

UNITED STATES GOVERNMENT

Memorandum

TO : Ms. Priscilla M. Boughton, Director
USAID/India

FROM : E. H. Gustman *EH*
Regional Inspector General for Audit - Karachi

SUBJECT: Memorandum Audit Report No. 5-386-81-9
Gujarat Medium Irrigation Project
AID Loan No. 386-T-223

DATE: April 27, 1981

BACKGROUND

The United States AID program in India was terminated in 1971 after the Indo-Pakistan war and resumed again in 1978. When the program was resumed, AID moved quickly to fund projects that were well into the advanced stages of design. The World Bank with the Government of Gujarat (GOG) had designed a \$170 million irrigation project to which each was to contribute \$85 million. At the request of the Government of India (GOI), AID agreed to make a \$30 million loan for the project and used the World Bank's feasibility studies and analyses to prepare a Project Paper. With AID's participation and increased GOG funding the project increased to an estimated total of \$215 million.

Gujarat state is located in the west coast of India and covers 196,000 square kilometers and has a population of about 34 million people. Agriculture is the most important economic activity, providing 40 percent of the state's income and employing 65 percent of the labor force. Agricultural productivity is low because the rainfall is limited primarily to the June - September monsoon season.

The \$30 million AID loan agreement was signed on August 26, 1978 and has a planned project assistance completion date of June 30, 1983. The purpose of the project was to provide irrigation facilities for increasing food production and reducing the effects of drought in Gujarat by accelerating, during a five year period, the pace of Gujarat's long-term medium irrigation (MIP) development program. AID and the World Bank agreed to reimburse the GOG for the local costs, in proportion to

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their contribution to the total project, of constructing 13 new irrigation schemes and modernizing (upgrading to the same standards applied to new MIP's) 20 existing schemes. The project also included a network of automatic river gauging stations, agricultural plans and demonstration plots for each MIP, baseline socio-economic studies and evaluation studies. At the end of the five year loan period it was planned that an additional 149,000 hectares would be irrigated and that food and oilseed production would increase by about 175,000 tons annually.

The World Bank is the major donor and was assigned primary responsibility for monitoring and reviewing project implementation. The GOG was responsible for planning, implementing, operating and maintaining the MIP's, but all MIP's approved for project funding were required to meet the technical and economic criteria specified in the loan agreement. For each proposed MIP the GOG prepared a project appraisal report for review and approval by the Appraisal Committee (AC) of the Central Water Commission (CWC), the GOI's highest technical authority for water resources development. The AC was authorized to approve MIP's costing less than \$8.1 million; MIP's costing more than that amount required the prior approval of the World Bank and AID.

We conducted this audit to determine if the project was being implemented on schedule and in compliance with terms of the loan agreement and AID policies and regulations. Our review was performed between October and December 1980 and covered the period March 31, 1979 through October 31, 1980. Our audit was conducted in accordance with generally accepted auditing standards and included such tests of records and documents considered necessary. We also held discussions with USAID/India and GOG officials and visited five project sites. A draft copy of this report was reviewed with USAID/India officials and their comments were considered in preparation of this final report.

Apart from the AID and World Bank loans, the monetary amounts shown in this report were originally expressed in Indian rupees. For the readers' convenience we have shown these monetary amounts in U.S. dollars using the conversion rate \$1.00 = 8.60 Indian rupees. This rate is not fixed and has fluctuated during the life of the project.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. PROJECT PROGRESS AND MONITORING

Only 14 MIP's have been approved for project funding and most of these are behind schedule. Unless immediate action is taken to remove the identified major constraints the project will probably not be completed by the June 30, 1983, planned completion date.

The GOG and the AC have delayed approving MIP's for implementation. As of December 1980 the AC had approved only 14 MIP's (3 new and 11 ongoing) for financing under the project. Documents for 12 additional projects had been sent to the AC between September 1979 and November 1980 but had not been approved, and documents for an additional 4 MIP's were being prepared for submission by January 1981. Only 30 MIP's (23 new or ongoing and 7 modernization) instead of the original 33 will now be funded by the project, but the area to be irrigated by the 30 MIP's is significantly greater than was planned for the larger number of projects in the Project Paper.

