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**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**EXAMINATION OF
ECONOMIC AND TECHNICAL ASSISTANCE PROGRAM
FOR GUATEMALA
INTERNATIONAL COOPERATION ADMINISTRATION
DEPARTMENT OF STATE
FISCAL YEARS 1955-1959**



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES
MARCH 1960**

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON 25, D. C.

**CIVIL ACCOUNTING AND
AUDITING DIVISION**

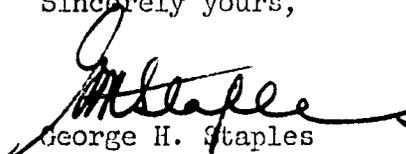
June 22, 1960

Mr. Ralph K. Eyster
Technical Assistance Study Group
International Cooperation Administration

Dear Mr. Eyster:

With further reference to your request of February 19, 1960, herewith is a copy of our report to the Congress on the examination of the economic and technical assistance program for Guatemala as administered by the International Cooperation Administration of the Department of State and its predecessor, the Foreign Operations Administration, under the mutual security program for fiscal years 1955 through 1959.

Sincerely yours,


George H. Staples
Associate Director

Enclosure



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-114845

MAR 22 1960

Honorable Sam Rayburn
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the examination of the economic and technical assistance program for Guatemala as administered by the International Cooperation Administration (ICA) of the Department of State and its predecessor, the Foreign Operations Administration, under the mutual security program for fiscal years 1955 through 1959.

United States technical assistance ("Point Four") to Guatemala on a relatively small scale dates back to 1942, but, after the revolution and formation of a new government in June 1954, the United States increased substantially its assistance efforts and added economic development aid to help in overcoming the country's serious social and economic problems. Assistance by ICA during the 5-year period 1955-59 totaled \$58.6 million. Starting in fiscal year 1959, the ICA program has been limited principally to technical assistance, while development projects are being financed by the newly established Development Loan Fund.

Our examination in Guatemala and at the agency's Washington office showed that most of the major development projects were behind schedule, due in part to delays by the Government of Guatemala in taking necessary actions but also because the projects had received inadequate or hasty planning prior to the execution of project agreements and the obligation of United States aid funds. The agency's administration of the aid program was handicapped by delays in recruiting sufficient staff in the field.

ICA emphasizes the special political situation in Guatemala which, in the opinion of responsible United States officials, demanded quick and effective support for a friendly government. In the agency's judgment, the program has made progress in accomplishing its objectives, evidenced by improvements in the country's

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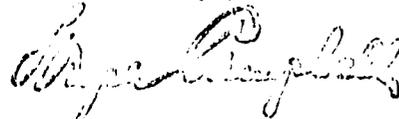
economic conditions. The delays in carrying out major projects are attributed by ICA largely to the period of political unrest in Guatemala throughout a major part of fiscal year 1958. The agency has informed us of subsequent corrective action taken, or contemplated to be taken, and we believe that ICA may be expected to overcome the remaining obstacles which stand in the way of completing the projects still in progress.

Our observations and findings, together with the agency's comments, are summarized on pages 5 through 12 and are further discussed in succeeding sections of this report.

On page 4 of our report, we call attention to the refusal by ICA to give us access to an evaluation report which the agency's Office of Evaluation had prepared on the assistance program for Guatemala in March 1959.

This report is also being sent today to the President of the Senate. Copies are being furnished to the President of the United States; the Secretary of State; and the Director, International Cooperation Administration.

Sincerely yours,



Comptroller General
of the United States

Enclosure

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REPORT ON EXAMINATION
OF
ECONOMIC AND TECHNICAL ASSISTANCE PROGRA
FOR GUATEMALA
INTERNATIONAL COOPERATION ADMINISTRATION
DEPARTMENT OF STATE
FISCAL YEARS 1955-1959

INTRODUCTION

The General Accounting Office has examined the United States economic and technical assistance program for Guatemala for fiscal years 1955-1959 as administered by the International Cooperation Administration (ICA) of the Department of State and its predecessor agency, the Foreign Operations Administration (FOA). This examination was made as a part of the continuing audit of selected activities of the mutual security program, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our examination was directed principally to determining the adequacy of the financial administration of the program and was made in Washington, D.C., and at the agency's overseas mission in Guatemala.¹ The scope of our examination is described on page 54. A draft of this report was forwarded to the agency for review, and comments thereon were received on December 30, 1959, and were

¹The ICA overseas office is officially designated "United States Operations Mission to Guatemala" and is referred to in this report briefly as "Mission."

given due recognition in this report. We are reciting several corrective steps which ICA informed us were taken or contemplated to be taken subsequent to our field examination in October 1958, but it was not practicable for us to verify all reported remedial actions.

United States assistance to Guatemala began in 1942 and, prior to fiscal year 1955, consisted of technical assistance ("Point Four") in the basic fields of agriculture, education, and health and sanitation. These programs were on a relatively small scale, aggregating \$3.3 million for the period 1942 through 1954, and were administered by the Institute of Inter-American Affairs (IIAA), a wholly owned Government corporation then responsible for United States technical assistance in the entire area of Latin America. Pursuant to the reorganization of the mutual security program in 1953 and 1954, the functions of IIAA were integrated with those of FOA which, succeeded by ICA, took over primary responsibility for the program.

After the formation of a new government in Guatemala in June 1954, the United States increased substantially its technical assistance program and added economic development assistance to help in overcoming the country's serious social and economic problems. During the fiscal years 1955-59, FOA and ICA made available mutual security funds totaling \$58.6 million which were used for the import of surplus agricultural commodities and for large-scale economic development undertakings as well as smaller demonstration and training projects. Principal assistance activities were concerned with construction and maintenance of roads, agricultural

development, improvement of health conditions and education, and construction of low-cost housing.

From 1955 to 1958, the annual level of aid averaged around \$14 million. In 1959, ICA assistance decreased to \$3.6 million and was limited principally to technical assistance, while the newly established Development Loan Fund (DLF) authorized two loans aggregating \$5.4 million (not covered in this report).¹

¹The operations of DLF are covered in separate annual audit reports issued by the General Accounting Office pursuant to the Government Corporation Control Act (31 U.S.C. 841).

DENIAL OF ACCESS TO AGENCY'S EVALUATION REPORT

In October and November 1958, the Assistant to the Director of ICA for Evaluation assigned a survey team to review the Guatemalan program, and a report on this review was submitted to the Director of ICA in March 1959. For the purposes of our examination, we requested a copy of this report; but we have been denied access thereto in accordance with the position of the executive branch that the distribution of evaluation reports shall be limited to specific officers within the executive branch. The position of the Comptroller General, that these reports should be available for our examination, has been set forth in our report to the Congress dated August 29, 1958, B-133074, on the ICA assistance program for the Republic of China (Taiwan). Also, testimony on the matter has been presented by representatives of our Office and ICA during hearings before several congressional committees.

The refusal of access by ICA in this case took place prior to the enactment of section 401(i) of the Mutual Security Act of 1959, amending section 534 of the Mutual Security Act of 1954 (73 Stat. 254), and section 111(d) of the Mutual Security Appropriation Act, 1960 (73 Stat. 720), which specifically require ICA to make such data available to congressional committees and the General Accounting Office, unless the President certifies that he has forbidden the furnishing of the requested information and states his reason for so doing.

SUMMARY OF OBSERVATIONS AND FINDINGS

GENERAL OBSERVATIONS

Our observations in Guatemala and discussions with ICA Mission and Washington officials indicated that the program had accomplished some of its basic objectives by supporting a friendly government since it was formed in 1954 and by contributing to the improvement of the country's economic conditions. The Mission pointed to progress in certain important areas, such as alleviation of unemployment, and to the impact of major development projects supported by the United States. On the other hand, we were informed that, due to the lack of continuity in government and of able local leadership, Guatemala had not derived the full benefits intended by the United States aid program. The Mission reported that the period of political unrest from July 1957 until March 1958 and continued uncertainties which prevented the new government from carrying out a firm program had retarded considerably the accomplishment of economic aid objectives.

At June 30, 1959, most of the major development projects were behind schedule. Their slow progress was due in part to delays by Guatemala in taking necessary actions and in making the contributions stipulated in the bilateral agreements. Also, a number of projects had received inadequate or hasty planning prior to the execution of project agreements and the obligation of United States aid funds. Furthermore, the agency's administration of the aid program was handicapped by insufficient staffing in the field. When large-scale economic assistance began in 1955, only a few United States technicians, who had been administering a small

technical assistance program, were available in Guatemala. Recruitment of sufficient personnel to properly administer the new and expanded program was difficult and time consuming and contributed to delays.

