

PDAPP 268  
/A11-34744

5200192  
520219  
520247  
520251  
600 605

18

LOCAL CONDITIONS BEYOND AID'S CONTROL AND  
REPEATED DESIGN, PLANNING, AND MONITORING  
DEFICIENCIES HAVE SERIOUSLY DELAYED THE  
IMPLEMENTATION OF PROJECTS BY

USAID/GUATEMALA

AUDIT REPORT NO. 1-520-84-5

MAY 23, 1984

Many of the conditions adversely affecting project implementation described in this report are common to other Central American and Third World countries generally. This report suggests that simpler, more realistic project designs and more intensive project monitoring are essential if the delays and expensive inefficiencies experienced in the past are not to be repeated. This is seen as especially crucial in the light of major new funding initiatives now being proposed for Central America.

USAID/GUATEMALA LOAN PORTFOLIO

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
BACKGROUND AND SCOPE	1
AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	3
PORTFOLIOWIDE PROBLEMS	5
Project Design	5
Adequacy of AID, GOG, and Contractor Personnel	8
Implementation Plans	11
Monitoring Project Implementation	14
PROJECT-SPECIFIC PROBLEMS	16
Unused Commodities (AID Loan 520-I-015, 520-V-025, and 520-V-029)	16
Staffing of Construction Program (AID Loan 520-U-033)	17
Procurement Plan (AID Loan 520-T-034)	17
Construction Programs (AID Loans 520-T-034 and 520-U-033)	18
Disbursement System (AID Loan 520-U-033)	20
EXHIBIT A - Financial Status, USAID/Guatemala Loan Portfolio FYs 1975-1982	
EXHIBIT B - Analysis of USAID/Guatemala Loan Portfolio Components FYs 1975-1982	
Rural Primary Education	B-1
Small Farmer Development	B-4
Municipal Earthquake Recovery Program	B-7
Primary School Reconstruction	B-9
Small Farmer Marketing	B-11
Rural Electrification	B-13
Rural Enterprises Development	B-15
Community Based Integrated Health and Nutrition Systems	B-18
Small Farmer Diversification	B-21
Non-Formal Education	B-24
APPENDIX A - List of Recommendations	
APPENDIX B - List of Report Recipients	

## GLOSSARY

BANDESA	Agricultural Development Bank
CECOMERCA	Agricultural Marketing Cooperative
CORFINA	National Finance Corporation
DIGESA	General Directorate for Agricultural Services
DIGESEPE	General Directorate for Livestock Services
FECOAR	Agricultural Cooperative Federation
FENACOAC	(as above)
GOG	Government of Guatemala
GUATEXPRO	National Center for Export Promotion
ICTA	Institute of Agricultural Science and Technology
INDE	National Institute of Electrification
INFOM	Institute for Local Government Development
INTECAP	National Institute for Skills Training and Productivity
INTA	Land Transformation Agency

## EXECUTIVE SUMMARY

Northwesternmost among the countries of Central America, Guatemala is home to about one-third (7.7 million) of the region's people; its land area is (42,000 square miles) slightly larger than the state of Tennessee. A recipient of U.S. Government (USG) economic assistance since World War II, the level of aid has diminished in the recent past due to human rights problems 1/ and differing views held by American and local officials regarding the needs of the rural poor. Nearly half the population is indigenous. Indians comprise the bulk of rural dwellers, who are the target of AID assistance projects in Guatemala.

In summary, our audit 2/ confirmed that all ten projects had suffered significant implementation delays and that many of their planned objectives had not been realized. Almost \$73 million in AID funds are involved in these projects to which the Government of Guatemala (GOG) was also scheduled to contribute about \$55 million. Because the projects have required about 50 percent more time than planned to complete, costs have risen, services have been cut back, and the delivery of benefits to the intended recipients -- in the main, poor rural dwellers -- has been seriously delayed.

The report analyzes why the performance of the USAID/Guatemala portfolio has not lived up to expectations. Cited are certain conditions beyond USAID/G's management control, such as: unsettled security conditions in the countryside, frequent changes in government with accompanying wholesale changes in project personnel, cumbersome GOG procedures, varying GOG attitudes in support of improving the lot of the rural poor, depressed economic conditions, a devastating earthquake in 1976, and higher GOG priority accorded to other donors' projects because they are larger and not subject to the same degree of oversight as AID's. (Pages 4 to 5).

Other factors that have caused the projects to perform poorly were more within USAID/G's ability to control and correct. These deficiencies are categorized as either portfolio-wide or project-specific. Among the former, the audit identified weaknesses in project design, planning, staffing, evaluation and monitoring. (Pages 5 to 15). Among the latter, the report enumerates specific problems such as commodities lying unused in a GOG warehouse, a cumbersome disbursement mechanism, and inadequate procurement or construction capabilities on the part of cognizant GOG agencies. (Pages 16 to 21). The report contains eight recommendations to help USAID/G correct these problems.

---

1/ The U.S. Congress cut off funding for new AID programs for Guatemala in fiscal year 1984, except for projects implemented by Private Voluntary Organizations, because of concerns over human rights violations.

2/ This is actually two reports in one. Readers not pressed for time may wish to begin by perusing Exhibit "B." That section contains a fairly exhaustive analysis of each of the ten loan projects (some of which are supplemented by grant funds) comprising the USAID/Guatemala portfolio.

It also gives credit where results exceeded expectations and notes that there has been some improvement in project implementation over the past two years.

Although audit results must necessarily be viewed in historical perspective, there is much in this report that provides concern for the future, especially in light of recent requests for greatly increased economic assistance to Central America. The findings in this report suggest that the region's need for economic assistance exceeds the ability of local institutions to assimilate large resource flows.

While conditions may currently be improving with respect to AID project implementation in Guatemala, events and repeated lessons of the recent past offer no guaranty that this will not abruptly change. If USAID/Guatemala is to overcome the many serious impediments to project implementation described in this report, project designers will have to take those obstacles more fully into account. Greatly simplified, more realistic designs and substantially tightened project management on the part of USAID/Guatemala<sup>1/</sup> are considered crucial if future AID undertakings in the Guatemalan development environment are to succeed.

After reviewing the draft report, USAID/Guatemala advised that it had no further comment to make and expected to be able to implement the report's recommendations in the near future.

---

<sup>1/</sup> Staffing levels at this mission have averaged about 16 U.S. direct hires and 34 foreign service nationals during the period of this review.

## BACKGROUND AND SCOPE

Guatemala is the largest and most populous country in Central America. Forty-six percent of its 7.7 million inhabitants are classified as indigenous. Per capita income in Guatemala is the highest in Central America (\$1,190 in 1982). In spite of its relative well-being, widespread poverty exists because of highly unequal income distribution. Thus the per capita income of half the population is less than \$480 per year. The poorest Guatemalans are the mostly indigenous residents of the western highlands who comprise two thirds of the rural population. The AID program in Guatemala is largely directed at helping these rural poor. (The U.S. Congress cut off the funding of the AID program to Guatemala for fiscal year 1984 [except for projects with Private Voluntary Organizations] because of concerns over human-rights violations.)

AID has obligated an average of about \$12 million annually in loans and grants in Guatemala between fiscal years 1977 and 1983. The program has been managed by an average direct-hire staff of about 16 Americans and 34 foreign nationals.

