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Auditor General

AUDIT REPORT

ON

USAID/AFGHANISTAN

NEW PROGRAM STRATEGY

Audit Report Number 5-306-76-16

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Area Auditor General Near East
Agency for International Development

A

TABLE OF CONTENTS

B

AUDIT REPORT

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INTRODUCTION

From FY 1974 to FY 1976 the U.S. has either provided or projected the following assistance to Afghanistan:

	(Thousands of Dollars)		
	FY 1974	FY 1975	FY 1976 (Est'd.) 1/
Technical Assistance Grants	4,843	6,209	5,695
Development Loans	7,500	10,000	6,500
PL 480 Title I Sales	-	-	2,756
	12,343	16,209	14,951

The composition of the program is presently being restructured to conform with the Mission's new strategy. A characteristic of the new strategy is the shift from large construction and institution-building type projects to projects which more directly benefit the poor majority. This change reflects the Mission's effort to comply with the Congressional mandate of 1973.

Active Mission grant and loan projects as of June 30, 1975 are listed in Exhibits A and B respectively. The Mission's FY 1976 project budget, as shown in Exhibit C, reflects the program change. Significantly, of the ten grant projects shown, seven either have been or will be designed under the new program strategy.

The purpose of this examination was to evaluate the workability of the new strategy and to ascertain any potential problems which could adversely affect its implementation.

1/ Per the Annual Budget Submission.

SUMMARY

The most significant findings developed during the audit, and presented in detail in the next section, are summarized below:

- The Fixed Amount Reimbursement (FAR) procedure is having an undue influence on project purposes. (See pp. 4 to 8.)

- Operations of the Afghan Family Guidance Association (AFGA) are being expanded through AID financing, but AFGA has no assured sources of income to finance the resulting increased operating costs. (See pp. 8 to 10.)

- Evidence indicates that project implementation has commenced in some cases prior to completion of all relevant planning. (See pp. 13 to 15.)

- Increased emphasis should be placed on revising old projects to better meet the criteria of the new Mission strategy. (See pp. 15 to 18.)

- Mission evaluation procedures should be systematized. (See pp. 19 and 20.)

- Policy should be established covering Mission reviews of GOA cost estimates for FAR projects. (See pp. 21 to 23.)

- AID/W's guidance should be obtained regarding the applicability of Section 105 of the Appropriations Act when AID finances a specific group of construction units for more than $100,000 per contract. (See pp. 23 and 24.)

- Significant amounts of some commodities financed under the FAR procedure in Afghanistan have their origins in the non-free world. (See p. 25.)

- The present USAID/A engineering staff may not be large enough to meet increasing workload requirements. (See pp. 26 and 27.)

- Salaries and other expenses for six direct-hire technicians should be categorized as operating expenses instead of project costs. (See pp. 27 to 31.)

The report contains 11 recommendations (see Exhibit E).

STATEMENT OF FINDINGS AND RECOMMENDATIONS

A. PROJECT DESIGN UNDER THE NEW STRATEGY

Early in CY 1974, the Mission assessed its development strategy. That strategy, which was predicated on the trickle-down theory of development, stressed large construction and institution-building projects. The Mission recognized that, under that strategy, failure was as notable as success, and that the Congressional mandate of 1973 directed AID to design its programs so that assistance would reach the poor majority. The Mission therefore developed a new strategy, which was articulated in its Development Assistance Plan of 1975. The more important features of the new strategy are:

1. Project simplicity
2. Incremental project development
3. Direct benefits to the poor
4. Objective results that are unambiguously observable

The new strategy is well thought-out, with attempts having been made to profit from past errors. It fits, in our judgment, the Afghan situation well. Yet there are some aspects of the implementation of the strategy which merit attention.

1. Objective Results

One of the four main features of the new strategy is that projects are to produce objective results which are unambiguously observable. Efforts have been made to incorporate this feature into all newly designed projects. The new projects are therefore designed in such a way that project accomplishments will be more easily observable than they were under the old strategy.

There is a problem in this aspect of project design that needs to be addressed. This problem concerns the Fixed Amount Reimbursement (FAR) procedure which is beginning to influence project designs -- especially project purposes.

This effect of the FAR procedure is most obvious in the evolution of the Rural Primary Schools project. The project paper for Rural

Primary Schools states that the GOA Ministry of Education has formulated a five-year plan to construct a total of 2,843 rural elementary schools. The Mission proposed to assist the Ministry of Education as follows:

> USAID proposes to help finance the first-year targets of the GOA plan within what we hope is a more realistic two year time frame. USAID would reimburse 85 percent of the fixed direct costs of building 170 elementary schools and 40 teachers' hostels, which amounts to approximately 63 percent of the total construction costs.

The idea, then, was to help finance the first-year targets of the GOA plan, and the stated project purpose followed that idea.

However, subsequent to AID/W's approval of the project, major changes were made in the designs and specifications of the schools to be constructed, as well as significant reductions in the actual number of schools to be financed by AID. There were several valid reasons for changing the designs and specifications of the schools; but the decision to reduce the number of schools to be constructed under the project appears to be a major change in the project purpose.

According to the project paper, 79 schools and 19 hostels, out of a total of 170 and 40 respectively, were to be constructed by the end of March 1976. For this, the GOA was to be paid about $425,000 under the FAR technique. However, under the project agreement, only 45 school/hostel complexes could be financed with $450,000 through the end of March 1976. 2/ The reimbursement percentage of direct costs, 85 percent, remained the same.

This provision is included in the project agreement:

> $450,000 is obligated in this agreement to finance the estimated USAID share of the direct costs of constructing approximately 45 primary schools/hostels complexes. When final cost estimates are made, adjustments in number of schools will be made as necessary, to stay within the total funds obligated.

2/ Even this number of schools is not firm, because final cost estimates were not made before the signing of the project agreement.

The project purpose is, therefore, contingent on final cost estimates to be used under the FAR procedure; and the rationale supporting the project has subtly changed. In the beginning the idea was to help finance the first year targets of the GOA plan; the idea now is to finance 85 percent of the estimated direct costs of school complexes up to a total of $450,000. The number of schools financed -- and the project purpose -- have become directly dependent on FAR cost estimates.

There is a possibility that similar changes will be made in the Central Helmand Drainage project. According to the project paper, the output indicators and targets include the construction of 50 kilometers of main drains. These are also part of the Phase I status indicators of the achievement of project purpose. This is carried forward to the project agreement which has as one of its specific project objectives the completion of 50 kilometers of main drains and 70 kilometers of farm drains by September 1976. All this is contingent on FAR financing at the rate of 70 percent of the estimated direct costs of construction of drains. The project agreement states that:

> In the event that cost estimates indicate that more or less than 120 kilometers of drains can be constructed with funds provided by USAID and HAVA, the <u>number of kilometers will be changed by amendment to this agreement.</u>

The same situation occurs in the Rural Works project. According to the project agreement, "the Rural Development Department (RDD) and USAID agreed that the first purpose is to construct 40 land improvement projects, 13 bridges and 32 kilometers of improved roads by June 30, 1976, for the benefit of rural people in Afghanistan." The USAID agrees to finance 75 percent of the agreed estimated costs of the construction, but "the final number will depend on the structures which can be constructed with the funds obligated in this agreement."