In the meantime the agency built up a sizeable overseas staff of United States Government and contract personnel--from 10 persons in 1954 to 94 in 1959--and gained increasing experience in the handling of local conditions and problems. The ICA Mission made repeated efforts to induce the Government of Guatemala to speed up its administrative and financial contributions, and we believe that ICA, if given adequate cooperation, may be expected to overcome the remaining obstacles which stand in the way of successfully completing the projects now in progress.

AGENCY COMMENTS

In commenting on the aforementioned conditions, the agency emphasizes the special political situation in Guatemala which was created by the revolution in June 1954 and which, in the opinion of responsible United States officials, demanded quick and effective United States action in support of a friendly newly formed government. The need for United States aid was deemed particularly urgent because Guatemala's economic problems were aggravated by the worldwide drop in the price of coffee which substantially reduced national revenues and impaired economic stability.

In the agency's judgment, by 1956 the program had made considerable progress in achieving United States objectives, as evidenced by a substantial reduction in unemployment, a reversal of

the trend of capital flight, and a measure of prosperity and stability which reportedly had been realized.

The delays in carrying out major projects under the aid program are attributed by ICA largely to the period of political unrest in Guatemala which was precipitated by the assassination of the President in July 1957 and extended throughout a major part of fiscal year 1958. The agency advises that the necessity to deal with a new president and an inexperienced cabinet did not permit the completion of detailed engineering plans within the time available for obligating fiscal year 1958 funds for all projects which were to be financed with the \$10 million specifically appropriated for Guatemala in the 1958 mutual security legislation.

When it became apparent that the new government did not provide adequate support for the projects initiated under the predecessor government, ICA arranged for a full review of all projects then in process. A meeting for this purpose took place in July 1959 between high officials of both governments, followed by consultations between the Mission and appropriate Guatemalan ministers, which led to the curtailment of certain assistance activities, the abolishment of the agriculture servicio, and the re-programing of about \$5 million of unexpended ICA funds in fiscal year 1960.

BACKLOG IN MISSION AUDIT ACTIVITIES (p. 21)

At the close of fiscal year 1958, the Mission had a substantial backlog of unaudited expenditures for project assistance. To remedy this condition, procedures were established requiring the audits of previously advanced funds before additional funds

may be released, and three local auditors were added to the Mission Controller's staff early in fiscal year 1959. The Mission anticipates that the backlog of unaudited expenditures will be eliminated by the close of fiscal year 1960.

CONSOLIDATION OF DISBURSING FUNCTIONS
OF ICA MISSION AND EMBASSY (p. 22)

Following procedures originally established by IIAA in the general area of Latin America, the Mission performed its own disbursing function and did not use the services of the United States Embassy. A proposal of the Mission to consolidate this function in the Embassy was under consideration by ICA and the Department of State but had not been acted upon. Since the principle of embassy support for ICA overseas operations has been established on a worldwide basis, we recommended that it be followed in the Latin-American countries unless exceptional circumstances require otherwise.

In December 1959, ICA authorized its Mission in Guatemala to transfer the disbursing functions on the Embassy, provided that the consolidation of such functions would result in over-all savings and efficiencies. The agency advises that similar action will be taken, where warranted, in other Latin-American countries.

REVIEW OF SELECTED PROJECTS

Our findings covering selected major projects examined by us are summarized in the following paragraphs and are discussed in more detail in subsequent sections of this report. These projects represent \$34.3 million, or about 80 percent of the total \$43.6 million obligated under project and servicio agreements.

Atlantic and Pacific highways (p. 24)

The original cost estimates and completion dates for the three highway projects which ICA agreed to help finance have been substantially exceeded. ICA contributions were increased from \$17.4 million originally budgeted to \$23 million as of June 30, 1959.

There have been serious disagreements between engineering advisers of ICA and Guatemala as to the soundness of plans and specifications and cost estimates. We believe that the administrative arrangements for using the consulting services of the United States Bureau of Public Roads were inadequate as they did not delineate the Bureau's functions in relation to those of Guatemala's engineers and failed to resolve promptly and satisfactorily any disagreements.

ICA advises that the Atlantic highway was subsequently completed in November 1959 and that the other two projects relating to the Pacific highway are expected to be completed by June 1960. ICA and Guatemala have agreed on a ceiling for United States expenditures; any additional costs and those not found eligible under United States-approved standards are to be borne by Guatemala.

Aided self-help housing (p. 34)

The obligation of ICA funds for this project, in the amounts of \$1.5 million in 1956 and \$1.4 million in 1958, appears to have been premature, since necessary planning had not been completed and progress in the selection of sites and in the construction of houses has been slow.

ICA states that the critical situation in Guatemala necessitated obligating funds as evidence of United States support for this project and that considerable planning had preceded the project agreement although the need for more detailed studies was recognized in the agreement. The agency advises that most of the problems contributing to delays in the project have since been resolved. However, because of increased construction costs since the project plans were formulated, the original goal of 3,500 houses had to be reduced to 2,800 houses. As of December 1, 1959, the construction of 546 houses reportedly was completed, and the remaining houses were estimated to be ready for occupancy early in calendar year 1962.

Vocational school (p. 41)

Our examination disclosed inadequate planning and slow progress. In June 1958, when ICA signed the project agreement and obligated the sum of \$1 million, the design of the buildings and shop layout had not been prepared and the training needs of Guatemalan industry had not been adequately surveyed. Delays by Guatemala in making available the land for the school postponed the scheduled start of building operations.

ICA advises that, because of the political situation in Guatemala, prompt obligation of funds at the close of fiscal year 1958 was considered necessary. The agency believes that the extensive survey made in the latter part of calendar year 1958 adequately justified the amounts previously obligated. The agency reports that the delays in the project have been overcome and that the school is expected to be ready for classes in July 1960.

Roosevelt Hospital (p. 45)

In fiscal years 1955-57, ICA contributed a total of \$1.2 million to complete construction of and to help equip this 1,000-bed hospital located in Guatemala City. Between December 1955 and December 1958, three sections were opened, making available a total of 500 beds. ICA provided no further financial assistance after fiscal year 1957, and funds to equip the other 500 beds were to be furnished by Guatemala. By December 1, 1959, an additional 280 beds were reported to have been equipped and placed in operation, but a shortage of local funds has postponed the opening of the remaining sections.

The Mission reported that a shortage of trained health personnel and uncertainty as to whether sufficient budgetary funds would be allocated by the Government of Guatemala had adversely affected operating plans. The Mission is making efforts to induce the responsible Guatemalan agencies to get under way an adequate training program within their limited financial resources.

Rural development (p. 48)

This program was started in fiscal year 1956 as the Mission's most comprehensive assistance effort in terms of its scope and intended impact on the country's economy. Through fiscal year 1959, the agency obligated a total of \$11.9 million of economic and technical aid funds. The slow progress of the program was attributed by ICA primarily to delays by Guatemala in making available land and funds and taking other necessary actions. Delays and difficulties in administration also were attributable to the

complexity of the program, inexperience of the Guatemalan agencies, and frequent turnover of Guatemalan personnel.

In July 1959, the program was reorganized to better meet the objectives of the new Guatemalan Government and expedite the use of previously committed funds. The original goal of settling 25,000 farm families within a 5-year period was cut back to 5,000 families, and a new project was added to help provide health and education facilities to some 4,000 families engaged in subsistence farming. ICA agreed to deobligate and reprogram for other purposes dollar funds of \$2.4 million and local currency equivalent to \$1.4 million. The agency believes that the reorganization of the program and the better support promised by the Guatemalan Government will facilitate the training of a qualified local staff and relieve United States technicians who have performed operating and administrative functions which more properly should have been the responsibility of Guatemala.

NATURE AND ADMINISTRATION OF AID PROGRAM

OBJECTIVES

United States assistance to Guatemala began on a small scale in 1942 and, through fiscal year 1954, consisted of technical assistance programs in agriculture, education, and health and sanitation. From 1950 to 1954, because of political conditions in Guatemala, the education program was discontinued and the programs in agriculture and health and sanitation were reduced in scope.

In fiscal year 1955, the technical assistance program was increased substantially and an economic development program was started after the change in the Guatemalan Government as a result of the revolution in June 1954. The United States decided to assist Guatemala in overcoming serious social and economic problems faced by the new government, including a depleted treasury, extensive unemployment, a land reform program, and a shortage of investment capital for needed economic development. The inexperience of the new government and lack of a well-developed plan for the country's economic reconstruction added to the need for United States assistance. As stated in the annual budget presentations to the Congress, the objectives of the program were to:

1. Support and encourage the government by helping to create conditions of political, economic, and social stability.
2. Develop a stronger and more diversified economy.
3. Improve the general health, education, and welfare of the country within the framework of its own capabilities of future financing.
4. Develop more efficient government operations and services.

FINANCING

From 1942 through 1954, the assistance program for Guatemala amounted to about \$3.3 million and was administered by the Institute of Inter-American Affairs, a United States Government Corporation responsible for United States technical assistance ("Point 4") in the entire area of Latin America. Following the reorganization of the mutual security program in 1953 and 1954, FOA (succeeded by ICA) assumed principal responsibility for the program and IIAA became the operating division of FOA/ICA for the Latin-American area.