As of September 30, 1983, USAID/Guatemala's loan portfolio consisted of ten loans and six complementary grants obligated between fiscal years 1975 and 1982. The estimated total cost of these projects was \$127,560,000 of which AID was to finance \$72,805,000 and the Government of Guatemala (GOG), \$54,755,000. (see Exhibit A). The goal of the ten projects was generally to improve the quality of life and increase the incomes of rural Guatemalans.

Two of the ten projects were related to an earthquake which struck Guatemala in February 1976. The overall goal of these two projects was to restore and upgrade the quality of life of inhabitants living in the earthquake zone.

The purposes of the ten loans were:

- Education (520-V-025 and 520-V-029) - to improve rural primary education by constructing and equipping schools and by improving curricula and teaching methods.
- Agriculture (520-T-026, 520-T-034, and 520-T-030) - to improve small farmer development by settling new lands, building access roads, constructing small-scale irrigation and soil conservation systems, improving institutional capabilities, developing new farm technologies, improving extension services, providing credit to small farmers and improving marketing systems.
- Rural Enterprise Development (520-T-032) - to develop and expand small-scale industry and artisan enterprises in rural areas by improving access to credit, appropriate technologies and technical assistance.
- Community Health (520-U-033) - to improve community sanitation by constructing water systems, latrines, and home improvements; to improve health care by constructing and equipping health posts and training health care personnel; and to strengthen the maintenance, logistics and information systems required for the delivery of health care services by providing equipment, vehicles and technical assistance.

- Rural Electrification (520-T-031) - to increase the number of electric connections in low income rural areas by constructing transmission lines, distribution lines, and one substation, and by installing service drops, meters and house-wiring for new customers; and to improve institutional capacity to service new customers by providing technical assistance, training, maintenance equipment, and vehicles.
- Municipal Development (520-W-027) - to rebuild and improve municipal infrastructure damaged by the earthquake; to strengthen administration of local governments by training municipal employees; and to finance a pilot program to establish revenue-producing municipal enterprises.
- Non-Formal Education (520-V-035) - to improve and expand the programs of the National Board of Non-Formal Education by training promoters and extension agents of other GOG agencies, by providing a new radio station, three mobile radio units, project vehicles, and technical assistance and by financing publications, and broadcast time.

As of September 30, 1983, the USAID had expended \$38,946,000 under the ten projects; three of ten projects were completed in 1982 and 1983 and accounted for expenditures of \$29,766,000. (See Exhibit A).

This was our first overall review of the major activities comprising USAID/Guatemala's project portfolio. Although it encompassed ten projects with both loan and grant elements, its scope was limited to identifying the principal reasons why project implementation had been delayed and what the mission could do to avoid such delays in future projects. Thus, internal management controls as they apply to each component of the portfolio were not specifically examined as a part of this audit. Generally speaking, the cut-off date of our review was September 30, 1983, although we did review certain activities through January 1984 when our field work ceased.

Our examination of the USAID/G portfolio took place in AID/Washington and in Guatemala. It was conducted in accordance with generally accepted governmental auditing standards. The audit included discussions with cognizant AID and GOG officials, review of AID and GOG books and records, field trips to selected project sites and commodity storage facilities, and such other auditing procedures as we deemed necessary under the circumstances.

## AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

(Readers who are not familiar with the AID program in Guatemala or the conditions affecting project implementation in that country might be able to better appreciate the significance of this section of the report by first perusing the information found in Exhibit R.)

Our review of the AID loan portfolio in Guatemala disclosed that all ten projects suffered significant implementation delays. The average planned life of these projects was almost five years. Three of the ten projects have been completed. Each of the completed projects had to be extended several times beyond its originally planned completion date and many of its objectives were not fully achieved. Portfoliowide, almost 50 percent more time was needed to complete the projects. For the seven uncompleted projects, 73 percent of the planned project life has elapsed but AID had expended only 22 percent of its funds as of September 30, 1983.

Results of three completed projects and one other project nearing completion showed that many of the objectives were not fully achieved mainly because of design deficiencies and implementation delays. Implementation delays have adversely affected the achievement of objectives because inflation increased the cost of project outputs. As a result, fewer outputs were produced by the funds allocated to the project. Also, implementation delays increased the total cost of project administration, since these costs increase with the length of the project. As a result, more funds have to be allocated to finance project administration, thus reducing services to project beneficiaries.

Below we present the targets not fully achieved for the three completed projects and the Primary School Reconstruction project which was to be completed on December 31, 1983:

<u>Project/Target</u>	<u>Target (Life of Project)</u>	<u>Results</u>
<u>Rural Primary Education</u>		
Schools Constructed	299	97
<u>Small Farmer Development</u>		
Hectares Irrigated	5,000	856
Hectares of Conservation Works	5,000	670
New Families Settled	5,000	1,800
<u>Municipal Earthquake Recovery</u>		
Infrastructure Projects Built	205	94
Municipal Enterprises Financed	48	2
<u>Primary School Reconstruction</u>		
Schools Constructed	105	56 <u>1/</u>

1/ Planned for completion by 12/31/83.

In addition to these four projects, AID and GOG funding for a Rural Electrification project had to be increased recently by \$7.9 million to permit the achievement of planned objectives because of cost overruns.

In certain instances, objectives were achieved or even exceeded. For example, under the Rural Primary Education and Primary School Reconstruction projects, the target for the publication of textbook and teacher guides were generally achieved. Also, the personnel training target was achieved under the Rural School Reconstruction project. In two cases, significantly more was achieved than planned. Under the Small Farmer Development project, 325 kilometers of roads were built versus 280 kilometers planned and under the Municipal Earthquake Recovery project, 940 municipal employees were trained versus 535 employees planned. Although these accomplishments are worthy of mention, they are not considered typical of the historical performance of the portfolio overall.

The major problems that have delayed project implementation and affected the achievement of objectives are divided into those beyond AID's control and others that can be corrected through increased management activities:

The uncontrollable factors were:

- The GOG congressional loan ratification process increased the time required to satisfy initial conditions precedent. (This is not currently a problem because Congress was abolished in March 1982.)
- Security conditions in Guatemala.
- Changes in governments in 1978, 1982 and 1983 as well as more frequent changes in Ministry personnel.
- The earthquake of 1976.
- Depressed economic conditions in Guatemala and Central America generally.
- Overly complicated GOG review and approval procedures delayed implementation actions in the areas of funding, staffing new project positions, constructing facilities, procuring commodities, contracting technical assistance and processing vouchers.
- Varying attitudes among GOG officials regarding the need for foreign assistance which has lengthened negotiating times to obtain agreement on project activities.
- Lower priority accorded to AID projects compared with other donor projects because the AID projects were smaller and subject to more oversight.

- Varying support by different GOG administrations for programs designed to help the rural population. AID loan disbursements increased under the government that took power in March 1982 because of its support for such programs.

### Conclusions

Project implementation in Guatemala has in the past been subject to certain conditions whose overall effect has been to seriously delay and curtail the impact of AID-financed activities. Although these conditions cannot be changed by unilateral action on the part of USAID/Guatemala, they should be taken into account in designing and planning the implementation of future AID projects in that country.

#### Recommendation No. 1

USAID/Guatemala develop and issue a Mission Order:

- (a) regulating the identification and design of AID projects and
- (b) making specific provision for taking into account those conditions that have impeded project implementation in the past.

The remainder of the report focuses on problems that are within the control of AID and GOG management officials to correct. These problems have been divided into portfolio-wide and project-specific problems for presentation purposes. Correction of these problems should improve project implementation.

