamper U.S.A.I.D./Bangladesh's project investment.

Management Comments

U.S.A.I.D./Bangladesh concurred with the finding and recommendations. At U.S.A.I.D./Bangladesh's request, the Rural Electrification Board advised that it would take action to adjust its rural electrification societies' loans so as to exclude all amounts related to expatriate consultancy costs and interest charged on materials and supplies. In addition, U.S.A.I.D./Bangladesh arranged to have a financial assessment made of the rural electrification societies to address the subsidy issue as well as various policy options for improving the financial viability of the rural electrification program. Based on the initiation of this assessment which is scheduled for completion in March 1988, U.S.A.I.D./Bangladesh requested that Recommendation No. 2 be closed upon report issuance.

The Rural Electrification Board requested the Government of Bangladesh to establish a schedule outlining a time frame for implementing the transfer of transmission facilities to the societies. U.S.A.I.D./Bangladesh intends to raise this issue at appropriate levels within the Government of Bangladesh.

U.S.A.I.D./Bangladesh has initiated several actions to implement Recommendation No. 4. They requested the Rural Electrification Board and the technical assistance contractor to review the administrative and general expenses of the societies and provide a report to U.S.A.I.D. by April 30, 1988. U.S.A.I.D. plans to review several societies to

determine whether the societies are following Government of Bangladesh regulations regarding the use of depreciation funds. Concerning the issue of bad debts, the Rural Electrification Board advised U.S.A.I.D. that the Government of Bangladesh has a policy for writing-off bad debts but the policy has yet to be implemented. U.S.A.I.D. intends to verify implementation during future reviews. Based on the above actions, U.S.A.I.D./Bangladesh requested that all three parts of recommendation No. 4 be closed upon report issuance.

Office of Inspector General Comments

Based on U.S.A.I.D./Bangladesh actions, part (b) of recommendation No. 4 is closed upon report issuance. Once completed, the auditors would like to obtain reports on the U.S.A.I.D. reviews of the societies compliance with depreciation fund regulations.

Recommendation Nos. 1-3 and parts (a) and (c) of recommendation No. 4 are considered resolved. Recommendation No. 1 can be closed upon receipt of documentation showing that modifications to the societies' loans have been implemented. Recommendation No. 2 can be closed when U.S.A.I.D. provides a copy of the assessment report and evidence of U.S.A.I.D. action to address the policy options in the assessment report concerning the subsidy and loan grace period issues at the societies. Recommendation No. 3 will be closed upon our review of the Government of Bangladesh's schedule for the transfer of transmission facilities to the rural electrification societies.

Parts (a) and (c) of recommendation No. 4 can be closed upon our review of the technical assistance contractor's report on the societies' administrative and general expenses and receipt of proposed U.S.A.I.D. actions on the report, and upon our review of the Government of Bangladesh policy order on bad debts and their letter advising that the policy has been implemented by the Rural Electrification Board.

2. The Future Supply Of Electricity To The Rural Electrification Societies May be Inadequate.

A condition precedent in the Rural Electrification III project agreement required the Government of Bangladesh to provide a plan to ensure that power generation, transmission, and substation capacity would be sufficient to meet forecasted load capacity within each of the societies served by the Rural Electrification Board. The Government of Bangladesh has not met this condition precedent because they have not produced an electricity generation plan including the source of funding for that plan acceptable to U.S.A.I.D./Bangladesh. In addition, available power loss data raises questions on the capacity of the Government to provide sufficient electricity to meet future demand. If demand is not met, the Government will have to further reduce the power supply through load shedding which will detrimentally affect the rural electrification societies.

Recommendation No. 5

We recommend that U.S.A.I.D./Bangladesh have the Rural Electrification Board develop in conjunction with the Power Development Board a plan which would meet future generation demand taking into consideration the substantial power losses currently being incurred in Bangladesh.

Discussion

A condition precedent of the Rural Electrification III project agreement (Article 4, Section 4.1(b)) required the Government of Bangladesh to submit a plan for future electrification to U.S.A.I.D./Bangladesh for its approval. The plan was to provide assurance for the life of the project that power generation, transmission and substation capacity will be adequate to meet the forecasted load within each of the societies served by the Rural Electrification Board (REB).

