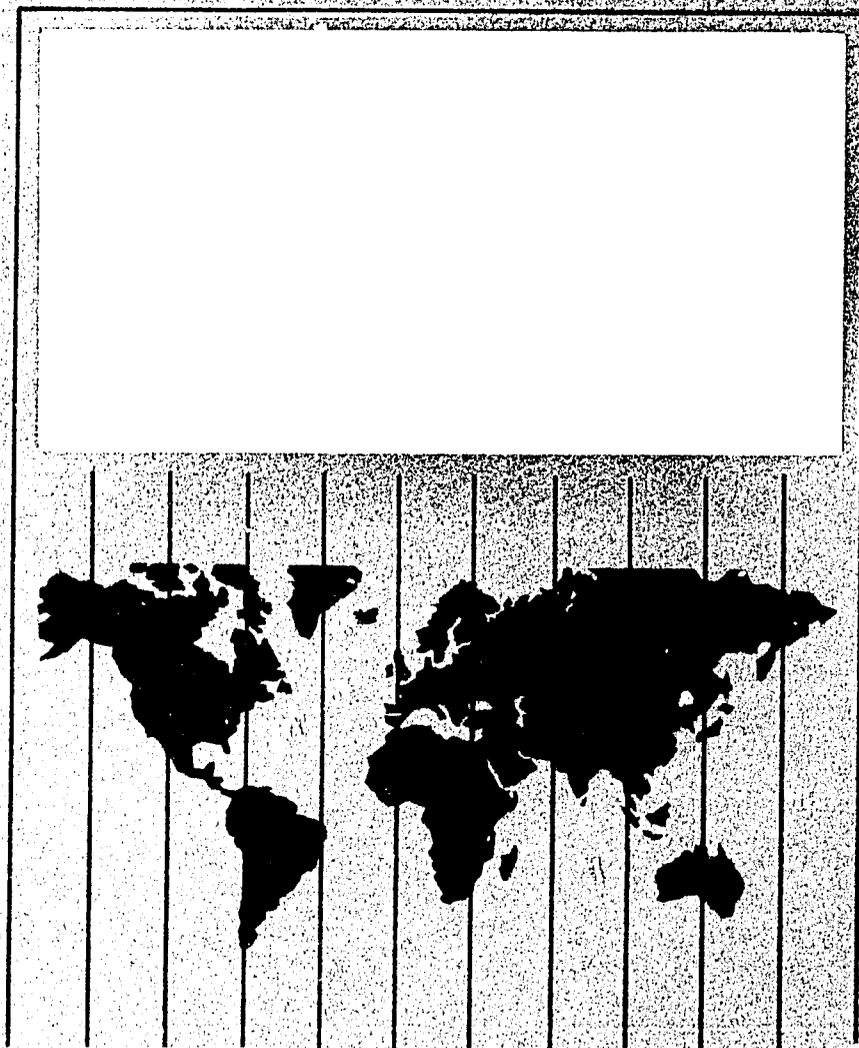


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
DAKAR

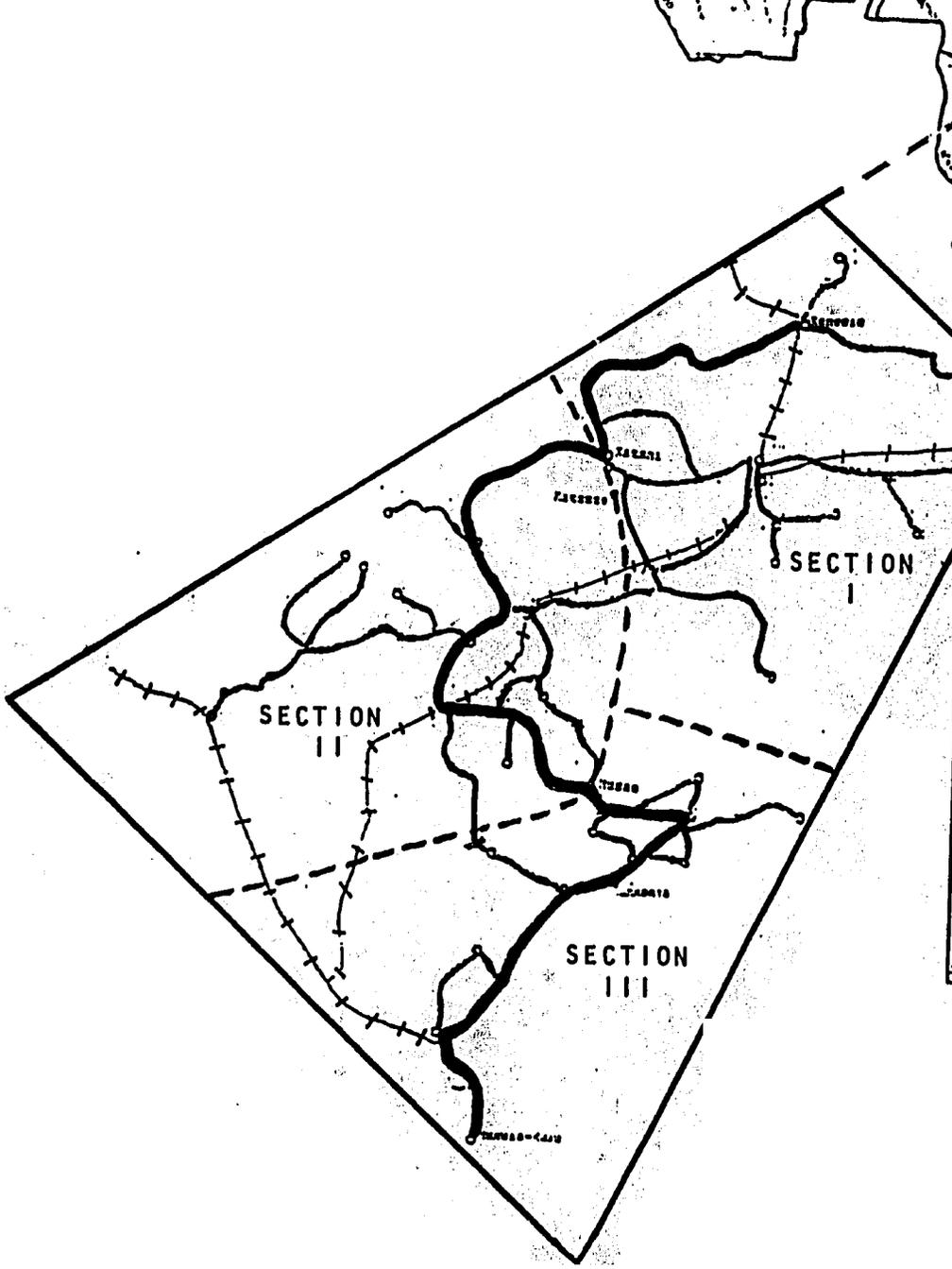
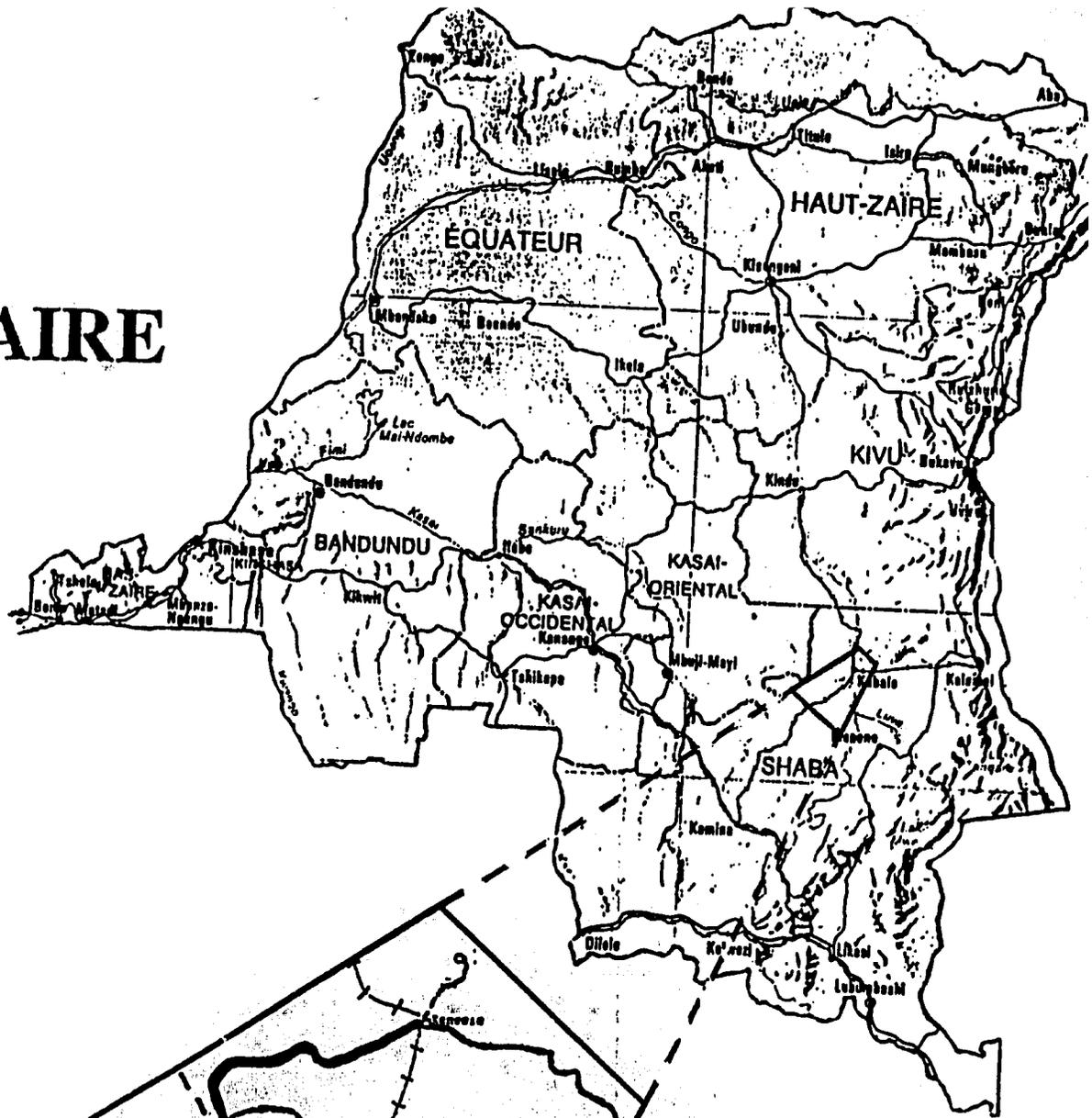
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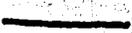
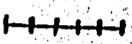
**Audit of USAID/Zaire's Central
Shaba Agricultural Development
Project No. 660-0105**

**Audit Report No. 7-660-91-06
January 25, 1991**

USAID/Zaire has made good progress in developing and implementing improved crops and extension services in the project area. However, progress on road rehabilitation is significantly behind schedule due to the Government of Zaire's failure to support the project--and without adequate roads, the entire project is in jeopardy.

ZAIRE



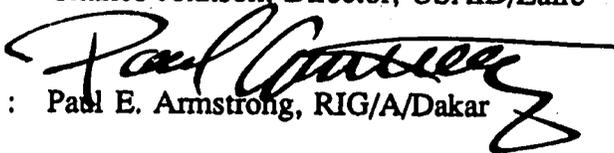
PROJECT ROADS	
Link Road	
Other Roads	
Railroad	

AGENCY FOR INTERNATIONAL DEVELOPMENT
Office of the Regional Inspector General for West Africa

January 25, 1991

MEMORANDUM

TO : Charles Johnson, Director, USAID/Zaire

FROM :  Paul E. Armstrong, RIG/A/Dakar

SUBJECT: Audit of USAID/Zaire's Central Shaba Agricultural
Development Project No. 660-0105

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report, made changes to the final report as appropriate and included them as an appendix to this report. Based on your comments, we believe all the recommendations are resolved and we will close them when appropriate actions are completed. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

In August of 1986 USAID/Zaire signed a Project Grant Agreement with the Government of Zaire (GOZ) to assist in increasing corn productivity and improve crop marketing conditions in the Shaba region of Zaire. The project covers a remote rural area about the size of the State of Ohio. The \$33.9 million, seven year A.I.D. grant was to:

- develop a private sector seed multiplication and distribution business,
- provide extension services for village cultivators,
- improve village crop storage opportunities,
- rehabilitate and upgrade 1,000 kilometers of regional link road, and

- reconstruct select secondary and tertiary feeder roads in the region.