Compared with an average annual aid level of about \$250,000 during the 13-year period 1942-54, the annual level from 1955 through 1958 was close to \$14 million. In 1959, ICA assistance to Guatemala decreased to \$3.6 million and was limited principally to technical assistance, while the newly established Development Loan Fund authorized two loans aggregating \$5.4 million.

For the fiscal years 1955-59, FOA and ICA obligated mutual security funds totaling \$58.6 million for assistance to Guatemala as follows:

	<u>Obligations</u> (in millions)
Project assistance:	
Technical cooperation	\$10.8
Economic development	38.1
Imports of surplus agricultural commodities and ocean freight	8.9
Overseas administration	<u>.8</u>
Total, 1955-59 (see schedule 2)	<u>\$58.6</u>

Technical cooperation was financed from the appropriations specifically designated for this purpose in the annual mutual

security legislation. Economic development and commodity imports were funded from a number of different appropriations, including transfers and determinations made by the President authorizing the use of military funds (in 1955), Southeast Asia support funds (in 1955 and 1956), and the special Presidential Fund (in 1956). In 1957 and 1958, respectively, the Congress provided specifically in the appropriation acts that not less than \$15 million of 1957 defense support funds be used for assistance to Guatemala and not less than \$10 million of 1958 special assistance funds be available for Guatemala. The sources of all funds obligated in 1955-59 are summarized in schedule 1.

The two loans authorized and administered by DLF (not covered in this report) consist of a loan of \$400,000 for a fiber-processing plant and a loan of \$5 million for rubber development.

BILATERAL AGREEMENTS

The economic and technical assistance program has been administered within the framework of bilateral agreements between the United States and Guatemala.

The basic agreements governing operations since fiscal year 1955 have been the General Agreement for Technical Cooperation, signed on September 1, 1954, and the Development Assistance Agreement, signed on December 13, 1954. The General Agreement for Technical Cooperation provides for the interchange of technical knowledge and skills and other related activities to develop the economic resources and productive capacities of Guatemala. The Development Assistance Agreement provides for the furnishing of economic assistance to Guatemala. Both agreements incorporate the requirements of the Mutual Security Act of 1954, as amended, as to

the eligibility of foreign countries to receive United States technical and economic assistance. Under the basic agreements, supplementary agreements were executed for specific programs and projects, setting forth the nature and objectives of the activities to be carried out and pertinent technical, financial, and administrative arrangements.

Separate agreements govern the joint administrative arrangements for the establishment and operation of "servicios" through which an important part of project assistance has been carried out. (See next section.)

SERVICIOS

Following the general administrative pattern of technical assistance in the Latin-American area, the United States and Guatemala have established three servicios, in the basic fields of education, health and sanitation, and agriculture.

These servicios are organized to function as an integral part of the responsible ministry of the host government but allow both governments to jointly manage program operations and control financial contributions. The chiefs of the related functional divisions of the ICA Mission serve as directors of the servicios, assisted by United States and Guatemalan technicians. Annual contribution agreements state the mutual contributions which the United States and Guatemala shall make to finance the direct costs of the program, comprising equipment, supplies, services and administrative expenses. Each servicio initiates and finances individual projects on the basis of project agreements approved by the ICA Mission and signed by the servicio director and an appropriate official of the Guatemalan ministry.

ICA bears, in addition to its direct servicio contribution, the entire costs of salaries and other expenses of the United States technicians assigned to a servicio. Also, in some cases, ICA makes additional contributions for special projects, without corresponding contributions by the host government.

Following are the respective amounts obligated by ICA and Guatemala under servicio contribution agreements for the 5 years 1955-59, excluding the costs of United States technicians and ICA contributions to special projects:

	<u>ICA</u>	<u>Guatemala</u>
	(in thousands)	
Agriculture	\$1,992	\$2,244
Education	758	778
Health and sanitation	<u>1,450</u>	<u>2,178</u>
Total	<u>\$4,200</u>	<u>\$5,200</u>

In July 1959, the United States and Guatemala agreed to terminate the cooperative program of the agriculture servicio because of strong criticism expressed by the responsible Guatemalan official of the large scope of servicio operations which he contended interfered with regular governmental operations. ICA considered these charges unfounded but acceded to the termination in the interest of mutually satisfactory relations with the host government.

IMPORTS OF SURPLUS AGRICULTURAL COMMODITIES

During the period 1955-59, ICA obligated a total of \$8.8 million for Guatemalan imports of United States wheat, corn, and beans pursuant to the provisions of section 402 of the Mutual Security Act of 1954 (22 U.S.C. 1922). The proceeds from the sale of these commodities are payable in Guatemalan currency (quetzales)

to the United States Government and are programed, for purposes of the ICA assistance program, principally for highway construction.

In addition, ICA provided \$136,350 to pay part of the ocean freight on emergency relief shipments of corn furnished by the Commodity Credit Corporation (CCC) in fiscal year 1955 under the authority of title II of Public Law 480.¹ The corn was valued, based on CCC investment, at \$3,238,000. In accordance with the agreement, Guatemala deposited the net proceeds (in quetzales) from the sale of the corn into a special counterpart account which was maintained in the name of the Guatemalan Government but used only for projects approved by ICA.

USE OF LOCAL CURRENCY

The status and use of local currency generated from United States assistance, both under section 402 of the Mutual Security Act and under title II of Public Law 480, were reported by ICA at June 30, 1959, as follows:

	Dollar equivalent of sales proceeds	
	Under sec- tion 402 (U.S. owned)	Under Public Law 480 (country owned)
	(in thousands)	
Total proceeds to be generated	<u>\$8,757</u>	<u>\$1,364</u>
Deposits to date	7,449	1,364
Withdrawals (by field of activity):		
Agriculture	-567	-212
Transportation	-4,057	-950
Other	<u>-208</u>	<u>-202</u>
Balance on deposit	<u>\$2,617</u>	<u>\$ -</u>

¹Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1721).

OVERSEAS STAFFING

ICA maintains a Mission in Guatemala which is responsible for the planning and execution of the assistance program in the field, subject to the supervision of the Washington office. When the expanded program of economic assistance began in fiscal year 1955, only a few United States technicians, who had been administering a small technical assistance program, were available in Guatemala. A Mission Director was appointed and arrived in the field in September 1954 to work out plans and procedures with the Government of Guatemala and to establish a properly staffed mission. Recruitment of the necessary technical and administrative personnel was slow, but gradually the agency succeeded in building up its overseas staff from 10 United States and 18 Guatemalan employees at the beginning of fiscal year 1955 to a total complement of 165 persons at the close of fiscal year 1959.

A summary of personnel engaged in the ICA program in Guatemala at the end of each fiscal year from 1955 through 1959 follows:

	<u>1959</u>	<u>1958</u>	<u>1957</u>	<u>1956</u>	<u>1955</u>
U.S. citizens:					
ICA	70	62	56	42	26
Other Government agencies	5	3	3	1	2
Consultants	1	1	-	1	-
Technicians employed under ICA-financed contracts	<u>18</u>	<u>17</u>	<u>21</u>	<u>20</u>	<u>9</u>
Total U.S. citizens	94	83	80	64	37
Guatemalan citizens, performing support functions	<u>71</u>	<u>65</u>	<u>59</u>	<u>61</u>	<u>45</u>
Total	<u>165</u>	<u>148</u>	<u>139</u>	<u>125</u>	<u>82</u>

INTERNAL AUDITS

Washington office

Regular agency procedures call for periodic field visits by the internal audit staff of the Washington office to the various

overseas missions. During the period 1955-59, the agency made one field audit in Guatemala, in October-November 1956. The audit report, issued in March 1957, called attention to a number of unsatisfactory conditions relating to the administration of local currency, a lag in the housing project, and certain other matters of financial management. Action has been taken on the recommendations of the report. Because of staff limitations and audit priorities in other parts of the world, ICA has made no further field audit in Guatemala but has scheduled an examination to be undertaken in the latter part of fiscal year 1960 or in fiscal year 1961.

Servicio operations

ICA has the responsibility to assure itself of the adequacy of financial transactions and procedures of the servicios. In Guatemala, as in several other Latin-American countries, arrangements have been made for annual audits of servicio operations by an American firm of certified public accountants. The auditors' reports contained various recommendations for improving accounting controls and records and, according to advice by the Mission, efforts have been made to implement these recommendations.

Overseas Mission

The agency's procedures call for self-audit activities by the overseas missions, to determine the end use of ICA-financed equipment and to review local financial management practices and procedures. In Guatemala, such audit activities became especially important after the expanded assistance program got under way in fiscal year 1955. The major projects financed by ICA involve periodic cash advances to various agencies of the Guatemalan Government, to

be expended in accordance with the terms of the project agreements. The Mission received from the beneficiary agencies data supporting their expenditures which are subject to audit and disallowance if found to be unauthorized under the agreements.

