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FOREIGN ASSISTANCE

USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates



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Highlights

Highlights of [GAO-06-488](#), a report to congressional committees

Why GAO Did This Study

In December 2004, an earthquake off the coast of Indonesia caused a tsunami that left more than 230,000 people killed or missing and presumed dead and an estimated \$10 billion in damage in 12 countries. In May 2005, Congress appropriated \$908 million for relief and reconstruction. U.S. emergency relief efforts budgeted at \$327 million were nearly completed in December 2005. The U.S. Agency for International Development (USAID) plans to spend \$496 million on longer-term reconstruction, focusing on Indonesia and Sri Lanka, with the remaining \$85 million allocated to other U.S. agencies. GAO has been mandated to monitor USAID's reconstruction efforts. In this report, GAO describes USAID's (1) progress in Indonesia and Sri Lanka, (2) financial and technical oversight measures, and (3) implementation challenges.

What GAO Recommends

GAO recommends that the Secretary of State, in the department's semiannual report due to Congress in June 2006, provide updated cost estimates and schedules. If the updated information differs substantially from initial projections, the report should also include alternative project scopes and the need for additional sources of funding, if necessary. The Department of State agreed to fully implement this recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-06-488.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

FOREIGN ASSISTANCE

USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates

What GAO Found

USAID has begun a number of reconstruction activities in Indonesia and Sri Lanka. As of January 31, 2006, approximately 8 months after Congress appropriated funding, USAID had obligated \$111 million (32 percent) and expended \$9 million (3 percent) of the \$349 million budgeted for reconstruction in Indonesia, and it had obligated all and expended \$2 million (2 percent) of the \$85 million budgeted for reconstruction in Sri Lanka. However, rising prices of materials and labor in both countries may increase costs for many construction efforts, including USAID's "signature" projects, which are intended to generate greater visibility for U.S. assistance. In addition, revisions to initial assessments of site conditions may challenge USAID's ability to finish its signature project in Indonesia—a 150-mile road in Aceh Province—by September 2009, the estimated completion date. In Sri Lanka, the time needed to complete designs and plans may make it difficult to finish one part of USAID's signature project—a bridge at Arugam Bay—by March 2008, although this project is currently slightly ahead of schedule. USAID plans to complete most of its other reconstruction projects, such as building schools and restoring livelihoods, by September 2007.

USAID has established financial and technical oversight for its tsunami recovery programs in Indonesia and Sri Lanka. For financial oversight, USAID plans to arrange a concurrent audit of the signature road project in Indonesia and strengthen Indonesian and Sri Lankan audit capacities. For technical oversight, USAID has begun to add staff to oversee its signature construction projects and has acquired additional construction engineering expertise from another U.S. agency. An additional engineer will start work in Indonesia in May 2006. In Sri Lanka, USAID has added two engineers to its staff and plans to hire an additional construction oversight engineer in April 2006, prior to beginning construction.

In implementing its Indonesian and Sri Lankan reconstruction programs, USAID faces several broad challenges. These include working in regions with long-standing conflicts, coordinating with host governments and nongovernmental organizations, and ensuring that non-tsunami-related development assistance activities are not neglected. To address these challenges, USAID has taken actions such as engaging in peace-building initiatives, participating in regularly scheduled coordination meetings, and hiring and reassigning staff to assist with increased workloads.

Tsunami-Damaged Road (left) and USAID-Funded Maintenance Work in Indonesia



Source: GAO.

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Abbreviations

BPK	Indonesian Audit Board
BRR	Indonesian Rehabilitation and Reconstruction Agency
DOD	U.S. Department of Defense
IG	USAID Office of the Inspector General
NGO	nongovernmental organization
OFDA	USAID Office of U.S. Foreign Disaster Assistance
OTI	USAID Office of Transition Initiatives
TAFREN	Sri Lankan Task Force for Rebuilding the Nation
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

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United States Government Accountability Office
Washington, D.C. 20548

April 14, 2006

The Honorable Mitch McConnell
Chairman
The Honorable Patrick J. Leahy
Ranking Minority Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
United States Senate

The Honorable Jim Kolbe
Chairman
The Honorable Nita M. Lowey
Ranking Minority Member
Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

On December 26, 2004, a severe earthquake in the Indian Ocean off the coast of Indonesia created a major tsunami that struck 12 countries in Asia and East Africa.¹ As a result of the tsunami, more than 230,000 people were either killed or are missing and presumed dead, more than 1.7 million people were displaced, and an estimated \$10 billion in damage was caused to infrastructure, houses, and other property. Following initial emergency response efforts by the United States and other donors, individuals, national governments, and others around the world pledged more than \$13 billion to assist in rebuilding tsunami-affected areas throughout the region.² In May 2005, Congress appropriated approximately \$908 million in assistance for tsunami relief, reconstruction, and related programs. Beyond \$327 million that was budgeted for survivors' immediate needs for medicine, food, and shelter, approximately \$496 million is budgeted for longer-term reconstruction and related programs to be administered by the

¹The 12 countries that sustained significant damage from the tsunami are Bangladesh, India, Kenya, Indonesia, Malaysia, the Maldives, Myanmar, Seychelles, Somalia, Sri Lanka, Tanzania, and Thailand. Several other countries, including Comoros, Madagascar, and Mauritius, sustained minimal damage.

²Although pledges of \$13 billion exceed initial damage estimates of \$10 billion, escalating costs may increase the amount of funding needed for reconstruction.

U.S. Agency for International Development (USAID). This amount includes \$349 million for Indonesia and \$85 million for Sri Lanka, the two countries with the greatest estimated needs, and \$62 million for other countries and regional programs. The remaining \$85 million was budgeted to other U.S. agencies. USAID began most of its activities by September 2005, including “signature” projects intended to generate greater visibility for overall U.S. assistance. Initial USAID plans call for completing its nonsignature activities in both countries by September 2007 and its signature projects in Indonesia and Sri Lanka by September 2009 and March 2008, respectively.

We were directed to monitor the delivery of U.S. assistance to the tsunami-affected countries.³ For this report, we examined (1) USAID’s progress in providing longer-term reconstruction assistance in Indonesia and Sri Lanka; (2) the extent to which USAID has established financial and technical oversight; and (3) any challenges USAID faces and any steps the agency has taken to address these challenges.

To address these matters, we reviewed USAID’s expenditures through January 2006, and analyzed USAID’s program objectives and oversight. We also traveled twice to Indonesia and once to Sri Lanka between July and December 2005. On our trips, we visited numerous project sites in the tsunami-affected areas, meeting with survivors and monitoring the progress of USAID’s portfolio of projects. We determined that USAID’s funding and expenditure data were sufficiently reliable for our analysis. In addition, we considered previous GAO work on U.S. disaster assistance efforts. We conducted our work from May 2005 through March 2006 in accordance with generally accepted government auditing standards. (For details of our scope and methodology, see app. I.)

Results in Brief

USAID has recently initiated reconstruction programs in Indonesia and Sri Lanka, but, primarily because of rising costs and scarcity of materials and labor, it appears that some projects may exceed USAID’s initial cost and schedule estimates.

³H. Rept. 109-16, p. 49.

-
- USAID has started many of its planned reconstruction activities in Indonesia.⁴ As of January 31, 2006, the agency had obligated \$111 million (32 percent) and expended \$9 million (3 percent) of the \$349 million budgeted for reconstruction.⁵ USAID has awarded contracts for preliminary work on a 150-mile signature road construction project in Aceh Province, which, at a projected cost of \$245 million, represents roughly two-thirds of U.S. reconstruction funding in Indonesia. However, completing the road within projected cost estimates and time frames may be difficult for the following reasons:
 - USAID's initial cost estimate was based on building the new road over large portions of undamaged sections of the existing road and over the temporary road built by the Indonesian army. Since the initial estimate, however, plans for routing the road have changed. According to the U.S. Army Corps of Engineers (USACE), large segments of the road are now planned along new undeveloped routes that require more extensive construction activities than originally anticipated and, as a result, higher costs. Because of uncertainty about site conditions, USACE included a 20 percent contingency in its initial cost estimate. USAID expects to have updated cost estimates in June 2006.
 - Demand for, and costs of, construction materials and labor have increased substantially. For example, according to USAID officials, the price of fuel oil in Indonesia had risen by more than 250 percent between February and December 2005. In addition, as regional reconstruction continues over the next several years, construction spending is expected to increase fortyfold from pretsunami levels, rising from \$50 million to \$2 billion annually, and 200,000 additional workers will be needed to meet construction demands.

⁴The United States has a signed agreement with the government of Indonesia for a total of approximately \$400 million for all emergency relief, recovery, and reconstruction assistance activities.

⁵Generally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received ([GAO-05-734SP](#), p. 70). Consistent with 31 U.S.C. 1501 defining when an agency can record an obligation, USAID policy is to treat as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, for purposes of this report, obligations are defined as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions subobligations. Expenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

-
- The Indonesian government faces difficulties in acquiring the land and establishing the right-of-way needed for the road.

USAID has also initiated several other reconstruction and related projects in Indonesia, including

- constructing schools, clinics, and water distribution and port facilities;
- providing technical assistance for good governance and supporting the Indonesian government's coordination and audit organizations; and
- providing housing and small loans.

However, some of these projects also face increasing costs and potential delays. For example, soon after agreeing to build 1,000 houses for \$4,500 per house, a USAID implementing partner informed the agency that escalating prices had increased the unit cost to \$7,000. According to USAID officials, the nongovernmental organization implementing the program will reduce its budget for other USAID-funded projects and will attempt to solicit private donations to meet its commitment.

USAID has initiated many of the reconstruction activities planned for Sri Lanka.⁶ As of January 31, 2006, the agency had obligated all \$85 million (100 percent) and expended \$2 million (2 percent) of the amount budgeted for reconstruction. USAID has begun its signature project, which comprises

- building infrastructure, including a bridge and water treatment facility, and repairing damaged fishing facilities;
- providing construction and tourism-related training; and
- constructing new and repairing tsunami-damaged vocational education facilities.

⁶The United States has a signed agreement with the government of Sri Lanka for a total of approximately \$134 million for all emergency relief, recovery, and reconstruction assistance activities.

However, as in Indonesia, several factors may limit USAID's ability to complete its signature project activities in Sri Lanka within projected costs and schedules.

- Limited availability and rising costs of materials and labor may increase the costs and time required to complete some projects. For example, one of USAID's implementing partners reported that, during 2005, the cost of brick had doubled and that similar increases had occurred for cement and lumber. USAID has acknowledged that, to address increases in costs or difficulty in obtaining materials or expertise, the USAID mission in Sri Lanka is considering moving funds from other tsunami reconstruction activities to complete some construction projects.
- Although currently projected by USAID to be completed in January 2008, an extended design and planning phase for the signature bridge construction project may make it difficult for USAID to finish the project by March 2008, the initial projected completion date.

USAID has begun other projects in Sri Lanka, most of which it expects to complete by September 2007, including

- construction of playgrounds and rehabilitation of community markets,
- promoting transparent local governance, and
- providing loans to small businesses and vocational training.