### PORTFOLIOWIDE PROBLEMS

#### Project Design

The implementation of many USAID/G projects has been adversely affected by design deficiencies. Some examples:

- Certain GOG agencies lacked the experience and expertise needed to effectively implement the activities in some cases. This happened under the Appropriate Technology component and the Artisan Export component of the Rural Enterprise project. These components were assigned to the National Economic Planning Council (SGNEPC) and the National Center for Export Promotion (GUATEXPRO). Two other GOG institutions, the National Institute for Skills Training and Productivity (INTECAP) and the National Finance Corporation (CORFINA) had more experience and expertise in appropriate technology and in the production and marketing of artisan products. The USAID recognized this when the project was proposed for redesigned in 1983, and the responsibility to manage these project components was transferred to INTECAP and CORFINA. (See Exhibit B, p. 15.)

- Disbursement systems designed for the Small Farmer Development project and the Community Based Integrated Health and Nutrition Systems project (Community-Based Health) proved cumbersome. This resulted in disbursement and project implementation delays. (See Exhibit B, pp. 4 and 18.)
- The GOG was reluctant to use loan funds for technical assistance and research activities because they do not consider the investment of their money in these activities to be cost-effective. This was noted under the Rural Electrification, Rural Enterprises and Rural Primary Education projects. (See Exhibit B, pp. 1, 13 and 15.)
- The small farmers who were the intended beneficiaries did not support the marketing cooperative established under the Small Farmer Marketing project because the cooperative operated at the federation level (several management levels removed from the farmers) and the farmers were not given a voice in the management of the cooperative. This lack of support contributed to the failure of the cooperative. (See Exhibit B, p. 11.)
- The objectives of the new lands settlement component of the Small Farmer Development project were not fully attained because the basic infrastructure (roads, schools, health facilities, etc.) was not adequate prior to the start of the project. (See Exhibit B, p. 4.)
- Lack of effective coordination among affected GOG agencies has hampered project implementation under the Small Farmer Development, Rural Enterprise Development, and the Small Farmer Diversification projects. Under the latter project, the coordination design was ineffective since the coordination committee was established at the national level rather than at the regional level where activities took place. USAID/G corrected this problem in the middle of 1983 by establishing a coordination committee at the regional level. (See Exhibit B, pp. 4, 15 and 21.)
- Designs for the construction of some facilities were based on faulty assumptions; this led to delays and cost overruns. Under the irrigation component of the Small Farmer Development project, the cost of the irrigation systems was based on relatively level terrain. However, the irrigation works were actually constructed in very hilly terrain. This greatly increased costs and sharply reduced the number of works. Under the new lands settlement component of the same project, the cost of project roads was also greatly underestimated because the road design did not consider actual conditions in the project area. (See Exhibit B, p. 4.)
- Many of the implementation plans contained in USAID/G project papers proved overly optimistic because they did not take into

account AID's experience with past projects, the known capabilities of the GOG agencies and cumbersome GOG procedures which invariably delay project implementation. These problems need to be factored into project planning estimates so that planned objectives and the time frames required to achieve them (staffing, contracting, etc.) reflect the realities of project implementation. For example, past experience in Guatemala shows that it takes an average of eleven months for the GOG to satisfy the conditions precedent to initial project disbursements. However, project plans have consistently estimated that conditions precedent can be satisfied in four months. (During our Exit Conference, the USAID advised us that the conditions precedent for two FY 1983 loans had been satisfied by the GOG as planned.)

- The implementation plans for the Small Farmer Diversification project did not clearly define institutional responsibilities for implementing the activities under the project (see page 12). This delayed the project during its implementation phase since time was lost defining responsibilities.
- The project paper for the Small Farmer Diversification project and the Small Farmer Development project did not adequately assess host country capabilities to prepare construction drawings, plans and specifications. As a result, timely technical assistance was not provided to host country officials to help them perform this function and time was wasted during the implementation phase of the projects (see page 12).
- Firm plans for undertaking the major components of the implementation plan in areas such as technical assistance, commodity procurement and construction were not prepared during project design. As a result, considerable time was lost after a loan agreement is executed in revising and renegotiating these plans. To the maximum extent possible, these plans should be adequately prepared and negotiated during project design. For example, under the Non-Formal Education project the USAID was urged by AID/W to execute the loan by August 31, 1982, (in order to meet obligation goals) a month before planned loan agreement signing, and before USAID/Guatemala had reached a firm agreement with the GOG on the Project Description Annex of the loan agreement. As a result, the Project Description had to be renegotiated after the loan was signed, and this delayed preparation of the project implementation plan under a condition precedent to the loan. (See Exhibit B, p. 24.)

### Conclusion

In addition to certain previously mentioned uncontrollable factors, it has also been possible to identify a number of deficiencies which have frequently occurred in past projects and which are within USAID/Guatemala's power to eliminate, or at least mitigate, in designing and planning the implementation of future projects. Project designs should be reviewed to verify that:

- 1) Cost estimates are based on realistic assumptions and adequate feasibility studies.
- 2) Activities are assigned to GOG institutions that have the experience and expertise needed to effectively manage the activities.
- 3) Disbursement systems provide for the timely availability of funds.
- 4) Adequate incentives have been established to motivate local sponsors and beneficiaries to participate actively in the project.
- 5) Periods allotted to complete implementation actions are realistic.
- 6) Firm work plans are negotiated and monitored for major project components such as technical assistance, construction and procurement.
- 7) Technical assistance and research is grant-financed to the maximum extent possible.
- 8) GOG capabilities to prepare construction drawings, plans and specifications are properly assessed so timely technical assistance can be provided as and when needed.
- 9) Institutional responsibilities are clearly defined and intra- and inter-agency (GOG) coordination is well planned and mutually agreed to.
- 10) Project coordination systems are effective.
- 11) The status of AID and GOG project inputs are adequately tracked to ensure efficiency and effectiveness in their utilization toward achieving project objectives.

#### Recommendation No. 1

USAID/Guatemala include among the provisions of the Mission Order to be developed in response to Recommendation No. 1:

- (c) specific guidance for designers of future AID projects in order to avoid the design deficiencies enumerated above.

#### Adequacy of AID, GOG and Contractor Personnel

The implementation of many USAID/G projects has suffered because of insufficient or non-performing USAID, GOG and contractor staff. Examples of these staffing deficiencies were:

- The management of the marketing cooperative (CECOMERCA) established under the Small Farmer Marketing project was deficient because they did not demonstrate sufficient initiative and ability to implement the project. The management of the cooperative was terminated in early 1983 when USAID/G withdrew its financial support. It is now being liquidated (See Exhibit B, p. 11.)
- Technical assistance provided to CECOMERCA was not adequate under the same project. The contractor did not provide the required advisor to assist and to develop the export markets. The quality of assistance was low and it should have been replaced or modified early in the life of the project. (See Exhibit B, p. 11.)
- The services of the Chief of the Coordination Unit for the Small Farmers Diversification project were not adequate because he was not dynamic enough to effectively coordinate project activities. The USAID and the GOG decided to replace the Chief when his contract expires in December 1983. (See Exhibit B, p. 21.)
- The first GOG project manager under the Community-Based Health project did not do a good job partly because he did not spend full-time on the project. He was replaced in September 1983 after USAID/G intervened. (See Exhibit B, p. 18.)
- Nine GOG health technicians were trained under the Community-Based Health project at a cost of \$38,000 but then were not assigned to work as planned. Partly as a result of this, the construction component is behind schedule. (See Exhibit B, p. 18.)
- USAID's monitoring of five major loans suffered because of staffing reductions in the USAID's Office of Rural Development between June 1981 and September 1982. This lack of monitoring adversely affected project implementation. To correct the problem, USAID/Guatemala reassigned monitoring responsibility for three of these loans to the Office of Human Resources Development. In December 1983, the Office of Human Resources Development lost one U.S. direct-hire employee. To correct this problem, the USAID reassigned monitoring responsibility for two loans from the Office of Human Resources Development to the Project Development and Support Office in February 1984. (See Exhibit B, p. 11.)
- CORFINA hired a credit staff of only 8 persons versus 26 planned under the Rural Enterprise Development project. This was a major reason why CORFINA has been unable to extend credit as quickly as planned. This in turn led to a proposed redesign of the project that will channel most of the credit through the private sector banking system rather than through CORFINA. (See Exhibit B, p. 15.)