Backlog in Mission audits

At the close of fiscal year 1958, the Mission had a substantial backlog of unaudited expenditures for project assistance. The audit work which had been performed pertained mostly to the highway projects and, to a lesser extent, to the rural development projects. No reviews had been made of expenditures in the other activity fields. The Mission Controller considered his staff of two Guatemalan auditors inadequate to reasonably assure the Mission that ICA funds were being properly spent. In May 1958, he adopted a procedure which requires, for each project, a satisfactory audit of the disposition of previous advances before additional funds may be advanced, and he requested authority to employ additional Guatemalan auditors. This authority was granted, and, in the early part of fiscal year 1959, the Mission employed three additional auditors.

Subsequent agency action

In its comments communicated to us in December 1959, the agency informed us that the Mission had made considerable progress in its postaudit work as well as in preaudit activities under the tighter procedures adopted in May 1958. The Mission anticipates that the remaining backlog of unaudited disbursements will be eliminated by the close of fiscal year 1960.

EMBASSY SUPPORT

In Guatemala, as in other Latin-American countries, the ICA Mission has maintained its own disbursing facilities and has not used the services of the United States Embassy. This arrangement varies from that in other areas of the world where the embassies generally perform the disbursing together with any other support functions needed by the ICA overseas missions and other United States civilian agencies operating in a given country. The arrangement in Latin America follows procedures established by IIAA when it was an active Government corporation.

Proposed consolidation of disbursing function not acted upon

In May 1958, the ICA Mission in Guatemala proposed a consolidation of the disbursing function in the Embassy, with resulting economies in the administrative costs and efforts of the Mission. The proposal, which could apply to all other ICA missions following the former IIAA system, was under consideration by appropriate officials of the Department of State and ICA but had not been acted upon. Since the principle of embassy support for ICA overseas operations has been established on a worldwide basis, we recommended that it be followed in Latin-American countries unless exceptional circumstances require otherwise.

Subsequent agency action

In December 1959, a joint ICA-State message authorized the Mission to transfer its disbursing function to the Embassy provided that the two offices agreed that worthwhile economies and efficiencies would result. ICA advises that similar action will be taken in other Latin-American countries where warranted.

REVIEW OF SELECTED PROJECTS

GENERAL COMMENTS

We reviewed the status of the following major projects and the manner in which they were administered:

	<u>ICA obligations 1955-59</u>	<u>Dollar equivalent of local currency (note a)</u>
	<u>Dollar</u>	
	(in thousands)	
Atlantic and Pacific highways	\$18,991	\$4,057
Aided self-help housing	2,864	
Vocational education school	1,000	
Roosevelt Hospital	1,250	
Rural development	<u>10,224</u>	<u>1,700</u>
Total	<u>\$34,329</u>	<u>\$5,757</u>

^aRepresents proceeds from sale of surplus agricultural commodities under section 402 of the Mutual Security Act of 1954. Does not include counterpart funds generated under title II, Public Law 480 programs. (See p. 18.)

Progress of the above projects has been slow, and, at the time of our field examination in October 1958, their completion was behind schedule. The Mission attributed these delays largely to the unsettled political conditions in Guatemala; the resultant frequent turnover and inexperience of local officials; and deficient planning, coordination, and administration by the agencies of the host government. The Mission reported delays, on the part of Guatemala, in taking necessary actions and making the financial contributions stipulated in the project agreements. In some cases, the Mission withheld the United States contribution until Guatemala complied with the agreement.

Our examination showed that the unsatisfactory progress of the projects was due, in addition to political and general local conditions, to inadequate or hasty planning prior to the execution of project agreements. With respect to several of the projects examined by us, we found conditions indicating premature obligations without the benefit of properly completed plans and cost estimates similar to those disclosed in other areas of the foreign assistance program which led to the enactment of section 517 of the Mutual Security Act (22 U.S.C. 1966(c)), effective in fiscal year 1959.

Administration of the projects by ICA has been hampered by shortage of technical staff and the length of time required to recruit the necessary overseas personnel. This condition has contributed to inadequate planning and to subsequent delays in carrying out the projects.

As set forth on page 6, the agency emphasizes the political conditions in Guatemala which should be considered in evaluating the progress achieved by the program and the manner in which it was administered. Special factors to be considered are the several changes in government, the resulting uncertainties, and lack of a well-developed plan for the country's economic reconstruction.

ATLANTIC AND PACIFIC HIGHWAYS

Description of project

In fiscal year 1955, when economic assistance was first granted to Guatemala, high priority was assigned to the improvement of the country's highway system. It was anticipated that a highway construction program would have a prompt economic impact and alleviate the serious unemployment problem.

ICA undertook to help finance the local currency costs of constructing several highway projects. For this purpose, the agency purchased local currency with dollar funds and also used United States-owned local currency derived from sales of surplus agricultural commodities. Local currency from both these sources was granted to Guatemala for approved construction expenditures. The United States Bureau of Public Roads (USBPR), which had engineering representatives in the Central American area in connection with the construction of the Inter-American Highway, agreed to serve as consulting engineers for ICA.

The funds obligated by ICA through June 30, 1959, are summarized below:

	<u>Dollar funds</u>	<u>Dollar equivalent of U.S.-owned local currency</u>
	(in thousands)	
Pacific highway--center section	\$ 4,837	\$ -
Pacific highway--east and west sections	2,906	1,800
Atlantic highway	<u>11,248</u>	<u>2,257</u>
Total	<u>\$18,991</u>	<u>\$4,057</u>
<u>Pacific highway--center section</u>		

The first project agreement was signed on December 17, 1954, and provided for the immediate completion of the central section of the Pacific highway, which had been under construction by the Guatemalan Government since 1948. One section had been completed in 1950, and ICA agreed to help finance the unfinished portion supplementing funds provided by Guatemala from its own resources. The Guatemalan Department of Highways engaged a United States construction firm to perform the work.

Pacific highway--east and west sections--
and Atlantic highway

On January 23, 1956, ICA agreed to finance the completion of the east and west ends of the Pacific highway with the objective of developing a continuous highway about 220 miles long from the border of Mexico to the border of El Salvador. Another major project, agreed to by ICA on September 12, 1955, was the completion of the Atlantic highway which had been started by Guatemala in 1951. This highway is 186 miles long and connects Guatemala City with the Atlantic coastal ports of Puerto Barrios and Santo Tomas through which pass about two thirds of Guatemala's imports and exports.

For the completion of these two projects, Guatemala has expended substantial sums from its own resources and received assistance from both ICA and the International Bank for Reconstruction and Development (IBRD). IBRD agreed in July 1955 to loan \$18.2 million to finance (1) the foreign exchange costs of constructing the Atlantic highway and the east and west ends of the Pacific highway, (2) the cost of improving highway maintenance in Guatemala, and (3) the fees of consultants to advise the Government of Guatemala. The maintenance improvement program included reorganization of the highway department, establishment of central and regional workshops, and training of maintenance personnel. Guatemala selected and IBRD approved an American engineering firm to act as consulting and supervising engineers for the highway construction and maintenance programs.

Original cost estimates exceeded

The actual costs of the highways are expected to substantially exceed the original estimates. The highway projects were approved before complete engineering surveys and adequate cost studies had been made. Political and economic reasons are cited for the urgency with which the program was started. As construction progressed, better engineering and financial data became available and various changes in plans, designs, and standards also necessitated revised cost estimates.

Pacific highway--center section

In November 1954, before the project was approved, the Mission reported that this section could be completed at a cost of \$4.5 million. In July 1955, the Mission furnished revised estimated costs of \$6.3 million and, in March 1956, of \$7.4 million. The ICA contribution was increased from \$3 million obligated in 1955 to \$4.8 million obligated through June 30, 1957.

The Mission reported that the increased costs were due to inaccurate estimates by the Government of Guatemala and the contractor and to an increase in the scope of the work requested by Guatemala. Thus, the total length of bridges found to be necessary was double the original estimate, and the estimated amount of roadway excavation was also inaccurate. Furthermore, Guatemala increased the scope of the work by increasing the width of the highway from 6 to 7.2 meters and requiring that by-passes be built around some towns.

ICA has provided no additional financing since fiscal year 1957 and advises that Guatemala agreed to bear any costs not

covered by United States contributions and needed to complete the center section.

Atlantic highway and
east and west ends of Pacific highway

In May 1955, based on a reconnaissance survey, the highway engineering firm engaged by Guatemala estimated that the total costs of the Atlantic highway and of the east and west ends of the Pacific highway would be \$19.7 million and \$6.6 million, respectively. After further engineering surveys of the highways, the firm revised its estimates in September 1956 to \$25.2 million and \$9.4 million, respectively. After detailed designs and specifications had been prepared and more up-to-date engineering and financial data became available during construction, the firm estimated in August 1958 that the highways would cost \$27.2 million and \$9.7 million, respectively.