We think that this is moving away from the new Mission strategy, because a technique, the FAR procedure, is having an undue influence on project purposes. It would be more in consonance with the Mission strategy to define clearly those objective results wanted from a project and then use the FAR technique to achieve those results.

Recommendation No. 1

USAID/A should use the FAR technique as a means of achieving stated project purposes, rather than conforming project purposes to fit expected FAR outputs.

Mission Comments

The Mission strongly objected to this finding and requested that the recommendation be deleted. They stated that, at AID/W's suggestion, the "program goal" in the project paper is now used as the project purpose. That program goal was "to create and demonstrate a systems capacity within the Ministry of Education by 1977 to construct and make operational rural elementary schools in conformance with GOA educational goals." The Mission contended that the project was not specifically tied to the GOA's five-year school-building plan, as the report states. The Mission asserted that there has been no change in the rationale supporting the project; they are trying to help the MOE create the capacity to build schools and make them operational. According to the Mission, the MOE's achievement of this purpose is not contingent on amounts of FAR obligations.

They said that, "the Mission cannot commit itself to a fixed physical target without clearly specifying that AID financing is limited to the amount obligated. Additionally, any attempt to match fixed units of construction with amounts obligated through retroactive or variable adjustments in percentages of estimated costs to be funded by AID would invalidate the FAR procedure." The Mission asserted that it is impractical to reach formal and final agreement on all estimated costs prior to obligation of funds. According to the Mission: "A clear requirement for use of the FAR procedure is identification and evaluation of the overall reasonableness of costs during the project development process in order to assure that project purposes will be achieved within the limitations of funding. The Mission sees no conflict between this requirement and the necessary inclusion in project agreements of provisions for subsequent adjustment of the specific numbers of units of construction to be financed with obligated funds."

The full text of the Mission's comments on this finding is given in Exhibit D.

Response to Mission Comments

It was noted in the project paper that: "If the MOE can achieve the work targets agreed in Phase I within two years it will have developed and demonstrated a systems capacity heretofore unknown in Afghanistan." At AID/W's suggestion that goal of a developed and demonstrated MOE systems capacity is included in the Rural Primary Schools project agreement, as a third-listed purpose, but not as the sole purpose. Work targets, consisting of numbers of construction units, are still included as the first-listed project purpose. However, the work targets were changed, and are no longer those "agreed in Phase I." And in fact, the total number of units to be constructed ultimately is now indeterminate. Perhaps the MOE will still develop and demonstrate the desired systems capacity through construction of different quantities of units. Whatever the level of construction finally decided upon, however, it seems to us that it should be arrived at through analysis, rather than be tied to a fixed percentage under the FAR technique.

In its effort at designing projects that will produce objective results under the new strategy, the Mission has been quantifying desired purposes and outputs -- e.g., 170 elementary schools and 40 teachers' hostels, and 70 kilometers of main drains. It is important, therefore, that specific things be accomplished. There is clearly a significant problem in achieving quantified purposes such as these if, as the Mission notes above, "any attempt to match fixed units of construction with amounts obligated ... would invalidate the Fixed Amount Reimbursement procedure."

2. Host Country Participation

The Afghan Family Guidance Association (AFGA) expansion project is dependent on future GOA participation; however, the GOA has not firmly committed its resources as an assurance of continued AFGA viability.

The Afghan Family Guidance Association has been providing contraceptives and family guidance in Afghanistan since 1968. It is a voluntary organization affiliated with the International Planned Parenthood Federation (IPPF). AID provides contraceptives to AFGA, and has contributed equipment, participant training and advisory services in the past. But otherwise, AFGA has been almost exclusively funded by IPPF until 1975.

In December 1974, the Mission submitted a project paper to assist in the expansion of AFGA clinics from 19 to 35. The project paper was approved in March 1975, and in June 1975 a grant agreement was signed to cover the first year of the expansion. The expansion is expected to take two years, with AID granting $234,000 in FY 1975 and about $217,000 in FY 1976.

We believe this is an exceptionally high-risk endeavor, not because the project as designed cannot be implemented, but because future funding is highly doubtful. The proposed AFGA expansion, using AID funding, more than doubles the number of AFGA clinics, and triples the number of outreach workers. It will more than double AFGA's operating expenses, and there is no firm indication that AFGA will find the additional revenues to offset these expenses.

This danger was pointed out in the project paper financial analysis:

> It is in the area of financial resources that the Government and AFGA are the weakest. This proposal represents a substantial funding increase in AFGA operating expenses (CY 1974 $136,000, CY 1975 $309,000, CY 1976 $360,000). For some period of time this increased yearly operational cost 3/ will need to be borne by outside agencies. The MPH has stated specifically that they expect to put the clinic system under their auspices "sometime in the future."

The grant agreement between AID and AFGA notes that second-year funding is subject to "joint grantor-grantee evaluations of the project's progress in the first year." But the obtaining of additional sources of revenue to support additional operating costs is neither an input nor an indicator of success of the project. Instead, the grant agreement says that USAID may provide assistance to AFGA in subsequent years dependent on several things, one of which is "the demonstrated capability of AFGA to obtain a steadily increasing portion of its resources from within Afghanistan, e.g. from the Government of Afghanistan (GOA), or from other sources."

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3/ Increased yearly operational cost due to clinic expansion: salaries $144,000, transportation subsidy $28,000, information system $8,000 and miscellaneous, $17,000.

We were informed by Mission officials that, although past relations have sometimes been acrimonious, the GOA/AFGA relationship is improving. The hope is that the demonstrated success of the expanded AFGA operation will induce the GOA to gradually begin funding AFGA, at the rate of perhaps 25 percent of additional operating expense the first year, 50 percent the next year, and so on.

The GOA is not committed to this arrangement; nor is there much evidence to indicate that the GOA will be willing to fund a large, expensive AFGA operation. We believe that the Mission should proceed cautiously in continuing to fund the AFGA expansion. There is a strong likelihood of project failure without a firm GOA commitment to participate in funding future AFGA operations. We believe that second-year funding of the AFGA expansion should therefore be dependent on a firm commitment by the GOA to support the project financially.

Recommendation No. 2

> USAID/A should obtain a firm financial commitment from the GOA prior to any grant of additional AID funds to AFGA.