GOG officials told us that 8 of the 14 approved projects were 12 percent to 38 percent behind the planned implementation schedule. This was reflected in project disbursements; only \$2.9 million of the AID loan had been disbursed as of September 30, 1980, against a projected \$12 million. Much of the disbursement delay has resulted from slow construction progress, but some is attributable to planned disbursements which were unrealistically high during the early years of the project. USAID/India officials intend to revise the project disbursement schedule and use the new schedule when monitoring disbursements during the remaining life of the project.

The GOG has delayed in reviewing and approving tenders, awarding construction contracts and making land acquisitions. Progress on some MIP's has been further delayed by disputes and recently the GOG has had problems getting responses to canal tenders from contractors because of the remote locations of the project sites and the limited financial capability of some contractors.

All the 14 approved MIP's have reported a shortage of personnel and this problem was noted in the World Bank's Supervision Summary Report of May 1980. The GOG has since filled about 50 percent of the staff vacancies, but recent progress reports show that the 14 approved MIP's still had only about 700 employees against a planned level of over 1,200. Although the GOG has increased the budget allocations for the 30 sub-projects by 37 percent, and has approved the documentation required to increase the staffing, recruiting has been slow and the sub-projects remain understaffed.

The other project elements are showing satisfactory progress. For example, river gauging stations have been established at 23 of the 30 planned MIP's, socio-economic studies have been completed in 24 MIP areas, and provisions have been made for the demonstration farms which are to be started before the MIP's become operational.

USAID/India monitoring activities were limited during the early stages of project implementation. As the larger donor, the World Bank has major responsibility for monitoring and reviewing project implementation but USAID/India was required to participate with their technicians in periodic review missions. USAID/India personnel did make field trips to project sites but we found little evidence of action to correct problems noted during the field trips or in the World Bank and CWC reports.

USAID/India increased their monitoring activities during the last year and assigned an engineer as the Project Officer. He has since prepared a mid-term Status Report, dated December 1980, which was used as the Project Evaluation Summary. The report cited delays in project implementation and discussed technical matters concerning on-going construction. In January 1981 the USAID Director transmitted the report to the GOG and requested accelerated project implementation action. The Director pointed out the staff shortages and administrative delays as areas calling for particular attention. Nevertheless, we believe the USAID will have to maintain a high level of monitoring to prevent the bureaucratic inertia and poor coordination between GOI agencies that has caused the current delays.

B. CONTRACT APPROVAL

The GOG has not submitted project contracts to the World Bank and USAID/India for approval as required by the loan agreements. The World Bank loan agreement requires the GOG to submit contracts estimated to cost \$750,000 or more to the Bank for approval before the contracts are awarded. For contracts estimated to cost less than \$750,000, the GOG only provides the Bank with copies of the executed contracts along with an analysis of the bids received and the recommendations for contract award. AID accepted the Bank's contract approval procedures, but added a provision for the Bank to make available to AID any contracts requiring the Bank's prior approval.

We reviewed the 41 contracts that had been executed for the approved sub-projects and found 16 contracts which were estimated to cost over \$750,000 that had not been submitted to the World Bank for prior approval. Project officials told us that these contracts had not been submitted to the World Bank because the contracts were awarded either before the August 26, 1978, effective date of the project or before the MIP's had been approved by the AC for AID and World Bank financing. Nevertheless, before the World Bank and AID made disbursements against the contracts, the World Bank had reviewed the contracts to ensure that they conformed to project requirements. The Bank, however, had not furnished the contracts to USAID/India for review and USAID/India had not questioned them because they thought the project had no contracts costing as much as \$750,000.

All the MIP's intended for funding under this project have now been identified. In order to meet the project requirements for contract approval, the World Bank has advised the GOG to submit for approval the tenders for all future contracts estimated to cost \$750,000 or more and has arranged to make the documents available for USAID/India review. In view of these actions to comply with the project contract approval requirements we are not making a recommendation.

