CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
DAMASCUS WATER SUPPLY I	276-J-008	USAID/DAMASCUS
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 80-3	
	☒ REGULAR EVALUATION ☐ SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 75	B. Final Obligation Expected FY 75	C. Final Input Delivery FY 84	A. Total $ 94.7 million	From (month/yr.) 6/75
			B. U.S. $ 48.0 million	To (month/yr.) 8/80
				Date of Evaluation Review

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Allocation of foreign exchange to finance procurement of pipe, fittings, and equipment for project (AID will reimburse SARG over the period of the loan.)	Minister of State for Plan; Minister of Finance/SARG	9/30/80
2. All AID actions/decisions depend on above.		Timing depends on 1. above.
A. Approval of IFB's for pipe, fittings, etc.	M.G.Wedeman	"
B. Approval of procurement awards made by SARG construction company (GECOP).	M.G.Wedeman	"
C. Approval of AID reimbursement to SARG for completed construction.	M.G.Wedeman	As GECOP completes work and EPEC and consultant approve it.

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- ☐ Project Paper
- ☐ Financial Plan
- ☐ Logical Framework
- ☐ Project Agreement
- ☐ Implementation Plan e.g., CPI Network
- ☐ PIO/T
- ☐ PIO/C
- ☐ PIO/P
- ☐ Other (Specify)
- ☐ Other (Specify)

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. ☐ Continue Project Without Change
- B. ☐ Change Project Design and/or ☐ Change Implementation Plan
- C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

9/23/80

Davy H. McCall, Capital Resources Development Officer, USAID/Damascus

Rida Mourtada, Director, Etablissement Public des Eaux de Figeh (EPEF)(SARG)

12. Mission/AID/W Office Director Approval

Signature: M.G. Wedeman

Typed Name: Miles G. Wedeman, Director

Date: 23 September 1980

AID 1330-15 (3-78)

13. SUMMARY

The project consists of construction of a domestic water supply distribution system for that part of the city of Damascus that lies outside the old quarter of Damascus. The project includes procurement and delivery to Damascus of all materials required for the distribution system, and the installation of these materials in accordance with construction drawings already prepared. The project was originally for supply and installation of approximately 370 km. of ductile cast-iron water mains (increased to 690 km. when final designs were made), as well as valves, fittings, fire hydrants, adaptors, PVC service connection piping and other materials required.

This project had fallen seriously behind schedule (14 months) by the end of CY 1976, when, after unexpectedly prolonged negotiations for a consultant's contract, followed by delays in SARG approval of that contract, the SARG High Economic Committee approved the contract with Gilbert Associates of Reading, Pa.

Gilbert needed over a year to review the French consultant's design for the project and prepare the request for pipe quotations, which was issued in May, 1978.

Further delays were caused by inconclusive results from EPEF's call for pipe quotations. Despite strongly voiced USAID misgivings on EPEF's proposed procedures, EPEF had asked for pipe and fittings quotations prior to the issuance of the IFB for the construction contract. Using these quotations, EPEF itself planned to select the pipe supplier and then direct the pre-qualified construction contractors to use quotations from the chosen pipe supplier in their offices. EPEF insisted on selecting the pipe supplier itself because it felt that it had been grossly overcharged for pipe in the urgent phase of the pipe-laying project already under way in the old City of Damascus. EPEF suspected that the French contractor and pipe supplier, who was selected by the contractor, reportedly related companies, had combined in overcharging for the pipe and fittings.

When EPEF opened the pipe quotations in August 1978, they compared them with international prices (as provided in Section 4.04 of the Loan Agreement) and found that U.S. prices were about 10-12% higher than Japanese/European prices. EPEF proposed to "consult" with the lowest offeror, regarding its price. Since this appeared to mean bargaining with a supplier and would be counter to AID regulations, USAID did not permit it. At AID urging, EPEF called in the consultant to evaluate the offers. Although EPEF originally found two offers technically responsive, the consultant found the quotations for fittings unresponsive since the items proposed were of a heavier weight, based on ANSO standards, as compared to ISO standards, which EPEF had requested. Consequently, EPEF, with AID agreement, discarded these pipe quotations and after all included the pipe procurement in the construction contract, the normal U.S. practice. After postponements occasioned by problems with the pipe quotation, the IFB was finally issued in December 1978, two years and nine months later than originally scheduled.