- The GOG Ministry of Education did not have sufficient staff to implement two AID loans at once. As a result, priority was given to completing the Rural Primary Education loan, thus delaying the initiation of procurement under the Primary School Reconstruction loan for six months. (See Exhibit B, pp. 1 and 9.)
  
- The services of a long-term technical advisor were never provided to CORFINA as planned under the Rural Enterprise project. Such technical assistance was needed to help develop an implementation plan, operating guidelines, inter-institutional coordination, etc. (See Exhibit B, p. 15.)

The above examples illustrate that the sufficiency or performance of AID, GOG and contractor staff are crucial to project success. Staffing problems were found to overshadow all other causes of poor project performance. USAID/Guatemala has had difficulty in obtaining replacements for GOG personnel because of local procedures and politics. For example, it took the USAID about nine months to have the GOG replace its first project manager under the Community-Based Health project. More forceful USAID actions may be required to obtain better results in the future.

The staffing of new GOG project positions is a time-consuming process because of cumbersome GOG procedures. GOG delays in staffing new positions necessarily delay project implementation. This has happened on all AID projects started since fiscal 1980 (Community-Based Health, Small Farmer Diversification and Non-Formal Education) as well as some of the older projects. The GOG staffing process can take from 9 to 18 months. First, the new positions have to be included in the annual budget which takes about six months (this action cannot be started until the initial conditions precedent to the loan have been satisfied). Then, other personnel actions have to be taken which can add 3 to 12 months to the process before the employees are hired.

To help accelerate the GOG staffing process, USAID/Guatemala has agreed to finance new hires on some projects for up to three years until the GOG is able to establish and fund the new positions. This saves time because it simplifies procedures for hiring new personnel. Even though this device was used for some of the new positions in the Community-Based Health project, it has nevertheless been plagued with GOG staffing problems and after three years of project operation, the GOG claimed it still required some additional AID-financed staff. (See Exhibit P, p. 18).

Another option recently used by USAID/G to accelerate the staffing of positions has seen inclusion of GOG personnel actions among the conditions precedent to loan disbursements. This was done for some existing positions under the Non-Formal Education project; however, the GOG still required six months longer than planned to staff the positions. The loan was signed in August 1982, and the positions were filled in September 1983. Nevertheless, we believe this option has merit when compared with the staffing record under the Small Farmer Diversification project where personnel actions were not included among the

conditions precedent. Under this project, 27 of 80 GOG-funded positions remained unfilled for more than two years after the loan was signed. Most of these positions were filled by January 1984. (See Exhibit B, p. 21.)

### Conclusion

The implementation of many USAID/G projects has been delayed because of inadequate USAID, GOG and contractor staffing. The sufficiency and performance of project staffing should be given high priority by the USAID during its regular project review meetings so that staffing deficiencies can be promptly identified and corrected. In addition, staffing problems should be reported in the quarterly project status report prepared by USAID/G project managers. (This matter is dealt with in report Recommendation No. 3.)

### Implementation Plans

The formulation of implementation plans should be an integral part of the project design process. Furthermore, overall project implementation plans should be supplemented by work schedules for such major project components as technical assistance, construction and procurement.

Delays in preparing and revising implementation plans led to delays and lack of coordination in the implementation of many AID projects in Guatemala. In turn, those delays have raised costs and limited the services and benefits AID projects were designed to provide.

USAID/G's implementation planning process consists of two phases. The first phase is the preparation of plans during project design. The second phase is the preparation of final plans after the loan is signed to satisfy the conditions precedent to the loan agreement. Sometimes this planning process is extended into a third phase because the plans prepared to satisfy the conditions precedent are discovered to be unsatisfactory. Thus, the plans must be revised and renegotiated for a third time. This happened under the Small Farmer Diversification project. (See Exhibit B, p. 21.) As discussed earlier in this report, better planning is needed during the design phase to minimize the time required to revise and renegotiate the plans after loans are signed. USAID/G should not approve plans submitted to satisfy the conditions precedent unless they are satisfactory. This will avoid further delays required to revise and renegotiate plans yet again.

### Adequacy of Plans

We found numerous deficiencies in the implementation plans that have delayed project implementation. Examples of these deficiencies are summarized below:

Assignment of Responsibilities -- Many of the plans prepared by the GOG were too general to serve as a useful guide for project implementation and to measure results. Responsibilities for implementing the plan should be clearly defined to avoid project delays. Examples were:

- Institutional responsibilities for doing farm management and nutritional surveys under the Small Farmer Diversification project were not well defined which delayed their start. The delay in the completion of these surveys has delayed the extension of production credits under the project because survey results were needed to determine where credit was needed. (See Exhibit B, p. 21.)
- Some of the project plans did not identify who was to act as the procurement agent - the GOG or USAID/G. For example, under the Small Farmer Diversification Project this responsibility was shifted between AID and the GOG, thus delaying the procurement of needed commodities. (See Exhibit B, p. 21.)

Specifications and Drawings -- Some of the plans did not include adequate commodity specifications or construction drawings because the GOG lacked the capability to do this. To avoid this type of problem, USAID/G needs to assess host country capabilities during project design and provide needed technical assistance to help the GOG prepare commodity specifications and construction drawings. Examples follow:

- The GOG did not adequately define commodity specifications under the Small Farmer Diversification Project. Only a medium tractor was ordered without indicating horsepower or other features. This has resulted in procurement delays because of the time wasted in trying to justify the commodities requested and to define the specifications. (See Exhibit B, p. 21.)
- The GOG lacked the expertise to prepare drawings for the construction of facilities under the New Lands Settlement component of the Small Farmer Development project. (See Exhibit B, p. 4.)
- The GOG lacked the expertise to prepare drawings and specifications for a greenhouse to be built under the Small Farmer Diversification project. The AID financed technical assistance team will prepare the drawings and specifications for the GOG. (See Exhibit B, p. 21.)

Time Estimates -- The time projected to complete implementing actions were very optimistic under several projects because the estimates did not adequately consider AID's past experience, local capabilities, and cumbersome GOG procedures. These problems need to be factored into project planning estimates so that objectives and timeframes required to complete implementing actions (staffing, contracting, etc.) become more realistic. The effects of inadequate planning (delayed delivery of services, increased costs, etc.) are illustrated in the following example of poor procurement planning:

- The plans for the Rural Electrification Project did not include realistic lead times to ensure that commodities (service meters and electrical cables) would arrive in-country when needed. Under this project, two major procurement actions were planned. The first major procurement action took 33 months. However, pitfalls encountered during this experience were not adequately considered in revising the plans for the second major procurement action. The revised plan estimated it would take 23 months to complete the second procurement action. However, the GOG now estimates that it will take 6 months longer to complete the second procurement. Because of the delay in the receipt of commodities under the second procurement, some construction has been stopped. To avoid problems like this, procurement lead times need to be realistic and past experience needs to be considered in establishing lead times. (See Exhibit B, p. 13.)