Mission Comments

The Mission agreed in part with this audit recommendation. However, the USAID believes that it is premature to require a financial commitment from the GOA as a condition of the grant for the second year of the project. Firstly, the Mission noted that AFGA is trying to decide an important policy question: whether AFGA should move away from the government, and become a private voluntary agency, or move closer toward integration with the GOA. Secondly, USAID/A feels that an agreement with AFGA (and the GOA) has been reached, and that AFGA assumes a USAID commitment with no more conditions than are included in the existing grant agreement. During the next two years, the Mission expects (1) to achieve the project objectives, (2) AFGA to clarify its future status with the GOA, and (3) AFGA to find resources from within Afghanistan, either by (a) GOA grants, (b) private contributions, (c) charging for its services, or (d) a combination of these.

USAID/A concluded that action should be taken as follows:

"USAID/A should communicate to AFGA, by exchange of official letters or by incorporation of language in the Second Grant Agreement, its intent to place as a condition on any financial assistance after the second year, a financial phasing schedule by which, over an agreed term (three to five years), AFGA would assume full responsibility for the financing required to sustain the expanded AFGA program."

The full text of the Mission's comments on this finding is given in Exhibit D.

<u>Response to Mission Comments</u>

It seems to us that the problem of future funding of AFGA's expanded operation is probably the single most pressing problem on the project. If additional AFGA revenues are not forthcoming, there is the likelihood of ultimate project failure. But AFGA's sources of additional revenues are limited. IPPF has not agreed to fund the expanded operation, and AFGA has had practically no success in obtaining donations from private local contributors in the past. In the project paper, it is noted that there is no hope that AFGA could be supported by internal financing, and that instead,

> the more probable course for the future is that an expanded functioning organization can be established <u>with outside assistance</u> and <u>that the Ministry of Public Health will ultimately assimilate this system</u>, particularly if increasing numbers of the population recognize the value to themselves of the services.

Under these circumstances, AFGA does not have complete control of its finances -- outside assistance is a necessity. The most likely sources of such assistance are the IPPF and/or the GOA. And neither of these has firmly committed resources for future expanded AFGA operations.

In this situation it does not appear premature to require a firm financial commitment from the GOA -- or whoever is expected to give the future assistance -- as a condition for AID's granting the second year of project funding. We believe that financial commitment from some outside source in the near future is essential if the project is to succeed.

The project paper provides $42,000 the first year and $14,000 the second year for the "rent" or "geroew" of expanded clinic facilities. It defines "geroew" as follows:

> Geroew: Farsi word for mortgage. To mortgage (Geroew Koerdan) one's property in Afghanistan is to give up the right to the use of the property for an agreed upon period of time, for an amount of money which must be returned at the end of the agreed upon period interest-free. It is expected that use of most of the new clinic buildings will be by this method.

In other words, the $42,000 already provided by AID plus the $14,000 to be provided next year, will be loaned by AFGA to landlords, and free rent will be taken in lieu of interest. When the rental periods end (usually after two years), the landlords will return the $56,000 to AFGA. AFGA then will be free to use AID's $56,000 as it wishes, although AID would presumably have some degree of temporary influence over the use of the money.

This is apparently a common way of doing business in Afghanistan, but it is an unusual form of AID funding. We believe it would be preferable for AID to fund only normal rent expenses in future agreements.

Recommendation No. 3

USAID/A should discontinue funding "geroew"-type expenses in future agreements.

Mission Comments

"It is correct that this is a common way of doing business in Afghanistan and because this is an Afghan program, USAID should accommodate the Afghan procedure. Secondly, the procedure is also eminently sensible in that AFGA, through the "geroew" procedure, obtains its physical facilities at almost no cost.

"We would agree that in future Grant Agreements, provisions should be made for the use of "geroew" money recovered by AFGA. The Mission requests modification of the audit recommendation accordingly."

Response to Mission Comments

Although the "geroew" procedure is common in Afghanistan, it is by no means the only way of renting property. For example, the Mission does not use this procedure for its compound facilities, nor does it rent employee housing using the "geroew" procedure. Since this procedure entails the deposit of fairly large sums of money, AFGA does not obtain its facilities at almost no cost, as the payment amounts to lost interest income.

Making provisions in future grant agreements for the use of "geroew" money recovered by AFGA should provide adequate control over grant funds. However, this would also add bureaucratic restrictions that could complicate the Mission's project monitoring.

3. Preliminary Planning

Evidence indicates that project implementation has commenced in some cases prior to completion of all relevant planning. An illustration of this is the Central Helmand Drainage project.

According to the Mission's 1975 Development Assistance Plan,

> ... there is a general pressure on both the GOA and our own sides to proceed with projects (before they are ready) in order to keep the "obligation level" up. In the past this has inevitably led to poorly planned projects. Nevertheless the problem of "obligational level" is a real one and the option of waiting until a project is completely ready is often not a viable one ... .

Sometimes this pressure-to-proceed comes from AID/W. This apparently happened in early calendar 1975 on the Central Helmand Drainage project. The purpose of the project is to improve drainage in the Helmand Arghandab Valley project area. During Phase I of the project, 70 kilometers of on-farm drains and 50 kilometers of major drains are to be constructed or improved.

In an effort to begin the project quickly, planning had to be rushed. The initial project paper, dated February 14, 1975, was consequently a product that did not completely please either the Mission or AID/W. After discussion, the project paper was revised and resubmitted on April 8, 1975. The revised project paper, while better than the initial one, still contains several planning ambiguities. This has resulted in a project agreement which leaves some matters to be decided in the future.

The Fixed Amount Reimbursement procedure is to be used on the project, but other than to state that FAR is to be used, neither the project paper nor the project agreement clearly show how the reimbursement is to be carried out. Specific procedures for cost estimations, field observations, certifications and reimbursements were to be stated in later letters of understanding. The first of these, dated June 1975, gave an August 1975 date for agreeing on cost estimation and reimbursement procedures. But the second letter of understanding, dated September 1975, did not contain reimbursement procedures -- leaving the matter for a future letter of understanding. Still unresolved are the procedures to be used for final cost estimations. USAID/A has agreed to use a preliminary estimate of costs for main drains, with the understanding that efforts will be made to better document actual costs during the construction of the first section of main drains. The method to be used in documenting these actual costs was left open. Procedures have not yet been worked out for estimating the cost of farm drains, this being left open for future consideration. Farm drain construction under a revised schedule is to begin in December 1975.