As the costs of highway construction increased, the burden of funding them fell on ICA and the Government of Guatemala since the loan from IBRD was a fixed amount. However, since Guatemala insisted on highway standards and designs which were more elaborate than United States engineers of the USBPR considered necessary, ICA and Guatemala agreed, by exchange of letters dated October 8 and November 12, 1957, that total ICA contributions would be limited to \$13,505,000 for the Atlantic highway and \$4,706,000 for the east and west ends of the Pacific highway. Guatemala agreed to finance the remaining construction costs which, according to latest estimate in August 1958, were to be \$18.8 million.

Completion dates not met

Pacific highway--center section

The original completion dates have been substantially exceeded. In November 1954, the Mission Director reported that the center section of the Pacific highway could be substantially completed before the start of the rainy season in May 1955 if the work was started immediately. However, little had been accomplished to February 1955, when the construction work was transferred from Guatemala's Department of Highways to a United States contractor. By that time half of the dry season was over. The completion date was changed to June 30, 1956. In October 1956, since the firm had not complied with plans and specifications and had not met estimated costs and completion dates, the Guatemalan Government canceled the contract. At that time, the Mission reported that construction of about 50 of the total 70 miles was almost complete, including paving, and some grading and drainage work had been done on the remaining 20 miles. Construction on this remaining section was not resumed until July 1958 and had not been completed when we visited Guatemala in October 1958. According to USBPR estimates, the remaining construction will be completed by June 1960.

Pacific highway--east and west sections

The project for the east and west ends of the Pacific highway started in January 1956 and was to have been completed in June 1958, but the estimated completion dates were revised to March and June 1960, respectively.

Atlantic highway

Begun in September 1955, the Atlantic highway was to have been completed in June 1958. This date was advanced to June 30, 1959. The USBPR has since reported that the highway was completed and officially opened to traffic by the President of Guatemala in November 1959.

Differences in opinions of consulting engineers

Serious disagreements occurred between the respective engineering groups serving as advisors to ICA and the Guatemalan Government concerning the soundness of the construction work and costs, in particular with respect to the Atlantic highway.

USBPR engineers criticized the engineering features and specifications of the highways and charged poor planning, overdesign, and waste in construction. They contended that the highways were being built to higher standards than they considered necessary and they recommended changes in design and specifications to reduce construction costs. In October 1957, the USBPR District Engineer in Guatemala charged that over the past 1-1/2 years he had received little cooperation from either ICA or the Government of Guatemala representatives and that changes recommended by him had been disregarded.

Guatemala and its consulting engineers generally did not agree with the opinions advanced by USBPR and contended that USBPR had approved the plans and specifications for the highways, that these specifications also formed part of the loan agreement between Guatemala and IBRD, and that Guatemala was committed to IBRD to construct the highways in accordance with these specifications.

In a letter dated October 8, 1957, to the Mission Director, the Minister of Communications and Public Works took issue with the type of supervision exercised by USBPR. He stated that USBPR insistence on constructing the highways to its standards had resulted in delays in construction. Since it was agreed to set a ceiling on the amount of ICA contributions and to have Guatemala absorb all additional costs of the highways, the Minister suggested that USBPR be limited to its original function of making sure that the highways conformed to the approved standards, instead of trying to impose a reduction to standards considered by the Minister's engineers to be unsafe.

On August 5, 1958, the United States engineering firm retained by Guatemala complained to the ICA Washington office that USBPR reports through April 1958 in the main were incorrect in their conclusions and not factual in their contents, reflected seriously upon the engineering services of the firm, and had done unjustified harm to its reputation.

We believe that the administrative arrangements between ICA and Guatemala were inadequate since they did not clearly delineate the respective functions of the various engineering advisors and did not permit a prompt settlement of the serious disagreements which developed. The project agreements provided that ICA contributions should be subject to determinations by USBPR that the design, quality, and appearance of the work performed were in conformance with normal engineering practices of USBPR applicable in Guatemala. There was no provision for the role of the Guatemalan engineers and their consultants and for reconciling disagreements between the several groups.

The Mission contends that all funds advanced by ICA for the Pacific highway end sections and the Atlantic highway, and a considerable amount of the disbursements for the Pacific highway center sections, had the prior approval of the USBPR.

An exchange of letters in October and November 1957 between ICA and Guatemala had laid the groundwork for a final determination of the highway costs which the agency would finance. Whereas it is the position of ICA that Guatemala has the final decision as to standards and specifications for the highway construction work, the agency reserves the right to recover funds not spent according to plans and specifications approved by the United States Government as provided in the project agreements. USBPR has been asked to certify that, from the technical and engineering viewpoint, all United States funds have been properly expended. The Mission auditors examine project records for compliance with financial terms and conditions. Any additional costs resulting from overdesign are to be financed by Guatemala.

Subsequent developments

As of December 1, 1959, the Mission reported that USBPR had certified to the completion of the ICA-financed parts of the Pacific highway end sections and of the Atlantic highway. These certifications contain the statement that "all completed projects within the ICA program may be considered as substantially constructed in accordance with the plans and specifications." At the time, the Mission also was making a final audit of the Pacific center highway project and expected to obtain in due course a completion certificate from the USBPR.

The Mission reported that work costing about \$140,000 to December 31, 1959, did not meet USBPR standards and therefore was found ineligible for ICA financing. The amounts disallowed involved two items:

1. A bridge costing \$109,650. USBPR found that the bridge had excessive length and that the bridge slab was built with excessive thickness. Although disallowing this expenditure, USBPR saw no supportable engineering reason for requiring that the bridge be reconstructed; no detrimental effects have been noted by USBPR during the 2 years since the structure was built.
2. Multiplate pipe for culverts costing \$30,432. The pipe had been procured with ICA financial assistance but subsequently was found to be not needed when completed plans called for bridges instead of culverts.

The costs disallowed are to be borne by Guatemala, but ICA contributions in the same amount are made available for other work approved by USBPR. It appears, at this late date, that a more satisfactory arrangement is not available to ICA, since to demand a refund of the disallowed expenditures would impose an undue financial burden on the Guatemalan Government. However, considering that no over-all savings have resulted, from the recommendations of USBPR engineers, to ICA or the Guatemalan Government, we believe that it may be concluded in retrospect that the Bureau's engineering services have not been as effectively used as would have been desirable.

AIDED SELF-HELP HOUSING

Description of project

On June 28, 1956, ICA and Guatemala agreed to a cooperative project of "low-cost aided self-help housing." The project called for the planning and construction of 1,000 houses, subsequently increased to 3,500 houses, in Guatemala City and other selected areas of the country. The planning phase contemplated studies of the housing needs of Guatemala and its available resources and development of criteria as to dwelling unit space, standards and layout, income groups to be served, site requirements, and related matters. The Ministry of Communications and Public Works was to establish an agency known as Inter-American Houses to administer the project, with technical and financial assistance from ICA.

The self-help feature of the project required participation of the heads of selected low-income families in the construction of their homes. The project was designated "aided" since ICA and Guatemala assist in financing the costs of land, improvements, and construction materials.

The original agreement provided for contributions of \$1,464,000 by ICA and the equivalent of \$750,000 by Guatemala. The estimated completion date for the construction of the 1,000 houses was November 1957. On April 30, 1958, the project was expanded calling for additional contributions of \$1,400,000 by ICA and the equivalent of \$2,600,000 by Guatemala for the construction of 2,500 additional houses.

Premature obligation of ICA funds

We believe that the obligation of ICA funds for the construction of the houses was premature because construction could not

be started until after an adequate study of Guatemala's housing needs and resources had been made and a firm program had been developed. In fact, the same project agreement which obligated funds for the construction costs called for the planning which should precede the construction phase. Also, the sites on which the houses were to be built had not been determined by the Government of Guatemala.

At the request of ICA, an international housing construction advisor, on loan from the United States Housing and Home Finance Agency, visited Guatemala in August and September 1956 to study the housing situation and to make recommendations to the Mission Director. The advisor proposed a time schedule which called for preliminary drawings and cost estimates to be completed in November 1956, and working drawings and specification to be completed and site work started in February 1957. We believe that these dates would have fixed a more appropriate time for obligating the construction funds.

Similar conditions existed when the program was expanded in April 1958. ICA obligated substantial additional funds although sites and numbers of houses at each location, and the types and standards of the houses to be built outside Guatemala City had not been determined. On May 29, 1958, the Mission reported that it was proceeding as rapidly as possible with statistical investigations to determine locations and sizes of projects outside Guatemala City and with related plans and studies to determine suitable construction materials. Ten months later, in April 1959, the Mission reported that negotiations for sites were underway. The

Mission reported that, because of varying climatic conditions, and until site selections were completed, conclusions could not be reached as to the most suitable type of dwelling unit, the construction materials to be used, or the construction process.