Administration of the project by the GOZ was carried out by the Office des Routes (ODR) and the Ministry of Agriculture. The GOZ agreed to furnish, at a minimum, the equivalent of \$24.4 million to cover staff salaries and fuel, including in-kind contributions, which amounted to about 72 percent of the A.I.D. grant. Additionally, the GOZ was responsible for maintenance costs of roads subsequent to their completion--estimated by the Mission to be about \$4.8 million for five years.

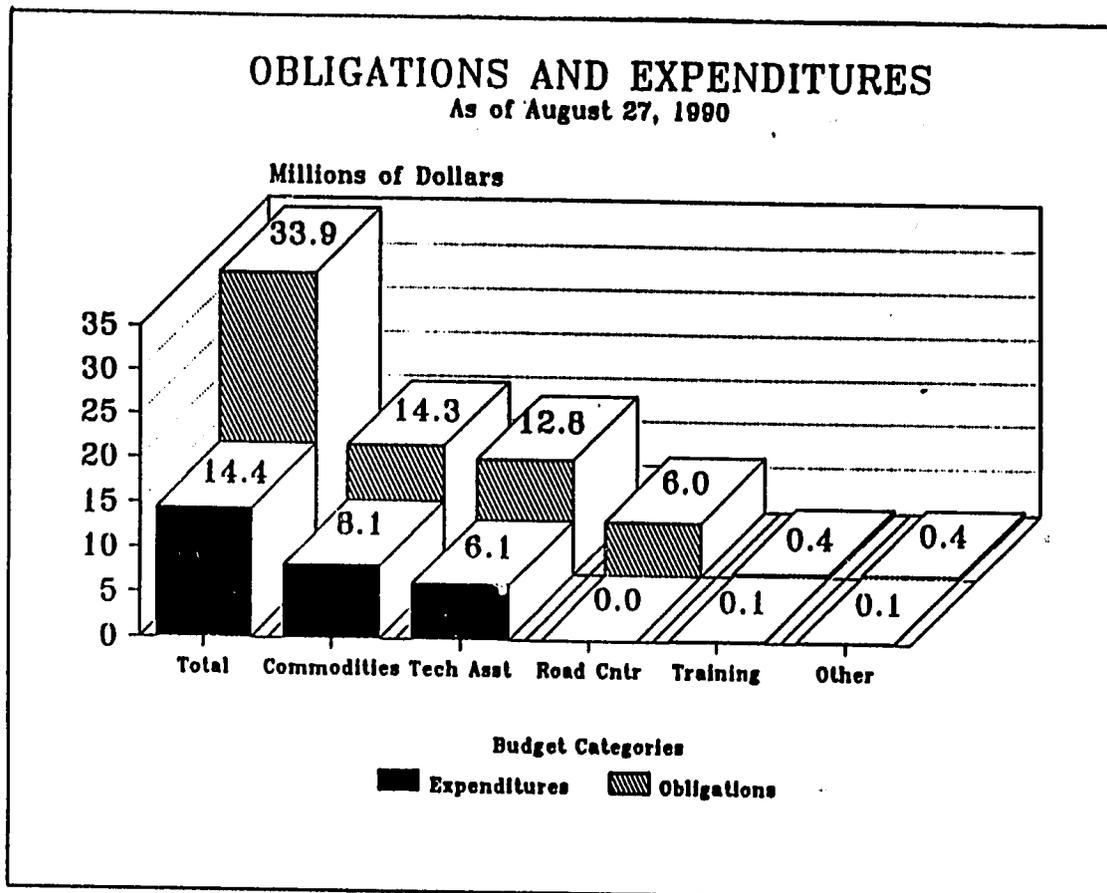
USAID's project management was divided between; 1) agricultural and market development managed by the Mission's Agriculture and Rural Development Office, and 2) road development which was managed by the Mission's Project Development Office.

Road development was to be accomplished in three sections running from north to south of the project area, as follows (see map):

- Section I was a link to roads rehabilitated in a predecessor project, Project North Shaba (PNS), and was composed of about 205 kilometers of primary link road and about 910 kilometers of secondary rural roads. Work on this section was to be accomplished using equipment from the PNS project and new equipment purchased with project grant funds. ODR was to supply labor, fuel and supplies while USAID furnished technical assistance to supervise construction,
- Section II was comprised of about 395 kilometers of primary link road and 760 kilometers of secondary rural roads. New equipment costing about \$9.5 million was to be provided by USAID along with technical assistance to oversee the ODR labor force, and
- Section III was to be rehabilitated by a private contractor and would rehabilitate 402 kilometers of link road and about 270 kilometers of secondary roads.

At the time of the audit the Mission was in the process of modifying the original project agreement to incorporate changes recommended in a December 1988 evaluation and other measures to improve the project. This amendment, which would not change the original Project Assistance Completion Date (PACD) of September 30, 1993 or the GOZ contribution, would add \$5 million to the USAID grant and include actions already taken and planned to redirect the project. Most of the \$5 million would be used to pay costs on the roads segment of the project.

About 68 percent of the project funding was for road rehabilitation and the remaining 32 percent was for agricultural activities. As of August 27, 1990 the project had obligated \$33.9 million and had expended \$14.4 million, as displayed in the following table:



Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar audited USAID/Zaire's Central Shaba Agricultural Development Project to answer the following audit objectives:

1. Has the project progressed as planned?
2. Once completed will the project be sustainable?
3. Did USAID/Zaire have an adequate system for monitoring project activities which resulted in corrective actions being taken in a timely manner?

In answering these audit objectives, we tested whether USAID/Zaire (1) followed applicable A.I.D. and Mission internal control procedures and (2) complied with certain provisions of laws, regulations, grants and contracts. Our tests were sufficient to provide reasonable but not absolute assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. We limited our conclusions concerning positive findings to the items actually tested, but when we found problem areas, we performed additional work;

to conclusively determine whether USAID/Zaire was not following a procedure or not complying with a legal requirement,

- to identify the cause and effect of the problems, and
- to make recommendations to correct the condition and cause of the problems.

Our discussion of the scope and methodology for this audit is in Appendix I and Appendix III contains our report on compliance.

Audit Findings

Has the project progressed as planned?

The project is significantly behind schedule in the road rehabilitation segment--a major element of the project. Additionally, initial steps to develop a private sector seed multiplication and distribution business failed and a new approach had to be implemented. This approach has still not been proven. The project has, however, made excellent progress in developing extension services through the project area and a newly developed approach to crop storage (covered loading docks at railheads) promises to be very successful.