Planning for equipment requirements on the first phase of the project was not complete in September 1975 -- although $250,000 was earmarked for equipment purchases in the project agreement signed in May 1975. The GOA was not certain what its equipment requirements really were in May 1975, so the project paper, the project agreement and the letters of understanding all refer to AID equipment inputs in general terms. Several TDY AID personnel were brought in during the early stages of the project to prepare lists of needed equipment and spare parts; but the lists show little direct relation to the earmarked $250,000. Further, there is no indication that inventories of available GOA equipment were taken. For these reasons, definitive equipment requirements are still not known, and the earmarked $250,000 is an estimate without full justification.

According to the project agreement, the Helmand-Arghandab Valley Authority (HAVA) was supposed to provide ten vehicles for the project. However, as HAVA did not provide the vehicles, the USAID granted-in-aid ten vehicles for the project. Only five of those are being used by HAVA on the project, the other five being used elsewhere. At HAVA's request, the Mission has tentatively agreed to purchase four more vehicles. It now appears, however, that HAVA will eventually need nine more vehicles on the project. All this indicates three things: HAVA did not participate in the project through the provision of vehicles as planned; vehicle requirements were more than planned; and the $250,000 earmarked for equipment was flexible enough to include the unplanned-for financing of vehicles costing $36,000. These Helmand project problems are partly the result of time pressures and weak GOA project participation.

Recommendation No. 4

USAID/A should (a) establish definite reimbursement procedures to be followed prior to starting new segments of construction work, and (b) request the GOA to develop a schedule of its equipment and vehicle requirements.

4. Redesign of Older Projects

Most Mission efforts in the past few months have been directed toward conforming new projects to the new Mission strategy. Several projects that began under the old strategy have already been terminated, or will be in the near future. But it has not been practical to terminate all the old projects, and some have not been revised to conform to the new strategy. We think that the Mission now should place increased emphasis on revising old projects to better meet the criteria of the new strategy, at least in those areas in which it is practical to do so.

We examined two projects which were designed under the old strategy to determine whether there is a possibility of revision to better meet the criteria of the new strategy. Both of the projects are comprised primarily of U.S. consultant teams working under AID contracts and providing advisory technical assistance to Afghan institutions. On one project, the Higher Education-Kabul University project - 121, a University of Nebraska nine-man team is advising Kabul University under contract AID/ASIA-C-1131. On the other, the Afghan Fertilizer Company (AFC) Management Support project - 143, there is a four-man Checchi and Company team advising AFC's Afghan management under contract AID/NESA-C-1159.

The Higher Education project does not meet the criteria of the new strategy. The project purposes and expected outputs are described in general terms; they do not describe objective results that can be unambiguously measured. In its FY 1977 Annual Budget Submission the Mission candidly stated that:

> This project was approved in August 1972 as an "interim" three year project following an 18-year, multi-million dollar effort in the Faculties of Engineering, Agriculture, and Education. The "interim" project had no well defined purposes but the implied broad objectives might include (1) general faculty development through on-site advisory assistance, U.S. participant training and visiting lectureships to the U.S. and (2) assisting the University administration in the preparation of an overall University development plan. Events since the project was approved have made a more precise definition of the project purpose difficult .... While participant training got underway in FY 73, the contractor, the University of Nebraska, was not selected until 1974 with the first three advisors arriving in September 1974 and the main body of advisors (six) arriving in February 1975. Just as there is no universally agreed project purpose, the project outputs are tentative and subject to change ... .

The contractor's services are expected to continue through May 1977 with the total cost of the project now estimated to be $2,921,000 over four years instead of $2,087,000 over three years as approved in 1973. The Mission noted in the Annual Budget Submission that "there are no plans to submit a project paper to revise the scope, duration, or level of financing for the project."

This project started in September 1974; however, the main body of advisors did not arrive until February 1975. As of June 30, 1975, Mission records indicated a piepline of $1,294,000. In other words, almost half of the project effort remains to be done without well defined purposes.

Under a prior AID loan-funded contract, a nine-man Checchi team occupied all of the key AFC management positions. The Checchi team members, presently working under a grant-funded contract, are serving in advisory roles to AFC's Afghan management. Their work consists of day-to-day advisory services to AFC's management in the areas of general management, financial management, marketing, supply and distribution, foreign procurement and in any new AFC activities. Although the Checchi team indicated it is following the implementation plan for the project, individual plans to show specific objectives to be accomplished in the remaining contract period have not been developed.

Both of these projects are scheduled for evaluation during calendar 1975. The scheduled evaluations present good opportunities to more clearly define project objectives. This is needed, in our opinion, because considerable resources still remain to be expended.

Recommendation No. 5

USAID/A should develop more definitive objectives for the Higher Education and Afghan Fertilizer Company projects.

Mission Comments

"The Mission has already devoted considerable man hours in an attempt to define a better Higher Education project purpose whose achievement would be unambiguously observable and, in fact, has improved the identification of project purposes which have been set forth in a revised Logical Framework. The project does not have a high priority in the new legislation and, as a consequence, will receive its last obligation in FY 1976. With respect to AFC there will be a better definition of the project purpose upon the completion of the evaluation during the week of November 24, 1975.

"The Mission requests that Recommendation No. 5 be limited to the Afghan Fertilizer Company project. Further expenditure of limited staff time in attempting to develop still more definitive objectives for the Higher Education Project would be counterproductive. A copy of the revised Logical Framework is enclosed."

Response to Mission Comments

The revised Higher Education project logical framework referred to above by the Mission was prepared in September 1974. In June 1975, in the Mission's FY 1977 Annual Budget Submission quoted in the finding, USAID/A noted that this project has no universally agreed project purpose, and that project outputs are subject to change. Although funds are expected to be obligated in FY 1976, expenditures will continue through FY 1977, as the services of the contractor are to continue through May 1977. Given these conditions, it seems to us that it would be worthwhile to more clearly define what is to be accomplished on the project.

B. EVALUATIONS UNDER THE NEW STRATEGY

The concept of incremental project development is another of the four most important features of the new Mission strategy. It was formulated as a means of avoiding some of the more serious errors of past projects. Under the old strategy, large commitments were made early in project lives, with a tendency to continue project funding even if serious problems were encountered. In accordance with the new concept, new projects for the most part are being implemented in several phases.

Past AID experiences with timing and scheduling of projects in Afghanistan leads us to believe that there is a distinct possibility of delays in the implementation of one or more of the activities scheduled for completion under current phases of the new projects. In fact, there have already been some delays in Rural Works construction. The Central Helmand Drainage project has also incurred some delays which have resulted in the rescheduling of work.

If it happens that not all activities are satisfactorily completed on time under each phase of the various projects, decisions will have to be made about the overlapping of work from one phase to another. Too much merging or commingling of the various phases will diminish the effectiveness of the phased approach. While evaluations are important in any AID project, they become more so under the phased approach. If comprehensive evaluations of each segment are not made, this increases the danger of starting a new phase before the old is completed. The result could be a project that is not phased but has a continuous stream of sub-projects with no beginning or ending between the sub-projects. It is therefore important that each increment be judged before taking the next step. Yet for the past two years the Mission has not had a formal system for evaluating projects.