C. LOAN DISBURSEMENTS

In our review of project disbursements, we found that payments included advances to contractors. Neither USAID/India or the World Bank had a record of the advances or procedures to ensure offsets against future billings.

At four of the five projects visited we found that advances totalling \$353,000 had been made to contractors. The GOG had claimed the advances as project disbursements and under project procedures 47 percent or \$166,000 was reimbursed by the World Bank and 17 percent or \$60,000 was reimbursed by AID. These advances were not recorded in the accounting records of either the World Bank or USAID/India. According to the terms of the project, USAID/India reimbursements to the GOG were to be based on the reimbursements made by the World Bank and the Bank does not keep a record of advances but monitors advances by reviewing the records in the GOG project accounts. The World Bank uses the same procedures in monitoring about 40 other projects in India.

When we raised the question of control over advances USAID/India contacted the World Bank and made arrangements to have the GOG project accountants prepare a quarterly report giving the status of advances to contractors. Both the World Bank and USAID/India project officials have agreed to verify the accuracy of the report during their periodic monitoring visits. USAID/India also stated that they would ensure that reimbursements do not include charges which have been adjusted against advances and that in the final reimbursement for each project all outstanding advances will be adjusted against project charges. In view of these measures to control advances we are not making a recommendation.

D. PROJECT MARKING

The loan agreement requires the GOG to display signboards at each of the major project sites indicating the United States' participation in the project. The required sign boards were not displayed at any of the five construction sites we visited. GOG officials acknowledged that the sign boards were not displayed but said that instructions would be issued for complying with the project requirement.

Recommendation No. 1

The Director, USAID/India should obtain written confirmation from the GOG that the required signboards have been placed at all major project sites.

E. OTHER MATTERS

The GOG's compliance with reporting requirements of the loan agreement was generally satisfactory. We noted, however, that the GOG's internal expenditure reports were inaccurate and the figures did not tally from one report to the next. We also found differences in the quarterly schedule of expenditures which is prepared for the CWC. We have not made a recommendation concerning these reports but suggest that the Project Officer call these discrepancies to the attention of the appropriate GOG officials.

Finally, we noted that loan disbursements included charges for construction work at Watrak carried out by the GOG's force account. The loan agreement authorizes force account rather than contractor services only when dam safety or quality are overriding considerations, or the contractors do not have the required machinery or qualified contractors are not available. Force account work, in any event, is not to exceed 10 percent of total project costs. GOG officials at Watrak told us that they had used the force account on the sub-project, which was begun in the early 1970s, when they had idle machinery. The total cost of force account charges from the project effective date through March 1980 was \$251,000. Of this, 47 percent (\$118,000) was reimbursed from the World Bank loan and 17 percent (\$43,000) from the AID loan. Although this work was not authorized by the loan agreement we have taken no exception because the practice was started before the project's effective date. We suggest, however, that the Project Officer remind the appropriate project officials of the loan agreement restrictions relating to the financing of force account work.

LIST OF REPORT RECIPIENTS

USAID/India

Director 5

AID/W

Deputy Administrator (DA/AID) 1

Bureau For Asia

Assistant Administrator (AA/ASIA) 5

Office of Bangladesh and India Affairs (ASIA/BI) 1

Audit Liaison Officer 1

Bureau For Development Support

Assistant Administrator (AA/DS) 1

Office of Development Information and Utilization (DS/DIU) 4

Bureau For Program and Policy Coordination

Office of Evaluation (PPC/E) 1

Office of Legislative Affairs (AA/LEG) 1

Office of General Counsel (GC) 1

Office of Financial Management (FM) 1

IDCA Legislative and Public Affairs Office 1

Office of Inspector General:

Inspector General (IG) 1

Assistant Inspector General for Investigations and
Inspections (AIG/II) 1

Communications and Records Office (IG/EMS/C&R) 12

Policy, Plans and Programs (IG/PPP) 1

Regional Inspector General for Audit:

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