Although USAID has established financial and technical oversight measures for its tsunami reconstruction programs in Indonesia and Sri Lanka and hired some staff, it has not staffed several positions that it considers critical to essential technical oversight. For financial oversight, USAID has implemented its standard financial controls, such as conducting preaward surveys of prospective award recipients and establishing a schedule of independent financial audits. USAID also plans to establish measures that augment these controls, including contracting for an additional concurrent audit of the Indonesia signature road project by the Defense Contract Audit Agency. USAID's Office of the Inspector General (IG) is currently conducting audits to address concerns about potential corruption and misuse of funds and plans to conduct additional audits. For technical oversight, USAID added staff in both Indonesia and Sri Lanka with expertise to oversee large-scale projects such as roads and bridges and it entered into successive interagency agreements with USACE for

technical services.⁷ As of March 2006, USAID transferred three persons with engineering and management experience and hired an engineer to oversee the signature road construction project in Indonesia, but the engineer is not expected to begin working until May 2006. In Sri Lanka, USAID added two engineers to its staff in late 2005 to oversee infrastructure construction activities, but as of March 2006, one engineering-related position has not been filled.

USAID faces three broad challenges in implementing its tsunami recovery program in Indonesia and Sri Lanka, but it has taken some steps to address them.

- **Working in regions with long-standing civil conflicts.** Civil conflict in both Indonesia and Sri Lanka could affect USAID's ability to complete reconstruction projects within projected time frames. Conflict has subsided in Indonesia following the August 2005 signing of a peace accord between the Indonesian government and an Indonesian separatist group, but in Sri Lanka, USAID's ability to provide assistance in some regions has been limited by recent increases in violent incidents. To strengthen the peace process in both countries, USAID designed and is implementing some projects, such as building infrastructure in Indonesian communities, to facilitate former combatants' participation.
- **Coordinating with host governments and nongovernmental organizations (NGO).** USAID has encountered difficulties in coordinating its reconstruction efforts with the governments of Indonesia and Sri Lanka and with NGOs operating in those countries. Although both governments established entities to coordinate donor support following the tsunami, neither entity has been able to fully ensure that projects do not overlap. In addition, the Sri Lankan government has inconsistently enforced a ban on rebuilding in coastal areas since the tsunami, making it difficult for USAID to proceed with some nonconstruction projects. Also, USAID has encountered challenges in coordinating with NGOs operating in the two countries, which in some instances has led to duplication of efforts. To avert

⁷Services provided by USACE in Indonesia and Sri Lanka included identifying large-scale infrastructure projects; developing scopes of work, cost estimates, and initial environmental reviews; and recommending acquisition strategies for signature infrastructure projects. In Indonesia, two USACE engineers are continuing to assist USAID in project management and construction oversight.

potential future overlap with NGO programs in Sri Lanka, USAID has participated in weekly meetings with the Sri Lankan government coordinating entity and NGOs, among others, to designate responsibility for different geographic areas.

- **Ensuring that the tsunami focus does not hamper nontsunami development assistance.** Recognizing that the urgency to respond to the tsunami could hamper the management of some ongoing development projects in Indonesia and Sri Lanka, USAID has taken several steps. In Indonesia, three key positions were created to provide needed oversight in Aceh, and USAID plans to add positions for oversight of both regular and tsunami project activities. In Sri Lanka, after temporarily suspending some non-tsunami-related community development projects, USAID plans to add an additional specialist during fiscal year 2006 to ensure coverage of tsunami assistance projects.

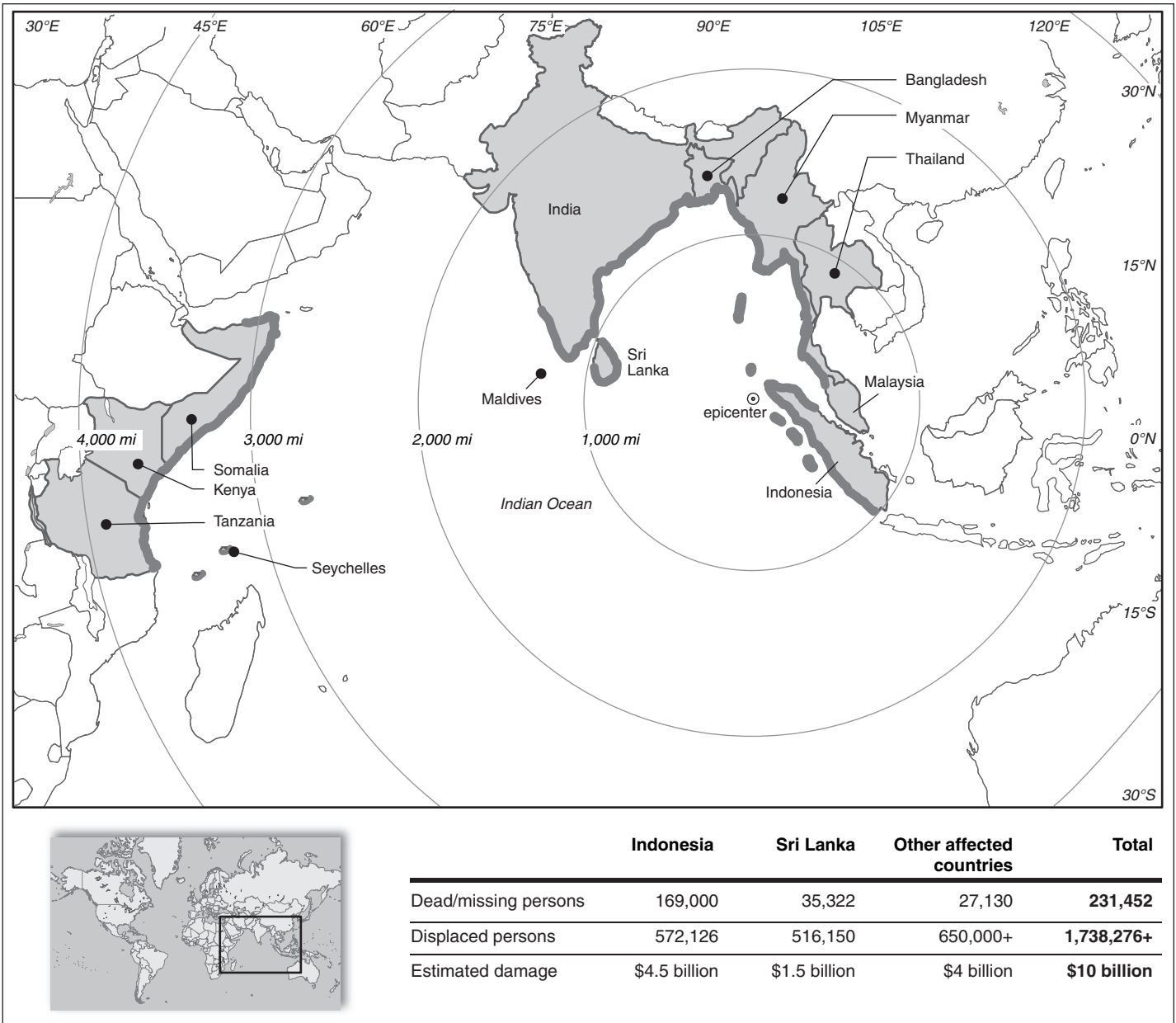
Based on our review of USAID's planning and design efforts for its reconstruction program, especially with regard to the signature road project in Indonesia and bridge project in Sri Lanka, we are recommending that the Secretary of State, in the department's required semiannual report to Congress due in June 2006, provide updated cost estimates and schedules obtained from USAID. If the updated information differs substantially from initial projections, the report should also include alternative cost estimates, schedules, project scopes and, if necessary, the need for additional funding sources. In commenting on a draft of this report, the Department of State agreed to fully implement our recommendation and USAID stated that the report's findings accurately describe the tsunami program situation and the potential broad challenges for achieving its reconstruction goals. USAID also provided information on additional steps the agency intends to take to mitigate the potential for increased costs and schedule delays, as well as an explanation of how it obligates funds.

Background

Although the tsunami's effects were concentrated in the countries closest to the earthquake's epicenter in the Indian Ocean, about 100 miles off the coast of Sumatra, it also destroyed communities along some coastlines thousands of miles away. A year later, in December 2005, more than 40,000 persons were still listed as missing and tens of thousands remained in temporary housing. Figure 1 shows the most-affected countries, the

numbers of people dead, missing, and displaced, and the estimated damage as a result of the tsunami.

Figure 1: Tsunami-Affected Countries; Numbers of Dead, Missing, and Displaced Persons; and Estimated Damage, as of November 2005

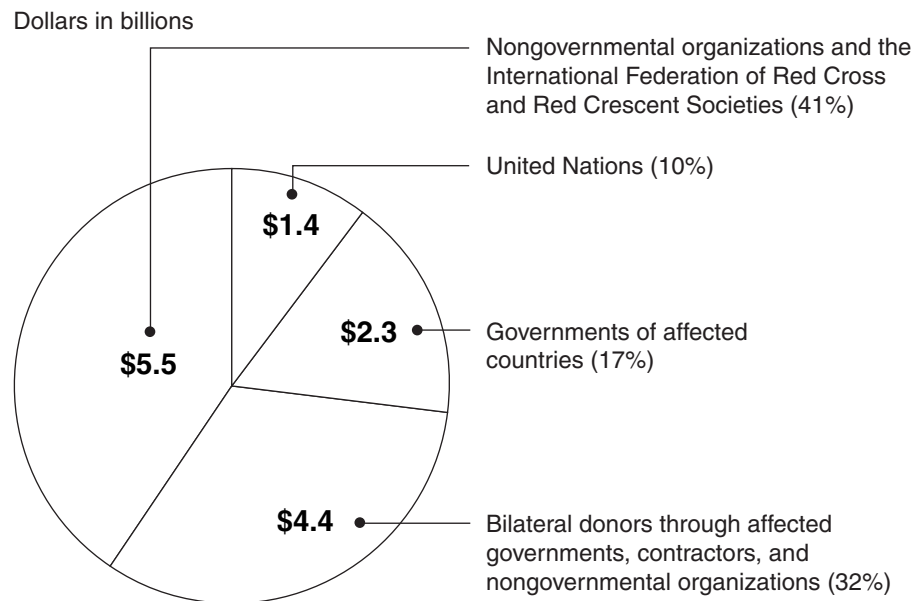


Sources: MapArt (map); UN Office of the Special Envoy for Tsunami Recovery (affected countries and data).

International Funding and Implementing Entities for Tsunami Relief and Reconstruction

Responding to the magnitude of the disaster, the international donor community, including the United States, pledged approximately \$13.6 billion to assist with tsunami relief and reconstruction efforts in all of the affected countries. National governments and the European Union pledged \$6.2 billion of this amount (45 percent), private individuals and companies pledged \$5.1 billion (38 percent), and international financial institutions pledged \$2.3 billion (17 percent). These funds are being provided to a wide range of entities involved in implementing relief and reconstruction efforts (see fig. 2).

Figure 2: Entities Implementing International Tsunami Relief and Reconstruction Assistance



Source: UN Office of the Special Envoy for Tsunami Recovery.