The REB prepared a plan showing a schedule of power plants under construction, estimated time of completion, and their generation capacity. The plan was not accepted by U.S.A.I.D./Bangladesh because it did not have source of funding for the construction program. Thus, the condition precedent had not been met. Our review showed that the plan did not consider the effect of power losses in meeting the power demand. The need for the plan to consider these losses is imperative because the project paper provides an over optimistic scenario of the Government's ability to meet future power demand.

The Government of Bangladesh has made substantial progress in increasing generation capacity. Generation capacity in Bangladesh has risen from 88 megawatts in 1960 to 1591 megawatts in 1987. With electrical power reaching only eight percent of the people in Bangladesh, the potential demand is substantial.

The project paper for the Rural Electrification III project presented an analysis of load generation for years 1984 through 1990. The analysis indicates a surplus of generation would be achieved by the last half of 1986. However, we were advised by U.S.A.I.D./Bangladesh personnel that while the analysis takes into consideration technical power losses, the analysis does not take into consideration non-technical power losses.

Technical power losses result from the normal operation of the electrical system such as the operation of the power plant, line resistance losses, faulty equipment and faulty meters. Non-technical losses result from fraudulent meter readings, meter tampering, theft of power, and the free supply of power to Power Development Board (PDB) staff.

Technical losses in Bangladesh according to U.S.A.I.D./Bangladesh personnel were estimated at 15 percent while non-technical losses were estimated at 20 percent. If the non-technical loss factor is added to the analysis presented in the project paper comparing peak demand with available generation, the firm capacity balance changes from positive to negative. For example in 1989 and 1990, peak demand is projected to be 1595 and 1823 megawatts respectively while available generation is projected at 1486 megawatts.

The PDB is responsible for power generation in Bangladesh. The Rural Electrification Board must apply to the PDB for the supply of electricity to the rural electrification societies. Unless the PDB either increases available generation or greatly reduces power losses the REB will be unable to obtain a sufficient supply of electricity to cover its rural electrification expansion program.

The lack of sufficient power will lead to further load shedding which has affected the rural electrification societies in the past. Load shedding is the practice of shutting off power to certain areas of the country in order to provide power to other areas. According to a project evaluation performed in 1986, there is a reduction in energy sales and a loss of revenue associated with load shedding. If a society with a 15 megawatts peak demand must shed 10 percent of its peak load for four hours on a daily basis, then a 6.8 percent reduction in energy sales and revenue can

be expected. Also according to the evaluation report, load shedding increases the loading cycles on the electrical equipment and could have a detrimental effect on equipment lifetime and maintenance.

In summary, the Government of Bangladesh's plans to assure an adequate power supply during the life of the project should fully consider the effect of power losses in meeting future power demands of the rural electrification societies.

Management Comments

U.S.A.I.D./Bangladesh concurred with the finding and recommendation. They plan to issue a project implementation letter upon the fulfillment of the condition precedent requiring the preparation of an acceptable plan by the Government of Bangladesh matching demand with future electrical generation capacity.

Office of Inspector General Comments

Recommendation No. 5 is considered resolved and will be closed upon receipt of a copy of the project implementation letter advising the Government of Bangladesh that the new generation plan is acceptable and satisfies the condition precedent.

3. U.S.A.I.D./Bangladesh Needed To Improve Its Management Of Project Commodities.

Project agreements required the Government of Bangladesh to ensure that A.I.D.-financed commodities are effectively used. In addition, A.I.D. Handbook 15, Chapter 10, required U.S.A.I.D.s to monitor A.I.D.-financed commodities to ensure that commodities are properly accounted for, expeditiously moved to their proper destinations, and effectively utilized for their intended project purposes. Because U.S.A.I.D./Bangladesh did not adequately monitor A.I.D.-financed commodities, they were not in a position to detect and resolve Government of Bangladesh commodity control problems such as the transfer of A.I.D.-financed commodities to non-project activities.

Recommendation No. 6

We recommend that U.S.A.I.D/Bangladesh:

- (a) issue a Mission Order setting forth its commodity monitoring policies and procedures;
- (b) review the current stock of A.I.D.-financed equipment and material on hand in the three Rural Electrification Board's warehouses and the 13 rural electrification societies' warehouses;
- (c) make appropriate adjustments, based on the above review, to the commodity procurement plan for the Rural Electrification III project; and
- (d) take action to dispose of all defective, spoiled, excessive or otherwise unusable items in stock in accordance with the procedures authorized under A.I.D. regulations.

