

UNITED STATES GOVERNMENT

memorandum

DATE: MARCH 31, 1981
 REPLY TO: R. Dean Hinderliter
 ATTN OF: Acting RIG/A/P, c/o USAID/Panama

SUBJECT: Memorandum Audit Report No. 1-525-81-11, USAID/Panama
 Grain and Perishable Marketing System Project, Loan Project No. 525-0178

TO: Mr. Aldelmo Ruiz
 Mission Director
 USAID/Panama

We have made a survey of Loan Project No. 525-0178 in Panama to determine the progress made in achieving project objectives and if there were problems hindering implementation.

The project has not achieved its objectives because there has been little or no progress in constructing the physical infrastructure that is needed to carry out the price stabilization and market regulation of food and agriculture production. Technical assistance has not been effectively used to meet the Agricultural Marketing Institute's (IMA) technical and management requirements. IMA personnel need training and trained personnel were reportedly not being effectively used.

USAID/Panama has not been able to commit \$1.1 million of loan funds because construction designs and bid documents had not been submitted for review and approval. USAID/Panama advised us that all plans, specifications and bid documents have been completed by IMA's designer and submitted to USAID/Panama for review and approval. This is the third time since September 1975 that IMA has attempted to award a contract for constructing grain storage facilities.

USAID/Panama has prepared a revised project implementation schedule (EXHIBIT A) which shows that a construction contract should be signed by August 25, 1981 or 6 days prior to the current terminal commitment date for the loan agreement. We believe the implementation schedule is optimistic based on past experience. If there is any slippage in the dates for significant items, it will be unlikely that the construction contract can be signed prior to the terminal commitment dates of August 31, 1981. Because of the significant delays already incurred on this project, we believe that USAID/Panama should not make any major extensions in the terminal dates for this project.

BACKGROUND AND SCOPE

On September 10, 1975 Loan Agreement No. 525-T-042 was signed between the Governments of Panama (GOP) and the United States for \$6,200,000. The funds were to assist the GOP to increase agricultural production in general and to provide low-income farmers with greater opportunities for participation in the market economy. The GOP implementing agency, the Agricultural Marketing Institute (IMA), was created with the objective of price stabilization and market regulation of food and agricultural production.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan



The loan agreement provided that no commitments of funds were to be made after June 30, 1978 and no disbursements would be authorized after December 31, 1978. On July 21, 1978 the terminal dates for commitments and disbursements under the loan agreement were extended to March 31, 1979 and September 30, 1980 respectively. On July 30, 1979, AID again approved new terminal dates:

1. Terminal commitment date for the terminal grain silos procurement and long term advisory services to December 31, 1979.
2. Terminal commitment date for equipment procurement to March 31, 1980.
3. Terminal commitment date for all other procurement to December 31, 1980.
4. Terminal disbursement date for all loan financed contracts to March 31, 1981.

In the July 30, 1979 letter extending the terminal dates, USAID/Panama advised IMA that AID would be unable to consider any additional extension of the terminal disbursement date beyond March 31, 1981. The Mission advised IMA that the revised implementation period was adequate for achieving the objectives of the loan but that it would require a determined effort from both AID and IMA to ensure that loan funds were committed and disbursed during the remaining time.

On April 1, 1980 USAID/Panama in response to an IMA inquiry for consideration of additional commitments of loan funds, stated that additional commitments would be considered as long as the new commitments could be disbursed by the terminal disbursement date of March 31, 1981.

The bids for construction of the terminal grain storage plants received by IMA and opened on October 26, 1979 were vacated because of a conflict of interest. After extensive discussions and negotiations, USAID/Panama and IMA executed a Memorandum of Understanding (MOU) on August 7, 1980. The MOU provided, among other things, for the administration of a new construction bid preparation and awarding process. Pursuant to the MOU, USAID/Panama extended the terminal commitment and disbursement dates of the loan to August 31, 1981 and December 31, 1982 respectively.

The loan project contains two major components that were designed to overcome marketing constraints through the provision of the basic physical infrastructure required by IMA to properly execute public marketing programs in basic grains and perishables and to expand its outreach activities to remote areas.

The physical infrastructure include:

1. Construct or renovate and equip 14 country buying points for grains, fruits and vegetables. Each buying point would have receiving and sampling equipment.
2. Construct three collection centers for fruits and vegetables.