USAID and Military Agencies' Emergency Relief Efforts

USAID and the U.S. Department of Defense (DOD) and its component services provided immediate assistance to tsunami survivors and to the governments of many of the affected countries, largely completing these

efforts by the end of 2005.⁸ USAID's Office of U.S. Foreign Disaster Assistance (OFDA), Office of Transition Initiatives (OTI), and other USAID offices assisted survivors by providing food, water, temporary shelter, and other critical needs. Soon afterward, USAID initiated economic reactivation projects, such as paying people to remove debris in many affected areas. USAID's emergency relief budget totaled approximately \$101 million, including \$32 million in Indonesia and \$47 million in Sri Lanka.

In addition, several DOD component services, including the U.S. Air Force and Navy, provided important emergency relief. For example, the Air Force rescued survivors and airlifted supplies, and a Navy hospital ship provided medical support. The supplemental tsunami appropriations law provided up to \$226 million to reimburse DOD for its emergency relief activities. As of January 2006, DOD expended approximately \$125 million (55 percent), including nearly \$79 million for airlift and other flying costs and slightly more than \$7 million for health- and medical-related services. Of the remaining \$101 million, DOD had not completed a final reconciliation of \$47 million, \$40 million had been reprogrammed to help cover DOD's costs in other disaster assistance efforts, and \$14 million had lapsed. Table 1 shows U.S. tsunami emergency relief funds budgeted and expended.

⁸As of January 31, 2006, USAID had not completed a small number of emergency relief projects, such as cash-for-work activities to remove debris and rehabilitate small infrastructure. However, according to a USAID official, all emergency relief projects will be completed and funds expended by the end of 2006.

Table 1: U.S. Tsunami Emergency Relief Funds Budgeted and Expended, as of January 2006

Dollars in millions

Purpose	Funds budgeted	Funds expended (percentage of funds budgeted)	Comments
DOD emergency relief efforts ^a	\$226	\$125 (55)	Of the unexpended \$101 million, <ul style="list-style-type: none"> • \$47 million was obligated, but because some cost data are not yet available, DOD has not determined the amount expended; • \$40 million was reprogrammed for disaster assistance efforts in Guatemala and Pakistan; and • \$14 million lapsed.
USAID emergency relief efforts ^a	101	70 (69)	Of the unexpended \$31 million, the entire amount was obligated but not expended because some projects were intended to purposely transition into the reconstruction phase.
Total	\$327	\$195 (60)	

Sources: DOD and USAID.

^aDOD data are through January 26, 2006, and USAID data are through January 2006.

U.S. Supplemental Funding Budgeted for Reconstruction in Tsunami-Affected Countries

Of the \$908 million appropriated for tsunami relief and reconstruction assistance, \$581 million, or 64 percent, was budgeted for reconstruction and other postemergency relief activities. Of this amount, USAID was budgeted \$496 million for reconstruction, and other U.S. agencies were budgeted \$85 million for various other activities. (See table 2.)

Table 2: Funding Budgeted to USAID and Other U.S. Departments and Agencies for Reconstruction and Other Postemergency Activities, as of January 31, 2006

Dollars in millions	
Department or agency	Funding budgeted
USAID reconstruction	
Indonesia	\$349
Sri Lanka	85
Other countries, regional programs, operating costs, and other expenses	62
Subtotal	\$496
Other U.S. departments and agencies	
Centers for Disease Control and Prevention: Avian flu prevention and control	15
U.S. Departments of Commerce and the Interior: Regional early warning systems and disaster preparation	25
U.S. Department of the Treasury: ^a Debt relief to the government of Indonesia	20
Debt relief to the government of Sri Lanka	3
State Department: Reconstruction efforts in the Maldives	11
Assisting U.S. families in searching for persons, and monitoring human trafficking	5
U.S. Trade and Development Agency Technical assistance and project planning for reconstruction	6
Subtotal	\$85
Total	\$581

Sources: USAID and P.L. 109-13, May 11, 2005, Title IV, Chap. 1-5.

^aFunds were initially budgeted to USAID; Treasury is involved in oversight.

USAID Reconstruction Programs in Indonesia and Sri Lanka

USAID's planned reconstruction efforts in Indonesia and Sri Lanka include its signature projects, such as road and bridge construction; small-scale infrastructure projects, such as rebuilding schools and clinics; technical assistance for good governance; and transition assistance to improve survivors' livelihoods and, in Indonesia, to build houses. In addition, USAID, through a transfer of funds to the Department of the Treasury, is funding debt relief to the governments of Indonesia and Sri Lanka; in exchange for deferral of a portion of their debt, both governments agreed to use the resources freed by debt deferral for relief and reconstruction-related programs (see app. II for a more detailed

description of this aspect of the program). Table 3 shows the funds budgeted for ongoing and planned U.S. reconstruction assistance in Indonesia and Sri Lanka.

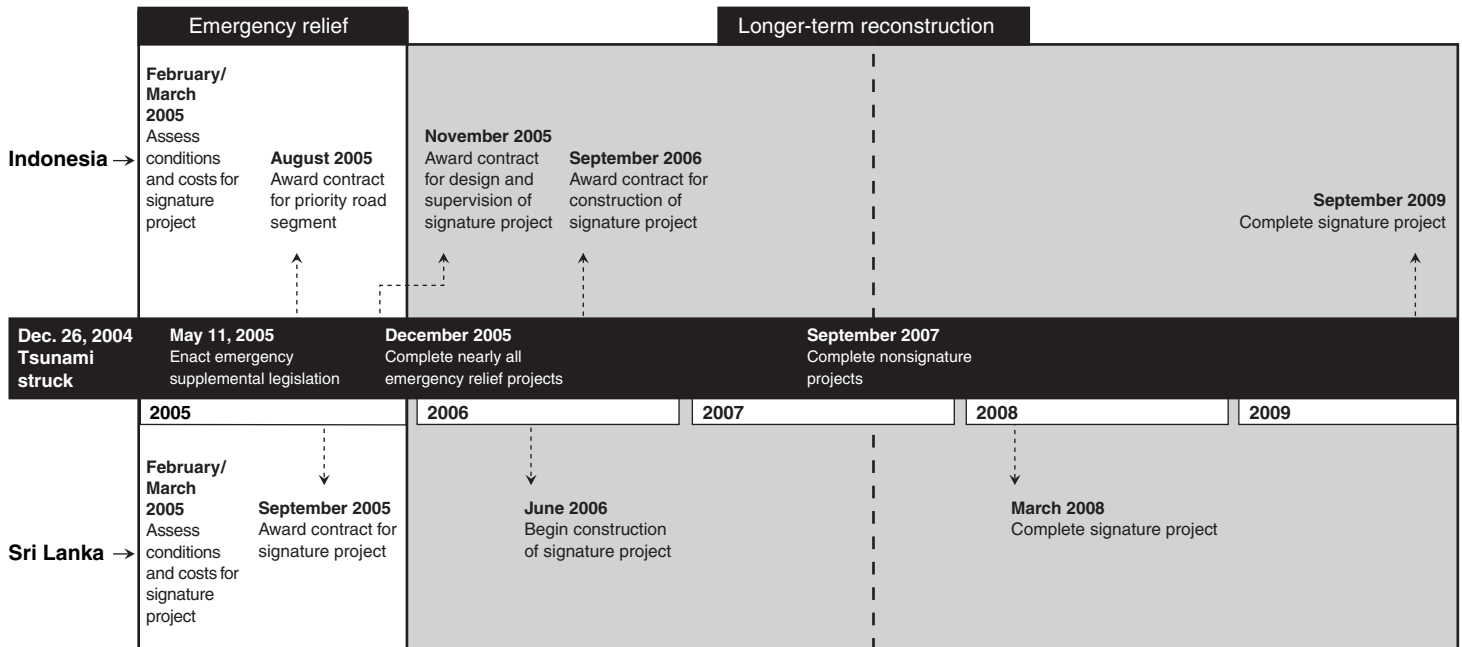
Table 3: USAID Funds Budgeted for Tsunami Reconstruction Projects in Indonesia and Sri Lanka

Dollars in millions		
Project description	Indonesia	Sri Lanka
Signature infrastructure	\$245	\$35
Transition assistance	59	17
Small-scale infrastructure	29	15
Technical assistance for good governance	10	8
Other projects and operating expenses	6	10
Total	\$349	\$85

Source: USAID.

Initial USAID plans call for completing its nonsignature activities in both countries by September 2007 and its signature projects in Indonesia and Sri Lanka by September 2009 and March 2008, respectively. Section 4102 of the supplemental appropriations act requires that, beginning in December 2005, the Secretary of State report to Congress every 6 months on tsunami-related progress, expenditures, and schedules. The report due in December 2005 was provided to Congress on March 22, 2006. Figure 3 shows USAID's projected timeline for completing its tsunami reconstruction programs in Indonesia and Sri Lanka.

Figure 3: Projected Timeline for USAID Tsunami Reconstruction Programs in Indonesia and Sri Lanka



Source: USAID.

USAID Reconstruction Programs in Indonesia and Sri Lanka Have Begun, but Some Project Costs and Schedules May Exceed Initial Projections

USAID has obligated some, and expended small percentages, of its reconstruction funding in both countries and has initiated some of its planned activities. However, USAID may have difficulty completing its reconstruction projects—particularly its large-scale signature projects—within initial cost estimates and schedules because of, among other factors, increased demand and higher costs for construction materials and labor in both Indonesia and Sri Lanka.

USAID Has Begun Reconstruction Efforts in Indonesia, but Several Factors May Increase Costs and Delay Schedules

In Indonesia, USAID has begun many of the reconstruction projects that it plans to complete by September 2007. USAID has obligated about one-third, and expended a small percentage, of the funding budgeted for reconstruction in that country. In addition, USAID has begun to design, and performed preliminary site work on, a 3-mile segment of its large-scale signature infrastructure project, a 150-mile paved road; however, because

of a variety of factors, the overall road construction project may overrun cost and time estimates. Similarly, USAID is currently planning and designing its small-scale infrastructure projects and has begun its transition assistance projects, both of which may also exceed cost and schedule projections.

USAID Has Obligated about One-third and Expended a Small Percentage of Reconstruction Funds in Indonesia

As of January 31, 2006, USAID had obligated \$111 million (32 percent) and expended \$9 million (3 percent) of the \$349 million budgeted for its reconstruction projects in Indonesia (see table 4).⁹ These activities include the signature road construction, small-scale infrastructure construction, technical assistance for good governance, and transition assistance.

Table 4: USAID’s Indonesian Reconstruction Activities and Funding, as of January 31, 2006

Dollars in millions

Project description	Funds budgeted	Funds obligated (percentage of funds budgeted) ^a	Funds expended (percentage of funds budgeted) ^b	Projected completion date
Signature road construction	\$245	\$35 (14)	\$1 ^c (0)	September 2009
Transition assistance	59	49 (83)	6 (10)	September 2007
Small-scale infrastructure construction	29	15 (52)	0 (0)	September 2007
Technical assistance for good governance	10	10 (100)	1 (10)	September 2007
Other projects and operating expenses	6	2 (33)	1 (17)	September 2007
Total	\$349	\$111 (32)	\$9 (3)	

Source: GAO analysis of USAID data.

^aGenerally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received (GAO-05-734SP, p. 70). Consistent with 31 U.S.C. 1501 defining when an agency can record an obligation, USAID policy is to treat as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, for purposes of this report, obligations are defined as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions subobligations.

^bExpenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

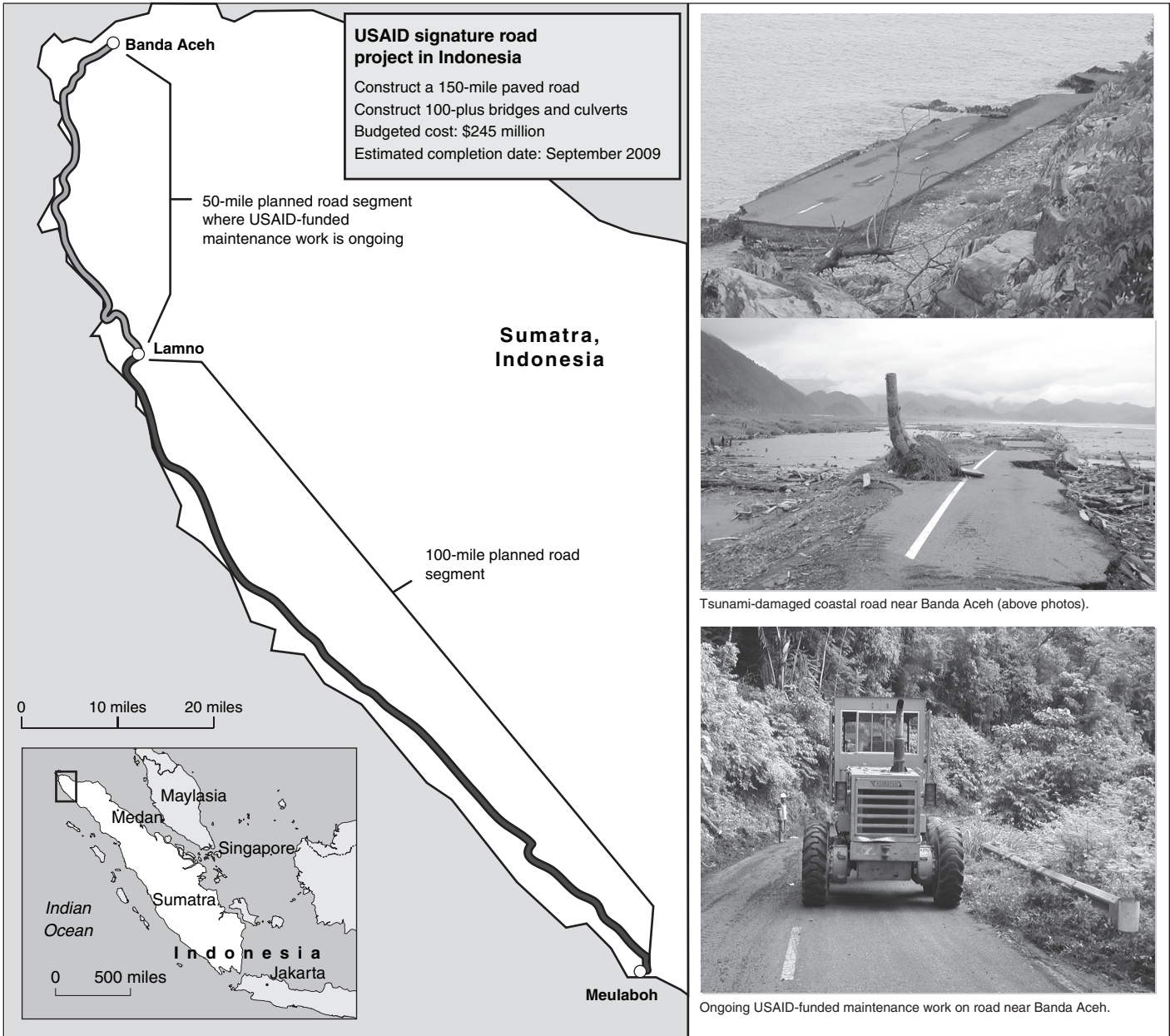
^cUSAID plans to award the signature road construction contract by September 2006 and expects construction to take 3 years. As is normal practice in administering construction contracts, funds will be expended incrementally over this period as segments of work are completed.

⁹USAID funding includes \$10 million to the World Bank’s Multidonor Trust Fund, which supports the rehabilitation and reconstruction of Aceh Province, Indonesia.

USAID Has Started Indonesian Signature Road Project but May Encounter Cost and Time Overruns

USAID awarded an initial contract and began work on a segment of its signature road construction project in Indonesia in August 2005, but, owing to various factors, the project may overrun initial cost estimates and schedules. The proposed project, budgeted at \$245 million, consists of building a 150-mile paved two-lane road and more than 100 bridges and culverts along the western coast of Aceh Province on the island of Sumatra, from the provincial capital of Banda Aceh to the city of Meulaboh. The tsunami's impact destroyed or badly damaged much of the original road, a vital transportation route for the region. USAID agreed to reconstruct the road to support the Indonesian government's overall reconstruction strategy, with the goal of helping to restore the economic strength of the area and promoting the redevelopment of the affected communities. According to an Indonesian government report, the road is key to revitalizing the economy of Aceh Province and to successfully initiating other reconstruction efforts. Figure 4 shows the approximate route of the planned road and photos of damage caused by the tsunami.

Figure 4: Approximate Route of Planned USAID Signature Road Project in Aceh Province, Indonesia



Sources: GAO (photos); USAID (data); MapArt (inset map); and U.S. Army Corps of Engineers (Sumatra, Indonesia, map).

USAID plans to design and construct the signature road in three distinct phases, with separate contracts for each phase. USAID also entered into

interagency agreements with USACE for technical support. In early 2005, USACE and USAID conducted a preliminary assessment of site conditions and prepared the cost estimate that USAID submitted to Congress. The three phases for the signature road project are as follows (see app. III for more details):

1. **Maintain a rehabilitated 50-mile temporary segment and construct a short segment.** In August 2005, an Indonesian firm began maintaining a temporary 50-mile road segment, from Banda Aceh to Lamno, and designing and constructing a new 3-mile segment. This maintenance work is intended to ensure that the temporary segment, recently rehabilitated by the Indonesian army, remains passable until permanent construction is completed.
2. **Design the signature road and supervise its construction.** The second contract, for designing most of the 150-mile road and supervising construction work, was awarded to a U.S. firm in November 2005. The firm will supervise construction of the 3-mile segment, develop plans and specifications for the remaining 147 miles, and assist USAID in awarding and supervising construction of the signature road.
3. **Construct the signature road.** USAID plans to award a third contract by September 2006 to construct the 147-mile segment of the signature road.

However, several factors—limited site information, rising materials and labor costs, and land acquisition issues—may increase the signature road project’s total costs and the difficulties of completing it within the intended time frame.

- **Limited site information.** A joint USAID-USACE team initially assessed conditions and developed a cost estimate for building the road.¹⁰ The estimate was based on using undamaged sections of the existing road and large segments of the temporary road placed by the Indonesian Army. A 20 percent contingency was included in the cost estimate because much of the road’s planned route was inaccessible, resulting in the team approximating site conditions and developing

¹⁰According to a USACE official, about one-third of the road was surveyed on the ground and the remainder was surveyed from the air by helicopter.

plans based on their assumptions.¹¹ However, actual costs may still exceed the estimate because plans for routing the road have changed. According to USACE, current plans show that large segments of the road are now planned to be placed along new undeveloped routes—not along existing routes as initially planned. This change is expected to result in the need for more earthwork and related construction activities than originally anticipated.

- **Rising costs.** Increasing costs for materials and labor will also likely affect the road construction project's overall cost. Demand for construction labor and materials has risen dramatically in Aceh Province and, according to USAID officials, will likely continue to rise. For example, a USAID official reported that the price of fuel oil used for construction equipment had risen more than 250 percent, from \$0.17 per liter in February 2005 to \$0.60 per liter in December 2005. According to the United Nations Development Program, posttsunami construction spending in and around Aceh is expected to increase fortyfold from pretsunami levels, from \$50 million to \$2 billion per year, and 200,000 additional workers will be needed to meet construction demands.¹² Because the demand for skilled workers is greater than the number available, labor costs for reconstruction projects requiring skilled workers may rise.
- **Land acquisition.** Awarding the signature road construction contract by September 2006 may be difficult because of uncertainties regarding the road alignment and acquiring the needed right-of-way. The alignment of the new road will differ from the former road because, in some locations, the former roadbed is either submerged or was rendered otherwise inaccessible by the tsunami's impact. According to a USAID official, the design contractor intends to propose a final road alignment to Indonesian authorities by mid-May 2006. Once the alignment is approved, the Indonesian government must coordinate with multiple jurisdictions to obtain land. USAID helped establish a technical steering

¹¹USACE's cost estimate is consistent with Construction Industry Institute best practices, which suggest that actual costs for projects for which limited information on conditions is available, such as the Aceh road construction project, can be expected to range from 20 percent lower to 30 percent higher than estimated costs. See Construction Industry Institute, *Improving Early Estimates: Best Practices Guide* (Austin, Texas, September 1998.)

¹²Peter Reina and Tom Nicholson, "Survivors Still Dealing with Poor Conditions," *Engineering News-Record* (Jan. 2, 2006), 12-13.

committee with Indonesian government entities to facilitate land acquisition issues. However, progress depends on the Indonesian government's timeliness in acquiring the land and establishing right-of-way.

USAID expects to have more comprehensive cost estimates and schedule projections for the signature road project in June 2006.

Other USAID Reconstruction Activities in Indonesia May Also Exceed Cost and Schedule Projections

USAID has initiated other projects in Indonesia, some of which may exceed initial cost and time estimates. These projects encompass small-scale infrastructure, technical assistance for good governance, and transitional assistance aimed at restoring livelihoods.

- **Small-scale infrastructure.** USAID has begun reconstructing schools, clinics, water distribution systems, and small port facilities. Other projects will assist communities in preparing solid waste management plans, helping rebuild business districts, and constructing markets. Two planned projects include helping to build a teacher-training facility in Banda Aceh and rehabilitate the fishing industry by constructing port facilities, fishing vessels, and ice-making facilities. According to the USAID official responsible for overseeing the project, the teacher-training facility project is unlikely to begin as initially scheduled because of the time it has taken to plan and assess site conditions. He added that, even if the project does begin on time, the schedule is unlikely to be achieved, and because of rapidly escalating costs for materials and labor, the project is at risk of exceeding its budget.
- **Technical assistance for good governance.** USAID technical assistance and good governance projects in Indonesia are aimed at enhancing reconstruction efforts by facilitating the peace process. The projects include paying consultants to work with the Indonesian government's Rehabilitation and Reconstruction Agency (BRR), the Audit Board of the Republic of Indonesia (BPK), the supreme audit institution, and local communities.
- **Transition assistance.** USAID has begun its transition assistance, including rebuilding shelters and helping restore livelihoods through microenterprise support. However, USAID may face difficulties meeting its shelter construction cost and schedule estimates. For example, 2 months after agreeing to build 1,000 houses for \$4,500 each, the NGO implementing the project informed USAID that, because of escalating prices for fuel, building materials, and labor, the unit cost had risen

more than 60 percent, to \$7,000. The NGO has tentatively agreed to reduce its budget for other USAID-funded activities, such as upgrading an ice-making facility to assist the fishing industry, and will attempt to solicit private donations to meet its housing commitment.

