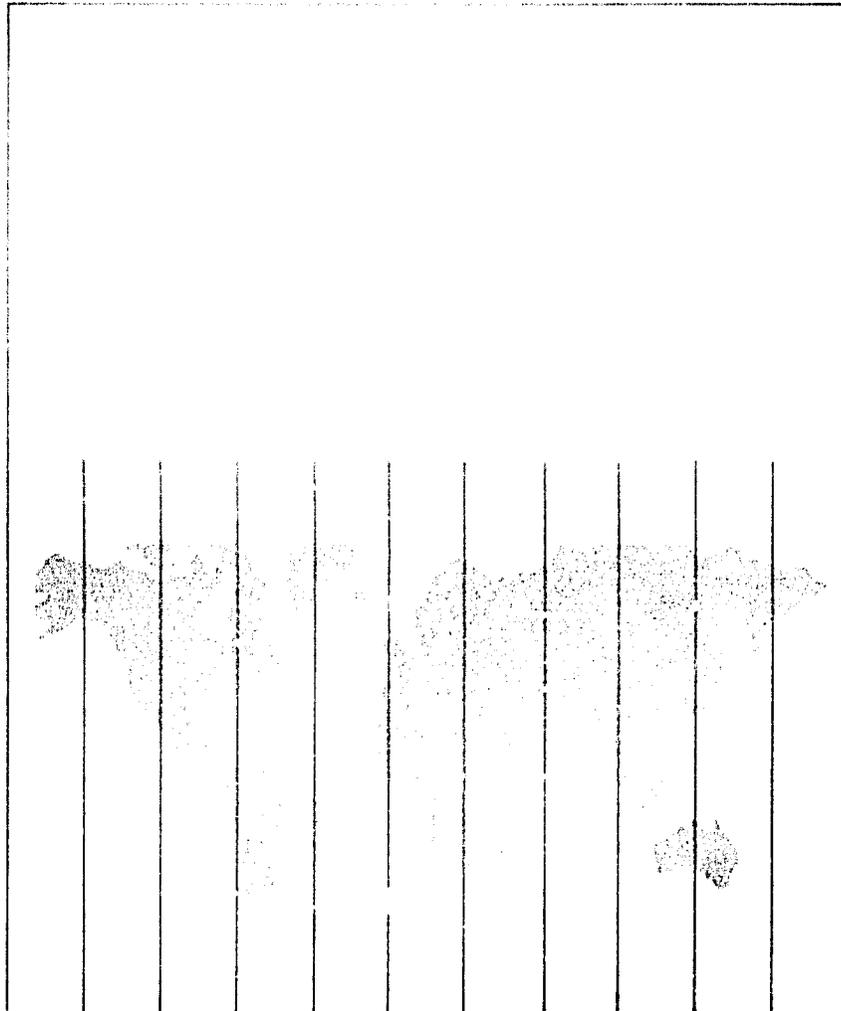


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit

MANILA

AUDIT OF
SECONDARY FOOD CROPS DEVELOPMENT
IN INDONESIA

Audit Report No. 2-497-89-16
September 15, 1989

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

UNITED STATES POSTAL ADDRESS
USAID/RIG/A/M
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: September 15, 1989

MEMORANDUM

TO: David N. Merrill
Director, USAID/Indonesia

FROM: *William C. Montoney*
William C. Montoney
Regional Inspector General, RIG/A/M

SUBJECT: Audit of Secondary Food Crops Development
in Indonesia - Project No. 497-C304
Audit Report No. 2-497-89-16

The Office of the Regional Inspector General for Audit/Manila has completed its Audit of Secondary Food Crops Development in Indonesia. Five copies of the audit report are provided for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report contains four recommendations. Recommendation No. 2 is closed while Recommendation No. 1 is resolved and can be closed once the actions in process are completed. Recommendations No. 3 and 4 are unresolved. Please advise me within 30 days on the status of actions planned and in process to close the recommendations.

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

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EXECUTIVE SUMMARY

The purpose of the Secondary Food Crops Development Project was to increase the production, consumption and marketing of secondary food crops in Indonesia. This was to be achieved through improved cropping systems, increased use of commercial inputs and improved post-harvest management. The project agreement was signed on May 23, 1983 for a five-year period. A.I.D. was to contribute \$6.4 million and Indonesia \$6.3 million on an in-kind basis. Subsequent amendments resulted in A.I.D.'s financial obligation being increased to \$7.4 million and the project assistance completion date being extended to April 15, 1990.

This was a performance audit with the specific objectives of determining whether (1) project objectives were being achieved, (2) project accomplishments would be sustained, and (3) financial management practices were adequate. Audit work showed that project accomplishments had not been adequately evaluated, continued project support after A.I.D. funding ceases had not been assured, control over technical assistance disbursements was weak, and unneeded project funds had not been deobligated.

The project has contributed to improved cropping systems and has increased the production of secondary food crops in Indonesia. Also, Government of Indonesia officials have expressed interest in continuing project activities beyond the completion of A.I.D. assistance. However, to maximize project benefits, USAID/Indonesia should establish valid indicators for measuring project accomplishments and utilize these indicators to measure project achievements during the remaining project life and during the final project evaluation. USAID/Indonesia should also work with Indonesian officials to develop a plan and budget for post-April 1990 secondary food crop activities. Finally, USAID/Indonesia in conjunction with AID/Washington should establish better control over technical assistance disbursements and deobligate project funds that will not be needed during the remaining life of the project.

The Foreign Assistance Act requires that a system be established to compare project accomplishments with project objectives. Although the project has contributed to increased secondary food crop production in Indonesia, achievement of this objective could not be substantiated because the verifiable indicators designed to measure project accomplishments had not been adequately evaluated. This occurred because project officials believed the

indicators were unrealistic and not valid for evaluation purposes. Secondly, USAID/Indonesia did not modify project goals and purposes as recommended in the mid-term evaluation. As a result, Mission management did not know the extent to which project accomplishments had been achieved. The USAID needed to develop revised indicators and use them to assess project accomplishments during the remaining project life and during the final project evaluation. A revised logframe was developed by the USAID, and its approval along with finalizing arrangements for the final evaluation were being pursued.

About one-third of the project funding authorization was to be spent during the final year of project implementation even though there was little assurance that the Government of Indonesia was capable of supporting the project after A.I.D. funding ceased. Important project components, such as demonstration and trial farm support, mass communications, and market information collection, required additional funding and continued participation by the host government. Assurances of continued support were especially important since the Indonesian government's participation in the project has been much less than planned because of funding constraints. A.I.D. regulations state that prior to the completion of A.I.D. assistance, a number of continuing responsibilities must be considered, including host country recurrent cost responsibilities and the adequacy of funding for the continued operation of the project. These issues had yet to be resolved. Unless USAID/Indonesia and the Indonesian government address ways to sustain project activities, millions of dollars in project funds may have been spent on activities that will not be continued. The USAID needed to work with the Government of Indonesia to develop a plan and budget to ensure continued support for secondary food crop activities. In response to the USAID's initiatives, the Government of Indonesia prepared a plan and budget for limited but continued support of project activities.

About \$2.1 million in project technical assistance was being disbursed by AID/Washington without effective internal control because USAID/Indonesia was not providing information to support AID/Washington's certification and payment of vouchers. A.I.D. regulations require that management control be adequate to ensure that funds are used for authorized purposes and to provide safeguards against waste, fraud, and abuse. Because of the lack of management control, project funds have been disbursed without proper approval and may have been used for unauthorized purposes.

The USAID needed to work with AID/Washington to establish a system to provide verification of AID/Washington disbursements and recover any amounts improperly paid to the technical assistance contractor. The USAID disagreed that this was either a USAID responsibility or that the recommendation was actionable at the Mission level.

Through May 1989, about \$1.3 million in project funds had not been earmarked for project activities even though project completion was less than a year away. These funds were obligated for approved project activities, but some funds will not be used because all activities will not be completed as planned. It was likely that about \$620,000 would not be utilized by project completion. To maximize the use of project funds, A.I.D. regulations require a close-out review of financial obligations to preclude project funds from being used for low priority project activities. The USAID needed to review the financial status of the project and deobligate or reprogram funds not needed for priority project activities. The USAID had taken steps to earmark some obligated project funds and planned to review and prioritize remaining project activities and identify the funding required. The USAID did not plan to deobligate project funds until after project completion.

