



Auditor General

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PD-AAB-283-A1

AUDIT REPORT
RURAL HEALTH DELIVERY SYSTEM
LOAN 525-U-045
USAID/PANAMA

Audit Report Number 1-525-79-11
Issue Date April 30, 1979

Area Auditor General Latin American
Agency for International Development

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I INTRODUCTION

On October 14, 1976 the Agency for International Development (AID) and the Government of Panama (GOP) entered into a \$9.5 million loan agreement (525-U-045), titled Rural Health Delivery System, to assist the GOP to improve the health services being provided to the rural poor. The Ministry of Health (MOH) is responsible for implementing the project.

At the request of USAID/Panama we have made an initial review to ascertain that AID funds have been spent for project purposes and that planned objectives are being met.

Our audit covered the period from September 21, 1976 to December 31, 1978 and included a review of Mission and GOP records, discussion of project activities with Mission and GOP personnel, site inspections and such other tests as we considered necessary in the circumstances.

II BACKGROUND

The Rural Health Delivery System loan is to provide \$9.5 million to improve the health of the rural population of Panama by institutionalizing and improving an integrated low-cost public health delivery system. The system is to provide preventive and curative health care services and improved nutrition and environmental health conditions in the rural areas of Panama. To achieve these objectives, the loan will finance a variety of undertakings:

- Environmental Health

 - Constructing 300 potable water systems, 400 handpump wells and 13,800 latrines.

- Health Facilities

 - Constructing and equipping 4 health centers, 14 sub-centers and 225 posts; and remodeling approximately 20 existing health facilities.

- Nutrition

 - Establishing 48 community gardens and 75 small animal projects.

- Training of health personnel

- Technical assistance and training to improve administrative, financial, and managerial control, data gathering, and to further integrate the health delivery system.

- Purchasing vehicles and construction related equipment.

Environmental Health

Environmental health activities involve the construction of rural aqueducts, wells, and latrines.

Each aqueduct is to normally consist of a drilled well, an elevated storage tank, and about 6,000 linear feet of 2 inch main. Service lines connected to private yard faucets are to provide water to individual homes. In smaller rural communities (population 50-100) hand-pumped wells are to be installed to provide water supplies. Latrines are to be constructed to provide individual village households with a safe means of excreta disposal. The basic unit is to consist of a latrine on a concrete pad with a seat placed over a pit measuring approximately 1 meter x 1 meter x 2 meters. The environmental health activities are to be supervised by MOH sanitary technicians.

Preventive and Curative Health Care

Health posts are to be established or existing posts remodeled in rural communities or clusters of rural communities with approximately 500 inhabitants and functioning community health committees. The health posts will be staffed by trained health assistants, supervised by personnel at a proximate health center, and may provide services to adjacent communities (depending on local topography, transportation, etc.). Each post is to be a basic structure (approximately 58 square meters, divided into two rooms and a porch), maintained by the community and providing a base of operations for the health assistant. Post construction is to be phased to coincide with the training of the health assistants.

The preventive and curative health services available at the health posts will include maternal and child health care (including deliveries), first aid, vaccinations, and family planning.

Some larger communities are to be provided with health sub-centers, which will be staffed by a full-time nurse auxiliary and a part-time sanitary technician. The nurse auxiliary will be assisted by periodic visits of personnel from the supervising health center. The nurse auxiliary will be supervised by the resident physician at the proximate health center. The health sub-centers to be constructed in rural areas under this project are to augment the 105 sub-centers that currently exist throughout Panama, and each will serve approximately 2,000 people. In addition, some existing health sub-centers are to be remodeled. Each sub-center will have a waiting room, a medical and a dental examination room, an administration area and a pharmaceutical storage area. The sub-centers will provide more extensive health care coverage than the health posts. The health sub-centers will receive referral patients from the health posts, and provide primary health care for residents in the surrounding area.

Health centers are to be constructed or remodeled under this project. Each will serve approximately 15,000 to 20,000 people. Each health center will have a waiting room, medical and dental examination rooms, pharmacy, laboratory, emergency treatment area, sanitary technician's office, and administration offices. Personnel at the health center are to have supervisory and training responsibilities for the health post and sub-center staffs.

The health centers are to be supervised by a physician who will also supervise other medical personnel, the sanitary technicians, nutritionists, nurse auxiliaries, and health assistants working within the health center's area of responsibility. The health center will have on its staff nurse auxiliaries trained to perform traditional nursing duties. For most rural Panamanians, the health posts and sub-centers will be the initial point of entry into a referral system encompassing progressively more specialized health services.

Nutrition

Nutrition activities involve the development of community gardens and small animal projects and in general improving the nutritional status of the community's members.

The Ministry of Health is to submit a plan for the establishment, operation, and support of community gardens. New community gardens in addition to those projects currently in existence, are to be established. The garden projects are designed to encourage more annual plantings and the growing and consumption of nutritious low-cost foods not commonly utilized by the rural population.

Gardens are to be established in communities with a functioning community health committee or similar community organization, where adequate land (including access to irrigation) and a sufficient number of workers are available. MOH agricultural extension agents are to give the communities technical advice on the establishment and maintenance of the gardens. The garden participants will be taught to use the vegetable produce in a nutritionally beneficial fashion. Small animal projects are to be established to complement the community gardens in many rural areas. Where small animal projects are initiated the GOP will provide baby chicks or other appropriate small animals, feed, vaccine, and technical assistance.

Training

The training component provides for the training of health assistants, nurse auxiliaries, and sanitary technicians. Health assistants training will include the delivery of primary and community health care, referral procedures, community development and coordination of the environmental and nutritional components of the project. These assistants are to be trained in health centers in province-specific training programs. The Health Assistants, along with community health center personnel will encourage the community to participate in "preventive self-care" activities and serve as local community leaders.

Nurse auxiliaries are to be trained in programs held at the provincial level. While some nurse auxiliaries will staff the health sub-centers, others will be assigned to health centers and provincial hospitals.

At the level of the health sub-center, the nurse auxiliaries are to provide services in the area of preventive and curative care, environmental health, and nutrition. However, they will also be trained to perform more traditional nursing tasks under the supervision of physicians at the health centers and hospitals.

Sanitary technicians are to be trained to supervise improvement of rural environmental sanitation conditions.

