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FAULTY PROJECT DESIGN AND OTHER PROBLEMS HAVE IMPEDED ATTAINMENT OF PEAT II PROJECT GOALS

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EXECUTIVE SUMMARY

INTRODUCTION

Burundi society traditionally uses charcoal and wood as energy sources for cooking and heating. Peat II's designers projected that continued use of these scarce resources would become depleted within one decade unless alternative energy sources were developed. The designers based Peat II on the premise that peat deposits could serve as an alternative energy source to meet Burundi requirements.

As a follow-on project, Peat II continued the goal of its predecessor project, Peat I: to conserve Burundi's forest reserves by increasing the availability and acceptability of peat and to strengthen ONATOUR 1/, the parastatal organization responsible for peat production and marketing.

The project grant agreement signed August 29, 1980 has a project assistance completion date (PACD) of September 30, 1985. Planned AID financing over the life of the project totals $8 million. The Government of the Republic of Burundi's (GRB) contribution represents approximately 10 percent of the total project costs and totals more than $1.09 million. The project authorization had waived the required 25 host country contribution because of the financial hardship percent it would impose on the GRB. Other donor inputs include technical services from the Government of the Republic of Ireland (GRI), research assistance from the World Bank and exploration and testing by the Finnish Government.

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit determined whether (a) Peat II accomplished its objectives, (b) project management disbursed AID funds as planned, (c) project resources were used in the most effective manner, (d) contractors performed satisfactorily and operated within contract provisions, and (e) OAR/Burundi adequately monitored the project. Our scope included a review of records, discussions with key officials, and verification procedures considered necessary.

1/ National Office For Peat (L'Office Burundi National de la Tourbe).

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Although Peat II is in its third year of project implementation, OAR/Burundi cannot assure that peat will be an acceptable and available alternative energy source by project completion date. Faulty design and failure to effectively monitor project progress negatively affected project progress. Project designers failed to establish easily measured or attainable standards for evaluation of project progress. The project had as one standard "a measurable reduction in the net drawdown of forest reserves...". However, neither OAR/Burundi nor the GRB had ever determined actual forest reserves. Therefore, OAR/Burundi did not have the means to measure project impact. The second standard which required that approximately 60 percent of Bujumbura's domestic market will consist of peat by the end of the project has proved to be unattainable. Successful marketing to reach the domestic market has not developed and remains the project's major weakness. OAR/Burundi also has failed to require submission of an operational work plan from the prior or current chiefs of party which has prevented effective monitoring of project progress.

Problems also exist in ONATOUR's organizational structure and GRB support. ONATOUR's organizational structure had production and marketing activities under one department director who had emphasized production rather than marketing. The effect of this emphasis has hampered progress toward promoting peat's acceptability. Additionally, the GRB has not taken a firm position in support of peat as an alternative energy source. Although availability and acceptability of peat depends largely on GRB support, the GRB has not encouraged the use of peat in lieu of other resources. Also, the GRB has not assured availability of peat for development of future markets (pages 4-13).

OAR/Burundi needed to address other matters capsulized below:

-Although the project agreement required counterpart training to enhance ONATOUR's operations, ONATOUR does not have a trained counterpart to procure needed commodities from local and international sources (pages 13-15).

-Sound accounting practices dictate maintenance of adequate inventory control, however; ONATOUR does not maintain perpetual inventory records for peat stored at bogsites (pages 15-16).

-OAR/Burundi's failure to ensure timely submission of advance requests to meet project procurement needs forced the contract management team to borrow money in order to conduct daily activities (pages 16-17).

-OAR/Burundi failed to periodically audit local currency funds or reconcile official mission records to mission and project records (pages 17-19).

-Although the project grant agreement required ONATOUR to establish a cost-accounting system, ONATOUR's management does not have one in operation because they do not accept the cost-accounting concept (pages 19-20).

The draft audit report contained nine recommendations to correct the deficiencies noted. Prompt action by OAR/Burundi has allowed us to delete one of those recommendations from the final report.

At the conclusion of our audit, we discussed our findings with appropriate OAR/Burundi officials. We also provided a draft report to OAR/Burundi. We duly considered their comments during our exit conference and in response to our draft report. Where pertinent, we included their comments in this report.

INTRODUCTION

BACKGROUND

Burundi, situated in the highlands of the Congo-Nile Divide on the northeastern shore of Lake Tanganyika, is one of the most densely populated countries in Africa. Its 28,000 square kilometers is inhabited by about four million people, 95 percent of whom live in rural areas. The resulting pressure of people on land manifests itself in small farmsteads, cultivation of marginal land on steep slopes and rapid disappearance of forests and woodlands.

Burundians have traditionally used wood and wood derivatives for both cooking and heating. Rural inhabitants use wood gathered from nearby forests whereas urban households and small businesses prefer charcoal. The Project Implementation Document (PID) calculated that remaining woodlands would supply fuel for no more than another decade.