3. Construct and equip three collection stations for buying and storing grains and semi-perishables in Darien province.
4. Construct and equip four terminal plants for receiving, drying and storing grains in the provinces of Bocas del Toro, Los Santos, Veraguas and Panama.
5. Cold storage centers were to be improved, including humidity/temperature control systems, sliding doors, sub-divided cold room, forklifts and pallet rack systems.
6. Cold storage and sub-zero facilities were to be constructed and equipped for handling and storing perishable commodities at Colon, La Chorrera, Santiago, and Penonome.
7. Dock facilities were to be constructed in Darien province.
8. Transportation equipment was to be provided for the grains and perishables marketing operation.
9. A plant was to be established for manufacturing wire-brand crates and boxes for perishables products.

The other component was the strengthening of IMA's technical and administrative capacity for developing and executing sound marketing policies and programs aimed at encouraging the production of quality products at minimum cost to the consumer. Specifically the project was to provide both training and technical assistance to IMA for developing and implementing (a) cost accounting and financial control systems within IMA; and (b) an official grades and standards system for the major grains and perishables produced in Panama. Additionally, the project was to provide technical advisors and training to IMA personnel for improving the handling, conditioning and storing techniques for both grains and perishables as these commodities move through the marketing channels from producers to consumers. Assistance was to be given to IMA for analyzing production costs at the farm level and for upgrading top management in marketing and distribution disciplines.

Because of the long delays in implementing the project, USAID/Panama estimated that only 3 of the planned 4 terminal grain storage plants, 13 instead of 14 buying points and related training, technical assistance, engineering services and procurement of some equipment would be completed. As of December 31, 1980 there was \$1.343 million earmarked for specific project activities of which \$.881 million had been disbursed. USAID/Panama was in the process of revising the project's financial plan to show the activities that may be realistically carried out by IMA.

Scope

Our survey covered project activities from January 1, 1979 to January 31, 1981. Because of the lack of progress since our prior review, our examination was limited to reviewing USAID/Panama correspondence and accounting files and interviewing Mission personnel.

The comments of Mission personnel were considered in preparing this report.

Prior Audit Reports

The Inspector General of AID has issued two prior audit reports on the Grain and Perishable Marketing System project. The recommendations made in these two reports had been closed at the time we initiated our survey.

Audit Report No. 1-525-77-48 issued July 18, 1977 reported administrative and operational weaknesses including untrained personnel, an inadequate management information system, an acceptable inventory control system was needed, imprest funds lacked sufficient cash to make payments to farmers, high delinquency rate in accounts system, and insufficient funds to maintain equipment and storage facilities. The report recommended that IMA develop cost estimates and projections on budget needs to operate its maintenance program, assure there was adequate budgetary support to pay maintenance costs including the personnel necessary to operate the maintenance system.

Audit Report No. 79-25 issued December 29, 1978 pointed out serious deficiencies by USAID/Panama officials in advising and guiding IMA in contracting for preconstruction design planning and bid preparations. There were significant management deficiencies by USAID/Panama's personnel in monitoring and controlling implementation of the project. The report recommended that USAID/Panama tighten its administrative and executive procedures and oversight to insure that AID regulations and loan terms were complied with.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Project Implementation

Implementation of project activities has been long delayed and is several years behind schedule. Numerous problems have been encountered, such as need to redesign facilities; procedural, technical and legal problems related to a bid for the construction contracts; and delays in receipt of plans, specifications and bid documents. The results being that the benefits expected from this project will be reduced in scope and are long overdue.

USAID/Panama advised us during this review that changes in the top management of IMA were recently made and a revised implementation plan has been adopted. The revised plan will allow for construction contract signing prior to the terminal commitment date of August 31, 1981. We believe the revised implementation plan is optimistic and will be difficult to execute.

USAID/Panama reported in its quarterly report for the period ending March 31, 1979 that it appeared project implementation would accelerate substantially over the coming months as the major obstacle (contracting for A&E services and problems involving bidding procedures) had been resolved. It was expected at that time that the construction contract for the grain storage plants would be signed in July or August 1979.

As the months of calendar year 1979 passed, more problems arose. In October significant problems arose that brought project implementation to a virtual standstill. These problems involved procedural, technical and legal matters related to a bid for the construction contracts on the grain storage facilities. These problems resulted in the eventual vacating of the proposal received in October 1979.