Supporting Plans -- Overall implementation schedules have not been generally supported by adequate plans for implementing the major project components such as contracting technical assistance, procuring commodities, constructing facilities, staffing new GOG project positions and training personnel. With its last two loans, USAID/G has taken action to improve its implementation planning process. Now USAID/G requires detailed plans for major components such as procurement, construction, and technical assistance along with an overall implementation plan as a condition precedent to initial loan disbursements.

To help ensure that better implementation plans are adequately prepared in the future, we believe that USAID/Guatemala should develop guidance for the preparation of GOG project implementation plans. Such guidance should provide the type of information in the plans together with standard formats for time-phased implementation schedules covering project inputs and outputs.

#### Revision of Plans

We also found that implementation plans are not updated periodically unless the project is restructured or reprogrammed. Revised plans are needed annually to ensure that activities are well-coordinated and to verify that GOG budgets contain sufficient funds to finance project activities.

USAID/G has recently recognized the value of revising plans annually and has required the GOG to do this in one of its last two loan agreements. The USAID/G has also recognized the value of reviewing draft GOG budgets to ensure that they contain sufficient loan and counterpart funds to finance project activities. USAID/G requires its project managers to do this but mistakes are still made partly because the reviews are not based on revised plans. For example, the GOG 1984 budget for the Community-Based Health project did not include enough loan funding for the renovation/construction of health centers. The GOG wants to build the centers in 1984 but will not be able to until its budget is revised and approved -- a process that can take three to six months. (See Exhibit B, p. 18.)

## Conclusion

Delays in preparing and revising implementation plans have led to delays and lack of coordination in the implementation of many AID projects in Guatemala. In turn, those delays have raised costs and limited the services and benefits AID projects were designed to provide.

To prepare better implementation plans, USAID/Guatemala should develop guidance to assist the GOG's planning process. Also, to keep plans current, USAID/Guatemala should require the GOG to revise plans annually.

### Recommendation No. 2

USAID/Guatemala develop:

- (a) guidance for the GOG on the preparation of implementation plans in order to standardize the type of information and schedules to be included in such plans;
- (b) procedures to revise implementation plans for all projects annually prior to the preparation of GOG budgets.

## Monitoring Project Implementation

USAID/G's monitoring of project implementation needs to be strengthened so factors adversely affecting project performance can be promptly identified and corrected. We examined two principal techniques used by USAID/Guatemala to identify and correct project problems: the project evaluation program and the Quarterly Progress Report.

### The Evaluation Program

USAID/G performed planned mid-term evaluations for only three of eight projects started between fiscal years 1975 and 1980. In addition, a partial evaluation was done of another project to assist in project redesign. Timely evaluations are needed for all projects to promptly identify and correct major design and implementation problems. This deficiency has since been corrected. We reviewed the USAID's evaluation revised plan for FY 1985 and found it to be adequate.

### USAID Quarterly Progress Report

USAID/G prepares a Quarterly Progress Report to monitor project implementation. The report consists of separate status reports for each project prepared by the project manager. The USAID Director meets quarterly with the project committee (all Mission personnel concerned with a project) to review

the reports and decide on corrective actions. In addition to these quarterly meetings, the USAID Deputy Director meets every three weeks with project committees to review project status. The report provides a good analysis of the status of project outputs compared with planning estimates; describes progress achieved during the quarter and plans for the next quarter; and provides other useful information on the project.

However, the report does not generally compare the status of major inputs compared to implementation plans in areas such as commodity procurement, technical assistance, contracting, construction programs, commodity distribution, and GOG and contractor staffing. The effective management of these major inputs is crucial to achieving project outputs as planned. For example, in several instances project implementation has been delayed because:

- GOG staffing was neither sufficient nor in accordance with plans for many projects (page 8).
- GOG staffing of the construction program was not in accordance with plans under the Community-Based Health project (page 17).
- Commodities were not distributed as planned under three completed education loans (page 16).
- Commodities were not procured as planned under the Small Farmer Diversification project (page 17).
- Facilities were not constructed as planned under the Community-Based Health and Small Farmer Diversification projects (page 18).

### Conclusion

Reporting the status of major project inputs would help to identify problems such as those mentioned above needing top management attention. Although USAID/Guatemala stated that the status of project inputs is included in the periodic portfolio reviews, they agreed that it would be beneficial to sharpen their focus on this aspect of project implementation.

### Recommendation No. 3

USAID/Guatemala revise the format of its Quarterly Progress Report in order to assess the status of the major inputs during the life of the project in comparison with plans.

## PROJECT-SPECIFIC PROBLEMS

### Unused Commodities (AID Loans 520-L-015, 520-V-025 and 520-V-029)

The Ministry of Education has not distributed about \$1 million in educational materials financed under three completed AID loans because it lacked funds to pay for their distribution. These commodities should be distributed to the schools as soon as possible so the teachers and students can benefit from them.

In January 1984, we inspected the Ministry's warehouse in Guatemala City. The warehouse contained \$1,063,929 of undistributed commodities financed under three completed AID loans as follows:

<u>Loan Number</u>	<u>Loan Completion Date</u>	<u>Value Undistributed Commodities</u>
520-L-015	12/76	\$34,700
520-V-025	10/82	58,538
520-V-029	12/83	970,691
		<u>\$1,063,929</u>

The commodities consisted of educational materials such as textbooks, teacher's guides, typewriters, sewing machines, sports equipment and kitchen utensils.

USAID/G was aware that the commodities financed under AID Loan 520-V-029 were in the warehouse because most of them had been purchased in the last quarter of 1983. However, the USAID was not aware that commodities financed under the two older loans (520-L-015 and 520-V-025) were still in the warehouse because procedures had not been established to verify that commodities were distributed as planned under these projects. To help avoid problems like this, we have recommended that the USAID's Quarterly Progress Report should be revised to report on the status of such commodities (page 15).

USAID/G and the Ministry have taken steps to correct this problem. They have prepared a plan to distribute the commodities under the three completed projects. The plan calls for financing the distribution of the commodities with funds from another AID project.

#### Recommendation No. 4

USAID/Guatemala obtain evidence from the Ministry of Education that commodities have been distributed as planned under AID loans 520-L-015, 520-V-025 and 520-V-029.

### Staffing of Construction Program (AID Loan No. 520-V-033)

The construction of 114 water systems under the Community-Based Health project has suffered in part because insufficient GOG personnel were assigned to manage the program. Only nine of 114 planned water systems were completed as of September 30, 1983 even though almost two-thirds of the project life had elapsed. As a result, fewer residents have benefited from improved water supplies than planned.

The construction program is planned and supervised by three area engineers under the supervision of one regional engineer. Nine Ministry of Health technicians were trained to work in the construction program at a cost to the project of \$38,000. However, the health technicians were never assigned to work with area engineers on a full-time basis as planned because the area chiefs (doctors) did not want to transfer the technicians from their regular duties to the construction program. The Ministry contracted four persons to work with the engineer in one of the area offices but no personnel were hired to replace the health technicians in the other two offices.

