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AUDIT OF THE ENERGY
PLANNING AND DEVELOPMENT
PROJECT IN PAKISTAN
PROJECT NO. 391-0478

AUDIT REPORT NO. 5-391-89-3
MARCH 14, 1989

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

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March 14, 1989

MEMORANDUM FOR James Norris
Director, USAID/Pakistan


FROM: Reginald Howard, RIG/A/Singapore

SUBJECT: Audit of the Energy Planning and Development Project
in Pakistan, Project No. 391-0478 (Audit Report No.
5-391-89-03)

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of USAID/Pakistan's Energy Planning and Development Project No. 391-0478. Five copies of the audit report are enclosed for your action.

Your comments to the draft report are summarized after each finding and included in their entirety as Appendix 1 to this report. Based on your comments, all three recommendations are considered resolved and will be closed upon completion of planned or promised actions. Please advise me within 30 days of the additional actions taken to implement the recommendations.

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

EXECUTIVE SUMMARY

The objectives of the Energy Planning and Development Project were to strengthen the energy analysis and planning capabilities of the Government of Pakistan, establish a national energy conservation program, and develop Pakistan's energy resources. The project was authorized in 1983 with an amended completion date of June 1991. A.I.D. was to provide \$105 million and Pakistan about \$7.4 million.

We made a performance audit to assess the project's progress, evaluate USAID/Pakistan's project management, and review compliance with A.I.D. regulations.

Two subcomponents, the development of coal briquettes and the studies relating to the coal mine and coal-fired power generation complex, were nearing completion. One subcomponent involving institutional improvement of the Ministry of Planning and Development's Energy Wing was meeting with general success. There were problems with a \$50 million procurement program and with two subcomponents.

USAID/Pakistan did not establish a project need or develop a procurement plan although two years elapsed since authorizing \$50 million and obligating \$12 million for project commodities. The project, mainly institution building, was active for over five years and project commodities had already been purchased. We concluded that it was doubtful if \$50 million in additional commodities could be effectively used for project purposes.

The energy conservation subcomponent made slow progress and after five years the renewable energy subcomponent was yet to be initiated. This occurred because the Mission was not successful in obtaining needed Pakistan support.

The report recommends that the \$50 million authorized for project commodities be deauthorized or deobligated/reprogrammed unless project specific needs can be identified and a procurement plan established for the commodities. Also, the report recommends that a plan be prepared to accelerate the energy conservation subcomponent's progress and another plan be prepared to assess and develop renewable energy technologies or deobligate the \$2.6 million allocated for this subcomponent.

USAID/Pakistan generally concurred with the recommendations but disagreed with some of the report conclusions. Management comments are summarized after each finding and included in their entirety in Appendix 1 of this report.

Office of The Inspector General

**AUDIT OF
THE ENERGY PLANNING AND DEVELOPMENT
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AUDIT OF
THE ENERGY PLANNING AND DEVELOPMENT
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PROJECT NO. 391-0478

PART I - INTRODUCTION

A. Background

Pakistan has a varied mix of commercial energy sources including oil, gas, hydro-electric, coal, and uranium. Despite this, the need to improve living standards is creating an energy demand which challenges Pakistan's physical and financial resources. For example, the cost of oil imports is projected to increase to \$2.0 billion by 1992, more than double the \$0.8 billion in 1987.

The objectives of the Pakistan Energy Planning and Development project were to strengthen the energy analysis and planning capabilities of the Government of Pakistan, establish a national energy conservation program, and develop Pakistan's energy resources. The project consisted of six subcomponent activities; (1) energy analysis and manpower development, (2) coal assessment and development, (3) coal briquette development, (4) feasibility studies for a coal mine and a coal-fired power generation complex, (5) energy conservation, and (6) renewable energy.