Recommendation No. 7

We recommend that U.S.A.I.D/Bangladesh require the Government of Bangladesh to:

- (a) submit a periodic warehouse inventory report on A.I.D.-financed commodities;
- (b) strengthen its system of quality assurance inspection and testing of project equipment and material;
- (c) return or refund the dollar value of A.I.D.-financed commodities costing \$305,000 which had been loaned or exchanged from the Khulna warehouse;

- (d) identify and justify other A.I.D.-financed commodities which had been loaned or exchanged by the Rural Electrification Board and, if unjustified, initiate action to seek refunds; and
- (e) seek prior U.S.A.I.D. approval before loaning or exchanging A.I.D.-financed commodities.

Discussion

The project agreements stipulated that the Government of Bangladesh ensure that A.I.D.-financed commodities are effectively used for project purposes. A.I.D. Handbook 15, Chapter 10, specified that U.S.A.I.D.s monitor A.I.D.-financed commodities to ensure that the commodities are properly accounted for, expeditiously moved to their destination and effectively utilized for the intended project purpose or otherwise disposed of in an authorized manner. The Handbook also required that U.S.A.I.D.s maintain a current description of the Mission monitoring procedures, the host country commodity arrival and distribution system, and the Mission's evaluation of such system. U.S.A.I.D. monitoring responsibilities also included requiring and reviewing various commodity periodic progress reports on utilization, warehouse inventory, and any other commodity issues as may be appropriate to local conditions. U.S.A.I.D.s are required to conduct periodic end-use examinations of commodities.

Under its rural electrification projects in Bangladesh, A.I.D. has invested almost \$113 million for commodities. While U.S.A.I.D./Bangladesh made a conscientious effort to oversee the procurement phase of these commodities, the Mission did not effectively monitor commodities after arrival in country. U.S.A.I.D./Bangladesh did not maintain proper records or perform adequate end-use checks of commodities. The Mission made site inspections of the rural electrification societies, but their inspections did not include any end-use examinations to ascertain that A.I.D.-financed commodities were received and properly accounted for. Furthermore, the Mission did not know how much inventory stock was stored in the warehouses of the Rural Electrification Board and the rural electrification societies because U.S.A.I.D./Bangladesh did not require or receive periodic inventory reports from the host government.

The responsibility for the procurement, receiving, inspection, warehousing, inventory control and distribution of equipment and material was entrusted to the Rural Electrification Board (REB). The Mission did not maintain any description of the REB's system of documenting the flow of commodities nor did it evaluate the adequacy of such a

system. U.S.A.I.D./Bangladesh had utilized the assistance of a material management adviser under the technical assistance contract from 1978 through 1984. But, according to the technical assistance contractor, the advisory service was not as effective as expected and, in 1984, the contractor's material management advisory function was excluded from the scope of the contract.

By not having an adequate commodity monitoring program, U.S.A.I.D./Bangladesh was not in a position to detect and resolve the following Government of Bangladesh commodity control problems in a timely manner.

Loan and Exchange of A.I.D.-Financed Commodities - In 1985 and 1986 the Rural Electrification Board's (REB) central warehouse in Khulna issued the following A.I.D.-financed commodities valued at about \$305,000 to a non-A.I.D. sponsored rural electrification society:

<u>Description</u>	<u>Quantity</u>	<u>Dollar Value</u>
Transformers, single phase	933	\$248,000
Poles, wooden	365	44,000
Wire, ground and guy	92,000 feet	<u>13,000</u>
	Total	<u>\$305,000</u>

Conflicting explanations were provided with regard to these transactions. REB warehouse personnel in Khulna stated that these materials were given to the rural electrification society sponsored by another donor agency and would be returned to A.I.D. stocks. On the other hand, the REB official in charge of commodity allocation advised that the material was intended to be an exchange for similar items and appropriate settlement would be made on an equal dollar basis.

The REB practice of loaning and exchanging A.I.D.-financed commodities was not limited to the central warehouse. A rural electrification society official in Dhaka stated that the Dhaka society also had loaned some A.I.D.-funded transformers to other electrification societies, but these loans were all settled subsequently by the return of the identical quantity of non-A.I.D. financed transformers. U.S.A.I.D./Bangladesh was not aware of any of these transactions because the REB (1) did not provide reports to U.S.A.I.D. on these transactions, and (2) did not request U.S.A.I.D.'s prior approval for such transactions.