Office of the Inspector General

AUDIT OF SECONDARY FOOD CROPS
DEVELOPMENT IN INDONESIA

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	1
PART II - RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Project Success is Unknown Because Project Accomplishments Have Not Been Evaluated	
2. Project Sustainability Needs to Be Addressed Prior to Completion of A.I.D. Assistance	
3. Control Over Technical Assistance Disbursements Was Weak	
4. Unused Project Funds Should be Deobligated	
B. Compliance and Internal Controls	19
C. Other Pertinent Matters	20
PART III - EXHIBIT AND APPENDICES	
A. Exhibit	
B. Appendices	
1. Management Comments	
2. List of Recommendations	
3. Distribution List	

AUDIT OF SECONDARY FOOD CROPS
DEVELOPMENT IN INDONESIA

PART I - INTRODUCTION

A. Background

The purpose of the Secondary Food Crops Development Project was to increase the production, consumption and marketing of secondary food crops in Indonesia. This was to be achieved through improved cropping systems, increased use of commercial inputs and improved post-harvest management. For project purposes, secondary food crops in Indonesia were defined as peanuts, corn, soybeans and cassava. Project components included long and short-term technical assistance, training, personnel, commodities, policy research, and operational support. The creation of 180 demonstration and experimental farms was the primary means by which new and improved cropping systems were to be established.

The Secondary Food Crops Development Project loan agreement was signed on May 23, 1983 for a five-year period. A.I.D. was to contribute \$6.4 million and Indonesia \$6.3 million on an in-kind basis. Subsequent amendments revised a portion of the financing from loan to grant and increased A.I.D.'s financial obligation to \$7.4 million (\$3.4 million in loans and \$4 million in grants). Also, the project assistance completion date was extended to April 15, 1990. Through May 1989, USAID/Indonesia had obligated the entire \$7.4 million and had expended \$3.6 million.

The Ministry of Agriculture, Directorate General of Food Crops was the responsible Indonesian implementing agency, while the Palawija Project Office, located in Jakarta, administered the operational activities of the project.

B. Audit Objectives and Scope

This was a performance audit with the specific objectives of determining whether (1) project objectives were being achieved, (2) project accomplishments would be sustained, and (3) financial management practices were adequate. The financial management practices segment of the audit was limited because the auditors were unable to verify expenditures applicable to about \$2.1 million in project technical assistance administered by A.I.D.'s Bureau for Science and Technology in Washington, D.C.

The audit included a review of project files, financial records and other pertinent data maintained at USAID/Indonesia and the Palawija Project Office. Interviews were conducted with Mission personnel, Ministry of Agriculture officials, the technical assistance contractor, and numerous farmers and extension workers. The audit team made two field trips, one to East Java and one to Lampung Province, to observe and obtain information on secondary food crop production patterns. There were no previous audits of the project, but a 1986 mid-term evaluation was used to help determine whether project objectives were being achieved. The amount of financial transactions audited was \$2.4 million.

Internal controls examined included controls over project disbursements, counterpart contributions and host country contracting. The audit field work was performed during the period April to June 1989. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF SECONDARY FOOD CROPS
DEVELOPMENT IN INDONESIA

PART II - RESULTS OF AUDIT

The audit of the Secondary Food Crops Development Project showed that the project had contributed to increased secondary food crop production in Indonesia, but some improvements were needed. Audit work showed that: (1) project accomplishments had not been adequately evaluated; (2) continued project support after A.I.D. funding ceases had not been assured; (3) control over technical assistance disbursements was weak; and (4) unneeded project funds had not been deobligated.

The project has contributed to improved cropping systems and has increased the production of secondary food crops in Indonesia. Government of Indonesia (GOI) officials have expressed interest in continuing project activities beyond the completion of A.I.D. assistance.

To maximize project benefits, USAID/Indonesia should establish valid indicators for measuring project accomplishments and utilize these indicators to measure project achievements during the remaining project life and during the final project evaluation. The USAID should also work with GOI officials to develop a plan and budget for post April 1990 secondary food crop activities. Finally, the USAID should establish better control over technical assistance disbursements and deobligate project funds that will not be needed during the remaining life of the project.

A. Findings and Recommendations

1. Project Success is Unknown Because Project Accomplishments Have Not Been Evaluated

The Foreign Assistance Act requires that a system be established to compare project accomplishments with project objectives. Although the project has contributed to increased secondary food crop production in Indonesia, achievement of this objective could not be substantiated because the verifiable indicators designed to measure project accomplishments had not been adequately evaluated. This occurred because project officials believed the indicators were unrealistic and not valid for evaluation purposes. Secondly, USAID/Indonesia did not modify project goals and purposes as recommended in the mid-term evaluation. As a result, Mission management did not know the extent to which project accomplishments had been achieved.

Recommendation No. 1

We recommend that USAID/Indonesia review the verifiable indicators contained in project planning documents and

- a. develop revised indicators that would be valid for measuring project accomplishments, and
- b. use the new indicators to assess project accomplishments during the final project evaluation.

Discussion

The eight verifiable indicators identified in project planning documents as the basis for measuring the accomplishments of secondary food crop objectives had not been evaluated by Mission officials. Five of the indicators specified quantitative increases in crop production, crop intensity, farm income, household consumption and market supply. Three other indicators were designed to measure achievements in project purpose, including increased utilization of improved cropping systems, increased usage of commercial inputs and improved post-harvest management (see Exhibit 1).

Audit work and related studies showed that some of the verifiable indicators had been met or had exceeded expectations. This was especially true for the indicator of increasing demonstration farm production by 50 percent and

increasing farmer utilization of improved cropping systems by 50 percent. For example, a 1986 economic appraisal reported more than a fourfold increase in corn production in South Sulawesi and that demonstration farm crop yields from all three Indonesian provinces were well above provincial average yields.

The 1986 mid-term evaluation reported soybean yields of 1.5 tons per hectare in one province with demonstration farms as compared to .75 tons per hectare for provinces without demonstration farms. The evaluation also reported that cropping intensity had increased due to the example provided by the demonstration farms. Formerly, only one crop per year was planted, but this has changed to an intensity of two or three crops per year. The second and third crops were secondary food crops.

A GOI official from Lampung Province stated that the project had increased farmers' income by 50 to 60 percent and that farmers trusted the new cropping systems. He added that secondary food crop areas had expanded by ten percent. Also, more than 260 demonstration and trial farms were created by the project as compared to an output of 180 planned at the beginning of the project. These conditions reflected the positive impact secondary food crop production was having throughout Indonesia. The audit team observed increased secondary food crop production and improved cropping systems in the two provinces visited during the audit.

On the other hand, some demonstration farms were not successful. The GOI Project Manager cited several factors which dictated success or failure, including site selection and design, rainfall and irrigation, unity of farmers and the availability of farm facilities and equipment. In South Sulawesi, three 1984/85 demonstration farms failed because of floods, worms, drought and poor fertilizer application. In Lampung Province, a group of farmers, who had participated in the project since 1984, indicated that they now preferred to plant rice and would be doing so during the next cropping season because the government had installed a new irrigation system.

Several of the verifiable indicators were overly optimistic and attempts to measure them were virtually impossible. The GOI Project Manager said that demonstration farms were not large enough to influence the overall marketing system or to ensure the use of commercial inputs in areas outside the demonstration farms. He stated that he did not know how to

measure the indicator of increased household consumption because consumption patterns in any given area were influenced by too many factors unrelated to the demonstration farms. The technical assistance team leader believed that the indicators were designed under the assumption that an adequate infrastructure existed in the farming areas. In reality, roads were very bad, extension efforts were poor and essentially no record keeping was done outside the demonstration farms.

Although part of the original project design, the verifiable indicators had not been adequately evaluated after seven years of project implementation. The current GOI Project Manager said that he considered the objectives represented by the indicators to be too ambitious and, consequently, he had made no effort to evaluate them during the two years he held that position. The A.I.D. Project Officer did not know why the indicators had not been evaluated, but he believed much of the data required was available at the farm level and needed only to be collected. Another USAID/Indonesia official said that, because the mid-term evaluation was critical of the indicators and suggested that project objectives be refocused, project officials placed little importance on them. The 1986 mid-term evaluation did address the validity of the indicators and reported them to be unrealistic and not clear. The study itself did not address how the specific indicators should be revised, but recommended that the project be extended and the objectives of the project be made more realistic and achievable.

On May 1, 1987 USAID/Indonesia requested approval for a two year extension of the project assistance completion date. The memorandum signed by the Mission Director did not request that the project objectives be changed. It did, however, indicate that project activities should focus more directly on 1) expanding the role of demonstration farms to test economically viable technology packages and more cost-effective extension methods, 2) enhancing linkages between research and extension, and 3) strengthening the capability of the GOI Directorate of Food Crops Economics to undertake marketing and related policy work that would provide the analytical basis for diversification. Amendment No. 3 to the Project Grant Agreement, approved September 25, 1987, extended the project assistance completion date until April 15, 1990, but it did not modify the project objectives.