USAID's Sri Lankan Construction Activities May Face Cost and Time Overruns, but Other Programs Are on Schedule

USAID has begun many of its longer term reconstruction efforts in Sri Lanka. By the end of 2005, the agency had obligated 100 percent of its funds and expended approximately 2 percent of reconstruction funding. USAID has started its signature project, which includes building a bridge and other infrastructure, addressing coastal management issues, and constructing vocational education facilities. However, primarily because of shortages of labor and materials, the project faces potential cost and schedule overruns even though it is currently slightly ahead of schedule. USAID has also begun its small-scale infrastructure, governance, and transition assistance projects.

USAID Has Obligated All and Expended a Small Percentage of Reconstruction Funds in Sri Lanka

As of January 31, 2006, USAID had obligated all \$85 million (100 percent) and expended about \$2 million (2 percent) of the funds budgeted for longer-term reconstruction efforts in Sri Lanka (see table 5).

Table 5: USAID’s Sri Lankan Reconstruction Activities and Funding, as of January 31, 2006

Dollars in millions

Project description	Funds budgeted	Funds obligated (percentage of funds budgeted) ^a	Funds expended (percentage of funds budgeted) ^b	Projected completion date
Signature project	\$35	\$35 (100)	\$1 (3)	March 2008
Small-scale infrastructure	15	15 (100)	1 (7)	September 2007
Technical assistance for good governance	8	8 (100)	0 (0)	September 2007
Transition assistance	17	17 (100)	0 (0)	September 2007
Other projects and operating expenses	10	10 (100)	0 (0)	September 2007
Total	\$85	\$85 (100)	\$2 (2)	

Source: GAO analysis of USAID data.

^aGenerally, an obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received (GAO-05-734SP, p. 70). Consistent with 31 U.S.C. 1501 defining when an agency can record an obligation, USAID policy is to treat as an obligation the bilateral agreements it makes with other countries to deliver assistance. However, for purposes of this report, obligations are defined as amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or future period. USAID labels these actions subobligations.

^bExpenditures are defined as the issuance of checks, disbursement of cash, or electronic transfer of funds to liquidate a federal obligation.

USAID Has Started Sri Lankan Signature Project but Faces Rising Costs and Labor Shortages

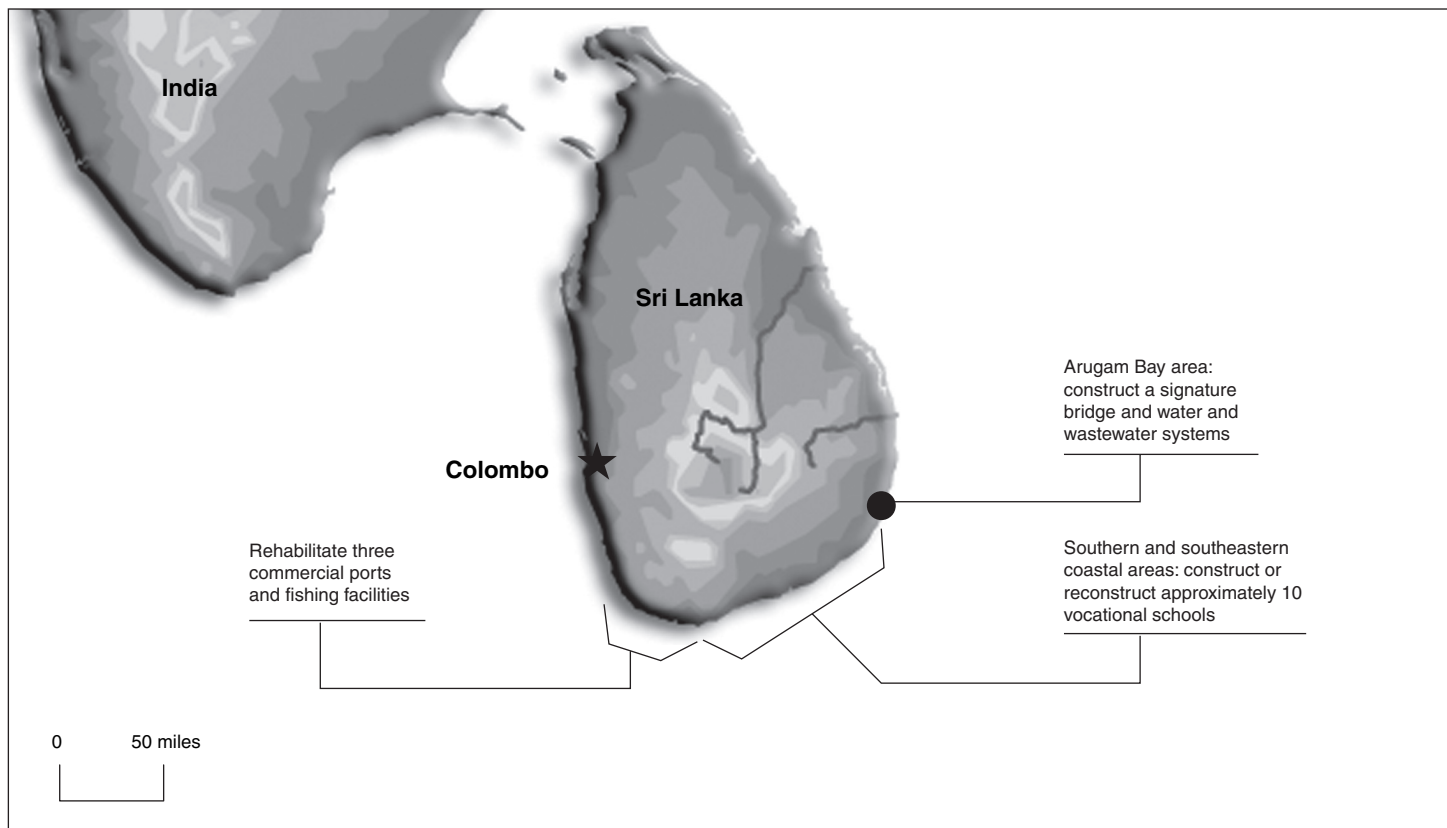
USAID’s signature project in Sri Lanka began in September 2005, when the agency signed a contract with a major U.S. design and construction management firm. All components of the project—particularly the construction of a bridge at Arugam Bay in eastern Sri Lanka, where tourism is a vital component of the local economy—are consistent with the government of Sri Lanka’s strategic reconstruction plan.¹³ The signature project has three components (see fig. 5 for the planned locations).

- 1. Construction of a bridge and other infrastructure.** These activities, largely focused on the Arugam Bay area of eastern Sri Lanka, include rebuilding a bridge spanning the bay and constructing a water treatment facility for nearby towns. Three ports in southern Sri Lanka will also be rehabilitated.

¹³USAID’s non-tsunami-related development efforts in the Arugam Bay area also include strengthening the tourism sector.

2. **Provision of coastal management training.** A management organization will provide training in construction and tourism-related skills that USAID considers essential to rebuilding and reactivating the economy in the Arugam Bay area. As of December 31, 2005, the contractor had completed some assessments and plans, but construction work had not yet begun.
3. **Construction of vocational education facilities.** This component of the project includes constructing two schools and reconstructing approximately eight others.

Figure 5: Planned Locations of USAID's Sri Lankan Signature Project



Sources: USAID and MapArt (map).

As in Indonesia, several factors may hamper the completion of USAID's signature project in Sri Lanka.

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- **Limited availability and rising costs of materials and skilled labor.** During our visit to Sri Lanka in July 2005, we learned that, as in Indonesia, the increase in construction had led to limited availability of materials and labor and resulted in higher costs. For example, one USAID report noted that the cost of a brick had doubled and similar increases had occurred for cement and lumber. USAID included \$2.2 million in the project budget to cover possible materials and labor increases, but USAID officials acknowledged this extra funding may be insufficient to cover costs.
 - **Lengthy planning and design of Arugam Bay bridge and other infrastructure.** Although USAID signed the contract for the planning and design of the bridge in September 2005, construction of the bridge is not expected to begin until August 2006. Although USAID is slightly ahead of schedule, the length of time required to correctly plan and design the signature bridge project at Arugam Bay may challenge the agency's efforts to complete the bridge by March 2008, the projected deadline. Also, construction of a water treatment facility experienced delays due to technical issues that arose during the preliminary assessment.

Other USAID Tsunami Reconstruction Projects in Sri Lanka Are Under Way and Most Are Currently on Schedule

USAID has made some progress in its other projects in Sri Lanka and expects to complete them by September 2007. These projects include small-scale infrastructure, technical assistance and good governance, and transition assistance aimed at encouraging economic activity.

- **Small-scale infrastructure.** USAID has leveraged other donors' funds to increase the scope of some small-scale infrastructure projects, which include the following:
 - USAID entered into a public-private alliance to build playgrounds, some of which include accessibility for the disabled. USAID contributed \$0.5 million and attracted \$1.5 million from two private organizations, increasing the number of playgrounds planned from 20 to 85.
 - Another project involves rehabilitating community markets and restoring access to potable water. These activities are projected to be completed by mid-2006.
- **Technical assistance and good governance.** USAID will provide technical assistance and promote good governance in Sri Lanka. USAID

has also budgeted funds to strengthen the Sri Lankan government's audit capacity. In addition, USAID is providing funds to promote accountable local governance in tsunami-affected regions.

- **Transition assistance.** USAID is providing assistance to help tsunami survivors transition from camps to permanent communities. Activities under way include providing businesses with credit and vocational training. We visited a vocational school that USAID was rehabilitating and equipping with computers and found many students who were learning new skills; the principal reported that enrollment had also increased dramatically.

USAID Established Financial and Technical Oversight Measures but Has Not Filled Some Needed Technical Oversight Positions

To establish financial oversight of its reconstruction programs in Indonesia and Sri Lanka, USAID has augmented its standard financial controls with external and internal audits and efforts to strengthen local accountability. To establish technical oversight, USAID has reassigned and hired experienced staff, such as engineers, and acquired additional technical expertise through interagency agreements. However, USAID has not filled some positions that it considers critical to technical oversight.

USAID Has Established Financial Oversight Mechanisms in Indonesia and Sri Lanka

For its reconstruction programs in Indonesia and Sri Lanka, USAID plans to augment its standard financial controls for development assistance programs through additional internal and external audits. USAID also plans to strengthen Indonesia's and Sri Lanka's auditing capacities.

USAID Plans Internal and External Audits

In addition to its required financial controls, which include preaward surveys of prospective award recipients and financial audits, USAID plans to arrange for additional audits.¹⁴ According to agency officials, USAID intends to sign an agreement with the Defense Contract Audit Agency to concurrently audit funding for USAID's signature road construction project

¹⁴USAID requires an annual audit of foreign nonprofit organizations expending \$300,000 or more of USAID funds, and a preaward survey or audit before negotiating a contract of \$500,000 or more.

in Aceh, Indonesia. USAID officials told us the agency is undertaking this work because of the additional risk inherent in large construction projects.