The most significant delays facing the project have been in the roads rehabilitation segment. All road rehabilitation work on the primary link and most of the secondary roads, which accounts for about 68 percent of the project funding, should have been completed by September of 1990. However, at the end of the audit field work on August 31, 1990, only 25 percent (about 245 kilometers) of the planned primary link road and about 17 percent (about 330 kilometers) of secondary rural roads had been rehabilitated.

According to Project Implementation Reports and a December 1988 evaluation report a lack of fuel contributed to the delays in Sections I and II. The auditors also found that fuel shortages were impeding progress in Section III. For example, in Section II where only about 40 kilometers of the planned 395 kilometers of primary link road had been completed the primary cause for delays was attributed to fuel shortages. In the last nine months only three shipments of fuel, totalling about 120,000 liters, were received at the basecamp. The \$60,000 in fuel provided by the GOZ, which amounts to about 8 percent of the \$750,000 annual requirement for fuel and lubricants estimated in the project paper, did not even justify moving the construction equipment to the work site. As a result, equipment costing about \$5.7 million dollars and a technical assistance team costing about \$70,000 per month came to a virtual standstill.

On Section III, as of August 1990, no road rehabilitation work had been started. The delay was related to the GOZ's failure to provide agreed-to equipment and labor to the contractor. In this case the needed equipment could not be moved to the worksite because of a lack of \$10,000 worth of fuel. Five months had already passed without any

rehabilitation work and an additional seven months could be lost due to the rainy season. It now appears that the work can not be completed before the end of the dry season in September of 1992. As a result, the Mission will incur additional costs for added technical assistance and the contractor could submit cost claims due to delays.

The Director of the ODR stated that his office does not and will not have the agreed upon resources for project road development or maintenance. Additionally, in discussions with regional ODR officials responsible for road maintenance, the auditors were told that they had not received enough fuel to accomplish the necessary road maintenance on completed project roads. The auditors were also told that project resources had been diverted from road rehabilitation efforts on Section I to maintain previously rehabilitated roads in this section as well as roads rehabilitated under the predecessor PNS project. Failure to provide project support when needed may reflect the government's decision that roads in the project area are less important than other roads or other GOZ activities.

Inadequate financial support of recurrent costs on A.I.D. projects by recipient governments is an age-old problem. An A.I.D. Policy Paper published in May 1982 stated that many of the poorest countries in the world, particularly those located in sub-Saharan Africa, are not allocating adequate budgetary resources to finance the recurrent costs of their present portfolio of development investments--costs such as salaries, materials and maintenance--which recur as long as project activities continue. The policy paper goes on to say that donors need to review their current policies to determine how to deal with this "recurrent cost problem" and that there is little point in developing projects that call for host government resources to be successful, if those resources are not likely to be forthcoming.

As currently designed or as envisioned in the project paper amendment, the auditors believe the project is doomed to failure due to a lack of commitment by the GOZ. To address this problem the Mission should make a realistic assessment of the amount of financial support the GOZ can and will provide to the project. Where requisite steps to meet recurrent road maintenance costs are not undertaken, A.I.D. should seriously consider reducing the level of assistance in the affected area. The Mission agreed that the direction and scope of the project had to be reassessed in greater detail than had been done for the project paper amendment and agreed to undertake a major redesign of the project.

Recommendation No. 1: We recommend that USAID/Zaire:

- 1.1 redesign the project to an achievable level within existing funding constraints to include an assessment of agricultural benefits to be derived and optimum road size and location;**
- 1.2 determine the minimum acceptable level of support to be required by the Government of Zaire to support the project under the new design;**

- 1.3 require the Government of Zaire to agree to furnish this support in adequate and regularly scheduled tranches to assure resources are available to the project for uninterrupted progress; and
- 1.4 terminate the project if the Government of Zaire is unwilling or unable to adequately support the project by a reasonable contribution.

Once completed will the project be sustainable?

Within the current environment in Zaire, the project is not sustainable as presently designed or as envisioned in the proposed project paper amendment. Indications are that even if the roads are rehabilitated as planned in the project, they cannot be maintained during or after project completion. The integrated nature of the project, agricultural improvements matched with a supporting road system, means that a breakdown in either segment will cause the entire effort to fail.

The Project Agreement included a condition precedent that the GOZ will furnish evidence that their roads bureau, ODR, or other designated agency will have the technical and financial resources to ensure post-project maintenance of rehabilitated roads. This condition precedent, which addresses the issue of project sustainability or the potential to support and continue developmental benefits of the project, was satisfied by a GOZ budget commitment for the early years of the project.

The new Director of ODR recently stated that he is unable to support the maintenance of the project roads under his current funding constraints. Within ODR's current budget, only about 19,000 kilometers of roads can be maintained. Of this 19,000 kilometers, ODR has included only about 240 kilometers of project roads in its priority funded road plan for recurring maintenance. In effect, the GOZ has stated it can no longer meet the condition precedent and it appears that the majority of project roads are likely to be neglected and probably destined to be impassable before or shortly after the project ends.

During an inspection of about 500 kilometers of project roads, the auditors found that no road maintenance of the completed roads in Section I had been accomplished. Certain sections of roads had deteriorated from the 6 meter rehabilitated standard to no wider than 3 meters, grass and weeds had filled the drainage ditches and it appeared that after another rainy season many of the roads would be completely closed. We found certain segments where vehicles had driven around obstacles in the road.

Sustainability is critical to project success. The Mission must determine whether the GOZ can and is willing to provide the required support or what alternatives are available and how the project will be maintained after PACD. The Mission agreed with the auditors

concerns about sustainability and were considering alternatives to assure the continued success of the project.

Recommendation No. 2: We recommend that USAID/Zaire:

- 2.1 require the GOZ to provide sufficient evidence that the project will be sustained after completion; and**
- 2.2 if the GOZ is not willing to provide the necessary evidence, the Mission should establish a plan and take the appropriate action to close out the project.**

Did USAID/Zaire have an adequate system for monitoring project activities which resulted in corrective actions being taken in a timely manner?

The Mission had implemented an adequate monitoring system but had failed to take decisive action to correct problems in a timely manner.

Chapter 11 of Handbook 3 defines monitoring as the timely gathering of information regarding inputs, outputs and actions that are critical to project success and the comparison of such information with plans and schedules. Further, the Handbook states that it is, of course, not enough to "observe and record" such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible.