The project was authorized on July 13, 1983 with an amended completion date of June 1991. USAID/Pakistan plans to request a further extension until June 1993. A.I.D. and the Government of Pakistan were to provide \$105 million and about \$7.4 million, respectively. As of September 30, 1988, A.I.D. obligated \$61.7 million and expended \$28 million as detailed below

A.I.D. Obligations and Expenditures
As of September 30, 1988 (in \$000)

<u>Budget Category</u>	<u>Obligations</u>	<u>Disbursements</u>
Technical Assistance	\$37,169	\$23,391
Commodities	17,910	3,646
Training	4,521	910
Other Costs	2,100	115
	-----	-----
Total	\$61,700	\$28,062
	=====	=====

Under the project, A.I.D. financed two principal technical assistance contractors, Hagler Bailly & Co. and Mathtech, Inc. Project funds were used to finance the U.S. Geological Survey's assistance to the Geological Survey - Pakistan. Also, several contractors were used to prepare feasibility studies on coal briquetting and a coal mining and power plant complex. The contractors associated with the feasibility study of the coal mining and the power plant complex absorbed the largest portion of project funds to date, approximately \$12 million. In addition, A.I.D. financed the procurement of machinery and equipment and participant training.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made a performance audit of the Energy Planning and Development project in Pakistan. The audit was made to review A.I.D.'s assistance to the Government of Pakistan for moving Pakistan towards energy self-sufficiency and for the institutional improvement of Pakistan energy agencies. The specific audit objectives were to assess the project's progress in meeting its objectives, to evaluate USAID/Pakistan's management of the project, and to review compliance with A.I.D. policies and regulations. To accomplish this, the status of activities was determined, compared with stated plans, and reasons for any deviations were evaluated.

The audit was conducted in Islamabad at the offices of USAID/Pakistan, technical assistance contractors, and various Government of Pakistan agencies. The audit, performed between July and October 1988, covered the period from July 13, 1983, the inception of the project, through September 1988. 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
THE ENERGY PLANNING AND DEVELOPMENT
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PART II - RESULTS OF AUDIT

The Energy Planning and Development project has progressed toward its basic objective of moving Pakistan towards energy self-sufficiency and of upgrading the Pakistan agencies involved in energy resources. However, progress on certain subcomponents has been slow. In general, USAID needed to improve its project management of commodities and monitoring of subcomponent activities. The Mission, with certain exceptions, generally complied with A.I.D.'s policies and regulations. The Government of Pakistan did not provide qualified staff in a timely manner as required in the project agreement.

The Energy Planning and Development project provided technical assistance to Pakistan's energy resources agencies, performed coal assessment surveys, and completed feasibility studies on a combined coal mining and power plant complex.

The audit found that USAID/Pakistan did not establish a project need or develop a specific procurement plan although two years had elapsed since authorizing \$50 million for project commodities. Also, the energy conservation subcomponent made slow progress and after five years the renewable energy subcomponent had yet to be initiated.

The report recommends that USAID/Pakistan deauthorize or deobligate/reprogram the \$50 million for project commodities and deobligate the \$2.6 million for the renewable energy subcomponent unless project specific needs for the commodities can be identified and plans are prepared to accelerate progress on the subcomponent.

A. Findings and Recommendations

1. USAID/Pakistan Had Not Developed A Specific Project Need For A \$50 Million Project Procurement Program.

USAID/Pakistan authorized \$50 million and obligated \$12 million of that amount for commodities without an established project need because they did not develop a procurement plan specifying the types of commodities needed. A.I.D. Handbook 3 requires that project commodities be used for discrete development problems and that the project design include a procurement plan. Since the project is primarily for institution building and project commodities were already procured, it is doubtful that \$50 million in additional commodities are needed and can be effectively used for project purposes.

Recommendation No. 1

We recommend that USAID/Pakistan:

- (a) determine what commodities are necessary to meet the specific needs of the Energy Planning and Development project;
- (b) prepare a plan to procure the commodities needed for the project; and
- (c) deauthorize or deobligate/reprogram that portion of the \$50 million which is not needed for specific project commodities.

Discussion

The preface to A.I.D. Handbook 3 states that a development project is defined as a total, discrete endeavor to create through the provision of personnel, equipment and capital funds a finite result directly related to a discrete development problem. A.I.D. Handbook 3, Chapter 3 stresses the importance of the project design aligning project resources (inputs) with project outputs in order to accomplish project objectives. The Handbook also requires that the project design include a procurement plan which provides the types of commodities needed to meet the development problem.

Two years after initiating a \$50 million commodity procurement program under the Energy Planning and Development project, USAID/Pakistan has not established specific project needs for the \$50 million procurement. At the end of FY 1988, USAID had obligated \$12 million for this procurement.