Slow-Moving Stock - A review of stock at the REB's central warehouse at Khulna indicated that equipment and materials were on hand for extended periods of time.

At the request of the auditors, Khulna warehouse personnel prepared an inventory of equipment and materials in the warehouse at September 10, 1987 and the date as to when the equipment was received. The material stored in the REB's central warehouse totaled 317 items including a myriad of bolts and nuts, 3,849 transformers, 9,393 wooden poles and logs, and 13.3 million feet of conductors. According to the inventory ledgers, many of these items had been in the warehouse for an extensive period of time. For example, about 50 line items had been stored for periods ranging from three to seven years. An REB official attributed the existing excessive stock to the fact that the REB was behind schedule in completing the planned construction of the power distribution lines under the project.

The audit did not find any indication that U.S.A.I.D./Bangladesh had reviewed the inventory to determine the need for this slow-moving equipment and materials. Since they had not performed this review, U.S.A.I.D. was not in a position to prevent additional procurement of these same slow-moving items under the Rural Electrification III Project.

Ineffective Quality Assurance of Commodities - The REB's quality assurance program for equipment and materials was not effective. Under the existing REB procurement process, there were three types of quality assurance checks that could be made.

The first check called for the inspection of the manufacturing plant prior to the placement of an order to ascertain the adequacy of the prospective supplier's production facilities, techniques and quality assurance inspection program. No REB representative had been sent on plant inspections due to foreign travel restrictions of the Government of Bangladesh. A second check to ensure quality was the stipulation in the bid documents of a specific requirement for factory testing and reporting on the equipment and material. This had not been done on most of the materials. A third check was to have the material inspected upon delivery. REB officials stated that these delivery inspections should be completed within 90 days. However, the delivery inspection process was based mainly on visual inspection and did not include any electrical testing because of the lack of testing equipment. Rigorous physical checks for sizes, dimensions, threading, and mechanical strengths were also not carried out because of the lack of personnel.

As a result, the REB's central warehouse and two rural electrification societies' warehouses visited during the audit had kept numerous materials that were defective or otherwise had serious quality problems. These materials consisted mainly of hardware items such as locknuts, clamps, bolts and insulators and totaled about 70 line items in the central warehouse alone. For the most part, the defective materials were inter-mingled with good items in the central warehouse and, in some instances, included in the distribution to local electrification societies for use in construction. We believe that the quality assurance program, if properly established and implemented, should prevent defective materials from being (1) accepted, (2) commingled with good items, and (3) distributed for project use. We also believe that the defective materials on hand in the central and other warehouses should be promptly disposed of so that they are not used in project construction.

Conclusion - Due to the lack of effective commodity management, the Mission did not have the assurance that A.I.D.-financed commodities were effectively utilized for intended project purposes. This occurred primarily because U.S.A.I.D./Bangladesh had not established procedures and guidelines which specified U.S.A.I.D. commodity monitorship responsibilities as broadly defined in A.I.D. Handbooks. We believe that adequate monitoring and control over the receipt, inspection, distribution, warehousing and utilization of project commodities is essential to successful project implementation particularly with respect to the Rural Electrification projects which include almost \$113 million in commodities. U.S.A.I.D./Bangladesh should direct a more vigorous effort to enhance the effectiveness of commodity management.

Management Comments

U.S.A.I.D./Bangladesh concurred with the finding and recommendations. They agreed to (1) issue a Mission Order setting forth its commodity monitoring policies and procedures, (2) review the current stock of A.I.D.-financed equipment and materials on hand, (3) make appropriate adjustments, based on the above review, to the future commodity procurement plan, and (4) take action to dispose of all defective, spoiled or otherwise unusable items in stock.

U.S.A.I.D./Bangladesh has required the Rural Electrification Board (REB) to submit a quarterly warehouse inventory report within 30 days following the end of each quarter. The Mission also requested, and REB agreed, that REB review its current procedures for inspection and testing of project equipment and material with the technical assistance

contractor and provide U.S.A.I.D. with their recommendations to strengthen the system of quality assurance. In addition, at the request of U.S.A.I.D./Bangladesh, the Rural Electrification Board (REB) agreed to provide U.S.A.I.D. with a list of all A.I.D.-financed equipment loaned or exchanged, together with a list of all other donor-financed equipment furnished to the A.I.D.-funded portion of the project. U.S.A.I.D./Bangladesh stated that upon receipt of the above lists it would review and identify all transactions not justified and seek reimbursement for any unjustified loan or exchange. U.S.A.I.D. plans to establish a procedure for the approval of future loan and exchange transactions. In addition they plan to require REB to report to U.S.A.I.D. all commodities loaned or exchanged.