Burundi has no known fossil fuel alternatives to wood such as coal, lignite, oil or natural gas. However, the GRB has discussed the possibility of oil drilling in Lake Tanganyika with private companies. The necessity to import petroleum products over 1200 km from the Indian Ocean has more than doubled costs.

Burundi does have one natural energy resource, peat deposits. Peat is the first stage in the formation of coal and is caused by the decomposition of vegetable matter. Operating under the premise that the proper exploitation of peat could reduce forest rate depletion, Peat I began in August, 1978 as a grant agreement between AID and GRB.

The purposes of Peat I were to assist in the development of Burundi's peat reserves for non-industrial thermal energy requirements and to develop and design alternative approaches to encourage rural household consumption of peat as a thermal energy source. Peat I tried to meet the following ambitious outputs during its two year period:

(1) establish efficient management, personnel and financial systems at ONATOUR, the parastatal agency responsible for peat production and marketing operations;

(2) produce and market 40,000 tons of peat during the life of the project;

(3) market peat to rural consumers at low selling prices;

(4) provide appropriate research and technology data and analysis.

At the end of Peat I, ONATOUR's staff remained relatively inexperienced and unable to manage independently. Approximately 22,000 tons of peat were produced, as compared to target production of 40,000 tons. Peat I had not developed rural markets and had just begun development of appropriate research and data analysis when the project ended.

Peat II continued Peat I's purpose to increase the availability and acceptability of peat as an alternative energy source. The purposes of the project are to conserve the country's forest reserves by increasing the availability and acceptability of peat as a cooking and heating source, and to strengthen ONATOUR. The standards used to judge progress are a measurable reduction in net deforestation of forest reserves and significant increases in peat use as an alternative energy form.

Although the PID and Peat I targeted the rural poor as the primary market, the Peat II Project Paper and Project Grant Agreement changed market emphasis to the urban household. Emphasis changed because rural poor customarily do not pay for wood gathered from forests contrary to urban household use of purchased charcoal. Also, charcoal conversion requires greater quantities of wood than the amount used by rural households.

The Project Grant Agreement signed August 29, 1980 has a PACD of September 30, 1985. Total Project cost is $10,500,000. Planned AID financing over the life of the project totals $8 million. As of December 1983, funds obligated or earmarked totalled $6,306,000 and funds disbursed $2,359,016.

The Project Authorization waived the 25 percent host country contribution required by Section 110(a) of the Foreign Assistance Act because of the financial hardship it would impose on the GRB. The GRB's contribution represented approximately 10.37 percent of the total project costs and totalled more than $1.09 million. Other donor inputs include technical services from the GRI, research assistance from the World Bank and exploration and testing by the Finnish Government.

Project outputs include development of a minimum core of trained Burundi nationals for ONATOUR's staff. Both the long-term and short-term supervisors were to provide most of the training to Burundi staff as on-the-job training in Burundi. Some specialized technical, financial and marketing training would take place in Ireland and elsewhere.

The successful training of Burundi counterpart staff was considered crucial to improving ONATOUR's management capability. In the first two to three years of the project, experts provided under the project (contract management team) were to assume direct line responsibility for certain positions to ensure a sound business foundation. Thereafter, they would revert to advisory roles and work with trained Burundi counterparts. The areas identified for significant strengthening included financial management (both general and cost accounting), marketing, bog-site production, laboratory control, peat prospecting, and equipment maintenance. By the end of the project, ONATOUR will have established and have in operation a general and cost accounting system, and revenues will cover operating costs. In addition, technical questions regarding household use of peat and peat production will have been resolved.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit determined whether (a) the project accomplished its objectives, (b) project management disbursed AID funds as planned, (c) project resources are used in the most effective manner, (d) contractors performed satisfactorily and operated within the provisions of their contracts, and (e) OAR/Burundi adequately monitored the project. Our review was made in accordance with the Controller General Standards for Audit of Governmental Programs and accordingly included such tests of the program, records and internal control procedures as we considered necessary in the circumstances.

Our review covered project progress from its inception in August, 1980 through December, 1983. The scope of our audit included a review of project files at the Regional Economic Development Services Office (REDSO) in Nairobi, Kenya and financial records at the Regional Financial Management Center (RFMC) also located in Nairobi. The scope during the on-site phase included (a) a review of files, procurement records and contracts; (b) discussions with OAR/Burundi officials, contract management team members, ONATOUR staff and members from GRI's National Peat Board, the Bord na Mona team; and (c) verification procedures considered necessary.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Our audit assessment of planned project outputs showed ONATOUR's staff had received training to enable them to adequately perform necessary job functions. However, contract management did need to immediately begin training of appointed ONATOUR staff in the procurement function. ONATOUR's revenues covered operational costs. The necessary peat technology had successfully been proven through the efforts of the Bord na Mona team. At the time of the audit, project management in concert with Bord na Mona had begun to address the need to make more efficient peat burning stoves. Interviews with urban households and small businesses (artisinal market) which used peat disclosed positive acceptance of peat as a cooking and heating source.