Three U.S. firms responded: the lowest offer, from the joint venture Harbert-Howard (HH), totalled $131,831,785 (U.S. Dollar and Local Currency cost). The two other offers were $144,443,631 from Wallace; and $143,554,758 from Ballenger-Atassi (a U.S.-Syrian joint venture). The consultant, Gilbert, had estimated the cost in May 1978 at $77,814,000. In February 1979, Gilbert, in consultation with EPEF, reduced the estimate by $9,500,000 to take into account the actual U.S. pipe price quotations EPEF had received in August 1978.

All of these bids were thought to be excessive by SARG, USAID, and Gilbert. While SARG and AID considered what to do next, H-H, the lowest bidder, asked EPEF to receive its representative to discuss its offer but not to "negotiate." With enormous lack of enthusiasm, EPEF agreed after USAID's approach on H-H's behalf. (AID/W had strongly supported H-H's requested to "discuss" with EPEF.) H-H met EPEF and offered a voluntary reduction of about $9 million in the dollar portion of its offer. H-H then proposed that it be allowed to sub-contract the installation of the pipe lines to a Syrian public enterprise, the General Company for Water Projects (GECOP). Based on this arrangement, H-H's offer was reduced to $86,657,828, but with a proviso that H-H not be held responsible for the work. H-H originally proposed to obtain insurance against risk of non-performance by GECOP from Lloyd's, but they refused. H-H gained no credit with EPEF by this reduction, however, or by a further $7 million reduction, for SARG found these reductions further evidence of H-H's inflation of its original offer. In the last "offer" H-H withdrew the proviso and said it would be responsible for project completion.

GECOP, without being pre-qualified, had submitted an offer independently, but this was not accepted at the bid opening at the direction of USAID. Although GECOP's bid remained officially unopened, it was known in Damascus that their bid had been about $50 million. By this time the Damascus business community was alive with rumors of collusion between the three U.S. firms, the two highest bidders allegedly submitting only shelter bids to assure three bids (as required by SARG), with H-H to be awarded the contract as low bidder. These rumors were reinforced by the stories of Syrian contractors, including GECOP, who had negotiated unsuccessfully to form joint ventures with the three American contractors. The Syrian contractors maintained that they had protested against the excessive prices of the U.S. firms without success. All except Atassi broke off negotiations with the U.S. firms. In this climate, the SARG officials became even more skeptical of the H-H bid. In terms of cold figures and H-H's eventual informal offer of $69 million, EPEF could not see why H-H should receive $19 million for handling procurement and construction management.

Meanwhile, USAID and AID/W were still debating as to what course to follow, i.e., rebid, negotiate bids, U.S. firm management contract, etc. After several weeks consultation between SARG, USAID and AID/W, and on the recommendation of Gilbert, SARG, with USAID concurrence, rejected all offers as excessive. Shortly thereafter, the Ministry of Plan proposed (on April 1, 1979) that the construction contract be awarded to GECOP, with the AID loan being used to finance imported materials and equipment, the consultant's contract, and "necessary reserves." SARG would have nothing further to do with H-H and did not even consider formally its last offer. USAID then began an intensive investigation of GECOP to determine whether they were qualified to undertake the construction of the General Phase. As part of the USAID review, EPEF and GECOP invested some six weeks of joint effort in answering USAID's questions, translating data on GECOP into English, etc.

USAID reviewed GECOP's qualifications and concluded that GECOP was not qualified to do the work unless it had U.S. technicians working with them to improve their management of the project. This assistance would have been welcomed by both GECOP and EPEF.

In the meantime, H-H and Association of General Contractors (AGC), the American trade association for large construction firms, had stimulated Congressional pressure on AID to award the contract to H-H. This pressure and its frustration was a contributing factor to the prohibition of further AID funds to Syria by Congress.

As a consequence of H-H and AGC pressure, AID felt that it could not finance U.S. management assistance for GECOP. Although neither H-H nor the other rejected firms were really interested in providing such assistance, there remained the possibility that they might make offers on an IFB for such assistance. SARG would likely reject offers from these companies, given the SARG's opinion of the companies' integrity following the consultation bid fiasco and their subsequent construction contracts in Israel. If one of the companies in question were to be low bidder, AID would have had to insist on the contract award which would result in a SARG/USAID confrontation. Thus, USAID found GECOP qualified only if it received U.S. management assistance, but could not finance that assistance because of the possibility that one of the companies might respond, SARG would reject their low responsive offer, and an impasse between SARG and AID would develop, arousing Congressional opposition to the Syria program and even affecting Congressional support for all of the AID program.