Office of Inspector General Comments

The U.S.A.I.D./Bangladesh actions initiated or planned are responsive to all parts of recommendation Nos. 6 and 7 and accordingly both recommendations are considered resolved.

Recommendation No. 6 will be closed upon completion of a Mission Order on commodity monitoring, the physical inventory as of December 31, 1987, a revised procurement plan, and a plan for the disposal of unusable items.

Parts (a) and (b) of recommendation No. 7 will be closed upon receipt and review of the REB's first quarterly warehouse inventory report and documentation to support its plan to improve the system of quality assurance. Parts (c), (d), and (e) will be closed upon receipt and review of all documents related to the justification of loans and exchanges of A.I.D.-financed equipment and materials as well as refunds for any loan or exchange transactions which are not properly justified.

B. Compliance and Internal Control

Compliance

U.S.A.I.D./Bangladesh should ensure adherence to the project agreement provisions and A.I.D. Handbooks. For example, Findings 1 and 2 illustrate a need for the Government of Bangladesh to comply with project agreement covenants and a condition precedent. Finding 3 indicates that U.S.A.I.D./Bangladesh has not provided the monitorship on A.I.D.-financed commodities as required by Handbook 15. The audit review of compliance was limited to the findings presented in this report.

Internal Control

Tests of internal controls indicated an acceptable level of compliance with the exception of weaknesses noted in Finding 3 concerning the management of A.I.D.-financed commodities. The audit review of internal controls was limited to the findings presented in this report.

C. Other Pertinent Matters

1. Bid And Performance Bonds On A.I.D.-financed Procurement Were High

The Government of Bangladesh (GOB) requires higher bid and performance bonds on A.I.D.-financed procurement than for other donors' procurement. Bidders on A.I.D.-financed procurement are required to provide a 10 percent bid bond and a 20 percent performance bond while other donors' bidders are only required to provide a 5 percent bid bond and a 10 percent performance bond. The higher bonds increase procurement costs to A.I.D.-financed supply contractors.

The Government of Bangladesh stated that the higher bonds result in less failures in the procurement process. U.S.A.I.D./Bangladesh pursued the issue in the past with little success. However, the GOB through the Rural Electrification Board's Office of Procurement advised the auditors that changes could be made in the bond rates at the request of a donor. It is in the interest of U.S.A.I.D./Bangladesh to pursue the issue with the GOB in order to reduce costs for A.I.D.-financed suppliers.

AUDIT OF
RURAL ELECTRIFICATION PROJECTS I, II, AND III
IN BANGLADESH

PART III - EXHIBIT AND APPENDICES

Exhibit 1

A Financial Analysis of
A.I.D.-Financed Rural Electrification Societies 1/
for FY 1986 and FY 1987

Rural Electri- fication Society	FY 1987			FY 1986		
	Operating Revenue	Cost of Elect. Svc.	Operating Margin	Operating Revenue	Cost of Elect. Svc.	Operating Margin
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Dhaka I	\$ 2,377,812	\$ 2,185,309	\$ 192,503	\$1,994,367	\$ 1,695,734	\$ 298,633
Tangail I	1,391,282	1,528,541	(137,259)	1,064,128	1,126,529	(62,401)
Chandpur	478,613	789,271	(310,658)	344,501	522,928	(178,427)
Comilla I	1,281,161	1,467,926	(186,765)	942,214	1,177,718	(235,504)
Habiganj	815,424	884,588	(69,164)	697,178	654,217	42,961
Monlvibazar	1,036,074	936,742	99,332	840,414	811,295	29,119
Pabna I	399,368	682,629	(283,261)	308,241	408,732	(100,491)
Pabna II	564,494	700,331	(135,837)	318,373	416,218	(97,845)
Jessore I	687,567	1,081,745	(394,178)	568,507	919,989	(351,482)
Jessore II	982,650	1,154,330	(171,680)	859,547	980,105	(120,558)
Natore I	705,551	839,694	(134,143)	567,207	722,381	(155,174)
Natore II	855,136	996,199	(141,063)	727,249	743,243	(15,994)
Serajgong	871,730	1,043,843	(172,113)	710,410	809,192	(98,782)
Total	\$12,446,862 =====	\$14,291,148 =====	\$(1,844,286) =====	\$9,942,336 =====	\$10,988,281 =====	\$(1,045,945) =====