A.I.D. Handbook 3 defines project objectives as the highest order of design tasks and states that their subsequent pursuit should be the central focus about which all other

project aspects are molded. Section 621A(b) of the Foreign Assistance Act requires that A.I.D. establish a system that includes development of quantitative indicators of progress towards objectives and an evaluation system for comparing the results of project accomplishments to their stated objectives. Such a system is presented in A.I.D. Handbook 3, Chapter 12. A.I.D. Handbook 3, Chapter 14 emphasizes the value of goal evaluation by pointing out that a project can only be considered complete when it is successfully generating a stream of benefits and helping the intended beneficiaries in the manner and at the rate envisioned in the initial project or, if modified, final project design.

In summary, even though project objectives had not been adequately evaluated as required by agency regulations, there was evidence to show a positive impact resulting from project efforts. Still, project objectives should be evaluated before project completion to measure project success and encourage continuation of the project by the GOI.

Management Comments

A revised logframe was developed by the USAID and was provided to the GOI. USAID and GOI staff met in August 1989 to review the details of the new logframe and to finalize the timing, staffing and terms of reference for the final project evaluation. The new indicators will be used in the final evaluation to assess project accomplishments and sustainability.

Office of the Inspector General Comments

The USAID actions are responsive to the recommendation. Accordingly, Recommendation No. 1 is considered resolved and can be closed once the actions in process have been completed.

2. Project Sustainability Needs to Be Addressed Prior to Completion of A.I.D. Assistance

About one-third of the project funding authorization was to be spent during the final year of project implementation even though there was little assurance that the GOI was capable of supporting the project after A.I.D. funding ceased. Important project components, such as demonstration and trial farm support, mass communications and market information collection, required additional funding and continued participation by the host government. Assurances of continued support were especially important since GOI participation in the project had been much less than planned because of funding constraints. A.I.D. regulations state that prior to the completion of A.I.D. assistance, a number of continuing responsibilities must be considered, including host country recurrent cost responsibilities and the adequacy of funding for the continued operation of the project. These issues had yet to be resolved. Unless USAID/Indonesia and the Indonesian government address ways to sustain project activities, millions of dollars in project funds may have been spent on activities that will not be continued.

Recommendation No. 2

We recommend that USAID/Indonesia work with the Government of Indonesia to develop a plan and budget for post-April 1990 secondary food crop activities, including farm credit, demonstration-farm support and monitoring, economic analysis of returns on non-rice cropping, and technology and market information dissemination.

Discussion

During the final year of project implementation, USAID/Indonesia planned to spend about \$2.3 million, 31 percent of the authorization, on project activities. Included in this amount was approximately \$1.2 million for technical assistance, over \$700,000 in operational support and \$400,000 for a policy study to be conducted by Iowa State University. According to the technical assistance contractor, this funding was being used to demonstrate to GOI officials that secondary food crops have a place in Indonesian agriculture and to encourage them to participate in project activities. The USAID Project Officer agreed that the funds were being used to foster greater government involvement and he believed the investment was worthwhile.

Included in the last two years' activities were new project components that required continued support after A.I.D. assistance ended. For example, demonstration-farm clusters were a new element added to promote secondary food crop technology extension. Final year activities called for the creation of 23 demonstration-farm clusters averaging 25 hectares each and having about 50 farmers per cluster. An important characteristic of the cluster farm was the need for each farm to be sustained over a period of several years in order to maximize its impact on the farming community. Support for demonstration farm operations was budgeted at \$276,000 for the final year of project implementation.

Another new project activity was the Communications for Technology Transfer in Agriculture component. This effort called for the development of cost effective communication strategies to increase the impact of technology transfer programs, and for promotion of an agricultural and economic policy environment that would provide farmers adequate incentives to increase secondary food crop production. Final year activities focused on the development of a pilot communications model in East Java that could be used to extend to farmers appropriate technology, food crop pricing and marketing information. Should the model prove successful, continued participation by the GOI would be necessary to ensure sustainability. Approximately \$250,000 in project funding were to be spent on this activity during the final two years of the project.

Other features of the project that required continuation were monitoring the impact demonstration farms have on the surrounding economy, ensuring the availability of credit to farmers and transferring secondary food crop technology through extension efforts. Other important considerations included the need to continue record keeping and to monitor demonstration farm activities.

USAID/Indonesia will not provide additional financial assistance for secondary food crop activities after April 1990. If activities are to continue, the GOI or some other donor will have to support them. It is obvious that continued support would be required for some activities that extend beyond the project assistance completion date; however, the question of how this support will be provided has not been answered. For several years, the Indonesian economy has been depressed because of low oil prices. Government funds were no longer available for project activities as previously planned. For example, the GOI was only able to budget approximately \$20,000 over the final

year of project implementation, a reduction of approximately 85 percent of the amount requested and considered essential for project support. Further, the GOI had not budgeted for any activities that extend beyond project completion.

The reduced budget generally reflects the low levels of funding made available by the GOI in previous years. For example, GOI counterpart contributions through May 1989 were \$4.8 million, or more than \$1.5 million less than planned. This included \$3.6 million for credit provided to farmers (whether credit should be included in computing the host country contribution is discussed in greater detail in the Other Pertinent Matters section of this report). The training and salary components were severely affected, as the GOI was only able to provide about \$230,000 of the agreed to \$1.2 million. Financial constraints were such that USAID/Indonesia obtained a recurring cost waiver in order to provide \$67,000 for GOI vehicle operations and maintenance.

Prior to the audit, the issue of sustainability had not been addressed by USAID/Indonesia or the GOI. The Project Paper and subsequent grant/loan amendments did not mention the subject. Several Mission officials indicated that GOI officials had expressed interest in the continuation of secondary food crop production in Indonesia but had not officially committed themselves to any specific actions. For example, a recent policy statement relative to the Five Year National Development Plan indicated that the role of secondary food crops was important to the realization of the GOI food diversification program.

On May 29, 1989, USAID/Indonesia and GOI officials met and discussed the issue of sustainability along with other project issues. As a result, on June 2, 1989, the Director General of Food Crops notified Mission officials of his sincere interest and commitment to the continuation of project activities beyond project completion. He indicated that demonstration farms would have to be continued in the future. Also, several officials within the Ministry of Agriculture have expressed the importance of secondary food crops in Indonesia. For example, the Director of Extension indicated that the project was beneficial to many farmers, who have increased their income through improved cropping systems. The Director indicated that the GOI would continue to provide inputs, but not on the scale of this project. The Director of Program Development indicated that the project has shown farmers how to grow crops more efficiently and, therefore, was important to Indonesian farmers. The

Director of Production said the project was important because it taught new cropping patterns and showed farmers how to work in groups to increase production and get a better price for their crops.

It is apparent that secondary food crops are important to Indonesian agriculture. GOI officials have expressed interest in secondary food crops and a desire to support the project beyond the project assistance completion date. Despite this sincerity, more specific actions are necessary. Other donor support is presently the most likely source of additional funding.

The position that recipient countries must assume continuing responsibilities after project termination is affirmed by agency policy and regulations. Section 101(a)(2) of the Foreign Assistance Act states that foreign assistance funding is provided to promote conditions which enable developing countries to achieve self-sustaining growth. This goal was also included in the A.I.D. Policy Paper on Food and Agricultural Development which states that the overall objective of United States bilateral economic assistance is to stimulate self-sustaining economic growth. A.I.D. Handbook 3 states that prior to the completion of A.I.D. assistance, a number of continuing responsibilities must be considered, including host country recurrent cost responsibilities and the adequacy of funding for the continued operation of the project.

In conclusion, USAID/Indonesia will spend several million dollars in project funds during the final year of implementation in an effort to create greater awareness of the potential for secondary food crops and encourage more participation by the Indonesian government. Some project components will require continued support after A.I.D. assistance is completed. Despite the fact that GOI officials have verbalized their desire to continue secondary food crop support, no plan or budget for these activities had been developed or approved. A jointly developed plan and corresponding budget identifying continuing responsibilities and cost considerations is necessary to ensure project sustainability.

Management Comments

The USAID has worked with the GOI to develop a plan and budget for post-April 1990 secondary food crop activities. On July 5, 1989 the GOI provided a letter and attachments which spell out the intent of the GOI to continue its

support of secondary food crop activities. Also, the upcoming final project evaluation will pay special attention to recommendations for improving the prospect of sustainability through low-cost field approaches, including suggestions for technology and market information dissemination.

Office of the Inspector General Comments

The GOI developed plan and budget for the years immediately after A.I.D. assistance ends is responsive to Recommendation No. 2, which is closed on issuance of the report. However, the limited resources to be provided by the GOI clearly indicate that any new initiatives begun by the USAID in the last year of project activities will not be sustained into the future. Therefore, the possible negative impact on project participants, that starting new project activities which can not be completed before A.I.D. assistance ends, should be considered by the USAID before new activities are initiated.