The position of Mission Evaluation Officer has been vacant for over one year, although numerous attempts have been made by the USAID to fill this position. Five individuals have been nominated by AID/W for the position of Evaluation Officer during the past ten months, and for various reasons, the first four individuals were not assigned to Afghanistan. The fifth individual is currently scheduled to arrive by October 31, 1975, at which time USAID/A intends to prepare a schedule for evaluating all projects.

The Project Appraisal Report (PAR) is a basic AID evaluation tool and is supposed to be prepared annually for each AID project. However, during FY 1975, and through mid-September of this year, only one PAR had been completed. That PAR was prepared in September 1975 for the National Development Training Project-Legal. Mission officials stated that during this period, the Director's Advisory Council meetings served as a means of evaluating projects as a substitute for the PAR. Minutes were kept of the Director's Advisory Council meetings during FY 1974; but we were unable to locate records relating to meetings held during FY 1975 and 1976.

In FY 1975, Phase I of the Rural Works project was completed, and the decision to proceed was made. No written evaluation was prepared on this project to serve as a record for the decision to proceed to Phase II. Mission personnel informed us that an oral evaluation was made, although the only evidence now to support this decision would be the general recollections of the various officials involved. Moreover, as trip reports were not made on all site visits and inspections during Phase I, even this evaluation had to have been based in part on the memories of those who made the trips and inspections.

Mission evaluation procedures should be systematized so that Mission management is kept current on how well projects are moving along. This would also help in deciding when to proceed, or not proceed, from one phase to another under the new strategy.

Recommendation No. 6

USAID/A should institute an evaluation program to provide for periodic formal evaluations of all Mission projects.

C. PROJECT FINANCING UNDER THE NEW STRATEGY

The Mission intends to use the fixed amount reimbursement procedure wherever practical. It offers several unique benefits. According to AID/W:

> The primary distinction between this method and traditional cost reimbursement methods is that reimbursement is not based on actual cost. Rather, the amount of reimbursement is fixed in advance based upon reasonable cost estimates reviewed and approved by A. I. D. Reimbursement is made upon physical completion of a project or sub-project or a quantifiable element within the project. The emphasis in this method is upon reimbursement based on planned outputs rather than inputs.

Currently, three of the new Mission projects employ the FAR procedure: the Rural Works project, the Helmand Valley Drainage project and the Rural Primary Schools project. The FAR procedure is also being considered for other projects, such as the construction of health clinics.

The financing of construction activities through FAR seems to fit the Afghan situation well. It is used on projects that the Afghan support and have helped to design. However, because it is new, some initial problems have begun to develop for which the Mission has not yet found solutions.

1. Cost Estimating Problems

AIDTO Circular A-513 sets forth the policy and criteria for the use of the fixed amount reimbursement method. It describes the types of projects susceptible to the FAR method and the procedures applicable under varying circumstances. Throughout the document it is more or less assumed that reasonable cost estimates will be readily available. The circular states:

> It should be emphasized that a fixed amount reimbursement method described above does not in any way relieve Agency officers of their continuing responsibility

for thorough project analysis; reasonable firm cost estimates; a sound implementation plan and other development project criteria of the Agency both statutory and non-statutory.

Accordingly, the Mission policy also places emphasis on the need for reasonable firm cost estimates.

GOA agencies, as a rule, do not have accounting systems that enable the accumulation of precise actual costs. In the absence of adequate cost accounting systems, estimates prepared by these agencies are necessarily somewhat unreliable. Obtaining reasonable firm cost estimates has thus become a problem.

Because of the difficulties in obtaining and verifying cost estimates, the Mission contracted with an independent accounting firm to accumulate costing data for comparison with GOA estimates. The firm, Coopers and Lybrand, was instructed to (1) prepare materials and labor pricing lists for the various Afghan provinces to be used in checking GOA cost estimates, and (2) provide an independent evaluation of the reasonableness of the Helmand Arghandab Construction Unit's (HACU) use rates schedules, which form the basis for cost estimates on the Central Helmand Drainage project.

Coopers and Lybrand gave their report on construction materials and labor prices to the Mission in August of this year. The report should be helpful in examining some GOA cost estimates, but Coopers and Lybrand were unable to verify the reasonableness of HACU's use rates, and reported as follows:

> We consider it essential that HACU institutes a system of cost accounting which would enable costs to be allocated, not only to projects being carried out, but also to the equipment being used on the projects.
>
> We were unable to reach any conclusion as to the reasonableness or otherwise of the rates proposed for the equipment donated by the Afghan Government.

The lack of adequate cost accounting in GOA agencies is apparently the rule rather than the exception. Hence, in our opinion, it is unlikely that GOA agencies will be able to provide consistently good cost estimates in the foreseeable future.

Because of these circumstances, Mission officials have had some difficulty in verifying the reasonableness of GOA estimates. At the time of our audit, most Mission divisions were involved to some extent in the time-consuming task of checking GOA cost estimates. This problem was exacerbated by the lack of Mission guidelines and procedures to be used in checking GOA estimates. Several different approaches were being taken by the various Mission divisions in examining GOA cost estimates. The approaches were based on different concepts, and the results were often different, depending upon who was doing the analysis. Thus, as a minimum, policy should be set as to who checks the estimates and which procedures are to be followed in the reviewing process.

Recommendation No. 7

USAID/A should establish a policy covering reviews of GOA cost estimates for FAR projects.

2. Applicability of Section 105 of Appropriations Act

Under the Rural Primary Schools project a local contractor has been hired by the Ministry of Education to construct the schools. The Mission did not reserve the right to approve the selection, although under Section 105 of the Appropriations Act, it appears that AID was required to do so. This section requires AID approval of contractors on capital projects.

Under the Rural Primary Schools project, $450,000 is provided to construct about 45 school/hostel complexes by the spring of 1976. A letter of understanding was signed by the USAID and the Ministry of Education in September 1975 which authorized the beginning of construction of the school/hostel complexes on 19 sites. We were informed by Mission officials that the Ministry of Education received only one bid for the construction work. The construction contract was consequently awarded to that private contractor. The Mission, however, did not review the contractor's qualifications, estimates, or other contract details.

Mission officials indicated that they chose not to become involved in contractor selections for two reasons: (1) AID's agreement is with the GOA and there are built-in controls to help ensure quality construction, and (2) the issue of contractor approval by AID was raised and addressed under similar circumstances for a FAR-financed project in Indonesia.

In the Indonesian project, AID authorized a loan for $6.8 million to finance the FAR share of previously-agreed cost estimates of rural works. None of the sub-projects under the loan were to have more than $100,000 AID financing. As a result, AID/W concluded that Section 105 of the Appropriations Act did not apply. It seems to us, however, that the Rural Primary Schools project is different.