1/ The Societies have completed their 5 year grace period

Note: Converted at Taka 30 = U.S.\$1.00

UNITED STATES GOVERNMENT

memorandum

DATE: December 28, 1987

REPLY TO
ATTN OF: Priscilla Boughton^{gab}, Director, USAID/Bangladesh

SUBJECT: Audit of the Rural Electrification Projects I, II and
III in Bangladesh

TO: Mr. Richard E. Derrick, RIG/A/Singapore

Enclosed please find the Mission's comments on the subject draft audit report prepared by your staff.

Following discussions with your staff and receipt of the draft audit report, meetings were held with the Rural Electrification Board (REB) to discuss the audit findings and develop an action plan to address the audit recommendations. The attached comments represent our joint response to the audit.

During our meetings with the REB, the Chairman expressed his sincere appreciation to the auditors for what he considers a "highly professional" report. While many of the findings contained in the report had been identified by both REB and USAID as constraints to successful project implementation, we agree that the recommendations included in the audit will provide management with additional support to effect corrective action.

I hope our response to the draft audit will allow prompt resolution to each of the recommendations and assure you the Mission staff will be working over the next few months to close all recommendations.

Recommendation No 1:

As discussed with the Audit Team, USAID concurs in the recommendation as stated. A letter dated December 8, 1987, was forwarded to the Rural Electrification Board (REB), requesting that the rural electrification societies' (RBS) loans be adjusted to exclude all amounts related to expatriate consultancy costs and interest charged on materials and supplies. During a meeting held between USAID and REB, the REB Chairman advised USAID that a letter was being prepared by REB to the BDG, requesting authorization be granted to REB to adjust the loans to the RBSs. REB supports the recommendation and will take immediate action to implement this modification as soon as BDG approval is received.

Accordingly, USAID and REB request R16/A/S consider this recommendation received. Closure will be requested upon receipt of BDG authorization and REB documentation to support that the modifications have been implemented.

Recommendation No 2:

The subsid. issue is a difficult one but one that both USAID and REB agree must be addressed. A financial assessment is underway to collect data on the current customer profiles and financial performance of the RBSs. A model has been developed to use the data for future analysis of each RBS's financial performance. The assessment will also provide REB with an evaluation of various policy options to improve the financial viability overall of the Rural Electrification Program.

The Financial Assessment is being conducted by Coopers and Lybrand. It began in November 1987 and is scheduled for completion in March 1988. Based on the initiation of this assessment, USAID and REB request R16/A/S close this recommendation. USAID will forward a copy of the Coopers and Lybrand scope of work. Upon completion of the assessment, USAID will provide copies of the final report and resulting project actions as they become available.

Recommendation No 3:

Both USAID and REB concur in this recommendation. REB has requested the BDG to establish and ensure implementation of a schedule outlining a reasonable time frame for transfer of the Power Development Board (PDB) transmission facilities to the RBSs. During a meeting held on December 8, 1987 between USAID and REB, the REB Chairman reaffirmed the importance of this action and advised that attaining a firm commitment from the BDG will require strong intervention by USAID. This is a highly sensitive political issue. The USAID Director will raise the issue at the Ministerial level and pursue discussions at the Secretarial level in the Ministry of Energy.

Accordingly, USAID and REB request this recommendation be resolved. USAID will provide RIG/A/S with periodic status reports and will request closure upon receipt from the BDG of a schedule outlining a reasonable time frame for the transfer of these facilities.

Recommendation No. 4

USAID forwarded a letter dated December 5, 1987 to the REB requesting REB and the technical assistance contractor, NRECA, immediately undertake a review of the administrative and general expenses of the PBSs and to provide USAID with a report of their findings. REB and NRECA have agreed to conduct this review and submit a written report by April 30, 1988. This report will identify unjustified increases in operating expenses and will advise on corrective actions taken or planned by REB.

Accordingly, USAID and REB request that part (a) of this recommendation be closed. A final status report will be provided to RIG/A/S following receipt of the REB/NRECA report.