The Mission was well aware that the GOZ historically had problems in supplying fuel in road rehabilitation projects. The project paper correctly identified the risk to the project of assigning all responsibility for fuel supplies to the GOZ, but could not anticipate the deterioration of the Zairian economy as experienced during 1990. Repeated Mission attempts to mitigate the situation were unsuccessful, but the auditors believe that the Mission failed in not devising a firm, fair, enforceable plan to assure that the project proceeded as planned. Instead they allowed the problem to continue and to deteriorate to the point that a complete shutdown in road rehabilitation took place in the summer of 1990. A problem of a magnitude that can shut down a multi-million dollar effort should have been resolved at the earliest possible time. As stated previously, project equipment worth over \$5.7 million lay idle for months and a technical assistance team costing \$70,000 per month accomplished little toward the planned road rehabilitation.

The Mission also should have addressed problems and changes in Section III. For example, although most of the link road for the project is to be built to a 6 meter roadbed width, the private sector contract for 150 kilometers of link road, at a cost of about \$45,000 per kilometer, calls for an 8 meter width. In effect, there will be a 150 kilometer stretch of road that is two meters wider than is justified by traffic patterns. When the auditors asked why the contract had the higher standard they were told that this was the

original standard and that it had never been adjusted to the more realistic six meter standard. One project engineer estimated that an additional 20 percent of road, about 30 kilometers, could be rehabilitated for the same cost if the road was only 6 meters wide. This translates into a cost savings of about \$1.3 million of funding that could be saved or applied to further road development. Additionally, the contract is significantly behind schedule and the Mission should decide if late performance will satisfy the needs of the project. The Mission should also consider the need for this section in light of other Section III changes as described below.

A fourth road section is being considered by the Mission.

The remaining 270 kilometers of link road not completed under Section III would be rehabilitated under a new Section IV. This section has the lowest agricultural potential in the project area and does not have support within current funding availability, but is proposed in the project paper amendment using the ODR labor force, equipment donated by the government of Japan and technical assistance provided by USAID. The added technical assistance costs would be covered with additional funds from the proposed \$5 million project amendment. Considering the current success rate using ODR resources and the problems ODR is experiencing, as well as delays in the other sections, it does not appear wise to expand efforts in this direction. Again, this area should also have been included in a comprehensive review of the project needs based on the current environment in Zaire.

Another concern that should be addressed by the Mission is the planned use of the project equipment. The auditors found that some project equipment was not being used and may be excess to the project. For example, a Caterpillar shovel costing about \$280,000 had been sitting unused in the ODR complex in Lubumbashi since receipt in January 1989, apparently because project officials were unsure that it could be successfully moved to the construction area. This item had been identified by technical advisors as excess to the project but no action had been taken to either place it in use or to dispose of it and there seemed to be confusion in the Mission as to whether it could be effectively employed. Other equipment had been idled for months due to a lack of fuel or spare parts and may have been excess to the project. If the Mission decides to downscale the project effort, a complete reassessment should be made to determine what can be effectively employed by the project and what equipment can be considered for disposal or transfer to other projects.

Recommendation No. 3: We recommend that USAID/Zaire:

- 3.1 renegotiate or terminate the existing contract with the private contractor for Section III based on a Mission determination of costs and benefits to be derived by the project, including an assessment of agricultural benefits and optimum road size;**
- 3.2 reconsider the need to develop a Section IV based on funding constraints, GOZ performance and the agricultural benefits to be achieved and modify project plans accordingly; and**
- 3.3 determine what equipment can be effectively utilized within the revised project and take action to transfer or otherwise dispose of excess property.**

Mission Comments and Our Evaluation

USAID/Zaire agreed with the report's finding and recommendations and intends to reevaluate the projects level of effort and direction. All recommendations made in this report will be thoroughly addressed. The Mission states it is committed to terminating the project in the event that a meaningful, albeit reduced, GOZ contribution cannot be made at adequate levels on a regular basis, and cites a December fuel delivery in response to a September 13 Mission letter requesting fuel, as an example of the GOZ's commitment to the project. Additionally, the Mission has already considered allowing the technical assistance contract for roads to lapse in March of 1991 and termination of the Section III construction contract on January 31, 1991, if negotiations currently underway with the GOZ and the contractor do not result in a realignment of the work to assure project objectives are met. The response also stated that the proposed Section IV will most likely be eliminated in order to concentrate on higher production areas.

We believe that a Mission review of project activities can correct the operational deficiencies of the project if conducted in a realistic, conservative manner. We would, however, like to emphasize that the GOZ should be held to a fixed and measurable contribution. It appears that the Mission has once again allowed the GOZ to avoid its agreed-to responsibilities by providing only one quarter of the fuel requested in the Mission's September 13, 1990 letter. Not holding the GOZ to its agreed-to contribution can only result in one outcome: project failure..

Finally, we would like to request that the Mission specifically address the need for project equipment under a revised project design. If a realignment of the project results in reduced road construction, unneeded equipment should be disposed of in accordance with A.I.D. guidance.

<p style="text-align: center;">SCOPE AND METHODOLOGY</p>

Scope

We conducted a performance audit of USAID/Zaire's Central Shaba Agricultural Development project in accordance with generally accepted government auditing standards. We conducted the audit from July 16 through August 31, 1990 and covered the systems and procedures relating to project inputs financed by A.I.D. from August 1986 (project inception) through August 27, 1990. As noted below, we conducted our field work in the offices of the Mission, Zaire's roads bureau and project contractors, as well as at various construction sites of the project. The primary focus of the audit was on the roads element since this element involved 68 percent of the project funding and the survey results disclosed significant project problems.

We did not include coverage of commodity procurement and management in this audit. Extensive coverage of this project's commodity management was included in RIG/A/Dakar's Audit of USAID/Zaire's Commodity Management (Audit Report No. 7-660-90-05, March 12, 1990).

Methodology

The methodology for each audit objective follows.

Audit Objective One

The first audit objective consisted of gathering and verifying information to determine the status of the project. We relied primarily on USAID/Zaire progress reports and Controller records, interviews with Mission and project personnel and inspection of about 500 kilometers of project roads as well as agricultural activities in the project area. The 500

APPENDIX I

kilometers of roads represented all of the completed primary roads in Sections I and II (about 250 kilometers) and some selected secondary roads in Section I.