3. Control Over Technical Assistance Disbursements Was Weak

About \$2.1 million in project technical assistance was being disbursed by AID/Washington without effective internal control because USAID/Indonesia was not providing information to support AID/Washington's certification and payment of vouchers. A.I.D. regulations require that management control be adequate to ensure that funds are used for authorized purposes and to provide safeguards against waste, fraud, and abuse. Because of the lack of management control, project funds have been disbursed without proper approval and may have been used for unauthorized purposes.

Recommendation No. 3

We recommend that USAID/Indonesia:

- a. coordinate with the responsible AID/Washington bureaus to establish a system for administrative approval of project vouchers paid by AID/Washington that provides verification of disbursements and assures the validity of these payments, and
- b. review and verify that payments made under the Academy for Educational Development contract were for authorized expenses, and advise AID/Washington to recover any amounts improperly paid to the contractor.

Discussion:

About \$2.1 million in project technical assistance was being disbursed by AID/Washington without effective internal control at the Mission level. Handbook 19 Appendix 3A states that project officers are required to administratively approve all vouchers for payment. The intent is to use the project officer's general familiarity with the project to prevent significant errors in making payments to contractors. Likewise, it specifies that effective management controls are necessary to ensure that project funds are used only for authorized purposes and to safeguard them against waste, fraud and abuse.

Originally, technical assistance was to be provided through host country contracts, but after four years of project implementation, only two of five planned positions had been filled. Because of slow implementation by the host country, the Mission requested the assistance of A.I.D.'s Bureau for Science and Technology. The Bureau amended a contract with the Academy for Educational Development to provide technical

assistance and other support for continuation of the project through April 15, 1990. This was a buy-in arrangement under an existing project titled Communication for Technology Transfer in Agriculture. The project was to finance \$2,072,797 in costs while the Bureau would provide \$518,199. The contractor was to focus on development of cost effective communication strategies to increase the impact of technology transfer programs in Indonesia and on the promotion of an agricultural and economic policy that provides farmers with incentives to increase secondary food crop production.

Contractor activities in Indonesia began in March 1988, and expenditures incurred by the contractor were reported monthly directly to the contractor's headquarters in Washington. The latter billed AID/Washington, which paid the contractor and issued an advice of charge to USAID/Indonesia. The Mission recorded the expenditures based on the advice of charge without verification. Disbursements were not administratively approved by the USAID project officer. According to the Mission, USAID/Indonesia was not responsible for monitoring these disbursements because the payments were under the control of AID/Washington.

USAID/Indonesia records showed a total of \$433,000 charged to the contract as of May 1989. The amount was based on advices of charge sent by AID/Washington to the Mission covering expenditures for the period March to October 1988. Comparing contractor submissions to its Washington headquarters with AID/Washington payments was impossible as the amounts were entirely different. For example, contractor expenditures recorded in Jakarta through April 1989 totaled about \$301,000. The AID/Washington advices of charge showed only summary disbursements for salaries and wages, fringe benefits, travel, etc. There were no details of the direct costs or basis for the overhead charges provided. The Mission had no control over or input into what was paid under the contract.

An examination of the expenditures submitted by the contractor to its headquarters disclosed some unauthorized disbursements. The statement of work for the contract contained a special provision indicating that the GOI would provide contractor office space and equipment. Of the \$301,000 of contractor expenditures thru April 1989, about \$13,000 was for the rental of office space and equipment and \$25,000 was for the purchase of office furniture and equipment. Another payment of \$1,600 was made for consultant

language training, but the contract budget did not provide funds for consultant training.

Although these expenditures could not be traced to the advices of charge, they may have been reimbursed by AID/Washington since the Mission Project Officer was not reviewing and administratively approving the payments. Effective monitoring and approval of contractor charges should provide greater internal control over contractor payments and safeguards against the potential for waste, fraud or abuse.

Management Comments

The USAID agreed that disbursements should not be made without proper administrative approval. However, the USAID believed that any recommendations should be directed to the AID/Washington Bureau for Science and Technology (S&T) because A.I.D. regulations for buy-ins indicate that the approval officer for all vouchers is the S&T project officer. The USAID further advised that it will review this matter to determine an appropriate method for providing input to the voucher review and approval process for centrally-funded and/or managed projects. The USAID cautioned that this effort should not be construed as an acknowledgement that the audit report recommendation is actionable at the Mission level.

Office of the Inspector General Comments

The position that the USAID is not responsible for providing input to the certifying officer on the validity of payments under mission-funded buy-ins is not consistent with A.I.D. regulations or good management principles. The purpose of administrative approval of vouchers is to use the project officer's familiarity with project activities to prevent errors in payments to contractors. The AID/Washington project officer on this contract has little familiarity with the expenditures incurred in Indonesia while the USAID/Indonesia project officer has regular contact with the contractor and can provide valuable information on the validity of these charges. We recognize that the USAID can not unilaterally revise the procedures that affect AID/Washington; therefore, we have modified our draft recommendation accordingly. We also realize that the prompt payment procedures probably preclude pre-approval of vouchers by the USAID project officer. Therefore, a possible solution is some form of post-approval by the USAID project officer of a detailed breakdown of charges

reimbursed by AID/Washington. Until the USAID establishes a responsive plan of action, Recommendation No. 3 is unresolved.

4. Unused Project Funds Should be Deobligated

Through May 1989, about \$1.3 million in project funds had not been earmarked for project activities even though project completion was less than a year away. These funds were obligated for approved project activities, but some funds will not be used because all activities will not be completed as planned. It was likely that about \$620,000 would not be utilized by project completion. To maximize the use of project funds, A.I.D. regulations require a close-out review of financial obligations to preclude project funds from being used for low priority project activities.

Recommendation No. 4

We recommend that USAID/Indonesia review the financial status of the project and

- a. prioritize the remaining approved project activities that require funding,
- b. earmark funds for all activities approved for the remaining life of the project, and
- c. deobligate unearmarked obligations and reobligate or reprogram funding based on Mission priorities.

Discussion

Through May, 1989 about \$1.3 million in project funds had not been earmarked for project activities even though project completion was less than a year away. An operational support budget of approximately \$706,000 had been proposed for the final year of project activities. This would leave about \$600,000 in grant funds and \$20,000 in loan funds that may not be utilized by project completion. However, the Project Officer stated that additional project activities had been considered for funding. Examples of these activities included overseas training estimated at \$50,000, the final project evaluation estimated at \$70,000, and a possible increase in the value of the technical assistance contract.

Because some project activities will not be completed as planned, more funds were obligated than needed. For example, \$134,000 had been spent on overseas training compared to a planned budget of \$382,000. Project officials indicated that they were unable to locate students with

sufficient English language proficiency; therefore, only 33 students were trained overseas by the project. Technical assistance was budgeted at \$3.4 million, but only \$2.4 million was planned to be spent.

A.I.D. Handbook 3, Chapter 14 states that preparation for financial close-out of a project should be done well before the project assistance completion date. The financial status of each project should be reviewed to identify specific financial requirements over the remaining life of the project and to preclude the use of project funds for low priority activities. The Mission, therefore, should review the financial status of the project to preclude excess project funds from being used for low priority project activities and to maximize their use for other Mission priorities.

Management Comments

The USAID has issued a Project Implementation Letter committing funds for the final year of project activities and plans to prioritize additional project activities and required funding by September 1989. Unliquidated obligations will be reviewed during the semi-annual 1311 reviews, and a final determination on the amount of funds that can be deobligated will be made after the project completion date.

Office of the Inspector General Comments

The purpose of our recommendation was to encourage the USAID to find the best possible use for the unearmarked funds obligated under the project. The USAID response, which includes the GOI suggested use for the balance of these funds, appears to suggest that these funds will be used only for this project. This may be the best possible use of these funds, but other mission priorities should be considered during the September meeting. Recommendation No. 4 is unresolved pending a determination of how the unearmarked funds are to be utilized.

B. Compliance and Internal Controls

Compliance

The audit identified two instances of non-compliance with agency regulations. First, the evaluation system for comparing project accomplishments with stated objectives has not been adequately implemented for this project as required by Section 621A(b) of the Foreign Assistance Act and by A.I.D. Handbook 3. Second, no plan had been devised to provide for project continuation after A.I.D. assistance ends as provided by Section 101(a)(2) of the Foreign Assistance Act and A.I.D. Handbook 3. Nothing came to the auditors' attention as a result of specific procedures that caused them to believe untested items were not in compliance with applicable laws and regulations.

Internal Controls

The audit revealed two instances where improved internal controls might be implemented for more effective utilization of project funds. First, technical assistance disbursements were made to a contractor without administrative approval by the USAID Project Officer or someone familiar with project operations as provided in A.I.D. Handbook 19. Second, a close-out review of financial obligations as required by A.I.D. Handbook 3 needed to be conducted to preclude excess project funds from being used for low priority project activities.