In order to improve the managerial capability of the Ministry of Health and Caja de Seguro Social, a number of health professionals will be trained at the level of Master of Public Health.

Administration

Although most of the Project activities will take place at the community level, administrative support, technical assistance, and training are to be provided to the Ministry and Caja de Seguro Social to improve administrative, financial and managerial control and data-gathering systems and ultimately to further integrate the delivery of health services at all levels.

Construction Related Equipment

Construction equipment (including well drilling rigs, a motor crane, testing wells, pump installation accessories, auxiliary equipment, machine shop tools, maintenance and repair equipment and spare parts) and vehicles will be provided under the project. Suppliers of specialized equipment will be responsible for training in the operation and maintenance of such equipment, and this requirement is to be so stipulated in any contract.

Project financing totals \$18,180,212 from three sources:

	<u>Amount</u>	<u>%</u>
AID Loan 045	\$ 9,500,000	52
Government of Panama	5,226,912	29
Community Contribution	<u>3,453,300</u>	<u>19</u>
	<u>\$ 18,180,212</u>	<u>100</u>

The Government of Panama and community contribution for the most part will be in the form of labor, materials and land. Loan disbursements totalled \$2,001,022 as of December 31, 1978:

	<u>Loan Budget</u>	<u>Earmarked</u>	<u>Disbursed</u>
<u>Environmental Health Construction</u>			
Potable Water Systems	\$4,005,000	\$2,670,000	\$1,668,750
Wells	212,000	212,000	121,370
Latrines	828,000	200,012	107,167
<u>Health Facilities Construction and Equipment</u>			
Posts	1,350,000	400,000	-0-
Sub-centers	236,600	180,600	-0-
Centers	266,480	40,000	-0-
Remodeling	349,500	109,000	-0-
<u>Nutrition</u>			
Community Gardens	720,000	-0-	-0-
Small Animal Projects	300,000	-0-	-0-
<u>Training</u>			
Health Assistants	360,000	166,800	57,500
Master of Public Health	220,000	20,112	8,839
<u>Administration</u>	400,000	75,522	37,396
<u>Construction Equipment</u>	<u>252,420</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$9,500,000</u>	<u>\$4,074,046</u>	<u>\$2,001,022</u>

Under the FAR method the recipient government uses its own funds to implement the project; the amount of reimbursement is fixed in advance paid on cost estimates reviewed and approved by AID; and reimbursement is made upon the physical completion of a project, sub-project, or quantifiable element within a project. The FAR method is suitable to the Panama health project because of the large number of latrines, aqueducts, wells and health posts that are to be constructed. The fixed amount reimbursement method requires the USAID to make periodic inspections of the construction as well as certification that the elements have been completed in accordance with agreed AID/MOH plans and specifications.

USAID/Panama is using a variation of the Fixed Amount Reimbursement (FAR) method to pay the local costs for wells and health posts. The only variation to FAR was that because the MOH did not have working capital, USAID/Panama made cash advances to the Ministry to purchase construction materials.

III SUMMARY

We found there are management areas that need strengthening to improve the implementation of the project and help assure that AID funds are spent effectively, economically and for project purposes.

Progress toward meeting the objectives of the Rural Health Delivery System is behind schedule and it is doubtful the MOH will be able to effectively use all the remaining loan funds within the loan period.

Latrine Program

The program calls for constructing 13,800 latrines costing \$87 each with AID paying \$31. At the close of December 1978 the MOH had been reimbursed \$107,167 for 3,457 latrines that were reportedly completed by the MOH and inspected by an AID inspector (local employee). We found in our selective review of 46 that 42 of the completed latrines are not eligible for reimbursement because: construction was not in accordance with AID/MOH standards and specifications; latrines were constructed without MOH assistance; they were built before the loan was signed; and in some instances had never been constructed. The AID inspector did not verify that each latrine reported completed and eligible for AID financing met the construction criteria. USAID management claimed the USAID inspector was given adequate inspection instructions, however, the employee was not closely supervised because of his broad experience with other AID projects to assure the certified latrines were in fact constructed in accordance with project specifications. Prior to the issuance of the final report USAID officials had started to re-inspect the 3,457 latrines to determine latrines are eligible for AID financing, and assure future latrine construction meets AID/MOH standards and specifications.

We doubt that the MOH will be able to construct 13,800 latrines since over half of the loan period is gone. The USAID and MOH need to establish realistic construction goals.

Potable Water Systems

Project plans call for constructing 300 small aqueducts in communities with a 200-500 population at an average cost of \$25,500 with AID paying \$13,350. It was envisioned that about 60,000-150,000 people would be supplied with potable water. At the close of the audit period about 34,200 persons had been served with potable water and an additional 11,500 were provided water through the provision of hand-pumped wells, about 6 percent of the rural population.

Fewer people will receive potable water because the MOH is constructing smaller water systems. For example, 26 of 98 villages where systems were constructed had less than 200 people. On the other hand 7 of 98 communities had over 500 people.

We question the \$13,350 fixed amount reimbursed to the MOH for each water system's material costs, including the well, pumping equipment, storage tank, distribution system and small tools. The AID financing is based on the cost of the materials used to construct an average size aqueduct. We calculate that the USAID is paying on the average \$4,800 more for each unit than the actual cost of the materials used in completing a water system. The decrease in the estimated cost is due to constructing smaller water systems and not using some cost components, well, pumping equipment, and water storage tank. We found these materials were not always used because 48 percent of the constructed systems use a spring-gravity flow source of water. We noted at 27 of 183 sites that the communities had constructed a concrete tank instead of using the AID financed metal storage tank base. Although smaller water systems were constructed and materials were not used in construction; the USAID reimbursed the MOH \$13,350 for each completed unit.

We believe the USAID and MOH should update the present community population guidelines including when an aqueduct can be economically constructed. At the same time the USAID should assure that the fixed amount is adjusted downward to closely reflect the actual costs of constructing the different water systems.

Building and Equipping Health Facilities

Project plans provide for 113 health posts, 7 health sub-centers, and 2 health centers to be operational at the close of December 1978. On December 31, 1978 there were 2 health posts completed and 41 under construction, 3 health sub-centers completed and 4 under construction, and 1 health center under construction. The MOH with the communities help is constructing the buildings. The MOH contributes building materials and skilled labor. Communities provide hand labor, sand and gravel toward the construction. The construction is behind schedule because the MOH has not had the organizational capability to carry out the program. However, an engineer has been hired by the MOH to improve the construction program to expedite this element of the project.