During calendar year 1980, USAID/Panama and the GOP met on several occasions and on August 7, 1980 signed a Memorandum of Understanding to continue the project. The Memorandum of Understanding provided that a number of activities would be undertaken and established a chronology for bid preparation and for awarding the construction contracts for the grain storage facilities.

In accordance with the Memorandum of Understanding IMA informed each bidder that submitted a proposal for the bid opening of October 26, 1979 that the bids had been vacated. The chronology established by the Memorandum of Understanding (EXHIBIT B) showed the starting point for the count down of subsequent activities as the date a survey was completed which determined there was a need for grain storage facilities.

Survey of Needs

Kansas State University made the survey and concluded that there was a need for the construction of grain storage facilities so IMA could carry out its responsibility for price stabilization activities. USAID/Panama provided copies of the survey to IMA on September 18, 1980 (English version) and on October 22, 1980 (Spanish translation).

The terms of reference for the survey of IMA's operations were:

1. Estimate the overall storage capacity needed to enable IMA to stabilize grain prices and ensure an adequate supply of rice, corn and other basic grains to meet market requirements on a year round basis through 1985.
2. Survey existing and planned public and private grain storage facilities to determine the degree to which these requirements are being and will be met.
3. Recommend the size and approximate location for any additional facilities needed.
4. Carry out a cost benefit study which analyzes the net benefits to the Government of Panama from construction/maintenance of additional facilities versus the rental of private facilities.
5. Recommend improvements in the institutional capability of IMA needed to ensure adequate functioning of the grains marketing system in Panama.
6. Summarize methodology and conclusion of the above tasks in a bilingual Spanish/English report.

The report indicated that IMA was deficient in long-term storage facilities and would need 1,142,000 quintals of long-term storage capacity by 1985-86 to stabilize grain prices and to ensure an adequate supply of grains to meet market demands. The contractor recommended that loan funds be used to construct storage space for 400,000 quintals in the Provinces of Chiriqui and in the Region encompassing the provinces of Cocolé, Los Santos and Herrera. The report stated that the long delays in constructing storage facilities had resulted in reducing the purchasing power of the loan.

The survey report pointed out there were continuing institutional management problems that were affecting IMA's overall performance and had resulted in unduly high levels of waste and losses in IMA's grain operations. Management areas needing strengthening included long-term planning and implementation of such plans, communication and coordination between IMA's technical personnel and management, data analysis and management information system regarding grain and cost accounting, technical, marketing and economic analysis related to IMA's objectives.

The survey team commented that its conclusions and recommendations had been previously stated in other documents over the past five years with the result being mostly one of inaction. For example, the contractor cites the fact that IMA had not fully implemented a grain cost accounting system that was installed by an accounting firm. The accounting system, if fully installed, would provide IMA with the basic information for needed internal data regarding grain operations and associated costs. The unit in charge of evaluation and analysis of grain and cost accounting information had not been implemented. The lack of the cost accounting system has made its use to IMA's management and staff rather limited for the purpose of management needs as well as marketing, technical and operational analysis. To improve IMA's technical and management areas, the survey report recommended that IMA retain consultancy advise and services and that a final effort be made by IMA to complete implementation of its total grain and cost accounting system.

On September 4, 1980, USAID/Panama advised AID/Washington that it would insist IMA adopt the consultant's recommendations. The Memorandum of Understanding of August 7, 1980 required IMA to contract for technical assistance in general management and administrative operations, market analysis and commodity procurement, financial management and grain handling and storage and/or other areas that were identified in the survey. At the close of January 1981 IMA had received proposals for providing the institution technical assistance. Once the bids were analyzed by IMA, the analysis was to be sent to USAID/Panama for review and approval.

The survey contractor commented that the unfortunate consequences of the 5 year delay in constructing the proposed storage facilities and improving institutional performance had been reflected in a high opportunity cost. The delay had led to increased cost of facilities and inability to decrease high levels of loss. The opportunity costs were estimated to be as high as \$19.5 million, an amount that could have easily built the entire storage capacity now required.

Construction Costs of Grain Storage Plants

Because of inflationary increases in construction costs, the number of grain storage plants have been reduced from four to three. USAID/Panama personnel have been concerned about the availability of funds to construct the grain storage plants.