C. Other Pertinent Matters

The issue of whether credit should be counted toward fulfilling the host government's contribution to a project was brought to the attention of and discussed with Mission officials during the audit. This issue was particularly relevant to this project because credit comprises the majority of the counterpart contribution.

Section 110(a) of the Foreign Assistance Act states that host countries must contribute at least 25 percent of the costs of the entire program, project or activity. The purpose of this legislation was to ensure that foreign governments have made a commitment and an actual contribution to the success of AID-financed projects or activities and to ensure a realistic partnership arrangement on development projects. According to A.I.D. Handbook 3, Appendix 2G, Section C(1) and (4), the percentage computation is based on the costs defined in the project paper and may cover project operating and/or capital costs including: cash, capital goods, counterpart personnel related services and studies which are part of the project, rental or purchase of materials for the operations or construction of the project, administrative costs, fair market value of land contributed by the country to the project and other costs related to the above items.

Project documents reflected a planned GOI contribution of \$6.3 million, primarily on an "in-kind" basis, or a ratio of 54 percent A.I.D. to 46 percent GOI funded. The actual GOI contribution through May 1989 was \$4.8 million or just under 35 percent of total project support. Included in the computation was \$3.6 million in credit made available to and used by farmers who had grown secondary food crops. The issue is whether credit should be included as part of the GOI contribution. If not, counterpart contributions would be less than nine percent of the total project assistance.

The Project Paper apportioned the \$6.3 million GOI contribution as follows: \$4 million for commodities (seeds, fertilizers, insecticides, etc.), \$.7 million for training, \$.6 million for salaries and \$1 million for contingencies. Even though there was no specific reference to credit, records showed that all commodities financed by the GOI were provided through the credit arrangement.

The practice of including credit as part of the overall contribution may not be appropriate because the provision of credit does not necessarily result in an actual

contribution. Credit is a contingent liability which may or may not be used. For example, the total amount of credit made available for secondary food crop production was \$5.6 million of which only \$3.6 million had been used through May 1989. Further, the amounts borrowed from the government are to be paid back with interest, thereby, substantially reducing the actual host government contribution to the project.

The concern that host countries have not been meeting their commitments has been expressed in numerous audit reports and was the subject of a 1987 Inspector General memorandum to the Assistant Administrator, Bureau for Program and Policy Coordination. The Inspector General expressed concern that the hundreds of millions of dollars A.I.D. invests in projects may be lost or their developmental impact seriously reduced due to the lack of host government financial commitment.

It would be prudent for USAID/Indonesia to more closely monitor counterpart contributions to ensure that the host government actually contributes to each project. Also, the appropriateness of allowing credit as part of the overall host country contribution should be discussed with AID/Washington before this approach is permitted in future Mission projects.

AUDIT OF SECONDARY FOOD
CROPS DEVELOPMENT IN INDONESIA

EXHIBIT AND APPENDICES

EXHIBIT 1

List of Verifiable Indicators
Secondary Food Crops Development Project

Verifiable Indicators (Goals)

1. Increase production by 50% in demonstration farms, 30% in six extension areas and 15% - 20% in agricultural districts.
2. Increase volume of supply by 30%; improve quality, temporal and spatial distribution of supply; reduce marketing spoilage.
3. Increase household consumption by 10% - 15% for all families in six extension areas and agricultural districts.
4. Increase cropping intensity by 50%. Increase labor requirement for production, harvesting, drying, milling, processing and grading by 30%.
5. Increase farm income by 15% - 20%.

Verifiable Indicators (Purpose)

1. About 50% of farmers in the six extension areas and about 30% of farmers in agricultural districts located in South Sulawesi, East Java and Lampung will adopt improved cropping systems.
2. About 50% - 75% of farmers in six extension areas will adopt improved agronomic practices; about 50% - 75% will increase their use of commercial inputs.
3. Improve product quality for home consumption and for the market; reduce food losses.

25

UNITED STATES GOVERNMENT

memorandum

DATE: August 28, 1989

REPLY TO
ATTN OF: Marcus L. Winter, Acting Director
USAID/Indonesia

SUBJECT: Draft Audit of Secondary Food Crops Development in
Indonesia (Draft Report RIG/A/M dated July 12, 1989)

TO: William C. Montoney
Regional Inspector General, RIG/A/M

USAID/Indonesia appreciates the constructive comments made in the draft audit received on August 2, 1989. In addition to the comments addressing specific recommendations below, we would also like to bring to your attention several aspects of the report which we believe should be further clarified, modified or corrected.

On pages 8 and 21 of the report, FAA Section 621A is cited as requiring various actions on the part of the Mission and on page 21 the statement is made that an evaluation system for comparing project accomplishments has not been implemented as required by Section 621A(b) of the Foreign Assistance Act and by AID Handbook 3.

We have been advised by the Regional Legal Advisor that FAA Section 621A was enacted in 1968 in order to require A.I.D. to establish an agency-wide system of program performance evaluation. A.I.D. has satisfied that legislative requirement by establishing an elaborate Agency-wide project management (evaluation) system (see AID HB 3, Chapter 12), which requires that a system of evaluation be set up for each project which includes actions from project design through final project evaluation. While you may take issue with whether the Mission has properly implemented the Agency's evaluation program with respect to this particular project or whether, for example, the verifiable indicators in the case of this project were well formulated, we do not believe it is appropriate or consistent with the legislative history of the provision in question to imply that the Mission (and accordingly, the Agency) has violated FAA Section 621A by its actions with respect to this project.

-2-

We also note that AID guidelines on evaluation are intended to be flexible and to allow project designers latitude in determining the best way in which to structure and carry out evaluations for each project. The evaluation plan for each project (including identification of goal, purpose, and verifiable indicators) is reviewed and approved as part of each project. While we respect your prerogative to disagree with how the evaluation process in this case was structured and has been carried out (and, as indicated below, we agree that improvement is necessary), we do not believe it is proper to imply that every shortcoming in this process constitutes a violation of specific sections of foreign assistance legislation.

Similarly, FAA Section 101(a)(2) is cited in several places in the report and on page 21 the Mission is identified as not meeting the requirements of this section due to its failure to have developed a plan for post-project continuation of project activities. FAA subsection 101(a)(2) is part of a section of general program policy guidance in the FAA which includes an indication that, as one of its "goals", U.S. development policy in general should (not must) emphasize "self-sustaining economic growth". Self-sustaining economic growth (i.e. economic take-off or graduation from the status of that of an LDC) and self-sufficiency of project activities are two quite different things and we believe that it is not correct to argue that the section cited places a specific legal requirement on AID to assure that each project continues on after project completion and to do a post-project continuation plan for each and every project and every activity in it. We are not arguing that doing a plan for this project does not make sense in the case of project activities that should and will be continued after the PACD; but rather that it is an incorrect reading and application of the statute to imply that such is required by the statutory provision cited and accordingly that a failure to do so constitutes a violation of that FAA section.

We also believe that the report would be more useful if those provisions of AID regulations and handbooks that the auditors believe have not been complied with are specifically identified by page and/or section/paragraph number.

There are also portions of the report which are not clear to us. On page 8, for example, in the first full paragraph (starting "A.I.D. Handbook 3..."), the first two sentences are taken nearly verbatim out of the section of AID Handbook 3 dealing with what should be done during project design, not project implementation. The following sentence, the substance of which is taken from a later chapter of Handbook 3 dealing with project modifications during implementation, appears to imply that the Mission has made changes in project objectives without AID/W approval. This paragraph follows several paragraphs which discuss the need for revisions in the verifiable indicators, which are not the same as the project goal or purpose, as the latter two terms are defined in AID terminology. Part of the confusion may be due to the fact that the mid-term evaluation team may have used the terms goal, purpose, objectives, and verifiable indicators as if they all meant the same thing, which is not the case.

25

-3-

We would agree that any change in the basic project goal or purpose from that set forth in the project planning documentation would normally require a PP amendment and AID/W concurrence. In this case, however, there has been no change in the essential goal or purpose of the project; as indicated below, we do agree that verifiable indicators should be defined more realistically and clearly, but believe that doing so does not require approval above the Mission level, if that is what this paragraph is intended to mean. We recommend that this paragraph be either clarified or deleted.

We have also discussed the comments in Part II.C of the report with the Regional Legal Adviser, who advises us that the host country's provision of cash to be used to provide credit to farmers can be considered as part of the host country's contribution to the project, much the same as the provision of the use of physical facilities, equipment, commodities or other resources can be so treated if dedicated to the project and their use for other purposes is foregone by the host country for the term of the project. The measure of the contribution is the value of the use of the asset, in this case the cash, for the period during which the money is used for project purposes. The fact that interest may be charged under such a credit scheme does not mean that there is no contribution of resources, since the rates charged are typically considerably below the market value of the money and hence do not fully recover the value of the use of the funds nor the decline in the value of the money over time due to inflation and other causes. We will be reviewing this further to determine what the most appropriate method is for valuation of the contribution but consider the use of these funds as a legitimate part of the host country contribution. We would also agree that the use of the funds and not the commodities purchased with them by the borrower should be considered the contribution.