The Rural Primary Schools project is to construct schools and hostels over a two year period. The 45 schools and hostels financed through the first project agreement are only the first group, with more to follow. A single local contractor is constructing the first group. This first group, in our interpretation, is a specific, self-contained construction undertaking requiring total AID financing in excess of $100,000. The activity would thus appear to be a capital project and fall within the terms of Section 105.

USAID engineer inspections of the contractor's work disclosed some shoddy workmanship, which was immediately rejected. The Ministry of Education was informed and promptly sent a warning letter to the contractor, noting that USAID/A would not reimburse the Ministry for facilities with faulty construction.

USAID/A has the authority to withhold FAR payments for substandard construction. This should encourage the Ministry of Education to force the contractor to do good work. But if the contractor is incompetent, the entire project could be in jeopardy.

Recommendation No. 8

USAID/A should obtain AID/W guidance regarding the applicability of Section 105 of the Appropriations Act when AID finances a specific group of construction units for more than $100,000 per contract under the FAR procedure.

3. Commodities Having Non-Free World Origin

Significant amounts of some commodities financed under the FAR procedure in Afghanistan have non-free world origin. The Rural Works project, for example, involves the procurement of substantial amounts of structural steel products of Soviet Union origin. About 17 percent of this project's costs in Phase I were for steel imported from the Soviet Union. It is anticipated that the percentage will remain about the same on future phases of the Rural Works project.

The situation is such in Afghanistan that this problem is likely to recur in other projects. The problem of non-free world source goods should accordingly be addressed immediately to preclude future questions or difficulties about the matter.

Recommendation No. 9

USAID/A should obtain AID/W's views about the propriety of financing non-free world origin commodities under FAR.

D. MISSION SUPPORT ACTIVITIES

1. Possible Shortage of Mission Engineers

The USAID engineering staff may not be large enough to keep up with the workload because of the increasing need for engineering monitoring.

Presently, the USAID has an engineering staff of three Americans and three locals to handle all engineering aspects of projects, plus normal day-to-day jobs. However, during the next 12 months, their effective strength will be down to 2 Americans and 3 locals because of home leaves, vacations and AID/W training. At the same time, three new FAR projects are just getting under way, which will place increasing demands on the engineering staff. There have already been indications that the Capital Development Engineering (CDE) staff is having trouble keeping up with the increasing workload. If the CDE staff falls very far behind in reviewing engineering plans, inspecting sites and monitoring construction activities, the FAR projects (as well as the other engineering projects) could be delayed.

According to CDE staff, their manpower for the remainder of calendar 1975 is insufficient, so TDY assistance has been requested. AID/W had not approved the TDY assistance as of September 1975, and it was not known when or if they would. CDE has also requested an increase of one American direct-hire for the engineering staff. The Staffing Pattern Action Request (SPAR) for that new position was being processed in the Mission during our review in September. CDE officials anticipated that the additional direct-hire American, plus TDY assistance from AID/W, would be enough to handle their increased workload.

We are not sure that the CDE staff will be sufficient in the next few months. First, the CDE request for one additional engineer was based on an early 1975 manpower study, which may be out-of-date. Second, the manpower study assumed that three engineering visits per site would be required; however, early indications are that more visits will be required. And third, neither the TDY assistance nor the new direct-hire position have been approved. If they are approved, there may be long delays in arrivals of the employees.

In view of these circumstances, a current review of CDE manpower requirements would seem to be in order to be sure that CDE does not become a bottleneck in the new projects.

Recommendation No. 10

USAID/A should review its current and anticipated engineering staffing needs in light of new demands being put on the staff.

2. Operating Expenses

The Mission FY 1976 budget for operating expenses totals \$3.7 million to support a grant program of \$5.7 million. Operating expenses thus comprise 39 percent of the \$9.4 million program, not including loans and PL 480 activities. These operating expenses, however, do not include six Mission positions now being charged to project expenses which we believe should be charged to operating expenses.

The new Mission strategy emphasizes GOA participation in project planning and implementation. Success depends on the GOA's implementation capacity, and to the extent possible, the FAR procedure is to be employed as an incentive to insure GOA performance. AID/W has given definite guidelines on when it is appropriate to use the FAR method: "This method appears to be particularly appropriate for pursuing our present emphasis upon small projects, upon projects which reach the poor, upon projects planned in a collaborative manner and implemented primarily by the recipient country." These criteria appear to fit most of the new projects being designed under the new strategy. Regarding the reimbursement method, AID/W instructions state:

> The recipient government using its own funds proceeds with implementation of the project. The A.I.D. Mission, with its own staff of consultants, monitors and conducts periodic inspections to satisfy itself that the project is being implemented in accord with agreed specifications in order to facilitate final inspection and acceptance.

Under the FAR method, then, the recipient country's role is that of implementor, and AID's role is that of monitor and inspector for the most part. To a great extent this is the role assumed by the Mission on its FAR projects, especially Rural Works and Rural Primary Schools.

AID/W's instructions regarding the categorization of operating expenses versus project-funded costs state that:

> The broad rule for the differentiation between operating expenses and project-funded expenses is that operating expenses cover salaries and support costs of personnel engaged in the basic operating functions of policy, planning, programming, coordination, monitoring, evaluation, management and support and other general support costs. Project-funded expenses, on the hand, cover substantive program costs, including personnel engaged directly in project implementation, i.e., technical specialists providing technical advisory services to host country institutions as part of a specific project.

In those guidelines it is also noted the categorization of these costs should be based on the official functions of the employee positions, rather than how they are carried out.

The six positions in question are:

1. A general engineering advisor charged to the Rural Works project.

2. A general engineering advisor charged to the Rural Primary Schools project.

3. A population advisor (public health physician) charged to the AFGA Expansion project.

4. A project manager on the Rural Works project, charged to that project.

5. A project manager-education charged to the Rural Primary Schools project.

6. An agricultural engineering advisor charged to the Central Helmand Drinage project.

None of these positions fits the project-funded expense category, and all should be charged to operating expenses, in our opinion. None of the employees maintains an office in a GOA Ministry, and with the exception of the Central Helmand Drainage project advisor, all have their offices in the USAID compound at Kabul. All report directly to USAID division chiefs.

Under the new Mission strategy, particularly when the FAR method is used, most implementation is to be done by the GOA. AID's role consists mostly of planning, programming, coordinating, monitoring and evaluating as well as financing. For the six positions in question, some implementation is probably involved, but we believe that the costs are more appropriately categorized as operating expenses than project costs.

Recommendation No. 11

USAID/A should transfer the salaries and other expenses for the six U.S. technicians from project funding to operating expenses.