Although we noted progress toward accomplishment of certain project outputs, several problem areas have impeded attainment of project goals. Serious problem areas which require immediate management attention exist in project design and implementation, ONATOUR's organizational structure, and GRB support.

Other noted problem areas included the need to: (a) train ONATOUR staff in procurement functions, (b) improve ONATOUR's inventory controls, (c) meet funding needs of the contract management team, (d) establish adequate financial controls over project funds by OAR/Burundi, and (e) establish a cost-accounting system in ONATOUR.

Faulty Design Has Negatively Affected Attainment Of Project Objectives.

Peat II's design did not provide realistic standards by which to evaluate project progress. Adequate standards are the means of control to ensure the attainment of project objectives. However, project designers failed to formulate adequate standards in the project agreement. As a result, attainment of goals remained doubtful even though three years had lapsed since the beginning of the project.

As stated in the project agreement, the primary purpose of the project is "to conserve Burundi's forest reserves by increasing the availability and acceptability of peat as an alternative energy source...". One standard used to judge progress was to be a measurable decrease in the reduction of forest reserves. But, neither OAR/Burundi nor the GRB had ever determined actual forest reserves. In fact, wide discrepancies existed concerning the amount of forest reserves remaining in Burundi. Therefore OAR/Burundi could not develop statistics to measure project impact on forest reserves.

The second standard used to assess progress as stated in the Project Agreement was "a significant increase in the use of peat as an alternative form of energy...By the end of the project,...approximately 60 percent of Bujumbura's 1/ domestic fuel market will consist of peat." However, we noted that less than one percent of sales to date have been to the domestic market. The Burundian Army as an arm of the GRB and thus a captured market remained the largest customer representing 95 percent of sales.

Good project design includes standards and a system of feedback to provide information on how well the design is being carried out. Effective standards are needed to measure progress towards goals. Effective design also requires that goals are clear and attainable.

Peat II's project designers failed to ensure the adequacy of the control mechanism in the project design. Project designers did not determine the availability of data to measure project impact on forest reserves before establishing this standard as a control mechanism in the project agreement. Failure to set measurable standards prevented OAR/Burundi from effectively monitoring project progress since project officers did not have quantifiable means to measure project impact on forest reserves. Also project designers failed to set an attainable goal in the second standard which required 60 percent of Bujumbura's domestic market to use peat by the end of the project. According to the contract chief of party, the project designers did not consider the fundamental need of educating Bujumbura's population to promote peat's acceptance when they established this high standard.

The effect of Peat II's faulty design contributed to difficulties incurred in project implementation. As a result, OAR/Burundi did not have the means to monitor project progress. Also, OAR/Burundi, contract and ONATOUR personnel concerned with project progress did not accept the 60 percent standard as a realistic goal. Accordingly, the project had drifted away from its dual purpose of increasing the acceptability of peat as well as the availability of peat as an alternative energy source. Project progress had focused primarily on peat production which could be easily measured and results were tangible. However, successful completion of the acceptability portion of the project's primary purpose remained questionable.

1/ Capital City of Burundi.

Conclusion, OAR/Burundi Comments, RIG/A/Nairobi Response, and Recommendation

OAR/Burundi could not measure the effects of peat sales on forest reserves because actual forest reserves had never been determined. The standard requiring peat sales to 60 percent of the domestic market was unattainable considering the domestic market represented less than one percent of sales.

To address the immediate need of promoting the acceptability of peat, OAR/Burundi must modify project standards. Accordingly, we believe that OAR/Burundi should revise the standards to measure overall project progress and must ensure that they are attainable.

In responding to the draft report, OAR/Burundi agreed that the project's design was faulty and that original targets were unrealistic. Accordingly, a review of project goals and purpose will be the primary focus of an evaluation scheduled for May, 1984 and the mission will use its findings to develop a realistic set of project targets. If necessary, the results of the evaluation as well as additional information now available from market surveys and contacts with potential customers will be reflected in a revised project paper and in other relevant documents, such as the project agreement.

We have retained the recommendation until OAR/Burundi has developed project targets based on evaluation results.

RECOMMENDATION NO. 1

OAR/Burundi review project design to develop realistic and attainable standards to measure project progress.

OAR/Burundi's Failure to Require a Detailed Operational Work Plan for Project Monitoring and an Inadequate Implementation Schedule also Negatively Affected Accomplishment of Project Goals.