At the present rate of construction the MOH will not complete the planned facilities during the loan period. The MOH requires, in our opinion, a time phased plan with realistic construction goals and should consider contracting some of the work.

Equipment that will be housed in the new MOH buildings has not been ordered because Ministry officials had not prepared and submitted to the USAID a list of the equipment. On December 26, 1978 the MOH submitted a partial list of equipment for the new health facilities. If prompt

attention is not given to ordering the equipment, it could well be that the completed buildings will be empty shells. The USAID should assure that equipment will be available for each constructed building.

Nutrition

The MOH has not initiated the planned development of 48 community gardens and 75 small animal projects costing about \$1,296,000 with AID paying \$1,020,000. A required implementation plan had not been prepared by the MOH because Ministry officials wanted to first evaluate the projects that were carried out under the prior health loan. In February 1979, 29 months after the loan agreement was signed, the MOH submitted the plan to the USAID. USAID officials informed us the plan is realistic and addresses problems that were pointed out in an AID project evaluation. However, no determination had been made as to the capability of the MOH to implement the plan before the terminal disbursement date of the loan. USAID should determine what the MOH can accomplish by February 10, 1981, the final disbursement date of the loan.

Training

The project called for training 300 health assistants, 200 nurse auxiliaries, 20 sanitary technicians and 15 health professionals at a cost of \$1,188,304. AID was to pay the training costs of the health assistants (\$360,000) and the health professionals (\$220,000). At the close of December 31, 1978, 120 health assistants were in training, 397 nurse auxiliaries had been trained and 20 sanitary inspectors had completed their training. About \$58,000 for training health assistants had been reimbursed to the MOH.

According to the Project Paper AID funds were to pay health assistant student's per diem and family maintenance costs (\$100) during the one-year training cycle. All other training costs (instructors, lodging, transportation and teaching materials) were to be paid by the Ministry.

The Ministry submitted for reimbursement to USAID signed student lists certifying that each student had received \$100, and USAID reimbursed the MOH this amount based on these lists. However, we found at the five training sites that the health assistant students were not receiving \$100 per month but claimed instead to have received payments ranging from \$8 to \$50 per month for 3 and 4 months.

The MOH has not furnished sufficient teaching materials and supplies to the training centers. Instructors complained that the quality of the training was poor because the MOH was not providing teaching materials.

MOH, a firm
to be paid
to the MOH
and request

It is not clear what costs are to be paid by AID or the
plan should be prepared identifying the cost items
Because it is uncertain how the \$58,000 reimbursed
and, we have recommended that the USAID disallow the amount
MOH to submit documentation to support the expenditures.

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provided \$400,000 to improve administrative
integrate the Ministry of Health and Social Security
\$400,000 had been spent at the end of December 1978. The
contributed little toward combining the two institutions
agreements. There is a need for a time phased plan that will
toward administrative integration within the remaining
available funds should be deobligated if the funds cannot
integration purposes.

Unproc Funds

fixed amount
presently
be reprogram

(\$400,200) that became available in February 1978 when the
allowance for latrines was adjusted downward and are
needs of program needs should be deobligated if they cannot

with USAID
included in

Report's findings and recommendations have been discussed
officials and their comments were considered and
reported, as appropriate.

IV FINDINGS AND RECOMMENDATIONS

A. Latrines

USAID/Panama has paid for latrines that were ineligible for reimbursement because the latrines were not physically seen and inspected, did not meet agreed upon standards and specifications, had never been built, were not built with Ministry financial assistance or built before the effective date of the loan. As of December 31, 1978, 3,457 latrines had been certified and the Ministry of Health had been reimbursed \$107,167. How many of these latrines are eligible for reimbursement under the loan is not known. We inspected 46 latrines listed on Latrine Inspection Reports and found 4 latrines eligible for reimbursement.

The program calls for the construction of 13,800 latrines. On June 30, 1977 AID agreed to reimburse the MOH \$60 (36%) per completed latrine estimated to cost \$168. The specifications and costs were subsequently reduced on February 3, 1978. The revised AID/MOH latrine construction specifications include instructions on where the latrine should be located, the dimensions of the pit, base and structure and a list of the required materials. The total cost for constructing a latrine was estimated at \$87 with AID paying \$31. The cost was based on joint AID and MOH engineering studies. Reimbursement would be made after AID personnel inspected and accepted each latrine. No construction plan or schedule showing when and where the latrines would be built was prepared.

The construction specifications for the latrines were not sent by Ministry authorities to their field offices. As a result latrines were built following local procedures and specifications and resulted in costing significantly less than AID/Ministry estimates of \$87 and significantly lower than the \$31 reimbursed by AID.

We made spot checks at 8 locations to verify that latrines were being built and that AID was properly inspecting and certifying completed units. According to AID documents, at the 8 locations 203 latrines had been built. AID and MOH officials certified 201 of these latrines met AID/MOH standards and specifications and were subsequently approved for AID reimbursement. We visited 46 homeowners listed on Latrine Inspection Reports and found 4 latrines eligible for reimbursement. We briefly discuss 3 of the spot check locations.

At Palmas Bellas, Colon Province, 37 latrines were approved for payment. None of the 37 latrines listed on the Inspection Reports were eligible for reimbursement under the loan. The community representative and the village mayor reviewed the Inspection Report list and informed us that the 37 latrines were built without MOH assistance. We interviewed 7 homeowners whose names appeared on the Latrine Inspection Reports. The 7 homeowners said no MOH financial assistance had been received to build their latrines. Four of the 7 latrines were 1 to 4 years old, 3 had been built as far back as 1959. The local government representative said the community needed new and replacement latrines and had purchased sand and aggregate and were waiting for the Ministry to start the program.

At Nuevo Paraiso, Colon Province, 40 latrines were approved for payment. We talked to the homeowners at 7 locations. We found (1) 5 latrines over 4 years old which had been built under a program carried out and financed by a private school, (2) only the pit had been dug at one location and the homeowner was still waiting for receipt of building materials and (3) at the last location a new latrine was under construction, but a base from an old latrine was being moved to cover the new pit. None of the 7 were eligible for reimbursement because the loan criteria were not met. The homeowners indicated that to their knowledge the Ministry of Health did not assist any of the 40 homeowners in constructing their latrines.