As a solution to this potential impasse, USAID proposed to SARG that a modified FAR Reimbursement Plan be applied. While AID accepted the SARG proposal to award the construction contract to GECOP, AID remained much concerned as to GECOP's capacity to complete the project according to construction quality standards acceptable to AID. Thus, AID concluded that it would reimburse for equipment only as GECOP satisfactorily completed the work. Under this plan, USAID would reimburse SARG for construction on the project as it was completed according to agreed plans and standards; USAID's total payment would be limited to the cost of materials and equipment purchased in the U.S. for the project, as well as the A&E consultant's contract. Under this plan, the SARG would have to advance the foreign exchange to procure the pipe from U.S. suppliers. SARG would be reimbursed by USAID on the following basis:

- 30% of the cost of eligible goods and related services upon presentation to USAID of a clean Bill of Lading or other payment documents:

- 18% upon completion and acceptance of the installation of pipe in the 60, 80, and 100 to 150 mm pipe size group;

- 12% upon completion and acceptance of the installation of each km of pipe in the 150, 200, and 250 mm pipe size group;

- 30% for the 300 to 1200 mm pipe size group; and

- 10% on final acceptance of the project by EPEF and the consulting engineer.

The Ministry of Plan accepted in principle this plan on January 1, 1980. USAID wrote an implementation letter (IL) to SARG on March 5, 1980, setting forth in detail the procedures to be followed under the modified FAR system and the changes in project implementation that had resulted from the SARG decision to award the construction to GECOP instead of an American contract. As provided in the Loan Agreement, SARG was to confirm its agreement to these revised procedures by countersigning this IL, but did not do so until June 18, 1980.

During early discussions of FAR in the summer and fall of 1979, USAID had pointed out to the Minister of State for Planning the requirement that SARG undertake procurement with its own foreign exchange. The Minister accepted this additional financial responsibility for SARG, but a new Prime Minister and Planning Minister came into office in February 1980 and the momentum was lost. There followed five months without response from SARG on the IL. A basic difficulty was that EPEF did not have in its budget the foreign exchange necessary for GECOP to open letters of credit for the importation of the materials and equipment. Further, Syrian government activity has stagnated as the regime's attempt to deal with dissatisfaction in the country has been stepped up. This slowdown is occurring in the government generally, even in fields not connected with political unrest. Deteriorating relations between the U.S. and Syria, marked by the decision not to provide additional aid to Syria for FY 80 and FY 81, have undoubtedly also been a factor in the lack of action on the Syria side. The construction contract signed between EPEF and GECOP could not become effective until GECOP was provided with this foreign exchange. EPEF has asked the Ministers of Plan and Finance to make the foreign exchange available, but as of September 15, they had not done so. Consequently, GECOP has not yet started work on the project.

14. EVALUATION METHODOLOGY

This evaluation is intended to monitor progress on the project, and is being done in accordance with the schedule established by USAID. According to the Project Paper (PP), the World Bank Group, having financed the major part of the expansion program, will evaluate the effectiveness of the total program. (See AID Capital Assistance Paper: Syria-Damascus Water Distribution Project, AID DLC/P 2113 of June 18, 1975, para 45.)

This evaluation has been prepared by the USAID Project Manager and reviewed by the Program Officer and Director, It is based on documents in USAID/Damascus files.

15. EXTERNAL FACTORS

There have been no major changes in socio-economic conditions affecting this project. The project has fallen so far behind schedule due to circumstances already present in Syria but unforeseen by the project planners. The centralization in SARG regarding contract awards for consulting services, major commodity procurements, and construction projects, etc., delayed award decisions. Also, the problems encountered by U.S. consulting and construction firms in adjusting to Syrian contract law and practices were not foreseen, nor were the changes in prime ministers and cabinets, each accompanied by a further slowdown in decision-making until the new ministers had familiarized themselves with the situation. Very high prices asked by American firms to offset political uncertainties, as well as differences in contracting practices was only partly foreseen at the outset.

With respect to these unforeseen problems, it must be remembered that this first AID project in Syria was prepared in a few months to meet U.S. diplomatic commitments to begin an AID program in Syria. The U.S. and Syria had had no diplomatic relations for eight years and minimal commercial or economic contact. Many problems have arisen from nearly unavoidable ignorance of Syria by the drafters of the project.