Concerning the issue of depreciation, REB advised USAID that present BDG regulations preclude the use of depreciation funds for other than replacement/improvement of capital assets. REB current procedures require that the PBSs obtain REB approval prior to incurring any expense against the depreciation fund. The case cited in the audit where the depreciation fund had been used by the PBS in Jessore to offset energy costs, had in fact been approved by REB. REB explained that they authorized the PBS in Jessore to temporarily use the fund to offset energy costs pending receipt from the BDG of subsidies due the PBS. As of our meeting on December 8th, the PBS had yet to receive the scheduled subsidy to replenish the depreciation fund. The Chairman assured USAID that such use of the depreciation fund by the PBSs was not a routine practice.

USAID will schedule a review of several PBSs during the next six months to determine whether BDG and REB regulations concerning the use of depreciation funds are being followed by the PBSs. However, based on the current information provided to USAID by the REB, USAID and REB request that part (b) of this recommendation be closed. Reports on future reviews of the PBSs, conducted by USAID, will be provided to RIG/A/S.

Concerning the issue of bad debt, REB has advised USAID that the BDG has a policy for writing-off bad debt, BDG Order #200-20. However, the Chairman of REB indicated the policy has not yet been implemented by REB. USAID will provide RIG/A/S with a copy of the Policy Order along with a letter from REB advising that the Policy Order has been implemented by REB. USAID will verify implementation during future reviews.

Accordingly, USAID and REB request part (c) of this recommendation be closed. Reports on future USAID reviews will be provided to RIG/A/S.

Recommendation No. 5

USAID is currently awaiting a copy of the most recent BDC generation plan. Upon receipt and approval of this plan by USAID, a FIL will be issued to advise the BDC that condition precedent 4.1(b) for the disbursement of funds under the REB III project agreement dated September 1986 has been satisfied. Upon issuance of this FIL, USAID and REB will request closure of this recommendation.

Accordingly, USAID and REB request this recommendation be considered resolved.

Recommendation No. 6

USAID concurs in the need for a written directive of Mission commodity monitoring policies and procedures. As agreed during the audit, a Mission Order will be issued. A draft order is currently circulating for comment clearance by each office. The mission plans to issue the final Mission Order by January 31, 1988. A copy of the final Mission Order will be forwarded to SIG/AS for review.

Accordingly, USAID requests part (a) of this recommendation be considered resolved. USAID will request closure upon issuance of a proper Mission Order.

By letter dated December 3, 1987, USAID has requested REB to:

- prepare a current inventory of USAID financed equipment and material on hand as of December 31, 1987;
- identify all defective, spoiled, excessive or otherwise unusable items; and
- submit a plan, along with a time table, for the disposing of the unusable items.

Based on the findings in the report, it was agreed that REB and NRECA will submit to USAID a revised procurement plan for all equipment and materials to be procured with AID funds during the remainder of the project. The plan will include dates for IFBs to be released, contract awards, and estimated delivery periods. The plan will be accompanied by an implementation plan by the AID financed PBS for the project period, in order to substantiate the need for the commodities and to establish the rate of utilization for all equipment and materials included in the plan. In addition, REB has agreed to develop a written policy on the issue of property disposal and to submit this policy to USAID by March 31, 1988.

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Accordingly, USAID and REB request parts (b), (c) and (d) of this recommendation be considered resolved. Upon receipt of the physical inventory as of December 31, 1987, the revised procurement plan and the written policy regarding property disposal, USAID and REB will request closure of parts (b), (c) and (d) of this recommendation.

Recommendation part (e):

REB has agreed to submit to USAID, a quarterly warehouse inventory report. This report will be submitted, as a part of the regular quarterly project report, within 30 days following the end of the quarter. The first report will be due as of December 31, 1987 and will be submitted to USAID by January 31, 1988. A copy of the first report will be forwarded to RIG/H/S for review.

Accordingly, USAID and REB request part (a) of this recommendation be considered resolved. Upon receipt of the warehouse inventory report as of December 31, 1987, we will request closure of this part of the recommendation.

During the meeting with the REB, the Chairman stated that the REB had gained considerable experience over the years with regard to procurement and agreed that the quality of commodities procured should meet specified standards. He stated that with the experience gained, the REB will be able to improve on the development of commodity specifications which should help assure a better quality item. He agreed to review current procedures for inspection and testing of project equipment and material with NRECA and to provide USAID with their recommendation to strengthen the system of quality assurance.