USAID/Pakistan, in September 1986 informed the Bureau for Asia and the Near East that it was preparing budgetary information to support an increase in project funding of \$50 million for project commodities. In reply, USAID/Pakistan received the approval of the Asia/Near East Project Assistance Committee dependent upon USAID/Pakistan's ability to develop budgetary and supporting documentation for the procurement.

USAID/Pakistan in a cable dated January 5, 1987, described in general terms the nature of the \$50 million procurement program. The Assistant Administrator for the Bureau for Asia and the Near East approved authorization of new funding levels for the project.

USAID/Pakistan did not establish a specific need for project commodities, nor develop a procurement plan. In order to expedite the procurement program, the Government of Pakistan was tasked by USAID/Pakistan to form a procurement committee. The committee was not established at the time of the audit (October 1988) and plans were not developed for the procurement program. The Government of Pakistan's draft Project Concept Paper did include a section on the \$50 million procurement program. This section, however, was broad in scope and did not relate to specific project activities.

In our view, the procurement did not progress because the project, as designed and implemented, could not effectively utilize \$50 million in project-specific commodities. For example, the project activities focused on institution-building through technical assistance to three components.

The Energy Wing and the National Energy Conservation Center are both planning organizations with little need or ability to effectively use large amounts of additional commodities. The assistance to the Geological Survey - Pakistan, also would not require a large amount of commodities as their drilling activities have been going on for several years and substantial commodity assistance was previously given to them under USAID's Energy Commodities and Equipment program.

There has been some discussion about using these procurement funds for non-project purposes. For example, the Government's Project Coordinator stated it would be difficult to use the \$50 million procurement for specific project activities. He stated that the Energy Planning and Development project must be envisioned as assistance to a sector rather than a project and the commodities should be directed towards the energy sector in general. In addition, he also recognized that the project focuses on institution building which does not lend itself to large commodity procurements.

USAID/Pakistan authorized \$50 million and obligated \$12 million of that amount for project procurement without an established need for the commodities to meet Energy Planning and Development project purposes. USAID/Pakistan should develop a procurement plan oriented to specific project activities and deauthorize or deobligate/reprogram funds not needed for this purpose.

Management Comments

USAID/Pakistan generally agreed with the recommendation. However, they do not believe it will be necessary to deauthorize or deobligate the \$50 million because their work in designing a proposed project extension shows that there are many important and competing uses for the \$50 million. Based on their initial design work for the extension, USAID expects to reprogram \$10 million or more of the \$50 million commodities funds for technical assistance and training related to the project components. The remaining \$35-40 million will be programmed for commodities to support the components. As a result, USAID disagreed with the auditor's doubts that the \$50 million in additional commodities could be absorbed for project purposes. They acknowledged that firmer plans for using the \$50 million will be developed once the Project Paper Amendment for the extension is completed.

USAID/Pakistan provided clarification comments on several audit conclusions. Concerning the audit's point that commodities purchased with project funds should be used for specific project activities, USAID/Pakistan stated that they intend to use the \$50 million "essentially" for activities under the project components. However, they stated that the Project Authorization and the Project Amendment present the concept of project commodities "somewhat broadly" such as for power generation equipment; energy conservation equipment; energy education materials; and equipment commodities, materials needed for expediting energy sector projects, as consistent with the project purposes.

Also, USAID indicated that they did not prepare commodity procurement plans because the Government of Pakistan did not establish the project equipment selection committee rather than a lack of project need for the commodities.

Office of Inspector General Comments

Based on USAID's comments, we have revised Recommendation No. 1 to reflect USAID's reprogramming action. The recommendation is resolved and will be closed once

USAID/Pakistan determines the specific commodity needs of the project and develops a plan to procure those commodities.

In our view, the question as to whether the project can absorb \$50 million in commodities was partially answered by USAID'S decision to reprogram \$10 million of that amount for technical assistance and training. The key to the other \$40 million will be dependent on USAID developing a plan which relates specific commodities to the specific needs of the project components.

We believe USAID'S implication that the project authorization and amendment allows Energy Planning and Development Project funds to be used to purchase commodities for non-project activities is an interpretation that is in conflict with Handbook Three. In our view, this Handbook specifically limits the use of project funds to discrete project activities. Therefore, commodities purchased with project funds should be based on specific project needs and used for project components. Remaining project funds should be deauthorized or deobligated/reprogrammed.