Agency comments

ICA advises that the critical situation in Guatemala at the time necessitated obligating funds as evidence of United States support for this project from its planning stage to ultimate completion. The agency states that considerable planning had been accomplished before the signing of the project agreement in June 1956, but the point had been reached where additional planning was contingent on the magnitude of the program and the amounts to be pledged by each government. The Mission had available statistics based on studies of Guatemala's housing needs made by the Pan-American Union in 1950 and 1957. The need for more detailed studies and plans was recognized, and appropriate provisions were incorporated in the agreement requiring such studies before proceeding with construction.

Lag in project

Progress in the construction of the houses has been slow. This lag has been attributable to delays in necessary planning and providing the building sites, inadequate administration of the Guatemalan agency Inter-American Houses, and delays in recruiting ICA technicians.

Whereas the Mission originally had estimated that the first 1,000 houses would be completed by November 1957, construction of the first group of 280 houses began at various dates between

July 1957 and February 1958. The first 28 families moved into their houses in December 1958, 17 months after construction had started and close to 2-1/2 years after the project agreement had been signed. Construction of the second group of 138 houses started in March 1958, and 126 houses of the third group of 540 houses were started in January 1959. According to Mission reports, the revised construction schedule contemplated full occupancy of the first two groups of houses by June 1959 and of the third group by May 1960.

Under the expanded program approved in April 1958, none of the 2,500 houses had been started a year later. The Government of Guatemala was making arrangements for participation and contribution by the communities involved but had not reported a satisfactory conclusion of these matters.

Agency comments

ICA believes that the initiation of construction 12 months after the signing of the agreement was an accomplishment in view of the obstacles that had to be overcome to establish an entirely new governmental organization for carrying out the program and to acquire sites in a city where inadequate water supply had always been a major deficiency.

ICA advises that most if not all problems which contributed to the delay in project implementation have been resolved. However, because of increased construction costs since the agreements were executed, the original goal of 3,500 houses has been scaled down to 2,800 houses.

As of December 1, 1959, the construction of 546 houses was reportedly completed. All remaining houses are expected to be completed and occupied early in calendar year 1962, provided that the Government of Guatemala is able to meet its agreed contributions.

Reduction of self-help element

An important element of the project had been the self-help technique which was intended, by using participant family labor, to construct low-cost houses within reach of low-income families. Also, the self-help technique was to encourage social responsibility and, by having a generally favorable psychological effect upon the people, contribute to political stability. ICA had estimated that about 1,700 man-hours of work would be needed to complete each house, or about 17 months and spare time of the untrained participants. Contract or government labor was used for certain phases of construction, such as floor laying, plumbing, and wiring. The total time was later reduced to about 1,000 man-hours per house by using concrete blocks for the walls instead of reinforced poured concrete.

In view of the lag in the construction phase, the Mission and Guatemala decided in the fall of 1958 to expedite completion of the houses by reducing the self-help component to about 350 man-hours per house. The bulk of the work is to be done with contract and government labor, made up principally of unemployed laborers released from road construction work. Mission technicians believe that with this change the houses will be built in half the time it formerly took and at no additional cost to the owners.

While some concern was expressed by the Washington office over reduction of the self-help component because it was contrary to the original understanding of all parties, the change was approved on the basis that it was essential to shorten the construction time, more quickly provide eligible families with the necessary housing, and furnish contract and government labor with on-the-job training. The revised construction method was considered helpful in meeting more readily and quickly basic assistance objectives in Guatemala.

Delay in recruiting technicians

The Mission reported on several occasions that the lack of technicians hindered progress of the project.

The consultant on loan from the Housing and Home Finance Agency recommended in August and September 1956 the earliest possible recruitment of permanent self-help and construction advisors for the Mission. In May 1957, the same consultant was again requested to visit Guatemala on a temporary basis until ICA could recruit a permanent technician capable of organizing and supervising the construction of the houses and of training foremen. After two unsuccessful attempts, a candidate was finally accepted and sent to the field in August 1957. Two other specialists had previously been assigned to the project, one an architect, the other an advisor in the selection and orientation of participant families.

The Mission requested four additional technicians for the expanded program agreed to in April 1958. The ICA Washington office sent a senior housing advisor to Guatemala in March 1959 and another technician in June 1959.

Agency comments

ICA advises that it considers the present staff of five technicians adequate to supervisor project operations and that, by the end of fiscal year 1960, a reduction to four advisors is anticipated.

VOCATIONAL SCHOOL

Description of project

A project agreement was signed on June 27, 1958, for the establishment and operation of a vocational school in Guatemala City to help Guatemalan industry obtain the required skilled workers. ICA obligated \$640,000 for equipment, furniture, and supplies and \$360,000 for certain other costs including (1) the design, engineering, and construction work to be performed by local contractors and (2) reimbursements to Guatemala for part of its operating expenditures in the first 4 years of school operations.

In addition to the obligation of \$1,000,000, ICA agreed to provide United States technicians to head the school's eight major departments until qualified Guatemalan nationals can be trained for these positions. One of the technicians is to serve as director of the school. ICA also was to provide short-term services of consultants for planning the project and other technical assistance as required. The costs of these services and of training activities were estimated to be between \$150,000 and \$200,000 a year.

The Government of Guatemala agreed to contribute the site for the school, to improve the site, and to make cash contributions equivalent to \$400,000 over a 4-year period for operating expenses of the school. Representatives of local industries agreed to contribute funds expected to amount to at least \$100,000 for building construction.

Inadequate planning prior to execution
of project agreement

We found that adequate preliminary planning and certain necessary groundwork prior to commencing a construction project of this nature were undertaken only after the project agreement had been signed.

The agency had arranged for a spot-check survey of the needs of local industry, but in October 1958 the Mission reported that the findings of the survey team were not complete enough to pinpoint the specific training needs and decided that the survey should be expanded to cover a wider variety of occupational fields. The Government of Guatemala subsequently made such a review which included visits to 1,113 industrial establishments and tabulated pertinent data for 34 occupations.

When the project agreement was signed, the type of buildings to be constructed had not been determined and designs for buildings and shop layouts had not been prepared. The preparation of preliminary plans for the buildings and shops and of cost estimates for the equipment was started in August 1958.

Agency comments

ICA advises that after the inauguration of the new president in March 1958, in view of the political situation then existing, prompt obligation of funds at the close of fiscal year 1958 was considered necessary. Prior to the execution of the project agreement, Mission officials conferred with Guatemalan officials and industrialists to discuss the proposed project and determined that funds were needed for extensive surveys of manpower needs,

training needs in each trade area, and existing training facilities. ICA believes that the extensive survey made in the latter part of 1958 adequately justified the amount of funds previously obligated by ICA.

Obstacles to construction

The Mission reported several obstacles attributable to insufficient coordination between Guatemalan agencies that have caused delays:

1. In September 1958, after title to the land for the school site had been transferred to the Ministry of Education, titles to 38 lots on the land were granted to army officers. This condition was corrected in February 1959 when the titles to the 38 lots were rescinded.
2. The removal of squatters' shacks on the site was requested in August 1958. Eventually, in March 1959, the Ministry of Agriculture ordered the transfer of the shacks to another location.
3. In November 1958, the Ministry of Communications and Public Works made public its highway plans which disclosed a highway bisecting the land for the school. It was not until February 1959 that a new route for the highway was determined and approved by the President of Guatemala.

After these various obstacles had been overcome, leveling of the site was started by Guatemala on March 25, 1959, but because of the delay the original construction schedule cannot be met. At the time the project agreement was signed, the Mission had estimated that site improvements would begin by September 1, 1958, and building construction would start November 1, 1958. The school was to open for day and night classes by January 1, 1960.

Agency comments

In December 1959, the Mission reported that the design, engineering, and construction work to be performed by local contractors had been determined, contracts for construction of the school

were being let, and a considerable amount of the necessary equipment had been ordered. The Mission expects the school to be ready for classes in July 1960, or about 6 months later than the originally estimated opening date of January 1, 1960.

Furnishing of technical services

In July 1958, the Mission requested recruitment of the technicians which ICA was to provide under the project agreement. The Mission advised that, while the building was under construction, technical assistance was immediately needed to train teachers for the new school, plan an expanded curriculum, and supervise the activities of the old vocational school. Assistance was also desired in completing and evaluating the occupational survey.

The first consultant, who was later named the technical director of the project, arrived promptly in August 1958 but subsequently was absent from Guatemala for a 2-month period to bring his family from Puerto Rico. The Mission reported that his absence delayed the completion of the survey which, in turn, delayed the final planning for the buildings and shops to be constructed. A second consultant was assigned to the field in November 1958, and three additional technicians were recruited in 1959.