Most of the assumptions on which the project is based remain valid. The other planned water supply expansion program components are virtually completed. People in all ranges of income within reach of the expanded water system will have greater access to potable water when this project is completed. The Damascus City water rates have been raised somewhat at World Bank urging to cover a larger share of the operating costs of the system. Existing and new parts of the system are well-managed by the EPEF staff, which maintains high standards of water purity. The cleanliness of food handling and storage in Damascus remains about as before, although greater efforts have been made by the muhafazat authorities to improve garbage handling. (AID has provided garbage trucks through the CIP.)

An assumption that proved invalid was that U.S. firms would make competitive offers on the construction contract at reasonable prices.

16. INPUTS

While AID is financing supervisory services, so far AID's financing for the construction contract has not been called on, and accordingly the AID inputs have not been delivered as planned. As noted above, the prices of U.S. construction contractors were excessive, and SARG did not award any of them the construction contract. Possible reasons for the firms' excessive offers were:

A. From the Contractor's Viewpoint

1. Relationship with the Contracting Agency: Some U.S. contractors said they expected poor relations with EPEF based on previous experience, e.g., excessive EPEF interference with the consulting engineer, Gilbert, in supervision of work, which would result in the inability of Gilbert to run the project according to normal AID practice.

2. Uncertain Engineering Conditions: The plans did not tell the contractors what they could expect to find under the streets of Damascus. They claimed they were unable to obtain this information from EPEF, the City Sewerage Department, Telephone Agency, or Public Enterprise for Electricity.

3. Penalty Clause: Syrian laws require a penalty clause (liquidated damages) in the amount of 0.1% of the value of the contract, per day, for each day of delay, not to exceed a maximum penalty that will be reached with a delay of 200 days. The contractors felt that the time allowed for construction by EPEF was too short and expected

to pay the maximum penalty or close to it. Even though penalties would only apply on incompleted portions of the contract, the contractors feared they would not be able to obtain promptly EPEF's acceptance of work completed and, therefore, the penalty would be applied on most of the contract.

4. Bank Guarantee: Contractors would be required to cover immediately the total amounts of the Bank's guarantee of their contract if the guarantee were to be called by EPEF. Therefore, the contractors, having limited lines of credit, felt that they must add an amount to the contracts which would provide them necessary cash up front to pay the full amount of the guarantee from their advance payment. Syrian law allows a maximum of 15% advance payment.

B. From SARG's Viewpoint

Excessive profit margins sought by U.S. contractors in a procurement reserved exclusively to them.

17. OUTPUTS

According to the tentative implementation plan in the PP, the construction contractor was to be mobilized by August 31, 1977. Three years later, in September 1980, the construction contractor has still not mobilized. As noted in Section 13 above, implementation began to slip early in the life of the project. EPEF was supposed to have negotiated a contract with an A&E firm by November 30, 1975; this contract was actually approved by the Syrian High Economic Committee in December 1976. The construction bid documents should have been issued by March 15, 1976; they were actually issued in November 1978. Thus, the original completion date of February 28, 1980 has already been passed. Without the construction contract, work on the AID-financed output, construction of the 690 km. of new distribution mains, cannot even be commenced.

Until the construction contractor has mobilized, the completion date cannot be accurately projected. Although EPEF now has a satisfactory contract, its effectiveness is held up pending availability of the foreign exchange required by GECOP to open letters of credit for the pipes, fittings, equipment, etc. Since EPEF would not have had to advance the foreign exchange under the original plan of a construction contract with a U.S. contractor, EPEF did not ask for this foreign exchange in its budget. Under the current modified FAR reimbursement plan, GECOP must open letters of credit (L/Cs) with American equipment suppliers first; thus, it must have foreign exchange to do so. SARG will be reimbursed only as the project is completed.

EPEF has requested the State Planning Commission (SPC) and the Ministry of Finance to provide them with the necessary foreign exchange, but they have not yet done so. The SARG is reportedly suffering from an overall foreign exchange shortage at present, from which EPEF's inability to obtain foreign exchange evidently results.

When AID discussed the modified FAR plan with SARG during the latter part of 1979, AID emphasized that SARG would need to advance the foreign exchange for procurement of equipment and parts. The then Minister of State for Planning accepted this, and evidently felt then that SARG could supply the foreign exchange. In any case, SARG accepted the FAR procedures in principle. The Minister of Plan was replaced early in 1980. Syria's foreign exchange resources have reportedly declined in recent months, leading to the present halt in project execution.

18. PURPOSE

As stated in the PP, the project purpose is very general: sic. "The purpose of the improved system is to avert a serious water shortage in Damascus for all income groups."