At San Isidro, Panama Province, 20 latrines were approved for payment. We visited 5 locations and found: (1) 1 homeowner listed twice, his latrine had been built without MOH financial assistance, (2) 1 homeowner listed did not have a latrine, (3) a third homeowner built his latrine without MOH financial assistance, and (4) 2 latrines were built using two sacks of cement each but no steel reinforcing bar and were covered with tree branches and leaves. None of the 4 constructed latrines met AID/MOH standards and specifications and AID should not have reimbursed the GOP for the 6 listed items.

We discussed with the AID inspector at some length the situation we found in the field. To assure no misunderstanding of our findings during our first visit the AID inspector accompanied the auditors on our second visit to Palmas Bellas and Nuevo Paraiso. We retraced our original path. The inspector accepted our original findings as correct. We questioned why latrines were being certified which were not eligible for reimbursement. The inspector described to us his instructions from the AID Division Chief and his supervisor and how he carried them out. He was provided a copy of the AID/MOH specifications and standards and instructed to inspect every latrine. He was to make sure the latrine had a base (made of cement), a seat, walls, and a roof and was covered with durable material which would last. His first step was to contact the district medical director, explain the program and the AID loan. After that he contacted the cognizant sanitary inspector who indicated the location of latrines to be inspected. Names of homeowners participating in the latrine building program were listed on a Latrine Inspection Report. The latrines were then supposed to be inspected jointly with the MOH sanitary inspector. The AID inspector had no prior knowledge before arrival in the district about the number of latrines or their location.

While inspecting in Veraguas District the AID inspector told us he was given oral permission by his supervisor to spot check latrines rather than see them all. No instruction was given on the percentage of latrines to be inspected.

The AID inspector did not note or annotate in working papers or certified documents the number or which latrines were physically inspected. When we specifically discussed the latrines certified for reimbursement in Colon Province, the AID inspector said he visited a few and had relied on the MOH sanitary inspector to provide him with a list of latrines that would qualify for reimbursement.

The inspector did not make an adequate inspection and used poor judgement in determining if a structure met the specifications. AID officials say the inspector received adequate instruction to perform latrine inspections. AID officials said they did not accompany the inspector on a field trip, but they did spot check some of the earlier latrines certified for payment. Supervisory personnel of the inspector said the employee was not closely supervised because he had much field experience working on other USAID projects. In numerous meetings held with the latrine inspector, he never referred to any possible inspection problems. To the contrary, he explained in great detail how well the inspection program was progressing. For example, AID/MOH specifications call for 2 bags of cement and 30 feet of 3/8 inch reinforcing bar to build the latrine base, only 1 bag of cement and 20 feet of 1/4 inch reinforcing bar were being used for latrine bases in Colon and Panama Provinces. The inspector did not determine what materials were used in making the base. Latrines being built used local procedures and specifications. Generally local authorities only provide the cement and reinforcing bar and the homeowner digs the pit, constructs the base, stool, seat and cover and house. The type of house, stool, seat and cover are left to the discretion of the homeowner. The result was a great variety of structures. The inspector informed us he had difficulty judging whether or not the variety of latrine structures met AID/MOH specifications.

MOH officials in Colon and the Chepo district of Panama Province told us they were not familiar with the AID loan and had not received the AID/MOH latrine standards and specifications.

It was agreed between AID and the MOH that latrines built after September 1976 which met AID/MOH standards and specifications would be eligible for AID reimbursement. AID started inspections in February 1978, 17 months after signing the loan agreement. At the time there was a large backlog of completed latrines. The project manager and the latrine inspector thought a single AID inspector could inspect about 75 latrines 3 times per week. In our opinion, this figure could not be reached, especially as latrine locations became more remote.

Based on progress to date it is doubtful that 13,800 latrines meeting AID/MOH standards and specifications can be built in the remaining loan disbursement period. With over half the loan implementation period gone only 25 percent of the latrines have been built and some of these as our field inspections show do not qualify for AID reimbursement. The failure to meet reimbursement requirements was attributable to faulty AID inspection and the non-use of AID/MOH standards and specifications by local

officials charged with carrying out the latrine construction program. We believe that a significant number of the estimated 4,000 now under construction do not meet reimbursement criteria. Prior to the completion of this audit, USAID/Panama started a program of revalidating latrines certified for reimbursement. Results of the first series of inspections support our findings that a high ratio of the latrines already reimbursed by AID are not eligible under the loan.

Recommendation No. 1

USAID/Panama revalidate the 3,457 latrines certified and reimbursed as of December 31, 1978 and request the MOH to refund the amounts paid for latrines that do not qualify for payment.

Recommendation No. 2

USAID/Panama obtain evidence that AID/MOH Latrine Standards and Specifications are distributed to all provinces, and provincial authorities are aware costs for completed latrines will not be reimbursed unless built according to AID/MOH standards and specifications.

Recommendation No. 3

USAID/Panama undertake a formal study to determine the date, number, and location of latrines that can be built and inspected by February 10, 1981, taking into consideration performance to date by MOH authorities and USAID/Panama's inspection capability.

B. Potable Water Systems

Based on our 19.2 percent selective sample of systems completed to date, AID is reimbursing the MOH \$4,800 more per system than the actual cost of materials and equipment AID utilized to determine its fixed amount reimbursement per completed unit. AID reimburses the MOH at the fixed amount contemplated for a system serving a larger population. The sub-project was designed to reach approximately 60,000 - 150,000 people at a

total cost of \$7,650,000 of which \$4,005,000 was to be paid by the loan. USAID officials reported that since the inception of the loan about 34,200 people had been provided with piped, potable water and an additional 11,5000 persons were receiving water through the provision of hand-pumped wells. This meant that almost 6 percent of the Panama rural population had been provided with a sanitary supply of water. The program will not reach the maximum number of people because the MOH is continuing to build smaller water systems than planned.