Agency comments

The Washington office of ICA expressed the opinion that personnel was obtained as soon as practicable and, considering the delay in starting construction of the school, a loss of technicians' time and unnecessary expense would have resulted if a complete staff had been hired when requested by the Mission. The agency believes that adequate supervision was furnished initially

by the Mission's educational staff and subsequently by the consultants transferred from Puerto Rico and El Salvador. As to current staffing, five of the eight requested positions are reported to be filled and recruitment action is in process for the remaining three technicians.

ROOSEVELT HOSPITAL

Description of project

The construction of Roosevelt Hospital in Guatemala City was established as a cooperative project by agreement dated August 11, 1942, between the Institute of Inter-American Affairs (IIAA) and the Guatemalan Ministry of Public Health and Welfare. IIAA obligated \$500,000 for the construction of the hospital and in addition agreed to pay the salaries and expenses of a field party of American technical advisors. The original agreement provided for a 300-bed hospital. In February 1945 the agreement was amended to increase the capacity to 1,000 beds and to include a national school of nursing. Construction started in February 1944, but priority was given to the school of nursing which was inaugurated in March 1949. Construction of the hospital was repeatedly delayed because of lack of funds and other obstacles in connection with the changes in the Guatemalan Government.

On January 3, 1955, FOA/ICA agreed to assist Guatemala in completing construction of and equipping the hospital. Under this and supplementary agreements, the agency obligated funds totaling \$1,250,000 during the fiscal years 1955 through 1957. The agency attached particular importance to the project and devoted to it the principal effort in the field of health and sanitation during

this period. For this reason, the program of environmental sanitation in areas outside Guatemala City was postponed until April 1957.

Lack of local funds to fully equip and operate hospital

With United States assistance, construction of the major buildings was completed in 1955 and work on other, minor parts continued through 1957. Three units numbering 500 beds were equipped and put into operation between December 1955 and December 1958.

ICA has provided no further financing since fiscal year 1957, at which time the administrative responsibility for the hospital was transferred to the Guatemalan Government. Funds for equipping the remaining 500 beds are to be furnished from Guatemalan sources. An additional 280 beds were reportedly put in operation in 1959, but a shortage of local funds makes it doubtful when the remaining hospital units can be fully equipped.

The Mission further reported that operations of the units already completed had been adversely affected by the uncertainty as to adequate budgetary allocations by the Government of Guatemala. In particular, this condition has necessitated downward adjustments in staffing plans.

Shortage of trained personnel

A major difficulty in the operation of the hospital has been the shortage of trained Guatemalan personnel, both in administrative and medical matters.

A survey report prepared in November 1955 by a team of United States doctors brought out that the management of the hospital lacked experience for such a large operation and found it

necessary to use the assigned United States technicians as working staff members rather than as advisors. The team reported a lack of United States medical leadership to assist in solving numerous problems of a medical nature which confronted the local staff. Subsequently, ICA assigned a medical advisor to Guatemala in September 1956.

The Mission believes that the 10-year period of constructing the hospital was not adequately used by the Guatemalan Government to train the necessary number of nurses, dieticians, and administrative and maintenance personnel. For example, the Mission estimated that Roosevelt Hospital, when fully activated, will need a minimum of 150 graduate nurses and 500 trained auxiliary nurses. The requirements for the 500 beds then in use were about 68 graduate nurses and 228 auxiliary nurses, compared with an actual staff of 64 graduate and 164 auxiliary nurses at December 31, 1958. Reportedly, the hospital management has found it difficult to draw up adequate staffing plans not only because of the uncertainties as to budgetary allocations but also because of inefficient local practices in appointing health personnel and their relatively low compensation. The Mission is making efforts to stimulate greater interest on the part of responsible Guatemalan agencies in getting under way an adequate training program within the limited financial resources of the Government of Guatemala.

RURAL DEVELOPMENT

Description and Background

This program was started in fiscal year 1956, consisting of 10 individual but related projects and representing the agency's most comprehensive assistance effort in terms of scope and intended impact on Guatemala's economy. The purpose of the program is to create the nucleus of an agricultural middle class, to improve the economic and social conditions of a significant portion of the rural population, and to appreciably increase agricultural production. The program seeks to provide family-size farms to farmers who either do not own land or have inadequate or insufficient land and to assist in establishing farm families in new communities. The program provides for various important services to farmers, such as supervised agricultural credit; irrigation work; school, health, and administrative facilities; access roads; technical aid for the construction of housing and domestic water supplies; and a cooperative research and extension program.

Through June 30, 1959, ICA had obligated for this program \$10.0 million for development assistance, including \$1.7 million of United States-owned local currency, and \$1.9 million for technical cooperation. Funds for development assistance are advanced to Guatemala to pay for commodities and services required to carry out the various projects; a substantial portion is for local costs payable in quetzales. The technical cooperation funds are used to finance a contract with a United States nonprofit organization which provides technical advice and direction to the Guatemalan Government.

United States assistance funds have been allocated to the 10 individual projects which make up the program as follows:

	<u>Obligations (in thousands)</u>
Land clearing	\$ 3,900
Access roads	1,375
Supervised agricultural credit	1,366
Contract services	1,923
Irrigation work	1,044
Administrative facilities	894
Housing and water supply	613
Health facilities	381
School facilities	322
Agriculture extension	<u>106</u>
Total (including local currency generated under section 402)	<u>\$11,924</u>

A number of Guatemalan agencies share responsibilities for various parts of the program, including the Ministries of Agriculture, Health and Public Assistance, Education, and Communications and Public Works; the General Directorate of Agrarian Affairs; and the National Agrarian Bank. The three servicios for agriculture, education, and health render advisory services to their respective ministries and, for parts of the program, also perform operating functions.

Slow progress

Progress of the program during the first 3 years has been slow. At the close of fiscal year 1959, Guatemala had made available land for the settlement of 3,500 families, while project plans called for land allocations to approximately 10,000 families.

The program of land allocation and clearing by the Guatemalan Government was scheduled in several installments, financed by ICA on a fiscal-year basis. At the time of our field visit in October 1958, the land clearing program to be financed with 1956 funds was

more than a year behind schedule with respect to the largest of the 6 tracts involved, because of limited equipment facilities and difficulties encountered on the dense jungle land. Subsequently the Mission reported that these clearing operations were expected to be completed in December 1959.

With respect to the 1957 program, United States contract technicians stationed in the field reported that at March 31, 1959 (date of the latest progress report available to us), Guatemala had made land available for only 2,200 of the 3,500 families to be settled and development work had started on only 10 of the 24 tracts of land allocated for settlement. No land had been made available under the fiscal year 1958 program.

Reorganization and cutback of program goals
in July 1959

At the time of our field examination, the Mission expressed doubts whether the original goal of settling 25,000 farm families during the first 5 years could be attained. Based on the status of the program at the close of fiscal year 1958, the Mission considered that a more realistic goal would be the settlement of 11,000 families by 1962.

During fiscal year 1959, it became apparent that progress of the program was being seriously delayed by the failure of the Guatemalan Government to make land and funds available and to take other necessary actions required under the project agreements. After the Minister of Agriculture had expressed criticisms of the usefulness and administration of the program, United States and Guatemalan officials reexamined the program and in July 1959 agreed on a reorganization to better meet the objectives of the new

Guatemalan Government and to expedite the use of previously committed funds. It was agreed that ICA would deobligate and reprogram for other purposes dollar funds of \$2,364,500 and the equivalent of \$386,000 of United States-owned local currency funds. In addition, ICA reprogramed the equivalent of \$1,100,000 of United States-owned local currency funds which had been committed but not formally obligated for the program.

Under the reorganized program, the original goal of settling 25,000 families was cut back to 5,000 families and, under a new project to be started in fiscal year 1960, ICA agreed to furnish the local currency equivalent of \$1,000,000 to help provide health and education facilities and other services to about 4,000 families engaged in subsistence farming on small tracts of land on government-owned farms. The agency expects the revised program to be within Guatemala's resources and to be more fully supported by the Guatemalan Government. The deobligated funds, to the extent they are not reprogramed for rural development, are planned for other projects such as environmental sanitation and aided self-help public school construction.

Administrative difficulties

The Mission mentioned various delays, on the part of the responsible Guatemalan agencies, in making the necessary program contributions in cash, commodities, and services. The Mission furthermore emphasized the complex nature of the program and the magnitude of the administrative task for which the Guatemalan Government was not adequately organized.