Our specific comments on each recommendation follow:

RECOMMENDATION NO. 1

We recommend that USAID/Indonesia review the verifiable indicators contained in project planning documents and

- a. develop revised indicators that would be valid for measuring project accomplishments, and
- b. use the new indicators to assess project accomplishments during the final project evaluation.

MISSION RESPONSE:

A revised logframe has been developed by the USAID Project Manager and staff from the USAID Program and Project Support Office (PPS) which includes indicators that are valid for measuring the accomplishments of project activities (Attachment 1). The revised logframe has been forwarded to the GOI. USAID and GOI key staff met in mid August, 1989, to review the details of the new logframe and to finalize the timing, staffing, and terms of reference for a final evaluation of the project.

slb

-4-

The new indicators will be used in the final evaluation to assess project accomplishments and sustainability, including lessons learned which should be brought to the attention of the GOI and USAID for possible future action. Agreement on the new logframe will be reached by the GOI/USAID and finalized by mid September, 1989. We will request that the recommendation be closed at that time.

RECOMMENDATION NO. 2

We recommend that USAID/Indonesia work with the Government of Indonesia to develop a plan and budget for post April 1990 secondary food crop activities, including farm credit, demonstration-farm support and monitoring, economic analysis of returns on non-rice cropping, and technology and market information dissemination.

MISSION RESPONSE

USAID/Indonesia has worked with the GOI to develop a plan and budget for post April, 1990, secondary food crop activities. In this effort it was recognized that not all activities included in the project should or will be continued in the same form, i.e. the intent is not to ensure project sustainability in a narrow sense but the continuation of GOI efforts to expand secondary food crop production via the most cost-effective methods for the crops providing the greatest returns. This means adjustments in GOI programs over time as new alternatives became available and as farmer sophistication and efficiency changes.

On July 5, 1989, the GOI provided a letter and attachments (Attachment 2) which spell out the intent of the GOI to continue its support of the secondary food crops effort. Also the upcoming final project evaluation will pay special attention to recommendations for improving the prospect of sustainability through lower-cost field approaches, including suggestions in technology and market information dissemination. USAID believes the GOI plan and annualized budget provide satisfactory evidence of GOI commitment to secondary food crops on a sustained basis and therefore requests that this recommendation be closed upon issuance of the audit report.

RECOMMENDATION NO. 3

We recommend that USAID/Indonesia:

- a. establish a system for administrative approval of project vouchers paid by AID/Washington to provide verification of disbursements that assures the validity of these payments, and
- b. review and verify that payments made under this contract were for authorized expenses, and advise AID/Washington to recover any amounts improperly paid to the contractor.

MISSION RESPONSE:

Although we agree that disbursement should not be made without proper administrative approval, we do not believe the audit report should assume that disbursements are made by AID/Washington without effective internal control. AID regulations for buy-ins clearly indicate that the approval officer for all vouchers will be the S&T project officer and that changes have been made to require all buy-in contracts to have accounting systems which track funds against their corresponding P/Os. We suggest that any recommendations or questions regarding project officer approval or possible improper payments in this area be directed to the S&T Bureau in AID/Washington.

For your information our Mission will be reviewing this area for determining the appropriate method to provide Mission input into the voucher review and approval process for centrally-funded and/or managed projects both in keeping with AID/Washington guidance and legal requirements relating to payment of contractors (e.g. Prompt Payment Act requirements). This effort should not, however, be construed as an acknowledgement on the part of the Mission that this audit recommendation is actionable at the Mission level. We recommend that this audit recommendation be withdrawn and that the matter be further reviewed in AID/W with those offices responsible for establishing procedures and policies for administration of centrally managed contracts.

RECOMMENDATION NO. 4

We recommend that USAID/Indonesia review the financial status of the project and

- a. identify obligated funds that have not been earmarked for use during the remaining life of the project,
- b. prioritize remaining project activities that require funding; and
- c. deobligate all unearmarked obligations and reobligate or reprogram funding based on Mission priorities.

MISSION RESPONSE:

USAID/Indonesia has reviewed the financial status of the project and a Project Implementation Letter which commits \$573,000 for final year project activities has been issued. USAID and GOI staff will meet in early September to prioritize remaining project activities and required funding. The office of finance will also review any unliquidated balances as part of its semi-annual 1311 reviews as discussed in Mission Order 1900.9.

USAID and the GOI will continue to work toward an orderly and timely phase-out of SECDP activities by the current PACD date, after which a final determination of the amount of funds which can be deobligated will be made. It is requested, based on the review already undertaken and the indicative plan, that this recommendation be closed upon issuing the audit report.

4

SECONDARY FOOD CROPS DEVELOPMENT PROJECT
LOGICAL FRAMEWORK

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

ASSUMPTIONS

MEANS OF VERIFICATION

<p>A. <u>Goal:</u> Increased rural employment and income opportunities.</p>	<ol style="list-style-type: none"> 1. Number of new jobs. 2. Per capita income. 	<ol style="list-style-type: none"> 1. Economic and political stability. 2. GOI commitment to implementation of the current Repelita. 3. Continued deregulation measures implemented by GOI. 4. Continued openness of GOI to sound advice for decision making, problem solving. 	<ol style="list-style-type: none"> 1. GOI statistics. 2. Other donor studies.
<p>B. <u>Project purpose:</u> To improve the capacity of Indonesian public and private sectors to upgrade and expand sustainable non-rice food crops production</p>	<p>End of Project Status</p> <ol style="list-style-type: none"> 1. Improved national policies/ planning for non-rice crop production developed and supported by the public and private sector 2. Profitable non-rice food crop research technology packages disseminated to end users/ farmers 3. Improved non-rice food crop extension and marketing programs successfully implemented 4. Improved availability of credit for non-rice food crops 	<ol style="list-style-type: none"> 1. GOI agencies and institutions remain receptive to donor financed TA, TA advice and MA generated analysis of non-rice crop production and marketing. 2. GOI interested and willing to develop and implement programs which encourage greater private sector involvement in non-rice cropping. 3. Favorable policy environment for expanded private sector participation in domestic and international agricultural commodity trade. 4. Technology generated by the Project proves profitable. 	<p>Means of verifications</p> <ol style="list-style-type: none"> 1. Food crops Policy Research and Special Studies, e.g.: 1) Rural Income and Employment Effects of Rice Policy in Indonesia; 2) Foodcrops Supply & Demand Study; 3) Foodcrops Price & Quality Study; 4) Secondary Crops Marketing Studies 2. Project monitoring systems and reports 3. Evaluation 4. Field observation

- | Outputs | Magnitude of Outputs | | | |
|--|---|--|--|--|
| 1. Increased production of secondary foodcrops. | 1. Production increases by 50% in demonstration farms and 15-30% on areas outside the demonstration farm. | | 1. Normal weather prevails during the period of the project. | 1. Evaluation reports. |
| 2. More efficient marketing systems for agricultural commodities. | 2. Improved quality of food commodities: faster response of farmers and traders to market signals. | | 2. Incentive prices are adequate during life of the project. | 2. Crop statistical records. |
| 3. Demonstration Farms, Demonstration Areas, and Trials established. | 3. 160 completed demonstration farms and 18 trials located in three provinces. | | 3. Willingness of farmer groups to include their farms in trials and demonstration farms. | 3. Farm records and accounts. |
| 4. Extension staff farmers, and traders trained in improved production and processing techniques for non-rice crops. | 4. 1,200 person months of completed training by PPL, PPM, FFS, KUD managers, private dealers, contact farmers and DGFC staff. | | 4. Continued interest on the part CRIFC, BULOG, and AETP in providing training. | 4. KUD and private dealers records |
| 5. Mass media techniques developed and tested for more cost-effective technology transfer modes. | | | 5. Adequate counterpart resources are devoted to policy development, to analysis of profitability of non-rice production and efficiencies of marketing system. | 5. Reports of Palawija Project Office; reports of Field Teams. |
| 6. Completed Special Studies on agronomic, socio-economic, marketing and policy-related non-rice promotion. | | | 6. Continued provision of high quality counterparts to TA team members on a full time basis. | 6. Training records of PPO; Contract agreement between DGFC and BULOG/CRIFC. |
| | | | | 7. Reports on project file |

Inputs:	Implementation target:	
	USAID	GOI
	(\$000's)	
Technical Assistance	3,360	-
Training	495	641
Personnel	-	582
Operational Support	2,418	-
Commodities	-	4,036
Policy Research	-	-
Contingencies	130	8032
	<u>7 400</u>	<u>6,241</u>

- | | |
|---|---------------------------|
| 1. Counterpart budget forthcoming. | 1. Project documentation. |
| 2. Qualified TA available. | |
| 3. TA proposals received from ministries which meet USAID funding criteria. | |

SEKRETARIAT DIREKTORAT JENDERAL
Jalan AUP Pasar Minggu
Kotak Pos 64/Psm. Jakarta Selatan
Telepon : 782819

APPENDIX 1
Page 8 of 14

Nomor : *II. PD. 200/1059*
Temporan : 1 exp.
Perihal :

Jakarta, *July 5th* 1989

Mr. George Like
Project Officer ARD/ARF
American Embassy
Jln. Merdeka Selatan 5
Jakarta.