The Project Paper describes the sub-project as follows:

"The Ministry of Health proposes to construct small aqueducts in communities where the density and number of houses is such that a community type system is justified. The systems will be designed with simplicity uppermost in mind. A typical system will have a 6" well fitted with a pump that can provide one day's supply of water in six to eight hours. Selection of pump will depend on local factors such as availability of electricity, depth of well, volume of water expected, etc. The well installation will be protected with a wellhouse, which could eventually be used as a place to inject chlorine or fluorides into the water if the need arose. A water storage facility will be situated such as to provide a minimum pressure of 5 psi. The distribution main will generally be about 6,000 linear feet of 2" PVC (Poly-vinyl-Chloride) pipe, and the house service lines will be 3/4" PVC pipe. In cases where high-pressure pipe is necessary, a suitable grade of PVC can be obtained for the particular application."

The Project Paper describes the criteria for the selection of communities to receive aqueducts. The most important criteria are:

- There should be an adequate source of water, both in quantity and quality, as certified by the Department of Engineering of the MOH.
- There must be a need in the community for potable water and also a deficiency in the supply of water.

Special importance will be given to areas with an incidence of diarrheal diseases.

- The population should be between 300 and 500 persons with a concentration of houses such that it will not be uneconomical to construct the aqueduct or household connections. IDAAN (National Water and Sewerage Institute) has responsibility and installs water systems for communities of over 500 people. Communities with fewer than 300 people are generally considered too small, on economic grounds, to warrant an aqueduct unless they have a potential for population growth.

The loan agreement and financial plan call for building 300 aqueducts at an average cost of \$25,500. AID would pay a fixed amount of \$13,350 for each completed unit. The amount of AID financing is based on the cost of materials and equipment used in constructing an average aqueduct. The costs by major category are:

Well	\$ 2,100
Pumping Equipment	2,000
Water Storage Tank (Base)	750
Water Distribution System	8,400
Small Tools	100
	<u>\$13,350</u>

Each distribution system will serve a range of 200 - 500 people based on 40 - 100 home water connections with 5 persons per household.

USAID and Ministry records show the water systems being built are smaller and cost less than the average system contemplated in the loan agreement. We calculated the average cost for 24 of 125 complete water systems. In the table below we compare the results against the fixed amount reimbursement. Our calculation shows that AID pays \$4,800 more per unit than the actual cost of the materials to construct each unit.

<u>Contributer</u>	<u>AID Approved System</u>	<u>24 Systems Avg. Cost</u>	<u>Difference</u>
Local Community	\$ 6,300	\$ 2,470	\$ 3,830
Ministry of Health	5,850	8,358	(2,508)
Other	-0-	296	(296)
AID	<u>13,350</u>	<u>8,509</u>	<u>4,841</u>
	<u>\$25,500</u>	<u>\$19,633</u>	<u>\$ 5,867</u>

The Ministry contribution is not an actual amount, but an estimate ranging from \$7,950 to \$9,500 depending on the type and size of the system. The MOH amount is not supported by cost data.

The decreased cost is attributable to several factors (1) the smaller size of the systems being built and (2) several of the cost components i.e., well, pumping equipment, and water storage tank used to compute an aqueducts average cost, are not part of many aqueducts being built. Ninety-three of 192 potable water systems use a spring-gravity flow source of water where neither a well (AID contribution \$2,100) nor pumping equipment (AID contribution \$2,000) are needed. Only 27 of 183 sites inspected will use an elevated metal water storage tank. Instead, concrete storage tanks built on high ground will be used. The AID contribution for an elevated metal tank is \$750. The cost of the concrete tank is paid by the participating village.

Our analysis of 205 USAID/Panama data files shows: (Note: The number of villages for various categories does not equal 205 because the data in many of the folders is incomplete.)

Distribution of Water Connections According to Village Size

<u>Village Size (Population)</u>	<u>Approximate Number of Service Lines</u>	<u>Number of Villages</u>	<u>Percent</u>	
			<u>Actual</u>	<u>Planned</u>
Under 200	20	26	26.6	0
201-250	45	29	29.6) 100
251-300	55	7	7.1	
301-500	80	29	29.6	
Over 500	100	<u>7</u>	<u>7.1</u>	0
		<u>98</u>	<u>100</u>	

Note: 66.3 percent of the villages meet modified criteria.
Range of 200-500 persons.

Distribution According to Water Supply

	<u>Number of Villages</u>	<u>Percent</u>
Well-Pump	99	51.6
Spring-Gravity Flow	<u>93</u>	<u>48.4</u>
	<u>192</u>	<u>100</u>

The criteria for eligibility as cited in the Project Paper was modified by the MOH Action Plan. The most important modification was increasing the population range from 300 - 500 to 200 - 500 with even smaller villages qualifying if the village has "growth potential". In our table 200 people were approved for an aqueduct. MOH officials said no formal procedure is followed nor is any other supporting data available to show how growth potential is determined or how it applies to aqueduct eligibility.

Although the criterion was adjusted downward and it was known smaller systems were being built, many using the less expensive spring-gravity flow system, the estimated overall cost for constructing an aqueduct was not changed and the AID fixed amount reimbursement of \$13,350 was not adjusted.

The sub-project is not being carried out as originally planned. Water systems serving communities with populations of less than 200 are being built. The trend is toward constructing smaller water systems. As the systems get smaller the cost per person served will go up unless the costs are revised downward. The smaller systems at the current cost are economically questionable. New criteria for selection of communities should be formally adopted and the AID fixed-amount reimbursement adjusted to reflect the system's size and type of water supply.

Recommendation No. 4

USAID/Panama, in conjunction with the MOH, formally review the criteria for selecting communities to receive potable water systems, reevaluate the cost of building potable water systems and recompute AID's F.A.R. price accordingly.

C. Building and Equipping of Health Facilities

According to the plans described in the Project Paper, it was expected that by December 31, 1978 there would be 113 health posts, 7 health sub-centers, and 2 health centers in full operation. As of December 31, 1978, there were 2 health posts completed and 41 others under construction, 3 health sub-centers completed and 4 others under construction, and 1 health center under construction.

The Ministry has been trying to build the facilities with its own resources. It is probably the most massive construction effort the Ministry has ever attempted, and consequently there has been a period necessary to improve their capabilities. The Ministry recently hired a new engineer to take charge of the building program and to build up and streamline the existing infrastructure to enable them to execute the program. We believe AID should discuss with the MOH their projected execution dates to determine if alternative means, such as contracting, might be utilized to speed up the work.