### Conclusion

Construction has been delayed under the Community-Based Health Systems project partly because not enough personnel were assigned to assist with this phase of the project, even though a number of health technicians had been trained for this purpose. To ensure that GOG staffing of the construction program is sufficient to accelerate the progress of construction, the staffing of the area offices should be increased by either contracting new personnel or assigning the health technicians to assist the area engineers as planned.

### Recommendation No. 5

USAID/Guatemala obtain evidence from the Ministry of Health that sufficient personnel have been assigned or contracted for the construction program under AID Loan 520-V-033.

### Procurement Plan (AID Loan 520-T-034)

The GOG did not prepare an adequate plan for the procurement of \$678,000 in commodities to be financed under the Small Farmer Diversification project. This has contributed to procurement and project implementation delays, increased costs and delayed delivery of benefits under the project.

The project started in September 1981 and, according to the implementation plan in the project paper, the procurement of commodities was to have been completed by June 1983. As of January 25, 1984, some office equipment and one vehicle had been received for the coordinator's office; other vehicles had been ordered and quotations were received for motorbikes. However, commodity specifications for agricultural machinery and equipment, laboratory equipment, veterinary equipment and audio-visual equipment have not yet been determined.

The factors adversely affecting commodity procurement under the project have been:

- (1) An adequate procurement plan was not prepared under the project paper (1981) or the project implementation plan (1982). The plans that were prepared did not provide a detailed list of commodities and specifications nor did they clearly identify who would be responsible for procuring the commodities or how the equipment would be maintained.
- (2) In early 1983 it was informally agreed between the USAID and GOG that USAID/G would be responsible for procuring all commodities. In late 1983, this agreement was revised to allow the GOG to procure office furniture and equipment.
- (3) The GOG did not submit to the USAID a detailed list of commodities to be procured under the project until early 1983. However, the USAID and the GOG have not yet agreed on the specifications for many of these commodities since the GOG has not adequately justified its commodity needs.

### Conclusion

To accelerate the procurement of commodities under this project, we believe the GOG should prepare an adequate commodity procurement plan for the balance of the commodities to be bought under the project. The USAID should provide any technical assistance that might be required by the GOG to develop commodity specifications.

### Recommendation No. 6

USAID/Guatemala obtain from the GOG a satisfactory commodity procurement plan under the Small Farmer Diversification project.

(To help avoid the development of inadequate implementation plans in the future, we have recommended earlier in this report that USAID/Guatemala prepare implementation planning guidance for the GOG.)

### Construction Programs (AID Loans 520-T-034 and 520-U-033)

Construction programs for two projects (Small Farmer Diversification and Community-Based Health) have not been completed as planned because the ministries involved did not prepare detailed construction programs and they lacked sufficient staff during the early stages of project start-up. To correct this problem, construction time frames need to be revised and detailed construction programs should be prepared. Further delays in the construction of facilities will delay the benefits to be provided under the project.

AID Loan No. 520-T-034 (Small Farmer Diversification Project)

This loan was signed in September 1981 and according to project plans the following four facilities were to be built under the project and completed between December 1982 and December 1983:

- (1) Fruit Research Station Buildings (December 1983)
- (2) Laboratory (March 1983)
- (3) Greenhouse (June 1983)
- (4) Training Center (December 1982)

The status of the construction program in December 1983 was:

- (1) Plans and specifications have not been prepared for any of the facilities except the laboratory;
- (2) Land had not been obtained for the research buildings;
- (3) The Ministry lacked expertise to prepare drawings and specifications for the greenhouse (the AID-financed contractor has now agreed to prepare these plans); and
- (4) Ministry officials have not agreed yet whether they need more training facilities.

AID Loan No. 520-U-033 (Community-Based Health Project)

This loan was signed in September 1980. Project plans called for the construction of 13 new health centers and the renovation of 44 others. The construction/renovation of these 57 health centers was to be completed by March 1982.

The status of this construction program as of December 1983 was:

- 1) Final plans and specifications for the construction and renovation of the health centers have not been prepared;
- 2) The Ministry has not yet decided on the number or location of centers to be constructed/renovated (GOG engineers only surveyed sites for the centers in 1983).

## Conclusion

The original schedules for the construction of facilities need revision because they are no longer current. To facilitate the implementation of the construction programs under these two projects, the affected ministries should prepare detailed construction programs satisfactory to USAID/Guatemala. These programs should include:

- facilities to be constructed/renovated;
- location of the facilities;
- organizations responsible for drawing up the plans and specifications, the construction, and construction supervision; and
- a time-phased schedule showing the starting and completion dates of the various actions required to build the facilities.

### Recommendation No. 7

USAID/Guatemala obtain from the GOG ministries involved satisfactory construction programs for the construction of facilities under AID loans 520-T-034 and 520-U-033.

(To help avoid the development of inadequate implementation plans in the future, we have recommended on page 11 of this report that USAID/Guatemala prepare implementation planning guidance for the GOG.)

### Disbursement System (AID Loan 520-U-033)

USAID/Guatemala has financed project activities for the Ministry of Health under the Community-Based Health project on the basis of advances. Although this arrangement was entered into to help expedite project activities, just the opposite has occurred.

Mainly because of cumbersome procedures, the Ministry was unable to promptly liquidate the AID advances. USAID/Guatemala made six advances totaling \$841,834 under the project. An average of five months were needed to liquidate advances. Furthermore, an advance made on May 3, 1983 had not been fully liquidated as of January 12, 1984. The USAID generally does not approve new advances until previous ones have been liquidated. For this reason and because of protracted Health Ministry procedures in preparing vouchers to liquidate advances, a hiatus occurred between the time previous advances are expended and subsequent advances are received. During such periods, the Ministry did not have sufficient funds to finance the continuation of project activities such as the procurement of construction commodities. As a result, project implementation has lagged due to frequent funding lapses.

## Conclusion

To correct this problem, the project should be handled on a reimbursement basis as are other USAID/G projects. Under that system, the GOG provides the funds from its own budget to finance project activities and then obtains reimbursement from AID. Thus, the financing of project activities would not be impeded by GOG delays in preparing the AID vouchers. To avoid problems like this in the future, a more careful assessment of disbursement systems should be made during project design. USAID/G representatives indicated their agreement with the following:

### Recommendation No. 8

USAID/Guatemala fund the Community-Based Health project on a reimbursable basis.

FINANCIAL STATUS  
USAID/GUATEMALA  
LOAN/GRANT PROJECTS  
FISCAL YEARS 1975 - 1982  
As of September 30, 1983  
(\$000)