An implementation schedule which did not adequately identify tasks necessary for successful completion of Peat II and failure to have an operational work plan contributed to lack of project progress. AID regulations require preliminary implementation planning in support of overall project goals as well as more detailed operational plans necessary for the direction and control of day-to-day implementation tasks. OAR/Burundi had failed to require submission of an operational work plan from the chief of party of the contract management team which prevented effective monitoring of Peat II's progress. OAR/Burundi indicated the work plan was overlooked. Project designers' failure to include a detailed implementation schedule which specified those tasks necessary for successful project completion also hampered project monitoring.

As stated in Handbook 3, "The purpose of operational planning is to provide management with a dynamic tool to support the direction, assessment and monitoring of project implementation. A plan designed to meet operational planning objectives would, in somewhat condensed form, also meet pre-planning needs...Operational plans should be an outgrowth of the pre-project planning and be expanded and periodically updated and revised as information becomes available during the various stages of implementation." The implementation schedule appended to the project agreement did not determine the means by which project objectives will be reached or develop methods to be used in taking the required actions as specified in Chapter 9 of Handbook 3. Therefore, it did not provide a foundation for the development of operational plans. However, OAR/Burundi had the responsibility of overcoming this deficiency by ensuring that the operational work plan addressed methodologies to achieve project goals.

OAR/Burundi had failed to require an operational work plan from the prior chief of party of the contract management team. He overemphasized production while ignoring the need to develop marketing strategies. Although OAR/Burundi had replaced the prior project manager with a contractor who had international marketing experience, project officers had failed to require operational work plans as specified in his contract. His contract stated that "As Consumer Marketing Advisor" the chief of party will assist ONATOUR in developing a strategy that "should include specific marketing targets, a timetable for achieving these targets, as well as a work plan detailing allocation of necessary resources to undertake marketing plans and activities." Also,"...a plan for utilizing project resources set aside for such activities: stove design, radio promotion, demonstration materials, social research, surveys, etc., for Ministry and AID review." Although the chief of party had begun to redirect project emphasis towards market development, he had not developed an operational work plan as required in his contract. Therefore, he could not report on progress made towards achieving project goals.

The failure to have an operational work plan and Peat II's faulty design precluded effective project monitoring. The effect was the same as not having easily determinable and attainable standards: sales to domestic markets remained negligible even though the project had been underway for three years. OAR/Burundi's failure to effectively monitor the project prevented the assurance that Peat II's purpose of promoting the acceptability of peat in Burundian society could be attained.

Conclusion, OAR/Burundi Comments, RIG/A/Nairobi Response, and Recommendation

OAR/Burundi had not effectively monitored Peat II to ensure Peat will be a viable energy source by the end of the project in September, 1985. Although OAR/Burundi can not ensure successful project completion, they have already considered a follow-on project, Peat III, estimated at over $4 million, as well as a one year extension of Peat II which would increase total project costs to $8.8 million.

OAR/Burundi must ensure that an operational work plan is established for the remainder of the project life. This work plan should specify all actions to be taken to implement project goals, indicate time frames for accomplishment and identify needed resources and the responsible parties. The chief of party must use the plan as a basis to measure project progress in his required quarterly reports. Successful implementation of the work plan will be a major step in determining the viability of peat as an alternate energy source in Burundi. Successful implementation of the work plan should be a major consideration for extending and approving future projects.

In response to our findings, OAR/Burundi indicated they will work with the project manager to develop an operational work plan. They stated an "operational" plan is not set in concrete once it's written, but rather is updated regularly to respond to changing project conditions. It is AID's practice to make a decision on extension of a PACD based on a number of factors which are normally recorded in an operational plan, which sets up time-phased activities and estimated dates for completion. Extension should not be denied on the basis of an uncompleted operational plan, which is a continually evolving document.

We realize that operational work plans are evolving documents. However, we believe that OAR/Burundi and appropriate AID/W officials must duly consider successful implementation of this evolving document before making a decision to have a follow-on project or extending Peat II. Our findings indicate that OAR/Burundi has not sufficiently monitored project progress and that peat is not becoming an alternate energy source in the domestic market. Therefore, it is incumbent upon OAR/Burundi to review the implementation of operational work plans as a basis for extending and approving follow-on projects. We therefore have revised our recommendation to ensure that progress in meeting the plan is reported and monitored as a basis for making future commitments to the development of peat in Burundi.

RECOMMENDATION NO. 2

OAR/Burundi require the contractor to establish an operational work plan to promote peat and report on current progress.

ONATOUR's Organizational Structure Contributed to the Failure to Adequately Emphasize Marketing of Peat

ONATOUR's organizational structure had production and marketing activities in the same department. The Deputy Director responsible for this department had emphasized production rather than marketing. The effect of this emphasis hampered progress toward promoting peat as evidenced by less than one percent of sales to the domestic market.

ONATOUR had two departments, each headed by a deputy director. One department had responsibility for production and marketing; the other contained the administration and finance functions. ONATOUR's organizational structure had emphasized production over marketing because the director was production oriented.

The deputy director had experience in production rather than marketing because the prior chief of party had emphasized production.