Audit Objective Two

To accomplish the second audit objective we interviewed Mission and GOZ personnel, relied on project progress reports and inspected rehabilitated roads to ascertain their current condition and evidence of maintenance (see Audit Objective One).

Audit Objective Three

To accomplish the third audit objective, we reviewed project documentation located in Kinshasa, Lubumbashi and at the remote project sites. Additionally, we interviewed project and contractor personnel to determine the monitoring and approval procedures and reporting requirements within the project.

ACTION: RIG INFO: AMB DCM

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 P 100944Z JAN 91
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LOC: 037 165
 10 JAN 91 0931
 CN: 11771
 CHRG: RIG
 DIST: RIG

AIDAC

FOR RIG/DAKAR PAUL ARMSTRONG

E. O. 12356: N/A

SUBJECT: USAID ZAIRE RESPONSE TO DRAFT AUDIT OF CENTRAL
 SHABA AGRICULTURAL DEVELOPMENT PROJECT NO. 660-0105

FOLLOWING THE GENERAL OUTLINE OF THE OCT. 22 1990 DRAFT
 AUDIT REPORT, USAID ZAIRE COMMENTS ARE THE FOLLOWING:

1. PROJECT PROGRESS:

USAID CONCURS WITH THE AUDIT FINDING THAT THE ROAD
 REHABILITATION SEGMENT OF THE PROJECT HAS NOT PROGRESSED
 AS PLANNED. THE CHIEF CAUSES OF THIS CAN BE ATTRIBUTED
 TO:

- (A) CONSTRUCTION EQUIPMENT PROCUREMENT DELAYS,
- (B) PERSONNEL MOBILIZATION AND BASE CAMP CONSTRUCTION,
AND,
- (C) SHORTAGES OF GOZ FUEL SUPPLIES TO PROJECT ROAD
REHABILITATION UNITS.

AS A RESULT OF THE LIMITED PROGRESS TO DATE IN ACHIEVING
 PROJECT GOALS, AS WELL AS THE LACK OF GOZ COMMITMENT TO
 CO-FINANCE PROJECT ROAD WORKS, USAID ZAIRE FULLY AGREES
 AND INTENDS TO COMPLY WITH THE AUDIT RECOMMENDATION TO
 REVIEW THE PROJECT FOR A POSSIBLE REDESIGN. ALL
 RECOMMENDATIONS MADE BY THE AUDIT WILL BE THOROUGHLY
 ADDRESSED IN THIS EXERCISE.

AS SURMISED IN THE RECOMMENDATION, PROJECT ASSESSMENT
 WILL MATCH REALISTIC, ACHIEVABLE AGRICULTURAL OUTPUTS
 AGAINST EXISTING FUNDING CONSTRAINTS AND ESSENTIAL
 ROAD-SIDE INPUTS. THE DIFFICULT QUESTION OF HOW TO

ENSURE SUSTAINABLE BENEFITS THROUGH GOZ COMMITMENT TO
 MAINTAIN THE REHABILITATED ROADS WILL PROVIDE ANSWERS TO
 THE FUNDAMENTAL REDESIGN ISSUES: APPROPRIATENESS AND
 LEVEL OF TECHNICAL INTERVENTION ON ROADS (INVESTMENT
 COST); AND SUSTAINABLE MAINTENANCE (RECURRENT COST).

USAID ZAIRE IS COMMITTED TO TERMINATING THE PROJECT IN
 THE EVENT THAT A MEANINGFUL, ALBEIT REDUCED, GOZ
 CONTRIBUTION CANNOT BE MADE AT ADEQUATE LEVELS ON A
 REGULAR BASIS.

2. SUSTAINABILITY:

AS STATED ABOVE, SUSTAINABILITY ISSUES RANK AT THE TOP OF THE LIST OF REDESIGN CRITERIA. THE MISSION RECOMMENDS HOWEVER THAT THE FINAL AUDIT REPORT MAKE THE DISTINCTION BETWEEN PROJECT PAPER ESTIMATES OF INITIAL INVESTMENT COSTS, AND DESIGN CRITERIA WHICH ASSUME THE SUSTAINABILITY OF ROAD MAINTENANCE AFTER PROJECT COMPLETION. THE QUANTIFIABLE DIFFERENCE IS THE FOLLOWING:

(A) INVESTMENT COST: ACCORDING TO THE PP, ON THE ROAD SIDE, DOLS 8 MILLION IN THE FORM OF A QUOTE NON-COUNTERPART FUND CONTRIBUTION UNQUOTE IS REQUIRED. THIS AMOUNT, EARMARKED CHIEFLY FOR FUEL AS WELL AS FOR CONSTRUCTION MATERIAL AND PERSONNEL COSTS, REPRESENTS NEARLY 24 PERCENT OF THE LOP DOLLAR FUNDING LEVEL OF DOLS 33.9 MILLION. ON TOP OF THIS, AN ADDITIONAL DOLS 16 MILLION OF U.S. DOLLAR-GENERATED, GOZ-OWNED COUNTERPART FUNDS WAS ESTIMATED FOR THE INITIAL INVESTMENT IN ROAD REHABILITATION AND AGRICULTURAL IMPROVEMENTS. THIS AMOUNTS TO 47 PERCENT OF THE LOP DOLLAR FUNDING. TOGETHER, ON THE PROJECT INVESTMENT SIDE, A TOTAL GOZ CONTRIBUTION OF APPROXIMATELY 71 PERCENT IS REQUIRED.

(B) MAINTENANCE COST: UNRECORDED BY THE ORIGINAL DESIGN, THE RECURRENT COST OF SUSTAINABILITY TO THE GOZ IS SOMETHING ELSE ENTIRELY. USING UP-TO-DATE COST ESTIMATES FOR MINIMUM MAINTENANCE OF EARTH SURFACED ROADS, DOLS 150 PER KILOMETER PER YEAR WITH AN ADDITIONAL DOLS 1000 PER KILOMETER PER EVERY FIFTH YEAR THE RECURRENT COST OF MAINTAINING PROJECT ROADS FOR 5 YEARS IS APPROXIMATELY DOLS 4.8 MILLION (14 PERCENT OF THE LOP FUNDING). FOR 10 YEARS IT COMES TO DOLS 9.6 MILLION (28 PERCENT OF THE LOP FUNDING).