Dear Mr. Like :

My purpose in writing is to request issuance of the PIL to commit USAID funds for SFCDP activities in Fy 1989-90.

This will enable us to proceed with implementation of the life-of-project plan that was prepared in conjunction with the 1989-90 DIP and operational plan that you have already received. It is important to carry out this plan because this year's activities emphasize local program integration, new communications methods, economic information, and staff training that will form the basis for future improvement and expansion of secondary food-crops development campaigns.

Under Repelita V, we will give palawija crops high priority. Attachment A1 provides an indication of what annual expenditures for food-crop development in all 27 provinces may be like in the early 1990s. Attachment A2 shows recent trends in overall budgets and palawija production. Palawija crops now receive a higher percent of our budget relative to rice than a few years ago. Even so, resources for palawija development will have to be spread very thinly unless we find additional funding.

In addition to overall palawija-development work, we want to continue SFCDP as distinct program. It will spearhead the testing and introduction of new palawija farming technologies and systems in selected provinces. If we have no additional funds from USAID or other donors next year, we will have to limit special SFCDP work to the original six pilot provinces. In these provinces we will combine regular province funds (as shown and explained in Attachments B1 and B2) with a total of about \$70,000 a year for SFCDP special activities (as shown in Attachment C).

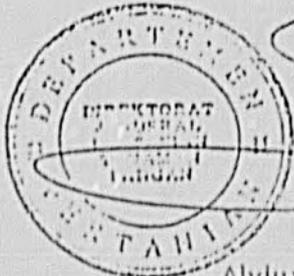
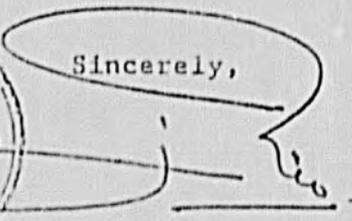
We will continue to build the work around localized agronomic trials, demonstration farms, introduction of improved harvesting equipment, and staff training. At the same time, a number of improvements stemming from recent USAID-SFCDP-CCTA experience will be made. These will include a) better design of agronomic trials, b) better integration of demfarm with other local extension activities, c) dependable supplies of improved seed, d) emphasis on profitable food-crop systems in keeping with price trends and local farming conditions, e) minimizing use of funds for subsidies, f) use of ongoing farmers' credit programs rather than special revolving funds, and g) improved use of communications media to help extension workers reach as many people as possible.

We are already well into the 1989-90 crop year and, because of the delay in funding disbursement, SFCDP work has already missed one planting season. GOI Rupiah (DIP) funding is ready to be used as soon as authorization for USAID reimbursement is received. Your efforts to obtain the PIL commitment within the next few days will be much appreciated as we now have only nine months left to the PACD of April 15th 1990 and there is much to do.

Regarding the USAID grant funds that have been allocated to SFCDP but remain unused, we are preparing several proposals for special activities that would help the USAID-SFCDP work to have more lasting impacts. These relate to: a) cassava processing, b) farm management data and training, c) soil-conserving food-crop systems, (d) rhizobium use, (e) training-course follow-ups, f) use of integrated modern communications methods in local food-crops extension work, g) distilling of lessons learned from the USAID-SFCDP work, and h) comparative study of small scale food crop industrial development in other Far Eastern Countries. I will send you more details in the near future. These could use a total of about \$600,000.

I want to do what I can this coming year to reinforce the success of USAID-SFCDP work. If there are ways in which I can help to overcome obstacles or to clarify matters, I hope that you and your associates will feel free to contact me.

Sincerely,



Abdurrahman Daud Rusydi
Secretary of Directorate
General.

1. M. Winter.
2. Directorate of Planning.
3. Project Director SFCDP-USAID.

ACTUALIZED GDI BUDGET ESTIMATE FOR FOOD CROP DEVELOPMENT
IN THE 27 PROVINCES 1990 - 1995

Rp. 1000,-

Propinsi	Aceh	Sulut	Sukab	Blora	Jambi	Bengk	Sumsel	Lampung	DIY	Jabar	Jateng	DIY	Jatim	Kaltar	Kaltim	Kalsel	Kaltim	Bali	NTB	NTT	Sulut	Sultra	Sultra	Sulsel	FlintaKasim	Irja	Jumlah	
distansi proyek	28250	43452	41645	31520	61607	42650	35410	85700	35350	55970	69860	22650	70458	51700	35600	50462	30250	40650	35350	22990	21710	43650	23400	56208	36370	23000	33510	1873617
girik	4840	6740	12600	3300	7000	5020	9040	9000	1500	62300	33520	8800	18320	7650	9720	9455	6700	4260	13460	5400	6320	6320	3000	51500	5700	3000	4500	253555
lahan	6732	17653	3166	9132	2621	4045	10337	27221	6871	48620	28157	2002	21454	3725	4850	5014	3155	4624	9554	3958	2608	2563	3576	9404	4221	4054	3043	256976
kegiatan produksi	12054	18415	15413	12959	26105	9859	8904	15151	-	20700	17298	11356	23766	7407	8975	11105	9003	10023	13296	8459	12437	9061	7873	17304	2353	9475	6553	329255
tanpa produksi		5050	6500	550	850	5550	12550	-	16040	13040	-	17540	-	-	1250	-	2050	1700	2500	650	650	-	11050	-	-	4155	104255	
tanpa	23434	49043	39138	13650	16505	11990	35568	27355	5350	134503	106278	17596	145692	22970	12658	26752	11855	3500	24454	22136	19732	18224	17042	59128	4522	2542	15468	892949
tanpa petani	1370	6472	6311	2443	2150	-	5924	3552	1232	10919	14956	4572	8540	-	-	1370	-	4030	-	2435	-	-	-	8418	-	-	-	60070
tanpa	-	1685	1525	1625	-	-	1655	1625	-	11725	5655	3370	6740	-	-	1625	-	1555	3370	-	1555	1625	-	8425	-	-	-	55920
tanpa areal	25760	40250	20000	-	-	-	3000	6100	-	50100	44200	14000	37640	-	-	-	-	3900	9200	3000	3100	-	-	17300	-	5150	-	342720
tanpa sawah	38710	16792	27453	23258	15905	15050	44105	9050	-	16753	5504	1188	5744	17790	14186	20053	6100	752	20728	19144	35700	48361	32410	25750	2054	9776	2520	484757
tanpa	13404	9474	13169	4753	4029	3315	8310	12155	4554	16454	40595	9060	45770	5255	4030	6110	3570	5175	14025	25045	6525	3390	3440	24810	3510	3510	3510	225143
tanpa	7060	12049	21110	4972	4897	7090	4545	7046	13773	36702	22565	10266	22971	3145	3045	3547	3045	45555	17921	7766	5221	5246	3025	15625	161	4571	3521	311299
tanpa teknologi	2250	1815	2250	2310	2350	2350	1200	4350	-	2250	4410	3300	3300	1200	1200	1200	1200	3300	1110	2250	2100	-	1150	4350	-	-	-	52065
Jumlah	223914	249125	209000	110404	150344	102315	163918	222150	56500	513480	405818	108150	470935	101004	94304	132252	14504	137040	157220	123050	124200	140315	95326	311300	53115	70350	72000	4661615