Project Title	Loan No.	Project No.	Start	Finish	Obligations			Expenditures <sup>1/</sup>			Project Cost		
					Total	Loan	Grant	Total	Loan	Grant	Total	AID	COG
1) Rural Primary Education <sup>2/</sup>	520-V-025	520-0229	11/3/75	10/31/82	\$7000	\$7000	\$ -	\$6998	\$6998	\$ -	\$12700	\$7000	\$5700
2) Small Farmer Develop. <sup>2/</sup>	520-T-026	520-0233	04/08/76	04/08/83	14775	13000	1775	14775	13000	1775	25275	14875	10400
3) Municf. Earthquake Rec. <sup>2/</sup>	520-U-027	520-0236	09/20/76	07/20/83	8000	8000	-	7993	7993	-	11500	8000	3500
4) Primary School Reconstr.	520-V-029	520-0242	09/14/77	12/31/83	5200	5200	-	2700	2700	-	8000	5200	2800
5) Small Farmer Marketing	520-T-030	520-0238	05/18/78	05/18/84	4200	3400	800	1207	421	786	7150	4200	2950
6) Rural Electrification	520-T-031	520-0248	05/21/79	05/21/84	8600	8600	-	2664	2664	-	15000	8600	6400
7) Rural Enterprises Dev.	520-T-032	520-0245	07/13/79	07/13/84	6850	6000	850	1490	1175	315	11840	7170	4670
8) Community Based Health	520-U-033	520-0251	09/19/80	09/19/85	5774	5000	774	1039	770	269	12719	5800	6919
9) Sm. Farmer Diversific.	520-T-034	520-0255	09/24/81	03/31/87	7196	5500	1696	80	-	80	14800	8100	6700
10) Non-Formal Education	520-V-035	520-0281	08/31/82	08/31/87	3433	3000	433	-	-	-	8576	3360	4716
			TOTAL		\$71028	\$64700	\$6328	\$38946	\$35721	\$3225	\$127560	\$72805	\$54755

<sup>1/</sup> USAID/Guatemala's accrued expenditures by fiscal year from 1977 to 1983 were as follows (\$000):

Fiscal Year	Total	Loan	Grant
1977	\$11,911	\$3,420	\$8,491
1978	5,089	498	4,591
1979	6,117	3,684	2,433
1980	6,143	3,762	2,381
1981	9,256	6,453	2,803
1982	15,589	13,053	2,536
1983	22,196 <sup>3/</sup>	18,000 <sup>3/</sup>	4,196

<sup>2/</sup> Completed at the time of our review.

<sup>3/</sup> Includes a \$10 million cash transfer of Economic Support Funds.

ANALYSIS OF USAID/GUATEMALA  
LOAN PORTFOLIO COMPONENTS

RURAL PRIMARY EDUCATION

Background

The Rural Primary Education Project (520-0229) was financed by AID Loan No. 520-V-025 dated November 3, 1975 for \$7 million. The total estimated cost of the project including the GOG contribution was \$12,700,000. The project was scheduled to end on December 31, 1979.

The purpose of the project was to assist the Ministry of Education to provide more relevant and efficient rural primary education through the introduction of improved curricula and teaching methodologies, and the construction and equipping of schools. The project was divided into qualitative and quantitative components. The qualitative component provided for:

- 1) training 3,300 teachers, 65 teacher-trainers, 450 teacher specialists, 150 supervisors, 700 bilingual promoters, and 150 school directors,
- 2) development and production of 1,640,000 textbooks, 41,000 teachers' guides, and 45,000 bilingual texts, and
- 3) purchase of school equipment, teaching materials and vehicles, and
- 4) seven studies in research, development and evaluation.

The quantitative component provided for the construction of 299 schools.

Progress

Some of the objectives of this project were not achieved as planned. Also, it took 34 months longer than expected to finish the project. The original completion date was December 31, 1979 but it was extended to October 31, 1982 for a variety of reasons, as discussed below.

Only 97 schools were constructed versus 299 planned because of a dramatic increase in construction costs caused by a surge in demand for services and materials during the post-1976 earthquake reconstruction period. We believe that the delays in project implementation further reduced the number of schools built because of inflation.

EXHIBIT B  
(B-2)

The qualitative component of the project was more successful than the construction component:

	<u>TARGET</u>	<u>ACTUAL</u>
<u>Training</u>		
Teachers	3,300	988
Teacher-trainers	65	59
Supervisors	150	58
Directors	150	52
Bilingual Promoters	700	691
Teacher specialists	450	103
School Supervisors	-	58
Evaluation Seminar of Project 025 (participants)	-	510

Publications

Textbooks	1,640,000	1,479,299
Teachers' Guides	41,000	54,616
Bilingual Texts	45,000	20,590

Some of the training objectives were not reached since training requirements proved less than planned as fewer schools were built.

The principal factors that delayed the implementation of this project were:

- In February 1976, three months after the Loan Agreement was signed, Guatemala was struck by a major earthquake. Because of the earthquake-related matters, GOG congressional ratification of the loan was delayed. As a result, the initial conditions precedent to the loan were not satisfied until January 14, 1977 -- ten months longer than planned.
- The construction sites and requirements developed during project design were invalidated by the earthquake. Thus, it was necessary to revisit the original sites as well as new ones to revise the school construction program. AID approved the revised construction program in August 1978.
- National elections of 1978 disrupted project implementation because of a complete turnover in GOG officials. The new administration, which took office in July 1978, did not approve the prequalification of

EXHIBIT B  
(B-3)

of construction contractors until April 1979, even though they had been tentatively approved by the previous administration. The resumption of activities under the qualitative component of the project was made more complex as most of the institutional memory was erased during the change in administrations.

- In an effort to offset the increase in construction costs caused by the earthquake, the engineering consultant was asked to analyze the standard school plans to reduce costs through design modifications. This lengthened the design phase considerably and the standard plans were not revised until July 1978.
- The GOG was reluctant to use loan funds to obtain needed technical assistance for the project. Also, the GOG wanted Guatemalan rather than U.S. advisors. After four years of negotiation between the USAID and the GOG, nine consultants were finally contracted in January 1981.
- After contracts had been let to construct the first 20 schools, the Ministry of Finance decided to transfer responsibility to construct the remaining schools to the Ministry of Education on a force account basis. This change in construction procedures saved an estimated \$600,000, thereby increasing the number of schools that could be built under the project.
- The printing of textbooks was delayed approximately five months in 1980 while the Ministry of Education developed a uniform textbook program for the country's primary schools.
- Security problems in rural areas contributed to delays in school construction.
- The rainy season in 1981 seriously damaged access roads to construction sites and delayed construction of schools in isolated areas.
- A change in government in March 1982 disrupted final implementation of project activities. Changes in GOG officials delayed the processing of the final budget transfers within the Ministry of Finance.
- About \$58,538 in educational materials financed under this project, which ended in October 1982, had not been distributed to the schools. We observed these commodities during an inspection of the warehouse of the Ministry of Education. In January 1984, USAID/Guatemala and the GOG prepared a plan to finance the distribution of the commodities.

SMALL FARMER DEVELOPMENT

Background

The Small Farmer Development Project (No. 520-0233) was financed by AID Loan No. 520-T-026 dated April 8, 1976 for \$13,000,000 and a grant dated June 29, 1978 for \$1,875,000. The total estimated cost of the project including the GOG contribution was \$25,275,000. The original completion date for the project was April 8, 1981, but this was extended two years to April 8, 1983.

The purpose of the project was to encourage the development of small farms in previously uncultivated areas. Loan funds were allocated to four components:

New Land Settlement	\$5,600,000
Access Roads	4,900,000
Land Resources Improvement	880,000
Human Resources Activity	1,620,000
Total	<u>\$13,000,000</u>

AID grant funds financed technical assistance for all components except for access roads.

The objectives of these components were:

- (1) Land Resources Improvement - This activity was to be carried out by the Ministry of Agriculture in the highlands. The objective was to construct, using labor intensive methods, small scale irrigation and soil conservation projects on 5,000 hectares.
- (2) New Lands Settlement - This activity was to be carried out by the National Agrarian Transportation Institute (INTA) with supporting services from other public and private sector agencies. The objective was to settle 5,000 farm families in northern Guatemala. Settlers were to be selected and organized under the auspices of existing cooperative federations. The project was to finance production credit, basic cooperative infrastructure and access roads for the new settlers.
- (3) Access Roads - This activity was to be carried out by the Ministry of Communications and Public Works. The objective was to build or upgrade 280 kilometers of rural access roads using labor intensive methods.
- (4) Human Resources Development - The objective of this activity was to strengthen a sector planning and coordination office within the Ministry of Agriculture and strengthen other public sector organizations to plan, and deliver improved technical assistance and services to small farmers.