THE MISSION FEELS STRONGLY THE FINAL REPORT SHOULD CLARIFY THE TOTAL COST OF THE PROJECT, MOST IMPORTANTLY THE COUNTERPART CONTRIBUTION REQUIRED TO SUCCESSFULLY COMPLETE THE PROJECT. THIS WILL CONTRIBUTE ENORMOUSLY TO CONVEYING AN UNDERSTANDING OF THE FULL CONTRIBUTION REQUIRED OF THE GOZ UNDER THE PROJECT: 99 PERCENT OF

THE LOP DOLLAR BUDGET IN 10 YEARS. THIS WILL BECOME PARTICULARLY CRITICAL TO THE REDESIGN ANALYSIS OF COSTS AND BENEFITS, INTERNAL RATE OF RETURN AND RECURRENT CONTRIBUTION TO SUSTAINING BENEFITS, AND WILL BECOME THE FRAMEWORK FOR DETERMINING MORE REALISTIC AND OBTAINABLE COUNTERPART CONTRIBUTION AMOUNTS IN A REDESIGNED PROJECT

3. MONITORING AND CORRECTIVE ACTIONS (NOT) TAKEN

A. THE MISSION MUST TAKE ISSUE WITH THE INSINUATION THAT THE MISSION FAILED TO RESPOND TO THE FUEL SHORTAGES RESULTING IN A COMPLETE STALLING OF THE PROJECT. ALTHOUGH, FOR ALL INTENTS AND PURPOSES, THE PROJECT ROAD ACTIVITIES HAVE INDEED STALLED, ONE SHOULD NOT INFER FROM THE INACTIVITY IN THE FIELD THAT USAID ZAIRE MADE NO ATTEMPT TO KEEP THE PROJECT RUNNING.

USAID REFRAINED FROM BUYING ITS WAY OUT OF THE PROBLEM EVEN WHEN IT WOULD HAVE BEEN INFINITELY SIMPLER TO DO SO. THE AUDIT FAILS TO PAY THE CREDIT WHICH IS DUE TO THE MISSION STAFF FOR MAINTAINING A VERY TOUGH POSITION, PARTICULARLY AT A TIME WHEN COUNTERPART FUND RESOURCES WERE ABUNDANT. AGAINST STRONG RECOMMENDATIONS TO THE CONTRARY, USAID REFRAINED FROM PAYING ODR SALARIES AND REFUSED TO PURCHASE FUEL.

THE MAIN REASON USAID DID NOT SHUT DOWN OR SUSPEND THE PROJECT AT SOME ARBITRARY POINT DURING THE TIME THAT THE REAL EXTENT OF THE GOZ CONTRIBUTION CRISIS BECAME KNOWN, WAS THAT MOMENTUM AND MONEY HAD ALREADY BEEN INVESTED AT SIGNIFICANTLY HIGH LEVELS. FOR THIS REASON, EXTENSIVE USAID-GOZ STAFF TIME WENT INTO SEEKING A SOLUTION TO THIS PROBLEM.

THE MISSION RECOMMENDS THAT THE FINAL REPORT INCORPORATE THE FOLLOWING LANGUAGE CONCERNING THE ISSUE OF MISSION FAILURE TO DEVISE A FIRM, FAIR, ENFORCEABLE METHOD TO ASSURE THAT THE PROJECT PROCEEDED AS PLANNED:

QUOTE. THE MISSION WAS WELL AWARE THAT THE GOZ HISTORICALLY HAD PROBLEMS IN KEEPING UP WITH THE OPERATIONAL COSTS ASSOCIATED WITH ROAD CONSTRUCTION, REHABILITATION AND MAINTENANCE ACTIVITIES. THE PROJECT PAPER CORRECTLY IDENTIFIED THE RISK TO THE PROJECT IN ASSIGNING ALL RESPONSIBILITY FOR FUEL SUPPLIES TO THE GOZ, BUT FAILED TO ESTIMATE THE FULL DETERIORATION OF THE ZAIRIAN ECONOMY SUCH AS HAS BEEN EXPERIENCED DURING 1990. REPEATED MISSION ATTEMPTS TO MITIGATE THE SITUATION RESULTED IN SPORADIC FUEL DELIVERIES AND A PROFOUND UNDERSTANDING OF THE FULL EXTENT OF THE BILATERAL PROBLEM, BUT TO DATE HAS NOT TRANSLATED THIS INTO MEETING PROJECT OBJECTIVES AND GOALS AS PLANNED. IN VIEW OF THE HIGH COST OF KEEPING TECHNICAL ASSISTANCE ON SITE WHILE EXPENSIVE EQUIPMENT LAYS IDLE, IT IS RECOMMENDED THAT THE MISSION TAKE STEPS TO ELIMINATE NON-PRODUCTIVE OUTLAYS FOR INSTITUTIONAL CONTRACTS. PRESENT CONTRACTUAL AGREEMENTS SHOULD BE TERMINATED IMMEDIATELY OR ALLOWED TO LAPSE IF CONTRACTS COME TO AN

END WITHIN THE FIRST QUARTER OF 1991. UNQUOTE.

B. FYI: A LETTER DATED 13 SEPT 1990 WAS ADDRESSED TO THE MINISTERS OF PLAN, PUBLIC WORKS AND AGRICULTURE, SIGNATORIES TO THE PROJECT, TO INFORM THE GOZ THAT USAID WAS PREPARED TO TERMINATE THE ROAD ACTIVITIES OF THE PROJECT 1 JAN 1991 IN THE EVENT THAT SPECIFIED FUEL ALLOTMENTS WERE NOT DELIVERED TO PROJECT SITES.

THE LETTER HAS HAD, AS CAN BE EXPECTED, MIXED RESULTS. HOWEVER, APPROXIMATELY ONE QUARTER OF THE FUEL ASKED FOR BY THE END OF THE YEAR DEADLINE WAS INDEED DELIVERED. AS OF DECEMBER 10, 1990, THE GOZ HAS OFFICIALLY ANNOUNCED THAT FUNDING REQUIRED TO COMPLETE THE ACTIVITIES IN SHABA WILL BE GUARANTEED IN THE BUDGETS OF OFFICE DES ROUTES, ODR, AND THE NATIONAL FEEDER ROADS DEPARTMENT, SNRDA. THE MINISTER OF PLAN HAS SAID THAT IN 1991, THE PRIORITY AMONG PRIORITIES WILL BE ROADS.