2. USAID/Pakistan Needs To Develop Plans To Accelerate And Measure Progress On The Energy Conservation And Renewable Energy Project Components.

The project agreement required the Government of Pakistan to carry out the project efficiently and to provide qualified staff and experienced management. The energy conservation and renewable energy subcomponents made slow progress in meeting their objectives. This occurred because USAID/Pakistan was not successful in assuring that the Government of Pakistan provided the management support and personnel needed to complement the A.I.D.-funded energy conservation technical assistance. Also, they did not assure that the Government assessed technologies required to start implementation of the renewable energy subcomponent. As a result, needed savings in energy resources were delayed.

Recommendation No. 2

We recommend that USAID/Pakistan in conjunction with the Government of Pakistan and the energy conservation technical assistance contractor prepare a plan for the project's energy conservation subcomponent through the end of the project which:

- (a) delineates the responsibilities of USAID, the Government of Pakistan, and the technical assistance contractor and the actions to be taken at a specified schedule;
- (b) establishes a time schedule as to when the National Energy Conservation Center assumes the management and the operation of the energy conservation activities developed by the technical assistance contractor;
- (c) specifies the resources (staff, financial, etc.) to be provided to the National Energy Conservation Center by the Government of Pakistan at scheduled times; and
- (d) establishes quantifiable indicators and the means to collect data to measure the conservation subcomponent's progress in increasing energy efficiency and reducing energy consumption.

Recommendation No. 3

We recommend that USAID/Pakistan:

- (a) require the Government of Pakistan to submit a plan by June 30, 1989 for assessing and developing renewable energy technologies; and

- (b) deobligate the \$2.6 million allocated for renewable energy, if a satisfactory plan is not submitted by that date.

Discussion

The Energy Planning and Development project is a collection of six subcomponents designed to help Pakistan increase its energy self-sufficiency. Their results were mixed. The two subcomponents providing assistance to the Energy Wing and to the Geological Survey of Pakistan were generally successful. The Energy Wing was looked to by the Government of Pakistan and donors for analysis on energy related issues and the Geological Survey identified large new reserves of coal.

Two other subcomponents, although achieving limited progress toward project objectives, have been completed. For example, a market and business assessment was made under the coal briquette subcomponent, but it appeared that acceptance of briquettes as a fuel would be slow. Under the coal mine and coal-fired power generation subcomponent, the project paid \$12 million for feasibility studies that were intended to lead to an A.I.D. project to construct a power generating plant fired with indigenous coal. However, plans for the project were terminated when the private sector did not provide an acceptable proposal for supplying the coal. Implementation of the remaining two subcomponents regarding energy conservation and renewable energy has been slow.

Energy Conservation - Progress in developing the National Energy Conservation Center (ENERCON) as the principal implementor of Pakistan's energy conservation program was slow because of untimely Government support. Also, the measurement of progress towards achieving the overall project purpose was hampered by the lack of quantifiable targets.

The energy conservation component's objective was to increase the efficiency of industrial energy use. However, the Government did not have an implementing agency for this component and therefore formed the National Energy Conservation Center (ENERCON). USAID/Pakistan funded a technical assistance contract whose work plan called for the contractor to assist and advise ENERCON counterpart personnel. ENERCON staff were to have responsibility for achieving the project goals and objectives.

Although the technical assistance contractor was on site and available in early 1986, ENERCON was staffed with only one professional until June 1987. Even though the ENERCON staff now consists of qualified professionals, they do not have middle-management administrators and technicians to handle the many non-technical aspects of the conservation program. In addition, the contractor believed other management skills such as economics, finance, and promotion were also needed to operate a national conservation program.

A conservation program, with activities in eight functional areas was in operation at the time of the audit (October 1988), but the program was still administered almost entirely by the technical assistance contractor, and a plan was not developed for transferring responsibilities to the ENERCON staff. This role of the technical assistance contractor, approved and encouraged by USAID/Pakistan project management, contributed to the delay in the establishment of a fully functional ENERCON staff. USAID officials told us that they intend to develop a transition plan which would address this transfer of responsibilities. Since the technical assistance contract and the project is due to end in 1990 and 1991 respectively, we believe the completion of the transition plan should receive top priority.

