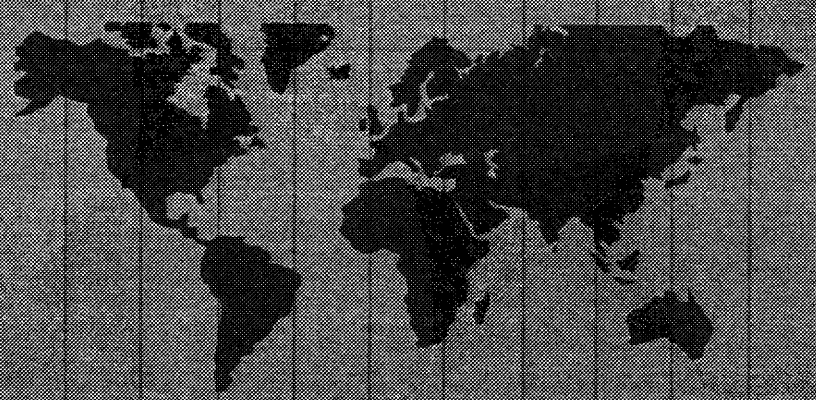
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL

MEMORANDUM AUDIT REPORT ON USAID/ KENYA'S ON-FARM GRAIN STORAGE PROJECT

Audit Report No. 3-615-83-18
June 9, 1983



Regional Inspector General for Audit
NAIROBI

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
RIG/A/NAIROBI

June 9, 1983

TO : Mrs. Allison B. Herrick, Director, USAID/Kenya

FROM : Ray D. Cramer, RIG/A/Nairobi

SUBJECT: Memorandum Audit Report: USAID/Kenya's On-Farm Grain Storage Project.
Audit Report No. 3-615-83-18

INTRODUCTION

The On-Farm Grain Storage project (No. 615-0190) began in Kenya on June 4, 1981, with a Project Assistance Completion Date of June 3, 1986. Planned AID financing over the life of this loan project is $7.8 million. The Government of Kenya (GOK) agreed to provide the equivalent of $3.9 million for the project, representing a 33.5 percent project contribution--which meets the 25 percent host country contribution required by Section 110(a) of the Foreign Assistance Act.

The project is to increase the use of more effective on-farm grain drying and storage practices in Kenya. The project consists of four principal components: (a) increasing the capacity of the Ministry of Agriculture (MOA) to conduct adaptive research field testing; (b) increasing MOA extension capacities; (c) increasing the capacity of agricultural education institutions to provide grain drying and storage training; and (d) creating a nationwide capacity to monitor and evaluate grain losses.

PURPOSE AND SCOPE

The primary purpose of our audit of the On-Farm Grain Storage project was to determine the reason the project was experiencing prolonged implementation delays.

We conducted a limited scope review of the project (because it was in the very early stages of implementation) to:

- Review the effectiveness of procedures followed by the GOK in selecting the technical assistance contractor.

- Determine and report on the status of the technical assistance contract negotiations.

- Review progress made on construction of project facilities under an AID Direct Contract.

- Identify and report on significant implementation and other problem areas.

We reviewed records, reports, and correspondence at USAID/Kenya and the host government; and held discussions with officials from those organizations. We also visited project construction sites at Kisumu, Kakamega, and Maseno, Kenya. Our findings are reported on an exception basis--those areas not reported on were determined satisfactory.

FINDINGS AND CONCLUSIONS

Contract Negotiation Delays Hindered Project Implementation And Created The Possibility That AID Funds Will Be Not Be Used As Planned

Implementation of technical assistance under the project was planned to be carried out under a single host country contract between the GOK and an appropriate contractor. A detailed implementation schedule was prepared. The implementation schedule planned that the host country contract would be approved and signed ten months after the contract Scope of Work was approved by AID.

USAID/Kenya approved the GOK selection of Development Planning and Research Associates (DPRA) as the implementing contractor on December 21, 1981, and negotiations between the GOK and DPRA began in February 1982. According to the implementation schedule, the technical assistance contract was planned to be approved and signed by May 1982. As of our audit (April 1983), the contract had not yet been signed and implementation was about one year behind schedule.