USAID's IG is also providing oversight of reconstruction programs. The IG is currently auditing the signature road construction project in Indonesia and plans to conduct three additional audits, two in Indonesia and one in Sri Lanka.¹⁵ The IG is undertaking this work with funding included in the May 2005 emergency supplemental legislation.

USAID Intends to Strengthen Indonesian and Sri Lankan Audit Capacities

USAID plans to strengthen the capacities of the BPK, the Indonesian government's supreme audit institution. USAID will provide funding for technical assistance and training to the BPK to enhance its ability to audit donor funds administered by Indonesian government ministries.

In Sri Lanka, USAID plans to strengthen the capacities of Sri Lankan government organizations. USAID has hired a consulting firm to work with the Sri Lankan Office of the Auditor General. USAID will also support Sri Lanka's Commission to Investigate Allegations of Bribery and Corruption. This work will focus on training and capacity development and is intended to reduce corruption and ensure the proper use of reconstruction funds.

Also, in April 2005, USAID participated in an international conference in Jakarta on the importance of managing tsunami assistance funds. The conference, funded by the Asian Development Bank and hosted by the BPK, was intended to highlight the importance of accounting for the large amounts of tsunami reconstruction funds. The conference was attended by representatives of donor countries' supreme audit institutions, including GAO, and representatives of recipient countries, including Indonesia and Sri Lanka.

¹⁵The three additional audits were planned to determine whether (1) Indonesia's livelihood assistance activities were on schedule to achieve their planned outputs and objectives, (2) tsunami-related activities in Indonesia implemented by Development Alternatives Inc. (DAI) were on schedule to be completed as planned and whether USAID properly monitored DAI's activities, and (3) USAID's infrastructure rebuilding activities in Sri Lanka were on schedule to be completed as planned.

USAID Has Taken Steps to Establish Technical Oversight but Has Not Filled Some Needed Positions

To establish technical oversight for its reconstruction programs in Indonesia and Sri Lanka, USAID has relocated experienced staff, plans to hire other staff locally, and has acquired additional expertise through agreements with other U.S. agencies. However, it has not filled all needed technical oversight positions.

In Indonesia, USAID reassigned two experienced engineers to share responsibilities as the cognizant technical officers and an experienced project manager to assist with the signature road project. A USAID engineer was reassigned and another hired to work in Sri Lanka to oversee the signature infrastructure projects. USAID also plans to hire an additional engineer locally when construction in Sri Lanka commences.

In addition, USAID has acquired expertise through three interagency agreements with USACE, totaling \$2.9 million, to provide technical assistance for its signature projects, develop scopes of work and cost estimates, and conduct environmental reviews in Indonesia and Sri Lanka. USACE efforts to date include assembling a team that assessed the existing conditions, developed cost estimates, prepared acquisition plans, and performed short-term on-site project management in planning the signature projects. Under the most recent interagency agreement, USACE is to provide technical assistance to USAID in Indonesia through the award of the road construction contract, expected in September 2006.

As of March 2006, USAID had not filled several positions critical to implementing its construction activities in Indonesia and Sri Lanka. Although USAID hired an engineer to oversee the signature road construction project in Indonesia, the engineer was not expected to begin work until May 2006. In addition, USAID had added two of the three engineers needed to oversee infrastructure construction activities in Sri Lanka.¹⁶

¹⁶These staffing issues are similar to those USAID has previously faced in disaster recovery efforts. See GAO, *Foreign Assistance, Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, [GAO-02-787](#) (Washington, D.C.: July 24, 2002).

Several Challenges Confront Indonesian and Sri Lankan Reconstruction Programs

In implementing its tsunami reconstruction programs in Indonesia and Sri Lanka, USAID faces several key challenges, some of which it has taken steps to address. These include working in regions with long-standing civil conflicts, coordinating with host governments and NGOs, and ensuring adequate management of regular programs.

Civil Conflicts Threaten Reconstruction Efforts

Long-standing civil conflicts could affect USAID's ability to complete reconstruction projects within projected time frames in Indonesia, despite recent advances in a peace process, and have limited USAID's ability to provide assistance in some tsunami-affected regions in Sri Lanka.

Indonesian Factions Have Signed Peace Accord, and Some USAID Projects Are Supporting Reconciliation

Owing to a 30-year conflict between a separatist group and the Indonesian government, the entire province of Aceh, Indonesia, was under a state of emergency prior to the tsunami and access by outsiders was limited. However, within days of the disaster, the Indonesian government lifted the state of emergency to allow access by donors and relief organizations. In August 2005, the separatists signed a peace accord, which both sides appear committed to honoring. However, an NGO monitoring the accord has cautioned that the difficulties of ending the 30-year-old conflict should not be underestimated.¹⁷

To address this challenge, USAID is implementing peace-building initiatives in Aceh Province. For example, according to USAID officials, former combatants are working on construction crews rebuilding community water systems.¹⁸ USAID's aim is to provide income-generating opportunities to former rebel soldiers, thereby strengthening the peace accord.

Deteriorating Sri Lankan Security May Affect Some Programs, but USAID Is Working to Promote Reconciliation

A conflict between the Sri Lankan government and a separatist group, which began in 1983, has increased since the tsunami and could impact implementation of some USAID reconstruction programs. Since the tsunami, the number of violent incidents has risen dramatically, primarily

¹⁷International Crisis Group, *Aceh: So Far, So Good* (Jakarta/Brussels, Dec. 13, 2005).

¹⁸USAID's regular program activities also include projects designed to enhance peace building by assisting former combatants.

in northern and northeastern Sri Lanka, which are largely under separatist control. USAID was not directly implementing development activities in these areas prior to the tsunami, and it is not planning any tsunami-related projects in these areas at present.¹⁹ USAID officials stated that they expect little disruption to most of its reconstruction efforts in other parts of the country. However, in the eastern Sri Lankan region near the separatist-controlled area, several USAID activities involving construction of small-scale infrastructure have been delayed because of increased violence. USAID officials stated that the signature construction project could also experience delays due to the conflict.

As in Indonesia, USAID has incorporated peace-building initiatives into some of its Sri Lankan tsunami reconstruction efforts. One such project, implemented by USAID's Office of Transition Initiatives (OTI), promotes participation by people of different ethnicities and religions by requiring that they work together toward a shared goal, such as rehabilitating a school. USAID has also dedicated \$2.5 million for a reconciliation program in which community members will be trained in mediation skills.

Coordination with Governments and Nongovernmental Organizations Has Been Difficult, but USAID Is Taking Steps to Improve Coordination

USAID has encountered challenges in coordinating its reconstruction efforts with the governments of both countries. In addition, USAID has faced coordination problems with NGOs. To address these challenges, USAID has taken steps to improve coordination, avoid duplication of efforts, and minimize gaps in providing assistance to survivors.

Indonesian Government's Coordination Difficulties Have Challenged USAID

USAID has faced challenges coordinating its reconstruction activities with the Indonesian government. In April 2005, the Indonesian government established the BRR to coordinate the international response to the tsunami. Since its creation, BRR has used the Indonesian government's master plan for reconstruction to attempt to control and track organizations involved in reconstruction and has created a publicly accessible database that, according to USAID, is expected to be fully

¹⁹Since the 1980s, some areas of northern and northeastern Sri Lanka have been under the control of the Liberation Tigers of Tamil Eelam. According to the Department of State, this is a terrorist organization that has advocated secession of these areas to form a separate ethnic Tamil state.

operational by mid-2006. However, according to USAID officials, BRR lacks the capacity for effectively registering donors and coordinating projects.

The lack of coordination has resulted in the overlapping of USAID projects with other donors' projects and in gaps in aid to survivors. A USAID official told us that, in one instance, BRR approved similar water and sanitation project proposals submitted by USAID and an international NGO. USAID negotiated directly with the NGO over which agency would carry out the project and eventually resolved the differences without BRR involvement. In addition, a United Nations official told us that many donor organizations are providing assistance to communities along the coastal road near the capital city of Banda Aceh but that survivors in numerous harder-to-reach areas down the coast and on nearby islands have received little or no aid.

To strengthen BRR's capacity to coordinate and oversee reconstruction efforts, USAID is providing technical assistance and training. However, according to USAID officials, until BRR is able to fully develop its capacities, USAID and other donor organizations will face difficulty in coordinating projects and outreach.

Sri Lanka's Organizational Problems and Policy Changes Have Created Challenges for USAID

Organizational inefficiency and policy shifts in Sri Lanka have led to coordination problems for USAID. In January 2005, the Sri Lankan government created a Task Force for Rebuilding the Nation (TAFREN), charging it with assessing needs and donor coordination. The organization was expected to operate for 3 to 5 years. In its first months of operation, TAFREN developed a needs assessment that drew on World Bank, Asian Development Bank, and other organizations' information and analyses. TAFREN used the assessment to attempt to avoid duplication but lacked the capacity to ensure that donors registered and coordinated with TAFREN. In addition, with donor support, TAFREN began work on a publicly accessible database to track reconstruction projects that is expected to be functional by mid-2006. In November 2005, the newly elected Sri Lankan president disbanded TAFREN and announced the creation of a new coordination mechanism, further increasing potential coordination challenges; however, development of the database is continuing.

When we visited Sri Lanka in July 2005, USAID officials told us that TAFREN had taken little action to coordinate donor efforts. They added that TAFREN had been slow to react and lacked decision-making authority. Nonetheless, USAID moved forward with some projects and kept TAFREN aware of its activities. In addition, the Sri Lankan government's

inconsistent policies on rebuilding in coastal areas have affected the progress of some USAID reconstruction programs. Soon after the tsunami, the President of Sri Lanka announced that the Sri Lankan government would begin to enforce a valid, but previously unenforced, law that banned construction within a 100- to 200-meter coastal “buffer zone.” This policy has affected the progress of some USAID projects, such as rehabilitating community markets and building schools. In late 2005, the Sri Lankan government began allowing construction in certain coastal areas, but as of late 2005, many survivors were still awaiting approval to rebuild their homes.

Poor Coordination with
Nongovernmental Organizations
Has Caused Problems

In both Indonesia and Sri Lanka, USAID has encountered challenges in coordinating with some of the scores of NGOs operating in the countries since the tsunami. After the disaster, many NGOs received large amounts of private donations, enabling them to conduct their work without funding from bilateral and multilateral organizations. As a result, some NGOs began implementing reconstruction projects with minimal coordination with such organizations or with the host governments.

In Indonesia, coordination with NGOs was particularly difficult during the emergency relief phase but has generally improved since the establishment of BRR, which currently permits only approved NGOs to participate in reconstruction projects. However, with limited resources, BRR cannot be sure it is aware of all NGOs activities. For example, according to UN officials, an international NGO constructed new houses and water and sanitation systems near the Indonesian coastline without coordinating with the Indonesian government or other donors to ensure that the housing could be connected to local water and sanitation infrastructure. Because of tsunami-altered water tables and topography in some areas, those communities’ sanitation systems overflowed during certain tidal conditions, inundating the area with untreated sewage.

Coordination with NGOs in Sri Lanka has also been problematic, despite TAFREN’s efforts. For example, several NGOs and private donor organizations provided new fishing boats to fishermen. However, according to a bilateral donor official, several communities received too many fishing boats, and as a result, some coastal areas were depleted of large numbers of fish. On the other hand, coordination in southern Sri Lanka has been more effective than in other parts of the country. There, USAID, NGOs, and other donors agreed that certain organizations would have responsibility for different districts or for different types of assistance, such as housing.