The technical assistance contractor has developed a detailed work plan for the remaining part of its contract which could serve as the basis for the conservation program transition plan. We believe the transition plan should delineate (1) the responsibilities of USAID, the Government and the technical assistance contractor; (2) the actions that must be taken by each party; and (3) the resources that will be needed to have ENERCON fully responsible for the operation of the activities in all eight of the conservation program's functional areas by the end of the project.

USAID/Pakistan had not established quantifiable targets to measure the conservation program's progress in achieving the project purpose. A.I.D. Handbook 3 Chapter 3 states that quantifiable indicators are important for measuring progress from baseline conditions to planned targets. It also stated that progress should be systematically observed and data concerning the indicators routinely documented.

The overall purpose of the project was to assist the Government to assess, develop, and use indigenous energy resources and to improve energy efficiency. The project paper listed two conditions that would indicate the project purpose was achieved. These conditions were that (1) Government plans placed increased emphasis on energy efficient programs and projects and (2) consumption of energy per unit of production was reduced.

The project paper, however, did not provide quantifiable targets so that such progress could actually be measured. Now that ENERCON is staffed, USAID/Pakistan and ENERCON should establish quantifiable indicators and the means to collect data to measure progress.

Renewable Energy - None of the \$2.6 million obligated for the renewable energy subcomponent was expended. This subcomponent was to assess and develop renewable energy technologies. However, the Government did not take the first step in the implementation of this subcomponent, assessments of renewable energy technologies. The assessments were to delineate the long-term role of renewable energy technologies and to accelerate the implementation of promising technologies.

At the time of the audit (October 1988), the Government had no firm plans to use the \$2.6 million obligated. In view of the lengthy time that would be needed for implementation of this component, USAID should establish a firm deadline by which the Government must formulate concrete plans and staff an implementing organization for the renewable energy component. If this is not accomplished by at least June 30, 1989; the \$2.6 million should be deobligated.

Section B.2. of the Standard Provisions Annex in the project grant agreement required the Government of Pakistan to carry out the project with the plans and schedules approved by A.I.D. The project agreement required the Government to provide qualified and experienced management, and to train staff needed for the project. The project agreement, stipulated that the Government operate the project to ensure achievement of the project purposes.

Because USAID/Pakistan was not successful in getting the Government to provide the agreed support for these two subcomponents, progress in energy conservation and renewable energy was delayed. As a result the potential for significant energy savings that would reduce the amount of imported oil and in turn reduce the drain on Pakistan's foreign exchange was also delayed. In addition, the failure to assess and develop renewable energy technologies has delayed making reductions in the use of increasingly scarce firewood and providing power to rural areas not served by the national power grid.

Management Comments

USAID/Pakistan believed the auditors were unfairly critical when indicating that the Conservation and Renewable Energy subcomponents moved slowly because USAID/Pakistan did not

assure the Government of Pakistan provided the needed management support and personnel. USAID stated that they took persistent action in encouraging the Government to meet its institutional and staffing requirements for the components. They doubted that the early operational role of the contractor delayed ENERCON's development as stated in the audit report. They stated the advantage of the operational role was that the conservation program started earlier and resulted in energy savings. They did, however, acknowledge that the disadvantage of this role was that program and technical skills were not transferred to the ENERCON staff.

USAID/Pakistan believed they had quantifiable indicators to measure the progress of the Energy Conservation Program such as energy saved, number of industrial plants audited, etc. They intend to strengthen these indicators during the design of the project's extension.

Concerning renewable energy, USAID/Pakistan stated that a Government energy board instructed the relevant Government agencies to develop promising technologies which have good potential for commercialization. These technologies will be the basis for redesigning the renewable energy subcomponent.

Despite these differences with the audit conclusions, USAID/Pakistan did concur with the Recommendations and stated that the audit report would be useful in stimulating the Government's progress on the renewable energy subcomponent.

Office of Inspector General Comments

Audit results showed that USAID decided to start and continue the energy conservation component even though the Government was not meeting its commitments. In doing this, USAID opted for the short-term benefits of having the technical assistance contractor perform operational energy conservation activities rather than meeting the project objectives through technical assistance advisory service to ENERCON. The project was implemented as if the contractor's operational and technical assistance advisory roles were mutually exclusive. The thrust of the project was institution building through the transfer of technical assistance to the ENERCON staff. After three years, this has yet to be accomplished. While there are benefits resulting from the technical assistance operational role, it would have been more efficient and less costly to have the contractor perform its technical assistance advisory and operational roles simultaneously.