Mission Comments

"The Mission agrees that in an ideal situation the FAR procedure should place full responsibility for project implementation on the recipient borrower or grantee. As a practical matter, this total reliance is simply not possible in Afghanistan. Design and construction work is performed here by organizations and institutions which require substantial technical assistance to satisfactorily undertake and implement projects which are currently being financed by AID. As a consequence, we are using the FAR procedure to achieve improved project performance but with the understanding that AID direct hire technicians must assist in the implementation effort. Therefore, the assumption that technicians should not be charged to projects with FAR components does not apply to AID projects in this country. The technicians identified in the report are or will be directly engaged in project implementation. Their work involves cooperative efforts with GOA personnel in government offices and in the field. The Mission has given considerable attention to the propriety of project funding these technicians within guidelines provided by AID/W MOB instructions. We are convinced that these positions are properly financed under projects and do not agree with the opinion expressed in the draft report. The Mission requests that Recommendation No. 11 be deleted."

Response to Mission Comments

As was noted in the finding, in our opinion none of the positions fits the project-funded expense category, because they do not primarily involve project implementation. The two general engineering advisors are engaged primarily in reviewing drawings and plans, project monitoring, site inspecting, giving engineering advice and counsel, and performing related engineering duties. They currently spend considerable amounts of their time on the projects to which they are being charged, but the division policy is that engineering assignments are to be exchanged freely among projects in accordance with manpower requirements. The latest SPAR's (Staffing Pattern Action Request) for these two positions are written in very general terms, with neither being assigned to any particular project.

The population advisor is deputy chief of the division and currently devotes roughly half of his time to the AFGA project, we were informed. The remainder of his time is spent on the Mission's various on-going population/health projects and related duties. The SPAR for this position lists the incumbent as a project manager, but not for the AFGA project. Instead, he is designated as project manager for the low-cost family health project, a new project being designed at the time of the audit. Finally, it should be noted that AFGA is a voluntary organization anyway, mainly funded by the International Planned Parenthood Federation, and is an implementing organization itself.

The latest available SPAR for the Helmand Drainage project advisor position has not been updated, and does not include functions relating to the Helmand Drainage project. But the project paper and the project agreement indicate to us that the AID project manager will be mainly planning, overseeing, monitoring, coordinating, and evaluating the project, rather than implementing. It appears that implementing will be done by contractors and PASA personnel and by HAVA. Regarding FAR-financed construction activities on the project, the Mission noted in the cover letter for the revised project paper on the Central Helmand Drainage project that:

> We feel it is essential to avoid having Americans do the work. In the revised paper we have downgraded the responsibility of American technicians in the construction process, restricting their role to monitoring. This reduces the number of technicians. The involvement in the first paper was overdone.

These situations do not appear to fit AID/W's criteria for project-funded costs. Accordingly, we believe that the recommendation is valid.

FOLLOW-UP ON PRIOR AUDITS

The AAG/NE issued nine audit reports covering various program activities in Afghanistan during FY 1975. All recommendations for Mission actions have been closed.

SCOPE OF EXAMINATION

The AAG/NE has performed an audit of the USAID/A program to evaluate the workability of the new strategy and to ascertain any potential problems which could adversely affect its implementation.

The examination was performed in accordance with generally established auditing practices and included such tests of records and discussions as were considered necessary.

The findings contained in this report were reviewed by USAID/A officials and their comments were given due consideration prior to the issuance of this report.

EXHIBIT A

ACTIVE PROJECTS OBLIGATIONS AND DISBURSEMENTS FROM INCEPTION (FY - 1952) THRU FY 1975 AS OF JUNE 30, 1975 (In Dollars)

Project Number		Obligations	Disbursements
029	Financial Administration Improvement (Revenue)	1,264,992	1,026,693
092	Agriculture Education	6,178,522	6,150,462
110	Population/Family Planning	5,560,881	3,852,845
121	Higher Education Kabul University	1,893,708	599,969
123	National Development Training	1,294,160	826,323
131	Rural Works	600,000	44,483
135	Project Development and Support	44,000	33,781
136	Reg. Elec. Kajakai Serv. Area Power	350,000	-
139	AFGA Clinic Expansion	246,200	-
142	Rural Primary Schools	475,782	-
143	AFC Management Support	372,833	-
145	HAVA Soil and Water Survey	50,000	-
146	Central Helmand Drainage	679,167	-
		19,010,245	12,534,556

SUMMARY OF ACTIVE DOLLAR LOANS
JUNE 30, 1975

Loan No.	Borrower	Purpose	Agreement Amount	Committed Amount	Cum. As of 6/30/75 1/
306-H-012	Government of Afghanistan	H.A.C.U. Equipment	$ 4,189,843	$ 4,189,684	$ 3,866,824
306-H-013	Government of Afghanistan	Kajakai Hydroelectric	12,000,000	12,000,000	11,385,381
306-H-013(A)	Government of Afghanistan	Kajakai Hydroelectric	3,000,000	1,822,639	1,749,996
306-W-018	Government of Afghanistan	Kajakai Hydroelectric	7,500,000	7,500,000	1,002,067
306-W-018(A)	Government of Afghanistan	Kajakai Hydroelectric	2,000,000	657,000	-
306-H-017	Government of Afghanistan	Afghanistan Fertilizer	19,500,000	19,500,000	19,192,707
*306-H-019	Government of Afghanistan	Afghanistan Fertilizer	8,000,000	-	-
			$56,189,843	$45,669,323	$37,196,975

* Dated August 13, 1975.

1/ Disbursements as reported by AID/W through June 30, 1975.

EXHIBIT C

SUMMARY PROJECT BUDGET TABLES
FY 1976

		($ 000's)
Ongoing Grant Projects		
131	Rural Works (Phase I)	718
146	Central Helmand Drainage (Phase I)	324
142	Rural Primary Schools (Phase I)	597
139	AFGA Clinic Expansion	286
091	Curriculum and Textbooks	810
145	HAV Soil and Water Survey (Phase I)	155
121	Higher Education	1,010
143	AFC Management Support	349
123	National Development Training	245
	Sub-Totals	4,494
New Grant Projects		
144	Basic Health Services (Phase I)	1,201
Grant Totals		5,695
Development Loans		
	Central Helmand Drainage (Phase II)	6,500
Totals - Grants and Loans		12,195
PL 480 Title I		
	5,000 MT vegetable oil (@ $551.16/MT)	2,756
Grand Total		14,951

TEXT OF MISSION COMMENTS ON REPORT FINDINGS A.1 AND A.2

Finding A.1 - Objective Results

Page 5 (second paragraph) "The idea, then, was to help finance the first-year targets of the GOA plan, and the stated project purpose followed that idea." (Underlining added)
This statement is factually incorrect. The PP project purposes were to (1) "construct and make operational 170 rural elementary schools and 40 teachers' hostels by March 1977;" and (2) "accelerate the pace with which rural females are provided primary educational opportunity." AID/W objected to this statement of the project purpose. They suggested that we use the "program goal" in the project paper as the project purpose. The program goal was "to create and demonstrate a systems capacity within the Ministry of Education by 1977 to construct and make operational rural elementary schools in conformance with GOA educational goals."