The program has suffered from the frequent turnover of Guatemalan personnel, attributed chiefly to the political conditions and the changes in the government which took place during the initial period of the program. United States contract technicians, who were hired originally to serve only as advisors to the Guatemalan Government, were called upon to perform operating and administrative functions and act as technical directors in 1958 when the project agreements were revised accordingly. At the time of our field visit, the United States contractor and the Mission had recognized the need for an expanded training program to build up a competent staff of Guatemalan administrators who could assume those functions under the program which are properly the responsibility of the local government. ICA believes that the reorganization of the program in July 1959 and the support promised by the Guatemalan Government will facilitate the training of the necessary personnel.

Mission audit discloses unsatisfactory use of equipment

In fiscal year 1958, as a result of an inspection of several rural development project sites, the Mission Controller's Office reported that tanks, pumps, and other sanitary equipment and supplies, financed with ICA funds totaling about \$110,000, were inoperative, unused, or improperly stored. The audit report recommended that the Guatemalan Government obtain corrective action by the local contractors and further reported certain improper payments for a water supply system which did not function.

In July 1958, the Mission furnished copies of the audit report to the contract technicians with the request that necessary

corrective actions be obtained by the Guatemalan Government. Information on final disposition of the audit recommendations was not available at the time of our field examination. We have since been advised that the technicians submitted a final report to the Mission in June 1959 advising that satisfactory corrective action had been taken by the Guatemalan Government.

SCOPE OF EXAMINATION

Our examination of the ICA program for Guatemala for fiscal years 1955 through 1959 consisted of a review of records and procedures at the Washington office of ICA and a visit in October 1958 to the agency's overseas Mission in Guatemala.

Our examination was directed principally to determining the adequacy of financial and related administrative procedures and practices and their conformance with pertinent legislation. This review was made with specific emphasis on selected major activities and projects within the over-all country program.

We reviewed the selected major activities and projects by reference to program documents and reports available to us in Washington and the field, by physical inspections at the project sites, and by discussions with ICA officials. We examined financial records and transactions to the extent deemed appropriate based on the effectiveness of the system of internal control.

OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements showing the obligation and expenditure of mutual security funds for fiscal years 1955 through 1959 for economic and technical assistance to Guatemala are based on fiscal reports and supporting data available at the agency's Washington office and its Mission to Guatemala. We have made certain reclassifications and additional disclosures which we considered necessary for an informative financial presentation.

In our opinion, the accompanying financial statements present fairly the obligations and expenditures incurred by the International Cooperation Administration and its predecessor agency for the assistance program for Guatemala during the period 1955 through 1959.

FINANCIAL STATEMENTS

INTERNATIONAL COOPERATION ADMINISTRATION

ASSISTANCE PROGRAM FOR GUATEMALA

SUMMARY OF OBLIGATIONS AND EXPENDITURES

BY SOURCE OF FUNDS

FISCAL YEARS 1955-59

<u>Fiscal year and appropriation</u>	<u>Obligations</u>	<u>Expenditures</u>
1955-57 (note a)		
Technical cooperation, 1955, 1956, and 1957	\$ 5,685,374	\$ 5,661,074
Development assistance, American Republics, 1955-56	16,263,131	29,141,570
Defense support, Latin America, 1957	15,279,885	2,400,000
Military assistance, 1955 (note b)	2,400,000	2,400,000
Support of forces, Southeast Asia and Western Pacific, 1955 (note c)	1,101,350	1,101,350
Special Presidential Fund, 1956 (note d)	1,200,000	933,397
Administrative expenses, 1955, 1956, and 1957	404,694	404,694
Total, 1955-57	<u>42,334,434</u>	<u>39,642,085</u>
1958		
Technical cooperation	2,182,710	1,872,788
Special assistance	10,283,543	3,697,206
Administrative expenses	192,885	192,870
Total, 1958	<u>12,659,138</u>	<u>5,762,864</u>
1959		
Technical cooperation	2,544,857	1,775,090
Special assistance	438,340	336,652
Prior-year technical cooperation funds reprogrammed	400,000	-
Administrative expenses	227,900	205,209
Total, 1959	<u>3,611,097</u>	<u>2,316,951</u>
Total, fiscal years 1955-59	<u>\$58,604,669</u>	<u>\$47,721,900</u>

^a For the fiscal years 1955-57, it is not practicable to show separately by fiscal year the source of funds. Pursuant to authority contained in the mutual security appropriation acts, ICA consolidated, effective July 1, 1958, the unliquidated balances of fiscal year 1957 and prior years' technical cooperation funds and the unliquidated balances of development assistance and defense support funds, respectively. Subsequent deobligations, reobligations, and liquidations are no longer identified by year of original obligation.

^b Military assistance funds were used for development assistance to Guatemala by Presidential determination dated December 9, 1954, under the authority of section 401 of the Mutual Security Act of 1954.

^c Funds originally appropriated for the support of forces of nations in the Southeast Asia and Western Pacific area were used for Guatemala as follows:

	Year in which programed	
	1955	1956
For development assistance, by Presidential determination dated May 27, 1955, under the authority of section 401	\$465,000	\$500,000
For the cost of ocean freight on emergency relief shipments of corn under title II, Public Law 480, as authorized by section 409(d) of the Mutual Security Act of 1954	135,000	1,350
Total	<u>\$600,000</u>	<u>\$501,350</u>

^d The special Presidential Fund was used for development assistance pursuant to Presidential determination dated June 27, 1956, to help finance road construction and self-help housing projects.

INTERNATIONAL COOPERATION ADMINISTRATION
ASSISTANCE PROGRAM FOR GUATEMALA

SUMMARY OF OBLIGATIONS AND EXPENDITURES
BY TYPES OF AID
FISCAL YEARS 1955-59

	<u>Obligations</u>	<u>Expenditures</u>
	(000 omitted)	
PROJECT ASSISTANCE:		
Commodities, contract services, and cash contributions under project and servicio agreements (schedule 3)	\$43,617	\$33,674
U.S. technicians	3,138	3,062
Training	1,176	869
Technical support costs	937	911
Undistributed expenditures	<u>-</u>	<u>87</u>
Total project assistance	<u>48,868</u>	<u>38,603</u>
COMMODITY IMPORTS:		
Surplus agricultural commodities:		
Wheat	7,031	6,454
Corn	1,652	1,652
Beans	74	74
Polio vaccine	<u>18</u>	<u>-</u>
Total commodity imports	<u>8,775</u>	<u>8,180</u>
EMERGENCY ASSISTANCE:		
Ocean freight on relief shipments of corn under title II, Public Law 480	<u>136</u>	<u>136</u>
OVERSEAS ADMINISTRATION	<u>825</u>	<u>803</u>
Total	<u>\$58,604</u>	<u>\$47,722</u>

INTERNATIONAL COOPERATION ADMINISTRATION
ASSISTANCE PROGRAM FOR GUATEMALA

STATUS OF OBLIGATIONS UNDER PROJECT
AND SERVICIO AGREEMENTS (note a)
FISCAL YEARS 1955-59

	<u>Obligations</u>	<u>Expenditures</u>
	(000 omitted)	
AGRICULTURE:		
Rural development program	\$10,224	\$ 5,100
Agriculture development	1,350	1,069
Machinery for agriculture development	735	735
Contributions to servicio operations	<u>1,992</u>	<u>1,830</u>
Total agriculture	<u>14,301</u>	<u>8,734</u>
HEALTH AND SANITATION:		
Environmental sanitation	1,000	417
Contributions to servicio operations:		
Earmarked for Roosevelt Hospital	1,250	1,250
Other	200	125
Malaria eradication	<u>350</u>	<u>284</u>
Total health and sanitation	<u>2,800</u>	<u>2,076</u>
EDUCATION:		
Vocational school	1,000	-
Training program for elementary teachers	300	158
Adult education program in the Guatemalan army	100	1
Urban youth education activities	15	15
Contributions to servicio operations	<u>758</u>	<u>683</u>
Total education	<u>2,173</u>	<u>857</u>
TRANSPORTATION:		
Atlantic highway	11,248	11,248
Pacific highway	7,743	7,743
Quetzaltenango-Retalhuleu road	950	950
Survey of port facilities	<u>5</u>	<u>5</u>
Total transportation	<u>19,946</u>	<u>19,946</u>
HOUSING:		
Aided self-help housing	<u>2,864</u>	<u>1,186</u>
PUBLIC ADMINISTRATION:		
Improvement of government organization and administration	559	559
Improvement of civil police administration	474	265
Improvement of management and supervision in government	55	9
Other costs	<u>5</u>	<u>5</u>
Total public administration	<u>1,093</u>	<u>838</u>
COMMUNITY DEVELOPMENT:		
Community self-help construction projects	<u>350</u>	<u>22</u>
INDUSTRY AND MINING:		
Industrial development	50	15
Improvement of development agency	<u>40</u>	<u>-</u>
Total industry and mining	<u>90</u>	<u>15</u>
Total project and servicio agreements	<u>\$43,617</u>	<u>\$33,674</u>

^a Financing under project agreements and servicio contribution agreements is discussed on pages 15 through 17.