Audit results showed that USAID needed to establish quantitative indicators for the Energy Conservation Program which were specific to USAID's inputs under the Energy Planning and Development project. Without these indicators and verifiable data, it is difficult to measure the component's progress and the impact of USAID assistance.

Based on USAID actions, Recommendation numbers two and three are considered resolved and will be closed upon completion of the plans for the two project subcomponents.

B. Compliance and Internal Control

Compliance

The audit discussed the following compliance exceptions. Finding 1 discusses the need to ensure commodities are used for project activities as required by A.I.D. Handbook 3. Finding 2 discusses the need for ensuring that the Government of Pakistan complies with project agreement provisions. Also, Finding 2 addresses the need to better comply with A.I.D. regulations requiring measurement of project progress. The audit review of compliance was limited to the findings presented in this report.

Internal Control

The audit showed that internal controls needed improvement. Findings 1 and 2 identify the need for better controls over project commodities and funds. Finding 2 discusses weaknesses in the project measurement system. The audit review of internal controls was limited to the findings presented in this report.

C. Other Pertinent Matters

1. USAID/Pakistan Should Improve Internal Controls On Participants

USAID/Pakistan was required by A.I.D. Handbook 10 to maintain accurate and complete records and statistics on participants trained and to establish a follow-up system to ensure participants utilize their training. USAID/Pakistan, however, was not maintaining accurate and complete records on participants trained under the Energy Planning and Development Project's \$4.5 million training program.

While the project office did maintain records on participants trained, the records could not be reconciled with the disbursement records maintained by the Office of Financial Management (FM). For example, FM records showed 24 participants sent for training at an approximate cost of \$235 thousand that were not reflected in project office records (See Exhibit 1). The lack of an adequate follow-up system and incomplete participant information precluded USAID/Pakistan from assuring itself that project funds for participant training were effectively utilized. In response to the draft report, USAID stated that the participant tracking system has been made comprehensive and is being updated on a current basis.

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PART III - EXHIBIT AND APPENDICES

Energy Planning and Development Project
391-0478

PARTICIPANTS ON FINANCIAL MANAGEMENT RECORDS BUT NOT ON PROJECT OFFICE RECORDS

<u>PARTICIPANT</u>	<u>GOP AGENCY</u>	<u>TRAINING COURSE</u>	<u>TRAINING PERIOD</u>	<u>APPROXIMATE COST</u>
1) Syed Azkar Ali	Oil & Gas Development Corp.	Petroleum Mgmt	3 months	\$ 2,500*
2) Ghulam Hussain Butt	Min. & Ind. Devel. Corp.	Energy Proj. Mgmt.	6 months	25,000
3) Waheeduddin Aheed	Geological/Survey of Pakistan)			
4) Abdul Hameed	Min. of Petrol. & Nat'l Res.)			
5) Zaheed Aheed	- " -)	USGS Study Tour	3 weeks	25,625
6) A. H. Kazmi	Geological/Survey of Pakistan)			
7) Mohammad Ali Mirza	- " -)			
8) Mohammad Naeem Malik	Min. of Petrol. & Nat'l Res.	Ms Degree in Energy Use & Management for Development	18 months	34,900
9) Rafiq Aheed Khan	Geological/Survey of Pakistan)			
10) S. Abbas Ali Shah	- " -)			
11) S. Ghazanfar Abbas	- " -)			
12) Mohammad Akram Bhatti	- " -)			
13) Saeed Iqbal	- " -)			
14) Safiq Aheed Khan	- " -)			
15) Mohammad Riaz Khan	- " -)			
16) Tariq Shakoor	- " -)	Coal Analysis and Assessment	6 weeks	146,912
17) Shafiq Javed	- " -)			
18) Intizar Hussain	- " -)			
19) Mustaz Javed Khan	- " -)			
20) Mohammad Aheed	- " -)			
21) Mohsin Anwar Kazim	- " -)			
22) Farah Fatmi	- " -)			
23) S. Salim Abid Jaffery	- " -)			
24) Naimatullah	- " -)			

9234,937

* Travel cost only



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable: USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