While documentation should be well underway for the purchase of the equipment that will be used in the facilities the MOH had been reluctant to make firm decisions as to what type of equipment is needed. Lists submitted early in the life of the loan have been discussed and re-discussed. On December 26, 1978 the MOH submitted an equipment list for the new posts, sub-centers, and health centers. USAID officials said the equipment list was incomplete and had requested the MOH to furnish

additional information. Unless positive action is taken in purchasing the equipment, the constructed facilities will become useless building shells.

A time phased construction program needs to be developed which takes into consideration MOH capabilities and alternative methods of construction, such as contracting the construction work out to local contractors. The facilities will not be completed within the loan implementation period at the present rate of construction. Equipment purchases will have to be planned so the equipment is available when facilities are completed.

Recommendation No. 5

USAID/Panama, in conjunction with the MOH, develop a time phased construction plan which considers alternative construction methods so that construction dates will be met.

Recommendation No. 6

USAID/Panama, in conjunction with the MOH, develop a time-phased procurement schedule so that equipment will be available as facilities are completed.

D. Nutrition

The MOH did not plan to initiate project activities under the nutrition component until it has thoroughly evaluated projects carried out under the prior health loan. This evaluation and a consequent reorientation of the nutrition program has been on-going over the last year.

The loan provides that 48 community gardens and 75 small animal projects will be established at an estimated cost of \$1,296,000 of which \$1,020,000 would be loan financed.

In July 1978, in an effort to assist the MOH in its evaluation of past nutrition projects and to enhance chances of success of the sub-project, USAID/Panama obtained the services of an agricultural economist. The economist's assignment was to evaluate past and on-going garden and small animal projects and to make recommendations to improve the project.

The economist's evaluation report cited problem areas which question the capability of the Ministry to carry out an effective program. Some of the problems identified as needing attention and most likely more financial support were: (1) lack of a program to provide nutritional education and home improvement training, (2) lack of vehicles,

(3) need for greater staff training and development, and (4) need for evaluation criteria and evaluation plans to be built into any new program. The evaluator called the absence of nutritional education "the greatest shortcoming of the program today" and said "the transport problem must definitely be resolved before a new program can go forward".

We met with the new MOH Director of Nutrition to determine what was being done to start the program and to review the actions being taken as a result of the AID agricultural economists evaluation report. The Director told us they were working on a general nutrition plan and expected it to be ready in mid January 1979. The Director said he knew nothing of the AID evaluation report even though AID had provided a Spanish version to the MOH Loan Coordinator. We briefly discussed the contents of the evaluation report with him. The Director said many of the problems included in the report are well known, like lack of transportation, and would be addressed in the new plan. Subsequently we provided to the Director, with the approval of USAID, a copy of the evaluation report.

AID's effort to kindle interest in the sub-project resulted in the discovery of problems not contemplated for support by the loan. Yet it is evident that unless improvement is made in these other areas, chances for success of the sub-project will be diminished. The problems in themselves are of sufficient magnitude to take some time to solve and may require financing not immediately available.

The loan agreement requires the Ministry to submit a plan for the establishment, operation, and support of community gardens and complementary small animal projects where appropriate. Based on its evaluation, the MOH developed a plan in late 1978 and submitted it to USAID in February 1979.

The plan presented to USAID in February 1979 establishes a system which takes into account past mistakes and successes in the nutrition area. USAID officials state that the plan is realistic in outlook and addresses the concerns highlighted in the AID evaluation. The plan's strategy allows for different size nutrition projects and different goals, depending upon the size, geographical location, amount and type of agricultural land, and degree of development of the benefitting community. No USAID analysis had been made to determine if the MOH can implement the plan within the remaining time left in the loan.

Recommendation No. 7

USAID/Panama determine the nutrition project activities that can be completed by the loan terminal disbursement date.

E. Training

The number of people to be trained is being met or exceeded (see Exhibit A). However, the training costs for the Health Assistants are not being financed in accordance with guidelines established in the Project Paper. The MOH is not providing sufficient training materials or funding for training health assistants.

The training component of the project provides for training health assistants, nurse auxiliaries, sanitary technicians and health professionals at the level of Master of Public Health. The total cost was estimated to be \$1,188,304 of which \$580,000 would be paid from the loan.

An Implementation Plan was agreed to by the MOH and AID which identified the number of students to be trained and allocated loan funds. The plan showed the following funding inputs:

	<u>Number to be Trained</u>	<u>Loan Funds</u>
Health Assistants	300	\$360,000
Nurse Auxiliaries	200	-0-
Sanitary Inspectors	20	-0-
Master of Public Health	<u>15</u>	<u>220,000</u>
	<u>535</u>	<u>\$580,000</u>

The MOH as indicated in the Implementation Plan assumed the responsibility for training the nurse auxiliary and sanitary inspectors. AID funds were used to support the health assistant and master of public health part of the training. As of December 31, 1978 the nursing auxiliaries and sanitary inspectors had completed or were completing their courses and 56 percent of the health assistants were undergoing training. One Master of Public Health was in training, 3 had been selected and were being processed and 4 were being selected.

Neither the loan agreement nor the Implementation Plan included a detailed budget or made any reference to specific types of expenses to be paid by the MOH for training health assistants. The only description of financing of training costs was in the Project Paper which states: "The Loan will fund per diem and family maintenance costs (\$100/month) during the one year training cycle, which will include six months of class work and six months of field work."... "all other training costs (instructors, lodging, transportation, and teaching materials) will be borne by the Ministry".

We visited the five sites where the health assistants were being trained. Physical facilities were adequate except for the Yaviza site. At Yaviza the students were housed and the training was given in an old

wooden building. The building had no electricity or real cooking and dining facilities. At night the students went to a nearby park to study because of the lack of electric lights in the building. Food was prepared outdoors in a make-shift kitchen.

The MOH has not been able to furnish the USAID information on training costs that were incurred at the training sites. At a November 24, 1978 meeting we requested the MOH Loan Coordinator to provide us information on the funds disbursed and the expenses paid at each training site.