The End of Project Status (EOP) will be achieved when:

- The per capita consumption of water plus meter readings show that adequate quantities of water for health and hygiene are being delivered;

- The ratio of population to household water connections has declined; and

- A smaller percentage of the population depends on public taps.

For the reasons explained above construction has not yet commenced on the water supply system extension. Therefore, the project has not yet had any effect on the above indicators.

19. GOAL/SUB-GOAL

The PP states that: "The goal of the expansion program is to avoid an increase in water related illness in the city (Damascus). Success will be indicated by a stable, and, hopefully, decreasing occurrence of water-related illness in all income groups."

Again, since there has been no construction yet, the indicators have registered no progress toward the goal.

The portions of the Damascus Water Supply Expansion Program financed by the World Bank and the Arab Fund have been or are nearly completed. These include: construction of an underground cut-off wall at the principal water source, the Figeh Spring, a 15 km. tunnel to conduct the water through Mt. Kassioun to the western edge of Damascus, and two subterranean reservoirs at the end of the tunnel, replacement of about 160 km. of existing distribution mains located in the old city of Damascus (Urgent Phase).

AID financed enlargement or new construction of nine reservoirs on the outskirts of the city is 75% complete. Additional elements of the Water Supply Expansion Program financed by AID under Loan 276-K-010 are underway, but will not be completed for three or four years. These are:

(1) 4 pumping stations;
(2) procurement of equipment for communications and despatching systems; and
(3) hydrogeological testing to determine the capacity and characteristics of Figeh Spring.

(1) and (2) are at the bidding stage, and the consultant's contract for (3) has been agreed to by EPEF and Gilbert Associates/P.T. Lamoreux. Formal SARG approval of it is in process.

Measurable progress toward the goals cannot be achieved until all principal parts of the expanded water supply system are functioning as an integrated whole. For example, although the construction at the spring and tunnel is complete, more water cannot be delivered to the public until the remainder of water main extensions is completed.

20. BENEFICIARIES

Section 102(d) of the FAA does not apply to the Syria AID program since funds were provided under FAA 903, Middle East Special Requirements Fund.

The principle benefit of the project will be increased potable water for the population of the city of Damascus. Although the beneficiaries' gains are still potential, they are the same people identified in the PP. The present water system expansion program is designed to meet Damascus' needs through the year 2000. It will make possible the installation of more house connections and reduce the number of standpipes. Water rates are being revised in accord with a condition of the World Bank loan. Progressive water rates will be introduced. Lower-priced well-water for gardens, car washing, etc., will be offered.

21. UNPLANNED EFFECTS

Since the project outputs are not yet available, there are no positive effects, only the still unremedied water shortages.

An unplanned and unfortunate side effect of problems with U.S. firms bidding on the contracts has been Syrian disillusionment with U.S. companies, particularly the construction companies that all made excessive offers. Responsible SARG officials are convinced that the U.S. companies were trying to take advantage of what they evaluated as an AID-protected market for U.S. companies. While there is not enough evidence to prove this allegation, this does not diminish the profiteering image left by U.S. construction firms with both SARG and private Syrian contractors. Their present attitude will make it much more difficult to keep SARG to the provisions in the Tartous-Lattakia Highway Loan for a construction contract with a U.S. firm. Furthermore, the general image in Syria of U.S. business has not been helped by SARG experience in this project.

22. LESSONS LEARNED

A number of lessons have had to be learned by AID and SARG from this first AID project in Syria. Before discussing these, however, it is only fair to recall the circumstances under which this project was prepared and agreed.

In early 1975, after eight years without diplomatic relations, the U.S. and Syria agreed to resume relations. As a contribution to renewed political contacts, AID agreed to undertake an AID program in Syria which was to begin immediately in FY 1975. Since AID had no time to develop a project itself, AID took over portions of World Bank projects which, due to the sharp cost increases following the OPEC price increased in 1973, could no longer be covered within the amount of the Bank's loans. This project was one of these, and as was the pattern with most of them, it was based on French feasibility studies and designs. The deadline for obligating AID funds was the end of FY 1975 (6/30/75). This allowed little time for AID to study the SARG contracting system and other conditions that would determine the pace and nature of project implementation. However, this was a political loan and AID met U.S. foreign policy targets by obligating the funds by the end of FY 1975.

The hasty preparation and inevitable superficiality of AID knowledge about how things in Syria work, or don't work, are responsible for features of this project which have caused delay and failures in execution.