THE DIRECTOR

MEMORANDUM

TO : Mr. Regional Howard, RIG/A/Singapore

FROM : James A. Norris, Director, USAID/Pakistan

SUBJECT : Draft Audit Report on the Energy Planning and Development
Project No. 391-0478



The following are our suggested changes and comments/clarifications on the subject draft report:

Recommendation No. 1

With respect to this Recommendation concerning the \$50 million project commodity procurement fund, the last sentence on page 6 of the draft audit suggests that we have unnecessarily tied up \$50 million in AID funding. This is not correct. While we have authorized the funding, only \$12 million of the \$50 million fund has been obligated. Authorization of funds does not entail any tying up of funds. There is no plan to obligate any funds for EP&D in FY 89. Tentative plans now are for an obligation of \$10 million in FY 90, but these plans are at a very preliminary stage, and depend in large measure on correction of the findings and implementation of the recommendations in the Audit Report. In other words, it is unlikely we would obligate any additional funds for this project if we do not correct the concerns that have been noted on the commodity fund. It is suggested that this sentence be deleted.

We further disagree with a portion of the "Executive Summary" (p.ii) and the "Discussion" (page 6) which states "..... it is doubtful if the \$50 million in additional commodities could be absorbed for project purposes. We recommend that the \$50 million be de-authorized/de-obligated unless project specific needs can now be identified and procurement planned."

USAID has begun work to design the extension phase of the EP&D program, and it is becoming clear that there are many important and competing uses for the \$50 million.

Based on recommendations of the August 1988 project evaluation, the Mission decided last September to extend the EP&D project. The evaluation high-lighted project successes and recommended a three year extension (July 1990 to July 1993) to continue and consolidate activities in Component 1,

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Energy Analysis and Training; Components 2A and 2B, Coal Resource Assessment and Coal Development; and Component 3A, Energy Conservation; and to reinvigorate the seriously lagging but important Component 3B, Renewable Energy.

We expect to reprogram \$10 million or more of the \$50 million "special commodities" money for technical assistance and training related to the extension of the various project components. The remaining \$35-\$40 will be programmed for commodities to support these components. The principal demand for additional funds will be for Component 2A, "Coal Resource Assessment" (roughly \$5 million in TA, and \$5-10 million for drilling equipment and other commodities); Component 3A, Energy Conservation (roughly \$15-20 million to finance loans to the private sector for the purchase of energy conserving instruments and equipment; Component 3B, Renewable Energy (roughly \$5-10 million for commodities for adaptive research, demonstration and commercialization of renewable technologies/products). A big question mark right now is the size and scope of our future coal development and related environmental protection activities. O/E&E expects to have a draft EP&D Project Paper Amendment by April 1989 which will present a clearer picture of our reprogramming plans.

In sum, there should be no thought of de-authorizing the \$50 million before the Mission completes its PP Amendment for the extension phase of the EP&D project.

P. 10: The audit report points out that "there has been some thought to using these procurement funds for non-project specific purposes". The audit report argues that the commodities should be used only in support of specific on-going activities under the project components. While we intend to use the \$50 million essentially for activities under the project components, it is important to note that the Project Authorization and the Project Agreement present the concept of "project commodities" somewhat broadly. Illustrative commodity uses in Project Agreement Amendment No. 4 include: power generation equipment; energy conservation equipment, energy education materials; and equipment, commodities and materials needed for expediting energy sector projects, as otherwise consistent with the purposes of this project." A GOP Project Equipment Selection Committee was to have been set up to select the GOP's priority energy equipment needs. One of the original intents was to retain some flexibility to respond to high priority commodity needs as they might arise. This was the reason the Mission did not feel compelled to carry out detailed commodity use plans-- commodity uses were to have been planned in conjunction with the GOP committee.

Recommendation No. 2

This recommendation deals with the Energy Conservation and Renewable Energy Project Components:

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On page 12, the draft audit report states that the Conservation and Renewable Energy components moved slowly because....."USAID/Pakistan did not assure that the Government of Pakistan provided the management support and personnel needed..." The implication here is that USAID failed. We believe the record shows that USAID has been persistent in prodding the Government on the institutional and staffing requirements for these components. There is only so much AID can do, and whether USAID deobligates or reprograms one month after the first prodding, one year, or longer, is a matter of judgment. It is not accurate or fair to state that USAID has been delinquent on this matter.