In 1978 a total of \$6.6 million was earmarked for construction of four grain storage plants. By June 1979 USAID/Panama concluded that the earmarked funds were inadequate to construct the four planned grain storage plants. IMA and AID agreed to employ a specialist on grain storage construction to update the construction cost estimates. The up-dating was regarded as essential so that any shortfall between the current GOP budget level and the estimated construction costs could be budgeted by the GOP. IMA officials indicated to AID officials that IMA would make a concerted effort to have additional funds budgeted by the GOP to cover any shortfall. On September 10, 1979 the consultant reported that it would cost about \$10.1 million for constructing the four grain storage plants and \$7.4 million for completing three plants.

On October 26, 1979, at the construction bid opening, IMA estimated it would cost \$7.6 million for constructing three grain storage plants. By October 1980 the estimate to construct the three plants had increased to \$8.5 million, thus additional funds would be required from the GOP.

IMA was informed about USAID/Panama's concern about funds not being available to complete the three grain storage facilities. IMA was asked to furnish USAID/Panama the GOP's budgeted amount that was available for the proposed grain storage construction. On November 12, 1980 and December 15, 1980 the Mission reminded IMA that no response had been received as to whether the GOP had budgeted sufficient funds to finance the completion of the three grain storage plants. USAID/Panama pointed out that the estimated construction costs for the three grain storage plants could exceed \$9.3 million, or substantially more than the programmed amount.

On January 15, 1981 IMA finally informed USAID/Panama that the GOP had included in its budgets for fiscal years 1980, 1981 and 1982 (including loan funds) \$10.8 million for the construction of 13 buying stations and the 3 grain storage plants. If the contracts for construction of the grain storage plants are signed before the terminal commitment date of August 31, 1981, there should be sufficient funds for the proposed construction.

Compliance With Memorandum of Understanding

IMA had not complied with many of the terms and chronology of the Memorandum of Understanding and USAID/Panama did not have current information on the status of implementation.

The Memorandum of Understanding required that before AID approved any new or revised Invitation for Bid for construction services IMA was to acquire a full time staff to work on the project. While no new or revised Invitation for Bid had been approved, USAID/Panama did not know the status of IMA's full time staff at the conclusion of our survey in February 1981 because IMA had not provided necessary data about the project's staffing.

Another provision of the Memorandum of Understanding before new commitments could be made was that IMA would have signed contracts for the provision of technical assistance in management, administration, market analysis, finance, grain handling and grain storage. This requirement had been partially completed. On January 15, 1981 IMA received proposals for reviewing the institution's operations and providing needed technical assistance. USAID/Panama's Project Officer believed that contracts for technical assistance would be signed no later than March 1, 1981. At the close of March 1981 the project officer informed us that IMA was negotiating with the successful bidder and a contract would be signed for technical assistance.

IMA was to complete the installation of the 13 buying points before new commitments are made. Six months after the signing of the Memorandum of Understanding, USAID/Panama had not received a report from IMA on the installation status of the 13 buying points. On January 28, 1981, USAID/Panama requested a status report on the buying points from IMA. On February 6, 1981, IMA submitted a report of the status of the buying points. The report showed that as of January 31, 1981 none of the buying points were operational as all were in different stages of completion. No information was provided by IMA when the buying points would be completed and operational. At the close of March 1981 the project officer advised us that 12 buying points were completed and would be inspected for acceptance.

The chronology established by the Memorandum of Understanding required IMA to submit design and bid documents or an alternate proposal to AID for review by the 75th day after the survey was completed. The survey was completed by September 18, 1980 and a Spanish translation was provided to IMA by October 22, 1980. Thus, the design and bid documents or an alternate proposal were to be submitted by December 2, 1980 or by the latest January 5, 1981.

We completed our survey of this project in February 1981. At that time, USAID/Panama had not received the design and bid documents from IMA even though the submission date established by the Memorandum of Understanding had passed. USAID/Panama advised us early in February 1981 that IMA had not told the Mission whether a contract had been signed with an engineering firm to prepare the designs and plans for the grain storage plants. USAID/Panama's Project Officer advised us that IMA personnel indicated a contract would probably be signed in February 1981, about 70 percent of the work on the design and plans had been completed, but he did not know when the remaining 30 percent would be completed.