Repeated requests were made orally to the Loan Coordinator by the auditors and were followed by a written request on December 15, 1978 to the USAID's Project Manager. The information was to be provided to us in late December 1978. In mid January 1979 we received from the MOH incomplete data on 2 of the 5 sites and no data on the other 3. On January 25, 1979, after receipt of the incomplete data, we requested the USAID to furnish more specific information on the training program. On February 2, 1979 the USAID formally asked the MOH for additional data on training program expenditures. On March 2, 1979 the MOH said the information would be provided in due course. As of March 14, 1979 the information had not been received. The data discussed in this report is based on our discussions with MOH training officials, instructors and students.

We found the MOH was not paying \$100 per month to each student per diem and family maintenance as indicated in the Project Paper. Students at the 5 sites said that no one had received \$100 from the MOH. At Chepo, Panama Province, students claimed receiving \$20 for the months of July, August and September 1978. Students at Yaviza, Darien Province, said they received \$8 in March, \$10 in August and \$20 in September 1978. Students receiving training in San Francisco, Veraguas Province, informed us they each received \$25 on 3 occasions while doing field work. Students attending training at Penonome, Coclé Province, indicated receiving \$25 in August, \$30 in September and \$25 in October 1978. Since September 1978 at Ailigandi, San Blas, one student has received \$30 (resided at the hospital) while the other students were paid \$50 monthly.

The MOH has received from AID \$100 per month per student but uses the funds for all operational expenses. At 4 of 5 training locations the MOH disbursed to the training center \$50 per month per student in support of the training. At the other location (Penonome, Coclé) the course administrator received \$109 for each student per month. We were unable to determine why one site received \$109 instead of \$50.

The course administrators claimed the total training cost was more than the amount received from the MOH. Course officials used regional funds to pay expenses not covered by the MOH. Expenses incurred in training included: food, clothing, watches, transportation, lodging and some direct payments to students. The course held at Chepo is a good example of training costs exceeding the MOH contribution. Chepo was one of the two sites providing cost data. Chepo officials reported 20 students were

trained during the period May to December 1978 with expenses totaling \$11,130 while the Course Administrator received \$7,000 from the Ministry. For the 8 month period AID would reimburse the MOH \$16,000.

At the 5 training sites we visited there was a shortage of teaching materials, aids and supplies. Instructors told us no reference materials or teaching aids were provided by the Ministry. The shortage of teaching materials was most evident at the Yaviza site. The instructor readily admitted few materials were provided by the MOH and students told us they had to find part time employment to obtain money to purchase paper and pencils. Our observations are supported in an unpublished evaluation of loan progress made by an AID Consultant which states "A means needs to be devised to provide more teaching materials to students such as books, pamphlets, manuals, audio visual aids, etc."

The type of expenses paid at each training site was different. For example, at Yaviza loan funds were used to pay for lodging, but no uniforms were purchased. At Chepo lodging was provided by another Government Ministry and training funds were only used to make the facilities livable and buy uniforms and shoes. At both sites the MOH disbursed \$50 for each student. Overall it is clear that with the \$50 a student could not be properly fed, lodged, transported, receive a stipend and teaching materials.

The MOH received from AID \$100 per month for each student by submitting attendance sheets signed by the students. The signed student lists were annotated at the top of the page by the Loan Coordinator's office to the effect that \$100 per month was paid directly to the student and that the student certified receiving the \$100. The certification is not correct because students informed us they received monthly amounts varying from \$8 to \$50. As of December 31, 1978 AID had reimbursed the MOH \$58,000. The Ministry Loan Coordinator told us he was under the impression the list as annotated was what AID needed to reimburse the MOH. The Coordinator felt that technically the document was erroneous, but when all training costs are considered, the amount will be at least \$100 per student per month. He told us that no Government of Panama funds were budgeted for this part of the training program and that the whole program had to be supported by loan funds.

The level of support may have had an adverse effect on the quality of learning by health assistants. USAID/Panama has initiated an evaluation of the health assistant training program to determine the training's effectiveness.

A detailed financial plan is needed which budgets specific amounts for each line item of expense and identifies the costs that are eligible for reimbursement from loan funds or to be paid by the MOH. The plan should be formulated in conjunction with the Ministry of Health and formally adopted in a loan agreement implementation letter. The \$58,000 of loan funds obtained by the MOH submitting erroneous documents should be supported by receipted bills for eligible costs, as determined by the agreed upon financial plan.

Recommendation No. 8

USAID/Panama, in conjunction with the Ministry, prepare a financial plan for the health assistant training program which identifies the training costs that are eligible for reimbursement under the loan and adopt the plan by implementation letter.

Recommendation No. 9

USAID/Panama disallow the \$58,000 disbursed to December 31, 1978 and request the Ministry to submit invoices/receipts to support the training expenditures.

F. Administration

Little or no progress has been made under the Administration support part of the loan. Although \$37,000 has been spent to improve administrative procedures, the expenditures have contributed little to improve the various administrative elements of the Ministry of Health and the Social Security System (CSS) because the MOH has no overall plan. A time phased plan for improving administrative elements of the two GOP agencies needs to be developed including how the remaining \$363,000 is to be used.

The purpose of the \$400,000 budgeted for administrative assistance was to assist the Ministry and Social Security System (CSS) to consolidate the various administrative elements of the two health systems. The Project Paper described the course of action to be followed:

"The loan will provide for a Team of U.S./third country management consultants to work with a group of MOH/CSS counterparts in examining present administrative arrangement for both MOH and CSS at the provincial and national levels. Following this initial review, the joint administrative team will develop consolidated sub-systems for accounting, budgeting, inventory control, personnel administration, data gathering, and maintenance at the provincial level. The various systems will be so designed as to permit their replication or easy adaption at the national level. Once the various sub-systems have been reviewed and accepted by both the Ministry of Health and the Social Security Agency, manuals will be drafted to outline and explain the new sub-systems to the appropriate administrative and technical personnel throughout the public health sector. After the sub-systems have been tested and found workable, legislation is expected to legally institutionalize the new national health service."

"The U.S./third country management team will be composed of individuals fluent in the Spanish language and qualified in the various disciplines outlined above. They will be expected to work with their Panamanian counterparts for a period of 12-18 months in developing, testing, evaluating, and then training appropriate public health employees in the various sub-systems' operations."