We found that in September 1982 contract negotiations had been finished; DPRA and USAID understood that the GOK and DPRA were in agreement regarding the contract; the contract had been approved by the GOK Attorney General's Office; and GOK funds had been budgeted to support project implementation. However, also in September 1982, the then-Deputy Secretary of the GOK Ministry of Agriculture rejected the contract for undetermined reasons and ordered a complete review of the contract. The review resulted in some minor changes which required the contract to once again go through the GOK's contract review and approval process.

As of April 1983, the contract had been approved for a second time by the GOK Attorney General's Office and was being considered in the GOK budget process. A GOK Ministry of Finance official was optimistic that the contract would be signed in the near future, providing the GOK budgeted funds for the procurement. [This is another example of the problems that host governments have in effectively letting contracts with U.S. firms for technical assistance (see A.R. 3-000-83-13)].

The project plan recognized that a major constraint to project implementation was the lack of suitable housing for contractor personnel to be stationed outside of Nairobi. Therefore, the project financed the cost of constructing facilities in Western Kenya -- five houses in Kisumu and one in Kakamega, as well as a laboratory/office building in Maseno.

The construction implementation schedule called for the construction contract to be signed about four months after the technical assistance contract was signed; actual construction was planned to be completed in about seven months.

USAID/Kenya, however, took a calculated risk and decided to move construction activity ahead of plan for two reasons: (a) other USAID projects were experiencing implementation problems, delays and increased cost because of the lack of housing, and (b) USAID/Kenya was almost certain that the technical assistance contract would be signed as planned.

Consequently, in October 1981 AID signed a KShs 563,998 ($55,220) contract for engineering technical services required to construct the project facilities; and in July 1982 signed a KShs 5,995,585/10 ($550,000) construction contract. Construction activities were started with the approval of the GOK.

We visited the construction sites and found that the facilities were almost finished and ready for occupancy. Unfortunately, even if the technical assistance contract is signed in the near future (which is not certain), the facilities will remain unoccupied for another 2 - 12 months awaiting the arrival of technicians and equipment.

We understand why USAID/Kenya decided to move the construction forward contrary to plan. However, this decision, coupled with the GOK's failure to negotiate and sign the technical assistance contract in a timely manner, has exposed the Agency to the possibility that $600,000 in construction expenditures will not be used as planned because, according to a GOK Provincial Director of Agriculture, the facilities were constructed solely for the project. A central GOK/MOA official told us that if the project were not implemented the facilities would be used, although not as planned. The GOK/MOA official emphasized that the houses could be

put in use immediately because of a shortage of GOK housing in the area; and the laboratory/office building, given sufficient thought and planning, could be effectively used--perhaps as a regional laboratory.

During our discussions, USAID/Kenya officials assured us that if the project does not go forward as planned, they would ensure that the houses were used by the GOK for general development activities.

The GOK has failed to promptly comply with the provision of the Project Agreement which calls for implementation under a host country contract (Project Agreement Annex 1, Section D). In our opinion this is an Event of Default. Section D.2.(c) of Project Agreement Annex 2 states, in part:

> "If an Event of Default shall have occurred, then AID may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter..."

Conclusion

The GOK has been working to finalize a technical assistance contract for project implementation for 15 months, without success. This delay and USAID/Kenya's decision to construct project facilities in advance of the plan has resulted in a premature use of funds.

Our draft report contained a recommendation for USAID/Kenya to establish a reasonable deadline for the GOK to complete a technical assistance contract; and if the GOK failed to meet the deadline, USAID/Kenya should deobligate funds committed to the project and call for an accelerated repayment of the unrepaid principal and interest.

In response to our draft report, USAID/Kenya advised us:

> "In reference to your (draft) Recommendation No. 1 Parts A and B please note my letter to the Permanent Secretary, Ministry of Finance dated May 17, 1983. This communication to the Ministry of Finance informs the Government that a two phased deadline has been established for approving the implementation contract for the On-Farm Grain Storage Project. If either of these deadlines are not met, an orderly close-out of the project will be planned and unutilized funds will be deobligated. The Mission will then request the Government to accelerate repayment of those funds utilized for the housing and laboratory construction."

In view of the action taken, and assurances provided by USAID/Kenya, we have deleted the recommendation which appeared in our draft report.

cc:	AA/M	1
	AA/AFR	5
	LEG	1
	GC	1
	OPA	1
	IG	1
	AFR/EA	2
	M/FM/ASD	2
	PPC/E	1
	S&T/DIU	4