A. Politically Jusitified Loan Subjected to Economic Development Fund Procedures

A basic problem with this loan and other capital development loans in Syria is the schizoid nature of AID policy in Syria. As stated above, the AID program in Syria was for political purposes and financed out of the Middle East Support Funds. At the same time, AID proceeded as if the loan were part of an economic development program, imposing the same procedural requirements and expecting the same economic justification for actions taken. This was unrealistic and resulted in irritation developing between SARG and AID on implementation issues. Thus, achievement of the primary objective of the AID program -- to promote the climate of cooperation between the U.S. and Syria -- tended to be frustrated by the disappointments in project execution. A primary lesson for AID and U.S. foreign policy is to recognize that political programs cannot necessarily follow the pattern and the requirements of economic development programs and by forcing the economic development framework on such programs, AID may actually obstruct foreign policy objectives.

B. AID Ignorance of Syrian Conditions

AID's ignorance of Syrian conditions led to a totally unrealistic implementation schedule. The public administration and contracting practices of SARG resemble one of Syria's archeological tells. On the bottom level are procurement practices of the Ottoman Empire. The next layer consists of the procedures and ideas derived from 20 years of French administration and education of the Syrian elite. On top is a highly centralized administrative system, dependent on decision by committees and with heavy penalties (corruption charges, etc.) for those who make the wrong decisions. Some of this may date from the period when Syria was joined with socialist Egypt in the UAR, but it is no doubt heavily influenced by Syria's close contacts with the Soviet Bloc over the last 15 years. From 1967 to 1975, the Syrian elite who went abroad for professional study went mostly to the Soviet Bloc. A final key ingredient is the inherent commercial instinct of Syrians, always trying to get services, commodities, etc., at a cheaper price, no matter what, without realization that delays resulting from bargaining may cost much more than additional price reductions obtained.

AID's contracting and procurement regulations do not allow much flexibility either, e.g., not allowing any comparison of price offers for A&E contracts, no Handbook guidance on how to proceed when all construction offers are excessive, etc. In this project, Congressional pressures to award the construction contract to a U.S. contractor further inhibited AID's flexibility in negotiating a satisfactory construction arrangement with SARG. The grinding of gears caused by these features of both the Syrian and AID organizations cannot be readily remedied. The best AID can hope for in other countries with similar situations is an awareness of potential pitfalls that can help to avoid them.

C. Specific Lessons Are:

(1) Start with a realistic implementation schedule. The original implementation schedule in the PP projected mobilization of the A&E contractor by November 30, 1975. Gilbert, in fact, mobilized in April 1977. Reasons for this were that months were required to negotiate the contract between E PEF and the consultant, mostly due to arguments on price. They agreed in late July 1976. Then,

the High Economic Committee (HEC) in the Deputy Prime Minister's office had to approve the contract which required five more months. Again, as this was SARG's first contract with a U.S. consultant since the 1960's, every point was examined by HEC's legal counsel. A new Prime Minister took office in July 1976, and he re-examined in detail every action in process and also changed the staff of the State Planning Commission (SPC) responsible for liaison with AID. Such changes have occurred sporadically during the last five years; their timing can't be forecast but their occurrence and effects can.

(2) Apply flexibly AID's standard contracting practices to non-standard conditions. In view of the short time available to prepare this loan and AID's ignorance of Syrian conditions, AID applied the standard project formula of having a U.S. construction firm undertake the construction contract. EPEF itself liked this idea, expecting the project to benefit from American construction know-how. However, SARG was already embarking on a policy of developing government construction companies with which they planned to supplant foreign and private Syrian companies. How this SARG pressure to award to government companies could have been dealt with earlier, it is difficult to say, but in any case, the provisions of the loan agreement and SARG policy met head-on when SARG proposed that the SARG company, GECOP, be awarded the construction contract. If AID had been primed to deal with this situation in advance, some of the delays and difficulties regarding the construction contract might have been avoided.

(3) Plan projects so as to modify dependence on U.S. firms to carry out AID-financed construction contracts. The circumstances of the excessive bids by the U.S. construction contractors have been explained above. The U.S. construction firms did have a protected market in this project. AID needs to develop some measures to avoid excessive bids in such situations. For example: (a) the client might announce the consultant's cost estimate as a ceiling on offers and award the contract to the lowest responsive bidder below that ceiling. (2) If U.S. firms' offers for services (A&E) and construction are excessive as compared to consultant's cost estimate, AID might finance only commodities and equipment while domestic or international firms might bid for services and be paid from host country's own or other non-U.S. resources.