As of December 31, 1978, \$75,500 of Administration funds have been earmarked as follows:

Ist. Intensive Course for Administration	\$30,000
Ist. National Congress of Accountants	100
Loan Coordinator - Salary Supplement	30,000
Ist. National Course on Technical Statistics	4,500
*Course on Administration of Health Systems	<u>10,900</u>
	<u>\$75,500</u>

*Previously charged to training - reclassified by auditor.

Each of the activities, with the exception of the salary supplement to the Loan Coordinator are in the general areas planned for review, but have little effect on actually moving the two health systems closer together. The salary supplement seems to have been charged to this line item because it did not fit any place else. The Coordinator is involved in all activities of the loan and only works on integration indirectly. Salary supplements were not contemplated under the loan. Our review of USAID/Panama files showed that the supplement was approved because the Ministry said that only one person could do the job as Coordinator and that person would not take the job, in addition to his present MOH duties, unless his salary was increased.

From our review of the January - June 1978 progress report and in discussions with the Loan Coordinator we learned that no formal plan for integration was being followed. The Coordinator talked about arranging for a planning group, but no positive action has been taken.

We understand USAID/Panama has recognized that approval of related activities outside of a plan is not accomplishing movement toward consolidating administrative elements and will no longer approve such requests. USAID officials point out, however, that MOH/CSS administrative consolidation has occurred at the provincial level and are moving ahead at the national level.

It is apparent a plan along the lines outlined in the Project Paper must be prepared and executed as soon as possible. AID must require action within prescribed time limits. If the time schedule cannot be met, the funds should be deobligated.

Recommendation No. 10

USAID/Panama, in coordination with the Ministry of Health, develop a time phased plan for improving the Administrative elements for the integrated Health System and utilization of funds to carry out the plan. If the Ministry cannot or is unwilling to act in a timely manner they should be advised the loan funds will be deobligated.

G. Unprogrammed Funds

Loan funds in the amount of \$400,200 still remain uncommitted. These funds may be excess because it does not appear that the funds already programmed will be used within the loan implementation period.

The funds became available on February 3, 1978 when the fixed amount reimbursement for latrines was adjusted downward from \$60 per unit to \$31 per unit. Further downward adjustments may be required for latrines and aqueducts making more funds available. Based on discussions with Ministry officials, the Loan Coordinator and the USAID/Panama Project Manager we found that no specific actions were being taken to use the funds, but, that some areas were under consideration. In our opinion these funds should be specifically programmed or deobligated.

Recommendation No. 11

USAID/Panama, in conjunction with the Ministry of Health, commit the \$400,200 to a specific purpose or deobligate the funds.

RURAL HEALTH DELIVERY SYSTEM
PROJECT PROGRESS AGAINST DECEMBER 31, 1978 TARGET

	<u>Total</u> <u>Programmed</u>	<u>In</u> <u>Process</u>	<u>Completed</u>	<u>Target</u> <u>12/31/78</u>	<u>% of</u> <u>Target</u>
<u>Environmental Health Const.</u>					
Aqueducts	300	80	125	150	83
Wells	400	171	229	200	115
Latrines	13,800	4,000	3,849	6,900	56
<u>Health Facilities Const. & Equip.</u>					
1. Posts Construction	225	41	2	113	2
Equipment	225 <u>1/</u>	0	0	113	0
2. Sub-centers	14	4	3	7	43
Equipment	14 <u>1/</u>	0	0	7	0
3. Centers	4	1	0	2	0
Equipment	4 <u>1/</u>	0	0	2	0
4. Remodelling	20 <u>2/</u>	3	0	10	0
<u>Nutrition</u>					
Gardens	48	0	0	48 <u>3/</u>	0
Small Animal Project	75	0	0	75	0
<u>Training</u>					
Health Assistants	300	163	0	120	0
Nurse Auxiliaries	200	0	397	80	496
Sanitary Inspectors	20	63	20	20	100
Master of Public Health	15	1	0	0	0
<u>Administration</u>	\$400,000	\$35,000	\$30,000	\$200,000	15
<u>Construction Equipment</u>	\$252,000	\$ 0	\$ 0	\$252,000	0

1/ Equipment shown as a lot equal to the list of equipment for one health facility.

2/ Dollar amount converted to approximate number of facilities.

3/ Indicates sub-projects to be started.

LISTING OF RECOMMENDATIONS

Recommendation No. 1

USAID/Panama revalidate the 3,457 latrines certified and reimbursed as of December 31, 1978 and request the MOH to refund the amounts paid for latrines that do not qualify for payment.

Recommendation No. 2

USAID/Panama obtain evidence that AID/MOH Latrine Standards and Specifications are distributed to all provinces, and provincial authorities are aware costs for completed latrines will not be reimbursed unless built according to AID/MOH standards and specifications.

Recommendation No. 3

USAID/Panama undertake a formal study to determine the date, number, and location of latrines that can be built and inspected by February 10, 1981, taking into consideration performance to date by MOH authorities and USAID/Panama's inspection capability.

Recommendation No. 4

USAID/Panama, in conjunction with the MOH, formally review the criteria for selecting communities to receive potable water systems, reevaluate the cost of building potable water systems and recompute AID's F.A.R. price accordingly.

Recommendation No. 5

USAID/Panama, in conjunction with the MOH, develop a time phased construction plan which considers alternative construction methods so that construction dates will be met.

Recommendation No. 6

USAID/Panama, in conjunction with the MOH, develop a time phased procurement schedule so that equipment will be available as facilities are completed.

Recommendation No. 7

USAID/Panama determine the nutrition project activities that can be completed by the loan terminal disbursement date.

Recommendation No. 8

USAID/Panama, in conjunction with the Ministry, prepare a financial plan for the health assistant training program which identifies the training costs that are eligible for reimbursement under the loan and adopt the plan by implementation letter.

Recommendation No. 9

USAID/Panama disallow the \$58,000 disbursed to December 31, 1978 and request the Ministry to submit invoices/receipts to support the training expenditures.

Recommendation No. 10

USAID/Panama, in coordination with the Ministry of Health, develop a time phased plan for improving the Administrative elements for the integrated Health System and utilization of funds to carry out the plan. If the Ministry cannot or is unwilling to act in a timely manner they should be advised the loan funds will be deobligated.

Recommendation No. 11

USAID/Panama, in conjunction with the Ministry of Health, commit the \$400,200 to a specific purpose or deobligate the funds.

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