Overemphasis of production as compared to marketing contradicted the project agreement's intent as stated in it's second purpose "to strengthen the institutional capacity of ONATOUR to carry out present and planned peat production and marketing operations on an efficient basis and without need for significant future financial or technical support." The project outputs of the agreement also specified that marketing was an area needing significant strengthening.

Overemphasis of production hampered promoting peat to more diversified markets other than the military. Dependence on the military as the primary customer also prevented ONATOUR from becoming a self-sufficient organization.

Conclusion, OAR/Burundi Comments, and RIG/A/Nairobi Response

Marketing has not received adequate emphasis because the Deputy Director in charge of marketing and production was more production oriented. In our opinion, ONATOUR should separate marketing from production giving equal weight to the marketing function in order to sell peat in other markets.

In response to our finding and draft recommendation to reorganize ONATOUR, OAR/Burundi stated that ONATOUR and the technical assistance team have been especially emphasizing the marketing function. ONATOUR has approved job descriptions for each position in the marketing department and has transferred incumbents who do not have required skills in order to recruit qualified individuals. This year ONATOUR has assumed responsibility for the marketing budget. The project had previously funded all marketing activities.

Monthly marketing meetings with the director of ONATOUR were recently started and regular meetings have also been instituted between the director and major clients. Equal status for marketing and production in the sense that there is a deputy director for each is not likely to happen in the foreseeable future. Decisions of this nature are made at the ministerial level and ONATOUR would have a hard time justifying three deputy director positions to its Ministry for such a small organization. Nevertheless, the marketing department has clearly been upgraded and strengthened over the last few months and the director is firmly committed to a strong marketing program.

Although we would prefer that ONATOUR separate marketing from production, the corrective actions taken in response to our draft recommendation indicate marketing has received increased emphasis which was the intent of our recommendation. Since OAR/Burundi states that ONATOUR would have difficulty in justifying another Deputy Director position, we have dropped our recommendation to reorganize ONATOUR into two separate marketing and production departments.

Although Overall Success Of The Project Depends On Government Support, The GRB Had Not Fully Supported Project Goals

Although availability and acceptability of peat depends largely on GRB support, the GRB had not encouraged the use of peat in lieu of other resources. Also, the GRB had not guaranteed availability of peat to meet future production needs. Therefore, overall project success hinges on GRB's committment to Peat II's program.

The GRB had not taken a firm position in support of peat as an alternative energy source. Although ONATOUR had written letters to other GRB ministries under the signature of the Minister of Public Works, Energy and Mines (MPWEM) requesting support of the peat program, the GRB had not fully promoted utilization of peat versus other energy sources. The project manager stated in his quarterly status report, "it would be a pointless expenditure of time and money for ONATOUR to embark upon a major marketing program without first obtaining a clearer picture of the GRB's intention regarding the role of peat in Burundi's energy strategy." He maintained that ONATOUR alone could not meet assurances required by potential customers without a stated energy policy from the GRB.

Artisinal and institutional customers comprise a substantial portion of the total market demand for fuelwood in Burundi. The elimination of this demand through the substitution of peat for fuelwood would be a major step toward relieving the pressure on Burundi's limited forest reserves. However, these potential clients need some guarantee of availability and reliability of supply, assurance of competitive prices in relation to alternative fuel sources and a provision to recoup fuel conversion costs. ONATOUR alone can not meet these assurances without GRB support. To successfully market peat, ONATOUR needs GRB consensus in support of peat production escalation, increase in wood prices to accurately reflect replacement and environmental costs, and tax breaks or other compensations for conversion costs.

Additionally, the GRB has not assured availability of peat for development of future markets. The ability to meet future market demand depends on development of another bogsite. In Project Implementation Letter (PIL) 1/ No. 14, the USAID in concurrence with ONATOUR had funded development of Nyamuswaga. Nyamuswaga was the best potential development site because the same mining technology perfected at prior bogsites could be used there. However, the GRB had not approved the development of Nyamuswaga because of the perception that eventual peat production in Nyamuswaga would detrimentally affect agricultural production. Also, unforeseen events in the development of another bogsite funded by another donor delayed GRB approval.

1/ Documents initiated to interpret and implement portions of project agreements.

The GRB feared that Nyamuswaga could not be used for agriculture production if the bogsite was used to mine peat. Therefore, drainage studies were initiated to determine the effect of bog draining for peat development. Interim study results indicate GRB's fears are not soundly based since peat production should liberate land for more extensive agriculture use.

The events at another bogsite which had affected GRB's approval concerned World Bank funding for the development of the Buyongwe bog. World Bank had started the development of Buyongwe to provide peat as a fuel source for nickel exploitation in Burundi. Unfortunately, nickel prices dropped and World Bank did not continue its funding. Bank officials advised the GRB to locate and develop their own markets for Buyongwe.