Coordination meetings are normally held weekly and TAFREN officials periodically attended.

USAID's Tsunami Response Has Created Challenges for Non-Tsunami-Related Programs

The urgency to quickly plan and implement USAID's tsunami-related program activities in Indonesia and Sri Lanka may affect the management of some of non-tsunami-related projects. In Indonesia, USAID officials are concerned that the focus on tsunami reconstruction activities in Aceh could limit oversight of regular programs, leading them to rely more heavily on information provided by implementing partners. To mitigate this potential challenge, USAID added two direct-hire U.S. staff to fill two key positions in Aceh.

In Sri Lanka, USAID is experiencing similar challenges. For example, a USAID activity to reconstruct small-scale infrastructure was suspended so that staff could focus on the tsunami relief. Later, the program was reactivated, although USAID did not add staff. As a result, USAID's monitoring of some of regular program activities diminished. USAID reported that it reduced its efforts to involve the community in the program, resulting in repeated additional visits to ensure the program's successful completion. To address this issue, USAID hired additional staff to ensure that ongoing programs are not neglected.

Conclusions

The U.S. government has played an important role in helping Indonesia and Sri Lanka recover from the devastating 2004 tsunami. USAID and other agencies provided immediate assistance to survivors and work has begun on several high-profile infrastructure projects. However, since USAID made its initial projections in the spring of 2005, materials, labor, and fuel costs have increased substantially in both countries. In addition, changes to project scope and ongoing design work for key construction efforts may reveal actual conditions that differ from initial assessments, potentially leading to higher than planned costs. This information suggests that the cost contingencies included in the initial estimates may be insufficient. Congress needs current information on projected costs and schedules to provide appropriate oversight.

Recommendation for Executive Action

On the basis of our initial review of USAID's design and implementation of its tsunami reconstruction programs in Indonesia and Sri Lanka, especially regarding its signature road project in Indonesia and bridge project in Sri

Lanka, we recommend that the Secretary of State, in the department's required semiannual report to Congress due in June 2006, provide updated cost estimates and schedules obtained from USAID. If the updated information differs substantially from initial projections, the report should also include alternative cost estimates, schedules, and project scopes and the need for additional sources of funding, if necessary.

Agency Comments and Our Evaluation


At our request, USAID and the Department of State provided written comments and technical suggestions and clarifications on a draft of this report. (See app. IV for State's written comments and app. V for USAID's written comments.) USAID stated that the report findings accurately describe the tsunami program situation and the potential broad challenges for achieving its reconstruction goals. USAID also provided information on additional steps the agency intends to take to mitigate the potential for increased costs and schedule delays, as well as an explanation of how it obligates funds, which we incorporated into the report. The Department of State agreed to fully implement our recommendation. We have also incorporated technical suggestions and clarifications from USAID and State, as appropriate.

We also requested comments from the U.S. Army Corps of Engineers and the Department of the Treasury. Although neither provided written comments, both provided technical suggestions and clarifications that we have incorporated, as appropriate.

We are sending copies of this report to interested congressional committees as well as the Administrator, USAID; Commander, U.S. Army Corps of Engineers; and the Secretaries of State and the Treasury. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page

of this report. GAO staff who made major contributions to this report are listed in appendix VI.

A handwritten signature in black ink, appearing to read "David Gootnick". The signature is written in a cursive style with a large initial "D" and "G".

David Gootnick, Director
International Affairs and Trade

Objectives, Scope, and Methodology

We were directed to monitor the delivery of U.S. reconstruction assistance to the tsunami-affected countries through periodic visits. In this report, we review (1) USAID's progress in providing longer-term reconstruction assistance in Indonesia and Sri Lanka, (2) the extent to which the U.S. Agency for International Development (USAID) has established financial and technical oversight for its tsunami reconstruction programs in those countries, and (3) any challenges that USAID faces in implementing the Indonesian and Sri Lankan programs and any steps the agency has taken to address these challenges.

To determine the progress of USAID's reconstruction programs in Indonesia and Sri Lanka, we met with officials of USAID's Bureau for Asia and the Near East and Office of Foreign Disaster Assistance and with the U.S. Army Corps of Engineers (USACE). In addition, to examine issues involving the U.S. debt relief component of the assistance to Indonesia and Sri Lanka, we conducted work at the headquarters offices of U.S. Departments of State and the Treasury. We traveled to Indonesia in August and December 2005 and Sri Lanka in July 2005. In Jakarta and Banda Aceh, Indonesia, and in Colombo, Sri Lanka, we reviewed USAID's strategies, work plans, and applicable contracts, grants, and cooperative agreements and discussed with USAID and other U.S. officials how their respective programs addressed reconstruction needs. During our visits to Indonesia, we reviewed USAID's activities in tsunami-affected areas, including the \$245 million, 150-mile signature road construction project in Banda Aceh. In many instances, we visited and photographed sites before the projects began, at locations where USAID-funded maintenance work was ongoing, or where USAID-funded construction had begun. During these trips, we interviewed representatives of contractors, nongovernmental organizations (NGO), government ministries, and other entities responsible for day-to-day project implementation. We also interviewed many of the intended recipients of U.S. assistance, asking about the tsunami's impact on their homes, livelihoods, and communities and about the effectiveness of U.S.-funded projects in helping them rebuild infrastructure, restore their livelihoods, and obtain basic services. Finally, we reviewed prior GAO reports on USAID disaster assistance efforts.

To assess USAID's financial and technical oversight, we reviewed USAID's financial procedures and discussed the procedures with cognizant USAID officials. In Indonesia, a licensed GAO professional engineer met with USAID and USACE engineers and other technical staff to discuss the level of technical oversight and planning. We also coordinated with USAID's

Office of the Inspector General in Washington, D.C., and the Philippines to minimize duplication of efforts and to share information.

To determine the challenges that USAID faces in implementing its program, we discussed oversight procedures and financial systems with officials of host governments, multilateral and bilateral donors, and NGOs involved in reconstruction efforts. We also met with host government officials, including national and local officials, to discuss their procedures for ensuring that donor activities did not conflict or overlap and their views on donor coordination.

We assessed the reliability of funding and expenditure data compiled and generated by USAID's Office of the Controller in Washington, D.C., and by the USAID missions in Indonesia and Sri Lanka. We met with USAID officials to review the internal controls for the collection and review of data, comparing the consolidated reports with mission-specific reports, and discussed relevant data reliability issues with cognizant agency officials. In addition, we interviewed knowledgeable USAID officials about the systems and methodology they use to verify the completeness and accuracy of the data. Finally, we reviewed relevant reports from the USAID Office of the Inspector General and several GAO reports of USAID disaster reconstruction program funding since 1999. None of these sources noted any significant discrepancies or concerns about the reliability of USAID's data. Based on our comparison of data generated from different USAID sources at USAID headquarters and mission, we found that the sources generally corroborated each other, increasing our confidence that the data were reliable. We determined that USAID's funding and expenditure data were sufficiently reliable for our analysis.

Debt Relief to Indonesia and Sri Lanka

To make resources available for the Indonesian and Sri Lanka governments to address humanitarian and reconstruction needs after the tsunami, and at the request of these governments, the United States and other international donors agreed to defer the payment of some eligible debt the Indonesian and Sri Lankan governments were due to pay in 2005.¹ Both countries agreed to use the debt relief to help recover from the tsunami's extensive damage, estimated at \$4.5 billion in Indonesia and \$1.5 billion in Sri Lanka.²

Debt Relief Provided by the United States

With funding appropriated in the emergency supplemental legislation enacted in May 2005, the United States provided \$20.1 million and \$3.2 million to cover the U.S. budget costs of debt deferral for Indonesia and Sri Lanka, respectively. Using these funds, the United States rescheduled about \$190 million in 2005 debt payments from Indonesia and about \$40 million in 2005 debt payments from Sri Lanka.

The U.S. debt relief agreements with Indonesia and Sri Lanka require independent outside evaluations to ensure that the countries comply with the terms of the agreements that the resources freed by the Paris Club debt consolidation and deferral will benefit directly the people affected by the tsunami. According to the Department of the Treasury, the benefit from the international debt rescheduling is \$236 million for Indonesia and \$34 million for Sri Lanka.³ According to our analysis, the net benefit of the debt rescheduling for Indonesia and Sri Lanka is about 9 percent and 11 percent, respectively, of the amount of the debts rescheduled. The United States will rely on periodic reports from each country's regular consultations with the

¹In Indonesia, the creditors—Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, the Republic of Korea (an ad hoc—not a permanent—Paris Club member), Spain, Sweden, Switzerland and the United Kingdom—are, like the United States, members of the Paris Club, which works to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations. In Sri Lanka, the creditors are Australia, Canada, Denmark, France, Germany, Italy, Japan, Korea, the Netherlands, and Switzerland. Paris Club creditors agree to reschedule debts due to them—that is, to provide a country with debt relief by postponing and, in the case of concessional rescheduling, reducing debt service obligations.

²The damage in Indonesia was estimated at 1.8 percent of gross domestic product (GDP) and in Sri Lanka at 4.5 percent of GDP.

³The net benefit of the debt rescheduling is the difference between the net present value of the debt payment flows before and after the rescheduling. The net benefit is affected by the length of the deferment period, frequency of payments, interest rate charged, and the discount rate. These figures are net present value.

International Monetary Fund, the World Bank, and the Asian Development Bank to measure compliance with the agreements, according to Department of State officials. The officials stated that both countries are likely to meet their commitments to use the resources freed by the Paris Club debt consolidation and deferral to benefit directly the people affected by the tsunami.

Debt Relief Provided by
International Creditors

The total amounts of bilateral international debt rescheduled in 2005 for Indonesia and Sri Lanka were approximately \$2.703 billion and \$323 million, respectively.⁴ Indonesia did not seek or receive any debt deferral from multilateral creditors. Sri Lanka sought a debt deferral from the International Monetary Fund, which granted a 1-year extension for debt repayments of about \$106 million for its repayment expectations due in 2005. Multilateral debt service in 2005 was \$4.3 billion and \$294 million, accounting for 55 percent and 48 percent of total debt service, before the debt reschedulings for Indonesia and Sri Lanka, respectively.

Rescheduling international debt provided immediate budgetary savings for both countries in 2005, but both countries' debt burden will increase when payments restart in 2006. Both countries agreed to repay the rescheduled debt in seven equal semiannual installments, starting December 1, 2006, and ending December 1, 2009. Table 6 shows the impacts of rescheduling all bilateral debt on the budgets of the governments of Indonesia and Sri Lanka for fiscal years 2005 through 2009.

⁴The Department of the Treasury noted that the numbers in the bilateral agreement with each individual Paris Club country may be slightly different because the data may have been updated and revised by the time bilateral agreements are signed, as is often the case in Paris Club agreements.