Accordingly, USAID and REB request part (b) of this recommendation be considered resolved. Upon receipt of the REB recommendation, a copy will be forwarded to RIG/H/S and closure will be requested.

Concerning the issue of loans and exchanges of AID financed commodities with commodities financed by other donors, the Chairman of REB has requested the practice be allowed to continue. Since the specifications for all equipment and materials are standardized, regardless of the source of financing, he stated that this practice provides needed flexibility in project implementation and to discontinue the practice would be detrimental to all concerned including USAID. REB agrees that all loans and exchanges should be justified and properly agreed to and documented. REB has agreed to provide USAID with a list of all AID financed equipment loaned or exchanged along with a list of all other donor financed equipment provided to the USAID funded portion of the Rural Electrification Project. Upon receipt of this list USAID will review and identify any transaction which has not been properly justified. USAID will seek reimbursement for any loan or exchange transaction which it does not consider properly justified. USAID

agrees with the Chairman of REB and shares his concern that to the extent project implementation is furthered, flexibility with regard to such loans and exchanges should be exercised. Based on USAID's knowledge, we believe that BKB has acted responsibly in the past with regard to the loaning or exchanging of project commodities among donors. Following our review of documentation to be submitted by the BKB, USAID will determine what level of approval BKB should seek in the future for these transactions. At a minimum, USAID will require that the BKB report on a quarterly basis to USAID, all commodities loaned or exchanged.

Accordingly, USAID and REB request that parts (a), (d) and (e) of this recommendation be considered resolved. USAID will provide RICEARS with copies of all documents prepared by BKB along with USAID determination concerning transaction justification. Based on USAID's determination, RICEARS will be advised of the procedure to be established for approving future loan and exchange transactions. Upon submission of all documentation, USAID and REB will request closure of parts (a), (d) and (e) of this recommendation.

LIST OF REPORT RECOMMENDATIONS

Recommendation No. 1

We recommend that U.S.A.I.D./Bangladesh have the Rural Electrification Board exclude from the rural electrification societies' loans, all amounts related to expatriate consultancy costs and interest charged on materials and supplies.

Recommendation No. 2

We recommend that U.S.A.I.D./Bangladesh in conjunction with the Rural Electrification Board review the current financial status of the rural electrification societies to ensure that subsidies and the grace period on loans are adapted to the individual needs of the societies.

Recommendation No. 3

We recommend that U.S.A.I.D./Bangladesh require the Government of Bangladesh to transfer the Power Development Board transmission facilities to the rural electrification societies.

Recommendation No. 4

We recommend that U.S.A.I.D./Bangladesh assist the Government of Bangladesh in improving the management practices of the rural electrification societies by (a) reviewing the societies' administrative and general expenses to determine that increases are justified; (b) reviewing the societies' level and use of depreciation funds for other than replacement of capital equipment; and (c) establishing a policy for writing off the societies' bad debts.

Recommendation No. 5

We recommend that U.S.A.I.D./Bangladesh have the Rural Electrification Board develop in conjunction with the Power Development Board a plan which would meet future generation demand taking into consideration the substantial power losses currently being incurred in Bangladesh.

Recommendation No. 6

We recommend that U.S.A.I.D./Bangladesh:

- (a) issue a Mission Order setting forth its commodity monitoring policies and procedures;
- (b) review the current stock of A.I.D.-financed equipment and material on hand in the three Rural Electrification Board's warehouses and the 13 rural electrification societies' warehouses;
- (c) make appropriate adjustments, based on the above review, to the commodity procurement plan for the Rural Electrification III project; and
- (d) take action to dispose of all defective, spoiled, excessive or otherwise unusable items in stock in accordance with the procedures authorized under A.I.D. regulations.

Recommendation No. 7

We recommend that U.S.A.I.D./Bangladesh require the Government of Bangladesh to:

- (a) submit a periodic warehouse inventory report on A.I.D.-financed commodities;
- (b) strengthen its system of quality assurance inspection and testing of project equipment and material;
- (c) return or refund the dollar value of A.I.D.-financed commodities costing \$305,000 which had been loaned or exchanged from the Khulna warehouse;
- (d) identify and justify other A.I.D.-financed commodities which had been loaned or exchanged by the Rural Electrification Board and, if unjustified, initiate action to seek refunds; and
- (e) seek prior U.S.A.I.D. approval before loaning or exchanging A.I.D.-financed commodities.

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