Conclusion, OAR/Burundi Comments, RIG/A/Nairobi Response, and Recommendation

The success of promoting the acceptability of peat greatly depends on GRB support. ONATOUR alone cannot give assurances needed by potential customers. The GRB must encourage use of peat as an alternate energy source in comparison to other fuel sources. The acceptability of peat can only progress with a policy and concurrent supporting action which supports peat use.The future availability of peat also hinges on GRB support. Additional bog sites must be developed.

OAR/Burundi considered the wording of the narrative to be unjustifiably negative and to ignore significant GRB support both to ONATOUR and to the use of peat. They point out that the GRB has provided a greater subsidy to ONATOUR than called for in the project paper. Furthermore, it has appointed exceptionally well-qualified people to the organization.

In summary, OAR/Burundi agrees that there is a need for a policy dialogue with the GRB, concentrating primarily on pricing which they believe to be the key constraint to increasing peat sales. They expect that this will take place within the next month. In their judgement, the GRB has provided significant support to peat as an alternative energy source and will continue to do so.

With regard to the development of the Nyamuswaga bog, OAR/ Burundi stated that they are working closely with ONATOUR and other concerned GRB agencies to ensure that production tests are carried out at Nyamuswaga this summer. Based upon these test results and the bog survey being carried out by the project, they expect to begin full bog development for the 1985 production season. ONATOUR and MPWEM are well aware that in the judgement of project technicians, this bog could probably be developed using the same technology they have tested and adapted on the other three bogs. In addition, project technicians have visited Buyongwe bog and have concluded that the Peat II project would be completely inadequate to develop it.

In our opinion, not enough has been done by GRB to provide assurances that will encourage the use of peat as an alternative energy source in comparison to other fuel sources. While we find it encouraging that GRB is reviewing its overall energy policy and peat's role in it, we have retained our recommendation until evidence has been provided that GRB has developed a policy and taken concurrent measures to ensure support of the use of peat as an alternative energy source. In view of efforts reported in response to the draft report on actions taken to develop the Nyamuswage bog, we have dropped that portion of the recommendation.

<u>Recommendation No. 3</u>

OAR/Burundi help the GRB develop a policy and take concurrent supporting action to support the use of peat as an alternate energy source.

<u>ONATOUR Does Not Have Trained Staff To Perform Necessary Procurement Functions</u>

ONATOUR does not have a trained counterpart to procure needed commodities from local and international sources. Although the project agreement required counterpart training to enhance ONATOUR's operations, the administrative technician of the contract management team had not trained his counterpart in the procurement function. As a result, ONATOUR does not have the necessary expertise to procure commodities to sustain on-going operations.

The project agreement stated in the second output goal that "the successful training of Burundi counterpart staff is crucial to improving ONATOUR's management capability. In the first two to three years of the project, however, the experts provided under the project will assume direct line responsibility for certain positions to ensure that ONATOUR is put on a sound business-like footing. Thereafter, they will revert to advisory roles and will work with the trained Burundi counterparts." As of November, 1983, more than three years into the project, training of ONATOUR staff in procurement functions has not started.

The administrative technician responsible for the project procurement has not given priority to training ONATOUR's stated counterpart because of the necessity to quickly procure commodities required during production season and comply with AID's procurement regulations. The effect is that ONATOUR will not have the necessary expertise to procure commodities for on-going business functions when the technician's contract terminates in May 1984 unless training begins immediately.

Furthermore, ONATOUR intended to assign procurement to the Deputy Director of Administration and Finance whose other responsibilities did not permit enough time to either learn or perform detailed procurement functions. His main responsibility was daily administration functions. ONATOUR's director contended that the deputy director could perform procurement functions as well as manage daily administration requirements. However, the deputy director's daily responsiblities had not allowed him to receive intensive training necessary to learn the various facets of procurement.

Also, previous consultant and evaluation reports have criticized ONATOUR's organizational structure for failure to decentralize responsibilities. To ameliorate past criticisms and to meet ONATOUR's ongoing procurement needs, it is our opinion that ONATOUR hire a technician to learn the necessary procurement functions.

Conclusion, OAR/Burundi Comments, RIG/A/Nairobi Response, and Recommendation

The immediate need to fulfill urgent procurement requests does not negate the long-term goal of establishing an effective procurement function in the ONATOUR organizational structure. Unless this training need receives prompt attention, ONATOUR will not have essential procurement skills necessary for on-going operations.

In response to our draft recommendation, OAR/Burundi countered that ONATOUR did procure locally with no assistance from the project. Also, the administrative advisor position was created to help the project, not ONATOUR and there was no requirement to train a counterpart. Procurement became an issue when the advisor decided to leave when his contract expired. The advisor had worked with the Deputy Director for Administration and Finance who is expected to have a good grasp of procurement by May. To carry out everyday procurement tasks, the contract team plans to hire a Burundi national who will be trained by the administrative and financial advisors. It is expected that ONATOUR will hire the trainee at the end of the project.