Our project was not specifically tied to the GOA's five-year school-building plan. In fact, the converse is the case. The PP specifically dissociates the USAID from this plan by saying that we will attempt to help them build the schools in the first year of their plan in two years. As indicated in the program goal statement, USAID was trying to create the systems capacity to build schools and make them operational.

Page 4 (third paragraph) "... to reduce the number of schools to be constructed under the project appears to be a major change in the project purpose."

There are good reasons why we changed the number of schools to be built under Phase I. Most importantly, the GOA decreed an Educational Reform in February 1975. Under this reform, elementary education was expanded from six to eight years. As one consequence the three-graded primary schools (included in the original Project Paper) was scrapped from the MOE's plans. Another consequence was that the designs for the former six-room elementary schools had to be changed to make space for eight classrooms. The corollary was an increase in cost.

TEXT OF MISSION COMMENTS ON REPORT FINDINGS A.1 AND A.2

Finding A.1 - Objective Results

Page 6 (first paragraph) "The project purpose is, therefore, contingent on the final cost estimates to be used under the FAR procedure; and the rationale supporting the project has subtly changed."

There has been no change in the rationale supporting the project nor in the general purpose; we are trying to help them create the capacity to build schools and make them operational. Whether or not the MOE achieves this purpose is not contingent upon the amount of money we obligate for FAR. MOE is now building what it thinks it needs in Parwan Province; their plans have not been limited by the amount of money. The length of the construction season, the contract with the builders, etc. are more important variables.

Page 6 (middle) "... The number of kilometers will be changed by amendment to the agreement." And (next to last paragraph) "... the final number will depend on the structures which can be constructed with the funds obligated in this agreement."

These provisions are included in project agreements to permit nominal adjustments in the number of units to be constructed with obligated funds. The Mission cannot commit itself to a fixed physical target without clearly specifying that AID financing is limited to the amount obligated. Additionally, any attempt to match fixed units of construction with amounts obligated through retroactive or variable adjustments in percentages of estimated cost to be funded by AID would invalidate the Fixed Amount Reimbursement procedure. Finally, it is impractical to reach formal and final agreement on all estimated costs prior to obligation of funds because design work, final identification of sub-projects and other actions to be performed during the course of project implementation require concurrent preparation or revision of cost estimates. A clear requirement for use of the FAR procedure is identification and evaluation of the overall reasonableness of costs during the project development process in order

TEXT OF MISSION COMMENTS ON REPORT FINDINGS A.1 AND A.2

Finding A.1 - Objective Results

to assure that project purposes will be achieved within the limitations of funding. The Mission sees no conflict between this requirement and the necessary inclusion in project agreements of provisions for subsequent adjustment of the specific numbers of units of construction to be financed with obligated funds.

Page 7. Recommendation No. 1

As pointed out above, the Mission is using FAR as a performance incentive to achieve certain purposes, not as an end in itself. The Mission requests deletion of this recommendation.

Finding A.2 - Host Country Participation

Page 9 (second paragraph) It is correct that "future funding is doubtful" if "doubtful" is being used in a neutral, denotative sense, i.e., "not yet known." USAID, as the auditors point out, recognized this and was frank in stating the problem both in the AID/W - approved Project Paper and in the USAID/AFGA Grant Agreement.

Page 10. Recommendation No. 2

USAID/A agrees in part with the audit recommendation, and again the record is clear that USAID/A has intended from the beginning to obtain from AFGA a firm commitment to phase in resources (GOA or private Afghan contributions) so that the dependency upon donor assistance will end in the foreseeable future.

It seems to USAID/A, however, that an audit recommendations which requires a financial commitment from the GOA as a condition of the grant for the second year of the project is premature.

TEXT OF MISSION COMMENTS ON REPORT FINDINGS A.1 AND A.2

Finding A.2 - Host Country Participation

Firstly, there is before AFGA a singularly important policy question, which is: Should AFGA endeavor to move further away from government and become a private, voluntary agency or should AFGA move toward closer integration with the Government of Afghanistan. The other major donor, IPPF, has made up its mind on this issue and uses its influence to direct AFGA to remain private and move further away from government. USAID feels it is too soon to make a firm decision on this issue; we can see merit in either course of action by AFGA. Also, USAID has, in fact, had only five months experience with the USAID/AFGA project.

USAID/A feels an agreement with AFGA (and the GOA) has been reached in good faith and that AFGA assumes a USAID commitment to finance, with no more conditions than are in the present Grant Agreement, the AFGA expansion project for a period of two years. During these two years: (1) we expect to achieve the objectives of the project; (2) we expect AFGA to clarify its future status with the GOA; and (3) we expect AFGA to find resources from within Afghanistan, either by (a) GOA grants, (b) private contributions, (c) charging for its services, or (d) a combination of these.

The Mission has concluded that action should be taken as follows:

"USAID/A should communicate to AFGA, by exchange of official letters or by incorporation of language in the Second Grant Agreement, its intent to place as a condition on any financial assistance after the second year, a financial phasing schedule by which, over an agreed term (three to five years), AFGA would assume full responsibility for the financing required to sustain the expanded AFGA program."

This action is consistent with all formal and informal prior agreements and, in our judgment, will better serve the intent of the audit recommendation. The Mission requests modification of the audit recommendation to reflect the Mission's suggested action.

LIST OF RECOMMENDATIONS

LIST OF RECOMMENDATIONS

LIST OF REPORT RECIPIENTS

USAID/Afghanistan	
Director	6
AID/W	
Auditor General, Office of Audit (AG/AUD)	9
Auditor General, Office of Operations Appraisal Staff (AG/OAS)	1
Assistant Administrator/Near East (AA/NE)	2
Office of Near Eastern/North African Affairs (Afghanistan Desk)	1
Office of Development Planning (NE/DP)	1
Office of Capital Development (NE/CD)	1
Office of Technical Support (NE/TS)	1
Office of Development Program Review and Evaluation (PRC/DPRE)	1
Office of Population (PHA/POP)	1
Bureau for Program and Management Services:	
Office of Financial Management (SER/FM)	1
Office of Engineering (SER/ENGR)	1
OTHER	
Inspector General of Foreign Assistance (IGA/W)	1
U.S. General Accounting Office (GAO)/Washington	1
Inspections and Investigations Staff (IIS)/Karachi	1