We brought the findings of our survey to the attention of USAID/Panama's Mission Director. He met with IMA's new Director General to express his concern over the delays in implementation of the project. As a result, a revised implementation plan was established which showed that the designs, specifications and bid documents would be submitted by mid March 1981 (EXHIBIT A). On March 30, 1981 the project officer informed us IMA had submitted for Mission review the plans and bid documents. The Mission review disclosed that the documents contained errors and would have to be revised to meet AID requirements. The additional work would take about 2 to 3 weeks to complete.

According to the USAID/Panama Project Officer there had been a slippage of about 2 weeks in the revised implementation schedule. Even with this slippage this official still believed that a construction contract could be signed prior to the terminal commitment date of August 31, 1981.

Conclusions

Recently there has been a concerted effort by USAID/Panama to get the construction aspects of this project implemented. Progress has been made but there is still a long way to go before the construction contracts are signed. In addition, there are many other activities for IMA to do in order for this project to be successfully implemented, such as, staffing, technical assistance, and completion of the buying points. As agreed in the Memorandum of Understanding all of these other activities are to be undertaken or completed before AID approves any new or revised Invitation for Bid for construction services.

USAID/Panama needs to assess the progress IMA has made in implementing all aspects of the Memorandum of Understanding before agreeing to proceed with the project. In order to make an assessment of IMA progress, USAID/Panama needs to determine the status of all activities under the project.

Recommendation No. 1

USAID/Panama should obtain the current status of all activities to be implemented by the Agricultural Marketing Institute and assess whether satisfactory progress has been made in implementing these activities before approving the Invitation for Bids for construction under the Grain and Perishable Marketing System Project. If satisfactory progress has not been made, then USAID/Panama should consider deobligating unused funds under Loan Agreement No. 525-T-042.

AID LOAN 525-T-042

IMPLEMENTATION SCHEDULE

(BASED ON INFO. PROVIDED BY IMA ON 2-27-81)

EXHIBIT A
(Prepared by USAID/Panama)

ACTIVITY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	
1 PLANS & SPECS		█						
2 BID DOCUMENTS		█						
3 TDY CONSULTANT			█			█		
4 TDY AID/W/ TEAM			█					
5 AID REVIEWS ACT 1 IMA REVISES PLANS & SPECS		█						
6 AID REVIEWS ACT 2 IMA REVISES BID DOC.			█					
7 AID ADVISED COMPL. MOU-3 HAS BEEN MET			█					
8 AID ADVISES GOP DOCUMENT ACCEPTABLE			█					
9 RFP			█					
10 BIDS DRNG. PROVISIONAL CONTRACT AWARDED								
11 BID EVALUATION FINAL CONT AWARDED						█		
12 FINAL CONTRACTS SIGNED							█	

CHRONOLOGY ESTABLISHED
BY
MEMORANDUM OF UNDERSTANDING
FOR
AID LCAN 525-T-042

<u>No. of Days</u>	<u>Description of Action</u>
0 (15)	1. Feasibility survey completed.
15 (50)	2. Review of survey completed and course of action established by AID and IMA.
75 (15)	3. IMA submits design and bid documents or alternate proposal to AID for review.
90 (15)	4. AID review completed. Comments submitted to IMA in writing.
105 (10)	5. Bid document revised (if necessary) and GOP review of document completed. AID provided with revised documents and notification in writing that documents acceptable to GOP.
115 (5)	6. AID advised in writing that section No. 3 conditions have been met.
120 (5)	7. If bid document acceptable to AID, GOP so advised.
125 (60)	8. Prequalified bidders requested by IMA in writing to submit proposals.
185 (30)	9. Bids opened. Provisional contracts awarded.
215 (405)	10. Final contracts awarded and signed.
620	11. Construction completed.

LIST OF REPORT RECIPIENTS

	<u>Copies</u>
IDCA, AID/W	1
IDCA's Legislative and Public Affairs Office, AID/W	1
Deputy Administrator, AID/W	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	5
Mission Director, USAID/Panama	5
Assistant Administrator - Bureau for Development, Office of Agriculture (DS/AGR)	1
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Office of Financial Management (OFM), AID/W	1
General Counsel, AID/W	1
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Director, OPA, AID/W	1
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