ON THE PART OF USAID, ADDITIONAL STEPS ARE BEING TAKEN TO REDUCE PROJECT LOSSES: (A) THE TECHNICAL ASSISTANCE CONTRACT FOR ROADS IN SHABA WILL LAPSE IN MARCH 1991; (B) THE PRIVATE CONTRACT FOR CONSTRUCTION OF THE SECTION VIII ROAD WILL BE TERMINATED ON 31 JAN 1991 IN THE EVENT THAT NEGOTIATIONS CURRENTLY UNDERWAY WITH THE GOZ AND THE CONTRACTOR DO NOT RESULT IN A REALIGNMENT OF THE

WORKS TO ENSURE THAT PROJECT OBJECTIVES ARE MET; AND (C)

CONCERNING INVESTMENT AND SUSTAINABILITY, ONGOING DISCUSSIONS WITH ODR, SNRDA, PUBLIC WORKS, PLAN AND THE WORLD BANK ARE AIMED AT COMBINING RESOURCES, MAKING GEOGRAPHIC COMPROMISES AND ENHANCING THE ROLE OF THE PRIVATE SECTOR IN ORDER TO SUCCESSFULLY IMPLEMENT A PROJECT OF REDUCED SCOPE AND ENSURE THAT ROADS ARE MAINTAINED AFTER REHABILITATION.

4. AGRICULTURAL ISSUES:

A. THE MISSION GENERALLY AGREES THAT WITHOUT ADEQUATE TRANSPORTATION (MARKETING) INFRASTRUCTURE THE ENTIRE PROJECT IS IN JEOPARDY. ACCESS TO BOTH INPUT AND PRODUCT MARKETS IS ESSENTIAL IF THE PROJECT IS TO HAVE SIGNIFICANT DEVELOPMENT IMPACT.

B. PROJECT REDESIGN WILL EMPHASIZE GEOGRAPHIC ORIENTATION TOWARD HIGHEST AGRICULTURAL PRODUCTION POTENTIAL, POPULATION CONCENTRATIONS AND MARKET CENTERS IN ORDER TO MAXIMIZE DEVELOPMENT IMPACT.

C. PRIVATE SECTOR SEED PROGRAM:

USAID HAS SUPPORTED A PILOT PRIVATE SECTOR-BASED, RISK TAKING MAIZE SEED PRODUCTION/DISTRIBUTION PROGRAM FOR THE PROJECT AREA. THE AUDIT SHOULD REFLECT THE INNOVATION AND RISK. ALTHOUGH THE CURRENT APPROACH TO ESTABLISHING A PRIVATE SECTOR MAIZE SEED PRODUCTION/DISTRIBUTION PROGRAM HAS NOT YET BEEN PROVEN, IT HAS BEEN DESIGNED TO ADDRESS THE OBJECTIVE OF SUSTAINABILITY OF THE SEED PROGRAM THROUGH THE INVOLVEMENT OF VARIOUS PRIVATE SECTOR ENTITIES.

THE AUDIT SHOULD ALSO REFLECT THAT USAID TOOK DECISIVE ACTION TO TERMINATE THE CONTRACT WITH TRABEZA MBEKO SHABA WHEN THE COMPANY FAILED TO FULFILL THE TERMS OF ITS CONTRACT, AND PROCEEDED QUICKLY TO IDENTIFY AN ALTERNATIVE APPROACH.

D. PROJECT INFORMATION OFFICE, SCAD:

THE STATEMENT CONCERNING THE INFORMATION OFFICE IS MISLEADING. ALTHOUGH SCAD ONLY RECENTLY BEGAN COLLECTING PROJECT IMPACT DATA (MAIZE EVACUATED BY SNCZ; PLANS FOR A HOUSEHOLD SURVEY IN 1991), SEVERAL KEY BASELINE STUDIES WERE CARRIED OUT PRIOR TO THE AUDIT.

BASELINE INFORMATION WAS GATHERED ON COMMERCIAL ACTIVITY IN THE REGION IN 1987; A SYSTEM WAS ESTABLISHED EARLY IN 1989 FOR MONITORING ROAD TRAVEL TIME AND FREQUENCY OF VEHICLES UTILIZING PROJECT ROADS; AN AGRICULTURAL MARKETING STUDY FOCUSING ON MAIZE WAS COMPLETED IN DECEMBER 1989. IN ADDITION, A RECENTLY COMPLETED STUDY UPDATING POPULATION INFORMATION IN THE REGION HAD BEEN UNDERWAY SINCE JULY 1990. THE AUDIT LEADS ONE TO BELIEVE THAT USAID WAS NOT CONCERNED ABOUT INFORMATION

REQUIREMENTS UNTIL RECENTLY AND THIS IS INCORRECT. THE MISSION RECOMMENDS THAT THE FINAL REPORT REFLECT THIS.

E. AGRICULTURAL POTENTIAL IN THE SOUTHERN PROJECT AREA:

THE AUDIT MAKES THE ASSERTION THAT "THIS SECTION HAS THE LOWEST AGRICULTURAL POTENTIAL IN THE PROJECT AREA". EXPERIENCE TO DATE CONFIRMS THAT THIS REGION HAS ONE OF THE LOWEST POTENTIALS IN THE PROJECT AREA, THOUGH NOT THE LOWEST. REDESIGN, HOWEVER, WILL MOST LIKELY ELIMINATE THIS PART OF THE PROJECT AREA, CONCENTRATING ON HIGHER PRODUCTION AREAS, THOSE WITH BETTER MARKET ACCESS AND HIGHER POPULATION DENSITIES. BAAS

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REPORT ON COMPLIANCE

We have audited USAID/Zaire's Central Shaba Agricultural Development Project for the period August 1986 through August 27, 1990, and have issued our draft report thereon dated January 25, 1991.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control procedures in the A.I.D. Handbooks generally does not fit into this definition. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the project is the overall responsibility of USAID/Zaire's management. As part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Zaire, contractor, and host-government compliance with certain provisions of Federal laws and regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

APPENDIX III

The results of our tests of compliance disclosed the following significant instances of noncompliance:

- **Audit Objective No. 1 - The GOZ has not provided agreed-to contributions to the project as required by the project agreement (see page 4);**
- **Audit Objective No. 2 - The GOZ has not demonstrated its commitment to maintain project rehabilitated roads as agreed to in the project agreement (see page 6).**

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Zaire, contractors, and the Government of Zaire complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Zaire, contractors, and the Government of Zaire had not complied, in all significant respects, with those provisions.

APPENDIX IV

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