We contend that ONATOUR may have some local procurement capabilities, but the contract team has assumed responsibility for procuring most of the operational needs of the project such as fuel and vehicle spare parts. At the time of the audit, ONATOUR's staff did not have experience or knowledge in the logistics of procuring from local vendors in order to meet daily project operations.

To prevent a major disruption in supplying essential commodities after the project ends, ONATOUR must acquire the necessary experience and knowledge now. We believe that OAR/Burundi has begun to address this procurement need by working with ONATOUR's deputy director and the contract team's plan to hire a Burundi national. We have retained our recommendation until the team does hire and train someone in procurement.

Recommendation No. 4

OAR/Burundi follow up to see that ONATOUR recruits a capable procurement specialist and that the specialist be trained by the contract team.

ONATOUR's Inventory Controls Needed Improvement

No peat inventory records existed at bogsites to reflect a decrease in stock as sales or transfers to Bujumbura occurred. Although sound accounting practices dictate maintenance of adequate inventory control, ONATOUR did not maintain perpetual inventory records for peat stored at bogsites.

The Coopers and Lybrand[1] audit of ONATOUR's accounting records for 1979, 80 and 81 noted that inventories of peat were not established at the end of each fiscal year. ONATOUR took a physical inventory of peat stock stored in Bujumbura and the three bog sites in 1982. However, ONATOUR maintained perpetual inventory records only for Bujumbura inventory. Therefore, ONATOUR had not corrected the noted deficiency.

ONATOUR had not developed a perpetual inventory system to ensure sound accounting controls over peat inventory because they lacked scales to weigh the peat. Failure to adequately control peat inventories allows for possible unrecorded sales.

Conclusion, OAR/Burundi Comments, and Recommendation

ONATOUR does not have a perpetual inventory system at bog-sites. Sound accounting controls dictate maintenance of perpetual inventory systems to provide ONATOUR management with a means to track peat from point of production to bogsite storage to point of sale or transport to Bujumbura.

In response to the draft report, OAR/Burundi agreed that there is a need for inventory control. However, an accurate inventory of peat at the bogs is impossible until scales are installed. Truck scales have been ordered for each of the bogs and are expected to arrive during the coming production season. A comprehensive inventory control system will be initiated at that time.

Recommendation No. 5

OAR/Burundi should ensure that ONATOUR implement a perpetual inventory control system at bog-sites.

OAR/B Periodically Failed To Meet Project Funding Needs

Although the contract management team had requested advances in accordance with project agreement terms, OAR/Burundi had failed to process the advance requests in a timely manner because the budget and fiscal office did not immediately process the requests. PIL No. 4 established procedures to secure local currency from AID "to facilitate project implementation and to reduce the financial burden on the grantee...". However, local currency funds were not always available to meet project needs.

1/ A United States headquartered international certified public accounting firm.

OAR/Burundi's failure to timely submit advance requests forced the contract management team to borrow more than 4,850,000 FBU ($54,000) to support daily project activities. One of the expected project outputs was strengthened financial management within ONATOUR. As noted in the project manager's status report "such (borrowing) actions put the project staff in a rather embarrassing position in addition to placing undue strains on ONATOUR's cash flow. The project has as a principle objective the strengthening of ONATOUR's institutional capacity, including areas of financial management... . The fact that the very project assigned the task of advising ONATOUR on financial management must request a loan for its own internal financial needs does little to build confidence or credibility in terms of project competency."

Conclusion, OAR/Burundi Comments, and Recommendation

Daily project procurement needs have suffered because of OAR/ Burundi's failure to timely submit advance requests. Failure to process fund requests had negatively affected project operations as well as ONATOUR's confidence in OAR/Burundi's ability to financially manage its own operations. To fully support the project's goals of strengthening financial management within ONATOUR, OAR/Burundi must ensure adequate funding for in-house project use.

On improving the timeliness of submitting advance requests, OAR/Burundi advised: "OAR/Burundi is working to improve its procedures for handling project requests for advances. While the system does not yet work as smoothly as desired, improvements have been made. OAR/B will continue to monitor this problem closely."

Recommendation No. 6

OAR/Burundi ensure timely submission of advance requests in order to meet daily project procurement needs.

OAR/Burundi Failed To Establish Adequate Financial Controls Over Project Funds

Although requested by project management, OAR/Burundi failed to periodically audit local currency funds. Good accounting practices require periodic verification of cash on hand and expenditures compared to total funds advanced. OAR/Burundi also failed to periodically reconcile official mission records furnished by RFMC to their mission records and project records.