**Appendix II
Debt Relief to Indonesia and Sri Lanka**

Table 6: Impacts on the Indonesian and Sri Lankan Governments from All Bilateral Debt Rescheduling, Fiscal Years 2005-2009

Dollars in millions

Country	Debt service reduction in 2005 due to debt relief provided by bilateral creditors	Annual repayment schedule					Total repayments
		2005	2006	2007	2008	2009	
Indonesia	\$2,703	\$418	\$835	\$835	\$835	\$2,923	
Sri Lanka	\$323	\$50	\$100	\$100	\$100	\$350	

Source: GAO analysis of Department of the Treasury data.

Note: Key assumptions: (1) annual interest rate of 4 percent on deferred principal and interest and (2) repayment of debt in seven semiannual payments beginning December 1, 2006.

USAID's Three-Phase Signature Road Project in Aceh Province, Indonesia

USAID developed plans to implement its signature project in three phases (see table 7).

Table 7: Scope and Status of Indonesian Signature Road Project, as of December 31, 2005

Contract	Scope	Status
Phase 1: Repair, maintenance, and priority construction	<ul style="list-style-type: none"> • Repair and maintain existing 50-mile segment from Banda Aceh to Lamno. • Design and construct a short priority (3-mile) segment between Banda Aceh and Lamno. • Perform the design work on a cost-plus-fixed-fee basis. • Perform the maintenance and construction work on a fixed-price basis. 	<ul style="list-style-type: none"> • Contract was awarded to an Indonesian firm (PT Wijaya Karya) on August 23, 2005. • Contract cost is \$12.8 million. • Maintenance and repair work is ongoing; route is passable. • Design of the new 3-mile road segment is under way. • Construction of new 3-mile road segment is expected to be completed by August 2006.
Phase 2: Design and construction supervision	<ul style="list-style-type: none"> • Design the new road (except for the 3-mile priority segment). • Supervise construction. • Perform services on a cost-plus-fixed-fee basis. 	<ul style="list-style-type: none"> • Contract was awarded to a U.S. firm (Parsons Global Services Inc.) on November 10, 2005. • Estimated contract cost is up to \$34.9 million; current obligation is \$20 million. • Design work is ongoing and scheduled to be completed in June 2006. • Contractor is required to prepare an updated estimate of construction costs. • Construction management services are being provided on the priority road segment and will continue in September 2006, when the contract for construction of Banda Aceh to Meulaboh road is awarded.
Phase 3: Construction	<ul style="list-style-type: none"> • Placement of new road along a 150-mile route from Banda Aceh to Meulaboh (except for the portion covered under the priority segment). • Construction will be done on a fixed-price basis according to the plans and specifications of the design prepared under separate contract. 	<ul style="list-style-type: none"> • Construction contract is expected to be awarded in September 2006, and construction is to be completed by September 2009.

Source: GAO synthesis of USAID information.

Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

MAR 23 2006

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "FOREIGN ASSISTANCE: USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates," GAO Job Code 320336.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Lori Balbi, Financial Economist, Bureau of Economic and Business Affairs, at (202) 647-7411.

Sincerely,

Bradford R. Higgins

cc: GAO – George Taylor
EB – E. Anthony Wayne
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

**FOREIGN ASSISTANCE: USAID Has Begun Tsunami Reconstruction
in Indonesia and Sri Lanka, but Key Projects May Exceed Initial
Cost and Schedule Estimates,**
(GAO-06-488 GAO Code 320336)

The State Department appreciates the opportunity to review and comment on the draft report “ Foreign Assistance: USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates.”

In preparing the June 2006 semi-annual report to Congress, the Secretary of State will obtain updated cost estimates for planned projects from USAID. If the schedules or scope of any planned projects should change, this information will also be provided in the report. Lastly, should any funding shortfalls exist, the report will discuss steps being taken to secure complementary funding from other donors or host governments.

Comments from the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



USAID
FROM THE AMERICAN PEOPLE

March 30, 2006

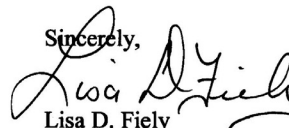
Ms. Jacquelyn L. Williams-Bridgers
Managing Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Williams-Bridgers:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft GAO report entitled "USAID Has Begun Tsunami Reconstruction in Indonesia and Sri Lanka, but Key Projects May Exceed Initial Cost and Schedule Estimates" (GAO-06-488).

In general, USAID believes the report findings adequately describe the situation and the potential broad challenges ahead. We acknowledge that there are schedule and cost risks to the large scale infrastructure projects, and we are taking steps to mitigate these risks to the extent possible. We also note that the GAO report's calculation of obligations does not reflect all legally-binding funding commitments made by USAID. The enclosed comments provide further explanation of our positions in response to specific issues in the report.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

Lisa D. Fiely
Chief Financial Officer

Enclosure: a/s

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

USAID Comments on GAO Report 06-488

To mitigate the potential for cost increases and schedule delays in large-scale infrastructure construction projects, USAID is taking several measures.

In Indonesia, the large road construction contract will be a combination firm-fixed-price (lump sum) and firm-fixed-unit price contract. This contract type places upon the contractor the maximum risk and responsibility possible for all costs and resulting profit or loss. Fixed-price contracts provide maximum incentive for the contractor to control costs and perform effectively and on time (FAR 16.202-1). By fixing the unit prices for the large quantities of commodities in the contract (such as gravel, steel, cement, and asphalt) that can be priced during the bid process, USAID will be able to hold the contractor to these prices throughout the contract.

A fixed-price contract awarded under full and open competition also means the contractor holds the risk to meet the schedule. USAID/Indonesia intends to incorporate liquidated damages clauses in the contract to make USAID whole in the event that the contractor fails to meet stated deadlines in accordance with the project schedule. In essence, for each day of delay under a specified activity, USAID may assess a predetermined liquidated damages amount against the contractor. Although these liquidated damages are not intended as negative performance incentives, the contractor will understand and appreciate the importance of completing the construction work on time.

Value engineering is another way to encourage lower costs, and USAID will incorporate appropriate value engineering clauses into the large road contract. Should the contractor identify and secure approval for an alternative lower-cost construction solution, the contractor would be able to retain a portion of the cost savings realized.

The small scale construction projects in Indonesia such as the teacher training and the vocational training facilities will be tendered as a firm-fixed-price design/build contract. We will negotiate this contract under FAR Part 15. The final negotiated fixed price will be the final price. Only negotiated changes, claims, or differing site conditions (all provided for in standard clauses) can impact cost or schedule. This type of contract will

See comment 1.

Appendix V
Comments from the U.S. Agency for
International Development

help keep the project on time and on budget. USAID will also incorporate liquidated damages clauses in this contract as appropriate.

In Sri Lanka, costs of both labor and materials have escalated. In Sri Lanka, we retained the services of CH2M-Hill as our prime contractor for the infrastructure contract in September 2005. Having a highly competent American firm is a major step in controlling risk. We directed CH2M-Hill to carry out a value engineering exercise on the USACE design of the Arugam Bay Bridge which resulted in a cost savings estimated at approximately \$10 million. We will carry out similar value engineering assessments on other infrastructure components. CH2M-Hill will also design the facilities to make them suitable for subcontracting to local construction firms. This design consideration is important because construction subcontractors will bid more competitively when they perceive a lower level of risk. In conjunction with this effort, we will endeavor to provide 100% design to the construction subcontractors. We have found that local construction companies prefer “construction only” subcontracts and consider design/build subcontracts riskier. Additionally, as per the prime contract, CH2M-Hill will award fixed-price (unit price or lump sum) construction subcontracts which will place the risk of any increased labor and material costs on the subcontractors.

CH2M-Hill has widely publicized this project in Sri Lanka and received 19 expressions of interest for the bridge construction, with 14 firms considered by CH2M-Hill acceptable to submit formal prequalification documentation. This vigorous level of competition should also provide best value to USAID. We are also spending Tsunami livelihoods restoration funds in the Arugam Bay area to train several hundred people in basic construction skills to address anticipated labor shortages.

Having adequate engineering staffing in both Missions is essential to managing both costs and schedule. In Sri Lanka, the direct hire engineer and the U.S. personal services contractor (PSC) are registered professional engineers. The direct hire engineer has more than 24 years of USAID experience, including 11 years managing the implementation of more than \$2 billion worth of construction at USAID/Egypt. This experience will be crucial as USAID/Sri Lanka works with CH2M-Hill, the construction subcontractors, various Government of Sri Lanka institutions, and local authorities during the actual construction phases of the project to contain costs and address problems impeding progress. In Indonesia, the Mission

has two engineers (an Indonesian and a Bangladeshi), and a U.S. engineer will start in early May; as with Sri Lanka, the U.S. engineer has extensive engineering experience with USAID projects.

In both Sri Lanka and Indonesia, budgets were established for major infrastructure projects based on U.S. Army Corps of Engineering tentative designs. In both countries, the construction management firms are doing more detailed environmental analysis and plans that are refining initial cost estimates. This practice is normal. Upon completion of those analyses, we will better understand the potential for a funding shortfall, and the need (if any) to engage other donors or the host government for support. While we are taking every effort through the types of contracts used, appropriate clauses, and tight contract administration and oversight to protect the Government's interests and deliver successful projects, potential circumstances such as increased energy and labor costs, land acquisition problems, and prolonged unfavorable weather conditions can impact costs and schedules during design and construction.

Explanation of the basis for obligations reported by USAID

The GAO reports funds as "obligated" only when subobligating implementing instruments for work performed under a bilateral agreement have been signed. USAID's longstanding policy on what constitutes a valid obligation, ADS 621.3, is consistent with and based on 31 USC Section 1501(a) requirements for recording an amount as an obligation, and clearly states that such bilateral agreements constitute a valid obligation. Therefore, funds are "obligated" upon signature of a legally binding agreement with the government of the country to whom we are providing assistance; an agreement under which subobligating implementing instruments are executed. In July 2005, USAID executed a bilateral agreement with the Government of Indonesia, committing the U.S. to provide a total of \$332 million in reconstruction support, including \$245 million for the road. USAID financial records reflect the full \$332 million as obligated. Accordingly, USAID financial records report obligations of \$346 million of the \$349 million budgeted for Indonesia reconstruction. GAO's calculation of obligated funding of \$111 million only includes a small portion of the total amount allocated to the road, and not the full amount of the signed and public agreement with the Government of Indonesia.

See comment 2.

The following are GAO's comments on the U.S. Agency for International Development's letter dated March 30, 2006.

GAO Comments

1. USAID states that it intends to use fixed-price contracts because the contracts provide the maximum incentive for the contractor to control costs and perform effectively in order to complete the work on time. We agree that fixed-price contracts can be effective in controlling costs by shifting performance risk to the contractor. However, as USAID also notes and we point out in the report, costs may increase due to other circumstances, such as site conditions being different than expected and the potentially lengthy process of acquiring land. As our recommendation indicates, it is important that Congress be kept informed of cost and expenditure information in order to effectively oversee expenditures of U.S. funds.
2. We modified the text of footnote 5 and added explanatory notes to tables 4 and 5 to reflect USAID's comments regarding obligations and expenditures of funds.

GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick, (202) 512-4128 or gootnickd@gao.gov.

**Staff
Acknowledgments**

In addition to the contact named above, Phillip Herr, George Taylor, Michael Armes, Ming Chen, Reid Lowe, Michael Maslowski, and Thomas Zingale made key contributions to this report.

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