TRENDS IN OVERALL BUDGETS AND FOOD CROPS PRODUCTION DURING PELITA IV

No.	Tahun	Anggaran (Rupiah)					Produksi (ton)						
		APBN	Kenaihan (%/tb)	PLN	Kenaihan (%/tb)	Jumlah	Kenaihan (%/tb)	Padi	Kenaihan (%/tb)	Jagung	Kenaihan (%/tb)	Kedelai	Kenaihan (%/tb)
1.	1984/85	54,322,291,000		5,206,902,255		59,431,200,225		38,135,446	8.03	5,287,325	3.95	763,384	43.54
		91.24		2.75		100.00							
2.	1985/86	52,647,741,000	(3.30)	562,655,000	(21.51)	53,610,630,000	(9.75)	39,332,545	2.35	4,329,503	(18.12)	865,718	13.04
		92.20		1.80		100.00							
3.	1986/87	22,194,975,000	(57.24)	4,330,337,620	(401.55)	27,025,312,620	(49.59)	35,736,761	1.78	5,920,374	36.74	1,226,727	41.05
		32.13		17.37		100.00							
4.	1987/88	25,744,645,000	15.33	6,647,925,253	37.53	32,391,971,293	19.36	46,072,195	6.82	5,154,735	(12.93)	1,160,963	(5.35)
		79.18		26.52		100.00							
5.	1988/89	29,633,066,000	12.75	6,757,145,000	1.64	35,790,231,000	10.19	41,756,934	4.22	6,806,200	32.04	1,254,171	8.02
		81.12		18.36		100.00							
Total:		183,842,179,000	(8.00)	24,407,207,138	89.85	208,249,345,138	(7.26)	195,743,281	3.45	27,498,637	8.34	5,280,953	20.06

Keterangan : APBN th 1988/89 +ABT

Produksi padi, jagung, kedelai tahun 1985 angka sementara

(....) Angka Negatif

SUMMARY OF ANNUALIZED GOI (APBN) DGPCA UMBRELLA BUDGET ALLOCATION FOR PALAWIJA DEVELOPMENT
FOR 6 SFCDP PROVINCES : LAMPUNG, EAST JAVA, SOUTH SULAWESI, WEST SUMATERA, WEST NUSA TENGGARA AND EAST NUSA TENGGARA AND CENTRA OFFICE
(1990 - 1995)

DFPCA/27/07/85

x 1000

ACTIVITIES	P R O V I N C E												CENTRAL OFFICE		GRAND TOTAL			
	LAMPUNG		EAST JAVA		SOUTH SULAWESI		WEST SUMATERA		WEST NUSA TENGGARA		EAST NUSA TENGGARA		TOTAL		Rupiah	US \$	Rupiah	US \$
	Rupiah	US \$	Rupiah	US \$	Rupiah	US \$	Rupiah	US \$	Rupiah	US \$	Rupiah	US \$	Rupiah	US \$				
Field Trials	4,200	2.39	5,350	2.35	2,100	1.19	1,050	0.50	2,100	1.19	2,100	1.19	16,800	9.55	8,452	4.81	25,252	14.35
Seed Production	50,980	28.97	107,150	60.29	60,915	34.61	47,885	27.21	50,125	28.51	31,660	17.99	348,785	198.17	79,875	45.38	428,660	243.55
Post Harvest Handling	25,725	14.63	169,545	96.33	57,125	32.46	46,925	26.56	33,320	18.55	34,070	19.36	366,710	208.35	60,390	45.68	427,100	254.03
Extension	21,850	12.41	5,300	3.05	11,435	6.50	8,410	4.78	5,410	3.07	12,800	7.27	66,705	37.90	47,750	27.13	114,455	65.03
Plant Protection *)	5,700	3.24	6,100	4.60	6,750	3.84	3,350	1.90	7,170	4.07	3,350	1.90	34,420	19.56	129,760	73.73	164,180	93.29
Technology Development	17,390	9.83	24,540	13.94	5,920	3.36	1,380	0.78	11,590	6.53	850	0.48	61,580	34.99	15,000	8.52	76,580	43.51
Monitoring & Supervision	4,810	2.73	4,950	2.82	5,050	2.88	3,970	2.26	3,990	2.27	1,420	0.81	24,210	13.76	288,755	164.07	312,965	177.83
Agriculture Equipment	51,035	29.00	157,755	112.36	78,435	44.57	70,275	39.93	6,750	3.84	200	0.11	404,450	229.80	49,140	27.92	453,590	257.72
TOTALS	181,690	103.23	524,110	297.79	227,740	129.40	183,245	104.12	120,425	68.43	85,450	49.12	1,323,660	752.08	699,132	397.23	2,022,792	1,149.31

Above figures Exclude APBD (Local Provincial) Budget Allocations For Palawija Development.
Above figures Exclude other Departmental Budgets for Palawija, i.e. Transmigration.
Similar SFCDP budgets for Palawija will be available for all other provinces (see budget A2).
Trials and pesticide material assistance to farmers in case of outbreaks.

Attachment B2.

PALAWIJA EXPANSION PROGRAM
ESTIMATED ANNUALIZED UMBRELLA BUDGET \$ 1,149,310 (GGI/APBN FUNDS)
6 EXISTING SFCDP PROVINCES
(subject to future availability of funds)

DGFC will continue to support the demfarm principle in the above six provinces by the following means in individual DOA provincial budgets :

1. Subsidy for SFC seed production (BS/FS|FS/SS) in Seed Production Centre (BBI) for corn, soybeans, mungbeans, ground nuts, and cassava.
2. a. Continuation of SFC cropping pattern field trials in selected areas for corn, soybeans, mungbeans, ground nuts, and cassava.
b. Provision of agricultural equipment in selected areas for field trials of improved designs of grain threshers (corn and soybeans) and other post harvest equipment developed by the Agricultural Machinery Development Center at Serpong, West Java.
3. Promotion of improved post harvest handling techniques in selected areas by means of mass media communications and training courses for extension workers and selected key farmers.
4. Continuation of specific SFC extension and staff development inputs (training) arranged through provincial and district extension services for improved agronomic methods, improved technology, improved pest control, and simple farm management analysis.

Notes:

1. Credit for palawija commodities is available through at least two ongoing government credit programs : BRI/KUT (*Kredit Usaha Tani*) and the Bukopin Agricultural Credit Program. Both of these forms of agricultural credit are made available to farmers groups (*Kelompok Tani*), through Cooperatives (*Cooperasi Unit Desa*) in all the SFCDP project areas. It is intended that extension agents will be trained to help farmer keep records and make farm management plans to support credit applications.
2. This SFCDP program is separate from the ongoing Department of Transmigration major palawija expansion program being conducted annually in all transmigration areas. SFC production is the key component for all transmigration area development.

1/10

Attachment C.

Special GOI Funds for Six SFCDP Provinces ; 1990 - 1995

GOI (APBN) SFCDP funding: minimum estimated project budget Annualized/ Rp.124 million) assuming that 10 % of the total current 1989/1990 budget will be available for at least another two years, 1990/1991 and 1991/1992 and thereafter dependent upon agreement of allocation by BAPPERHAS.

GOI APBN SFCDP Fund	Central Office	Jaepung	East Java	South Sulawesi	West Sumatra	H.Husa Tenggara	East Husa Tenggara
- Studies	-	-	-	-	-	-	-
- Trials 1)	-	-	-	-	-	-	-
- Demfarm/Dem-area 2)	-	-	-	-	-	-	-
- Post Harvest	-	-	-	-	-	-	-
- Training 3)	-	-	-	-	-	-	-
- Monitoring & Supervision.	-	-	-	-	-	-	-
- Administration. 4)	-	-	-	-	-	-	-

N.B : Due to limitations of current budget allocations, specific SFCDP demfarm activities will not be expanded & additional provinces other than those currently involved in the project.

- 1) Trials: Cropping system trials, only in allocated kabupaten locations, will include integrated pest control and rhizobium.
- 2) Demfarm inputs to farmers will be limited to absolute agricultural essentials, and may include water pump where necessary.
- 3) New information technology, including lessons from CTTA; English language training.
- 4) Provision for stationery and only transport maintenance.

List of Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	4
<p>We recommend that USAID/Indonesia review the verifiable indicators contained in project planning documents and</p> <ol style="list-style-type: none">a. develop revised indicators that would be valid for measuring project accomplishments, andb. use the new indicators to assess project accomplishments during the final project evaluation.	
<u>Recommendation No. 2</u>	8
<p>We recommend that USAID/Indonesia work with the Government of Indonesia to develop a plan and budget for post-April 1990 secondary food crop activities, including farm credit, demonstration-farm support and monitoring, economic analysis of returns on non-rice cropping, and technology and market information dissemination.</p>	
<u>Recommendation No. 3</u>	13
<p>We recommend that USAID/Philippines:</p> <ol style="list-style-type: none">a. coordinate with the responsible AID/Washington bureaus to establish a system for administrative approval of project vouchers paid by AID/Washington that provides verification of disbursements and assures the validity of these payments, andb. review and verify that payments made under the Academy for Educational Development contract were for authorized expenses, and advise AID/Washington to recover any amounts improperly paid to the contractor.	

Page

Recommendation No. 4

17

We recommend that USAID/Indonesia review the financial status of the project and

- a. prioritize the remaining approved project activities that require funding,
- b. earmark funds for all activities approved for the remaining life of the project, and
- c. deobligate unearmarked obligations and reobligate or reprogram funding based on Mission priorities.

APPENDIX 3

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