This is not to say that we disagree with the recommendation. In fact, we intend to use the audit report and its recommendations as further material to prod the Government one last time on renewables; the Government has made notable progress in their conservation policies already.

The main point is that institutional change such as that which we set out to do with this project is not easy. We have succeeded in making some significant changes in the way the Government operates and in the programs it is undertaking. We should not be too impatient. Had we pulled out two years ago as has been suggested, we would have made zero progress in conservation.

Further specific comments about the recommendation and related discussion in the draft audit report are as follows:

P. (iii), 5: Component 3 actually includes two programs, i.e., (a) Energy Conservation and (b) Renewables Energy Technologies. Therefore, these two programs should be discussed separately.

P. (iii) 5, 12: The audit does not seem to acknowledge the recent strong performance of the energy conservation program. Despite a slow start initially, the program is now proceeding in a timely and successful manner.

The audit seems to fault Mission management for the GOP's initial slowness in establishing ENERCON. In fact, Mission management has consistently applied a high level of management attention and steady pressure on the GOP to undertake the necessary institution building. This included various meetings of the Mission Director with the Minister of Planning and Development and the Deputy Chairman, Planning Commission, and a number of letters to these two individuals. In September, 1986, the Mission deliberately reduced the level of technical assistance to ENERCON until such time as ENERCON filled its own professional positions. The level of technical assistance was subsequently increased when ENERCON professional staff came on board. The Energy Conservation Program has been fully operational since about early-1988, mainly as a result of USAID's strong encouragement and support.

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P. 15, 18, 19: In the Energy Conservation program, we do have quantifiable indicators to assess progress of the program. Such quantifiable indicators include energy saved (in tons of oil equivalent as well as in dollars), number of persons trained through the workshops and courses, number of industrial plants audited and number of feasibility studies conducted, etc. These indicators will be strengthened during design of the 3-year EP&D extension.

P. 16: The audit speculates that the early operational role of the contractor may have delayed development of ENERCON. We doubt it. The contractor initially undertook operational responsibilities because ENERCON did not have adequate staff. The contractor carried out activities like energy surveys, training courses, database development etc. The disadvantage of the contractor playing this role was that program and technical skills were not being transferred to ENERCON. There were considerable advantages to this operational role however. The energy conservation program got off to an earlier start with resultant energy savings in Pakistan. There is sufficient time remaining in the project to transfer the skills and operations to ENERCON, and this transfer is occurring now.

P. 17: The audit points out remaining weaknesses in ENERCON's staff. The ENERCON managing Director already is thinking about such additional staffing needs. For the present, however, he has decided to fill all currently approved positions before requesting the GOP for more positions. We think the suggestion for more professionals in economics, finance etc. should remain in the audit report.

Recommendation No. 3

We agree with the audit recommendation to have the GOP submit a renewables energy plan by June 30, 1989, and we will consider de-obligating the \$2.6 million if that is not done.

P. (iii), 5: The Renewable Energy Technologies component has not proceeded because of earlier technical and institutional differences with the GOP and because of weaknesses in the design of this component. In a recent Energy Policy Board (a high level body of the GOP) meeting, the relevant GOP agencies were instructed to come up with two or three promising technologies which have good potential for commercialization. Based on this, the Renewable Energy Technologies component of the EP&D project will be re-designed. Following the EP&D project evaluation in August 1988, USAID prepared a plan with specific steps for USAID and GOP re-design of the renewables program. Re-design work has begun.

Other Pertinent Matter (P. 23)

The audit suggests that AID improve internal controls on participants. We agree. Since the Audit, the participant tracking system has been made more comprehensive and is being updated on a current basis.

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Exhibit 1, "Participants on Financial Management records but not on Project Office records" was examined.

- Participants # 1-24 were under five separate PIO/P's. These five PIO/P's have now been entered in the EP&D Training Tracking System.
- Participants # 1-25 and 26 were alternate candidates who only go for training when the principal candidates are not able to go; hence they were not in the tracking system.
- Records for Participants # 27-33 were in fact available in the Project Office and these participants were under process at the time of the Audit.

This concludes the mission's comments on the subject draft audit report and we concur that the recommendations are resolved with the above clarifications. We look forward to receiving the final audit report.

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