Sound accounting practices advocate periodic unannounced audits of cash funds. An audit would consist of periodic verifications of cash on hand plus expenditures compared to funds advanced as shown in OAR/Burundi's cuff records and RFMC's official mission records. The contract management team tried to comply with this practice when it requested periodic verifications of local currency funds ($20,000 monthly average) in June 1983. The mission management officer returned the memo because he did not believe verification was his responsibility. Such lax controls can lead to misuse of government funds either through mismanagement or misappropriation.

OAR/Burundi had also neglected its monitoring responsibility by failing to reconcile RFMC's official mission records to their records and project records. Although the financial specialist submitted monthly line item accrual reports to the mission, OAR/Burundi had never reconciled their own records with project records or with the official records furnished by RFMC. Project records and OAR/Burundi's records represented subsidiary records of project funds expenditure whereas RFMC's mission records served as official records. After project management prepared and submitted these procurement documents, they categorized the expenditure according to their perception of the correct budget line item. The responsible OAR/Burundi employee coded and submitted these procurement documents to RFMC. However, no one from OAR/Burundi had coordinated with project management to ensure accurate subsidiary records or compared OAR/Burundi records to those of RFMC. A comparison of RFMC records and project status records dated September 30, 1983 found line item disbursement discrepancies of $60,048 for technical assistance, $213,848 in commodities, $28,602 in training, and $178,986 in construction.

Conclusion and OAR/Burundi Comments

OAR/Burundi has not adequately monitored project local currency funds or project records. Sound accounting practices as well as management practices advocate periodic audits of cash funds and reconciliation of subsidiary accounting records to official records. It is imperative that OAR/Burundi take prompt steps to ascertain the integrity of the use of government funds by initiating periodic unannounced audits. Also, OAR/Burundi must perform periodic reconciliations of their records to those of the project and RFMC to ensure accurate subsidiary accounting records and an accurate reporting of project expenditures.

In response, OAR/Burundi stated: "The local project officer has begun periodic, unannounced audits of the project local currency funds. This will continue on at least a monthly basis."

"OAR/B and project staff have begun reconciling their records with RFMC's records. This task has taken longer than anticipated due to incomplete records (when REDSO or AID/W are the authorized agents on PIO/Cs OAR/B does not receive vouchers) and the press of other project activities, such as the budget revision and procurement for the 1984 production season. OAR/B expects to complete the reconciliation to the extent possible based on records available at post within one month."

In view of the actions taken as a result of our draft recommendation, we have deleted the first part of the recommendation requiring periodic unannounced audits. We have retained the requirement for periodic reconciliation of records until OAR/Burundi has reconciled the differences and has established a procedure to perform periodic reconciliations of records.

Recommendation No. 7

OAR/Burundi reconcile the difference between RFMC and subsidiary records; and establish procedure for periodically reconciling project and OAR/Burundi subsidiary records to RFMC's official records.

A Cost-Accounting System Needed To Be Established In ONATOUR

Although ONATOUR's financial management had improved since the Coopers and Lybrand audit of their 1979, 80, and 81 records, a cost accounting system as required by the Project Grant Agreement has still not been established. In our opinion, a parastatal such as ONATOUR should be run as a profit making organization. Although a cost accounting system may not be critical to ONATOUR's operation, it certainly has various applications such as determining cost for developing the selling price of peat.

One of the specific areas identified in the project grant agreement for significant strengtheing was financial management (both general and cost accounting). The project grant agreement further stated that by the end of the project, ONATOUR will have established and have in operation a general and cost accounting system and revenues will cover operating costs.

Contract management's financial specialist tried to comply with the project grant agreement's requirements to establish a cost accounting system by preparing financial records in a cost accounting format. However, ONATOUR's management did not enthusiastically accept the cost accounting concept. In their opinion, cost accounting systems provide necessary data for competitive industries but are of little use to parastatal organizations such as ONATOUR, which do not have any competition in the sale of peat.

Conclusion, OAR/Burundi Comments, RIG/A/Nairobi Response, and Recommendation

We do not agree that parastatal organizations such as ONATOUR have little use for a cost accounting system. In our opinion, ONATOUR should be run as a profit making business if revenues are going to cover operating costs. Without an adequate cost accounting system, it would be difficult to establish the price that must be charged for peat in order to cover operating costs. Although a cost accounting system may not be critical to ONATOUR's operation, we believe that it would be in the best interests of the project to ensure that a cost accounting system is established.

In response, OAR/Burundi stated: "In April a private accounting firm, Coopers and Lybrand, will perform an audit of ONATOUR's accounts and in May there will be a project evaluation. OAR/B will request the recommendations of both teams on the procedures and timing for introducing a cost accounting system at ONATOUR. Based on these recommendations, OAR/B may contract with Coopers and Lybrand to provide technical assistance in setting up the system."

We have retained the recommendation until OAR/Burundi advises us that a cost accounting system has been implemented.

RECOMMENDATION NO. 8

OAR/Burundi should ensure that ONATOUR establish a cost accounting system as required by the project grant agreement.

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APPENDIX B

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