After the completion of the original project on April 8, 1983, AID amended the Loan Agreement (520-T-026) on June 13, 1983 to provide an additional \$3,000,000 for rural access road construction. The estimated cost of this project addition including the GOG contribution was \$6,325,000. The estimated completion date is September 30, 1984.

As of September 30, 1983, no funds had been expended on the access road amendment for \$3,000,000.

### Progress

The original project was completed on April 8, 1983. Project results were mixed. Some of the objectives were not achieved, but in other cases more was achieved than planned. It took two years longer than planned to disburse the money under the project.

Progress under these four project components are analyzed below:

Land Resources Improvement - This component called for the construction of irrigation and conservation projects for up to 5,000 hectares. However, sub-projects were constructed to irrigate 856 hectares and improve soil conservation systems on only 670 hectares. The original objectives were not achieved because project plans assumed the systems would be built on relatively level terrain. However, irrigation and conservation systems were located on very steep terrain which greatly increased the construction cost of the systems and reduced the number of hectares covered.

New Lands Settlement - The accomplishments of this component fell far short of expectations. Only 1,800 families were settled in the project area versus 5,000 planned. Also, some of the infrastructure to be built under the project was not completed. The project financed the construction of 46.1 kilometers of roads versus 12 planned partly because funds for other infrastructure components (schools, health centers, etc.) were reprogrammed for the road with the understanding that the cognizant GOG agency, INTA, would finance the other facilities after project completion. The original project plans called for the construction of 25 schools, five health centers, five community centers and five airfields. The construction of ten schools was started with GOG funds but never completed because of poor contractor performance. INTA has not completed these schools, pending resolution of legal problems with the contractor. After the project was completed, INTA built four new schools in 1983 and started the construction of three other schools. Plans for 1984 call for completing the three schools started in 1983, constructing two health centers, six wells, and three more schools. Funds have been budgeted in 1984 to cover some of these activities but more money will have to be requested. The major problems encountered under this project were:

- Lack of adequate roads to the project area.
- Failure of participating GOG agencies to provide timely and adequate facilities and supporting services to settlers. This led to a temporary GOG freeze on new arrivals into the area.
- Difficult weather conditions and cumbersome GOG procedures. This delayed construction of needed facilities.
- Guerrilla activity in the project area. This disrupted project activities.
- Inadequate coordination of GOG agencies.
- Problems in getting GOG personnel to the project area because of inadequate infrastructure and supporting services.
- Inadequate performance of construction contractors.
- Lack of INTA capability to design and/or construct facilities and access roads. The feasibility study for access roads was not adequate and costs were underestimated. This delayed construction of needed infrastructure.
- An ineffective GOG disbursement system. This held up payments to implementing agencies. In March 1981, this problem was resolved when AID agreed to disburse funds directly to the implementing agencies rather than through the Agricultural Development Bank (BANDESA).
- The overall implementation of the project was delayed because it took the GOG nine months to satisfy the initial conditions precedent versus four months planned. Congressional ratification took longer than normal because priority was given to earthquake relief and recovery measures.

Access Roads - Accomplishments under this activity exceeded objectives - 325 kilometers of roads were built versus 280 kilometers planned. Because of the success of this activity and continued GOG needs, the USAID amended the loan agreement on June 13, 1983 to provide \$3,000,000 for the construction of an additional 145 kilometers of access roads.

Human Resources Development - This component helped to improve the GOG public sector capability by training 5,365 public sector employees. Also, a sample frame was developed which is used as a basis for doing sample surveys.

MUNICIPAL EARTHQUAKE RECOVERY PROGRAM

Background

The Municipal Earthquake Recovery Project (No. 520-0236) was financed by AID Loan No. 520-W-027, dated September 20, 1976 for \$8,000,000. The total estimated cost of the project including the GOG contribution was \$11,500,000. The estimated completion date for the project was extended 28 months from March 20, 1981 to July 20, 1983.

The purpose of the project was to restore and upgrade the capacity of 101 municipal governments affected by the earthquake of 1976 to provide the local infrastructure and services. The Institute of Municipal Government (INFOM) was responsible for the implementation of the project.

The project included four components as follows:

Municipal Reconstruction Fund - The project budgeted \$9.7 million to finance 205 construction projects for 101 municipalities to rebuild and improve infrastructure damaged by the earthquake such as markets, water, sewerage, etc.

Municipal Institutional Development - INFOM was to carry out a technical assistance and training program for municipal employees to strengthen the administration of local government.

INFOM Institutional Development - The project was to provide technical assistance and training to INFOM employees to strengthen the capacity of INFOM to perform its functions.

Municipal Enterprise Fund - The project was to fund a pilot program to test the feasibility of increasing municipal revenues through the creation of 48 small-scale municipal enterprises.

AID loan and GOG counterpart funds were to be used for construction of municipal infrastructure, technical assistance and other support costs.

Progress

Some of the original project objectives were not achieved and it took 28 months longer than planned to implement this project because of project design errors and weaknesses in GOG project management. Below is our analysis of progress and problems under each of the project components:

Municipal Reconstruction Fund - Only 94 of 205 infrastructure subprojects planned under this component were built due to errors in original cost estimates, high rates of inflation following the 1976 earthquake, and delays in project implementation. Project implementation has been delayed because:

EXHIBIT B

(B-8)

- INFOM assigned higher priority to completing other donor projects at the start of this project.
- It took INFOM eight months to meet the initial conditions precedent (versus four months planned) because of cumbersome GOG congressional approval procedures, and another eight months to satisfy other conditions precedent.
- Construction was delayed because INFOM implemented the subprojects using force account procedures, the local engineering consultant was not familiar with AID procedures, and INFOM's purchasing and subproject review and approval procedures were insufficient.

Municipal Institutional Development - The implementation of this component has been very successful. As of September 30, 1983, 940 municipal employees have been trained compared to 535 planned.

INFOM Institutional Development - This component has not progressed well because INFOM delayed preparing a training plan for its staff until 1981. The lack of an adequately trained staff has adversely affected the implementation of other project components.

Municipal Enterprise Fund - This component has not been implemented as planned. Only two municipal enterprises have been started versus 48 planned under the project. INFOM did complete three other projects financed with its own funds, however, INFOM established a section of four employees to handle this component but little progress was made because INFOM lacked experience in this area and because of personnel turnover. Also, many of the feasibility studies prepared for the projects by another government agency were not adequate.

PRIMARY SCHOOL RECONSTRUCTION

Background

The Primary School Reconstruction Project (520-0242) was financed by AID Loan No. 520-V-029, dated September 14, 1977 for \$5,200,000. The total estimated cost of the project including the GOG contribution was \$8 million. The project was to end on June 30, 1981 but the completion date was extended to December 31, 1983.

The purpose of the project was to assist the Ministry of Education and the Ministry of Communications and Public Works to finance the repair and replacement of schools damaged by the earthquake of February 1976 and to install, where possible, a new primary school curriculum and teaching methodology in coordination with similar activities financed under another AID loan (No. 520-V-025). The project consists of two components:

- (1) A quantitative component: repair or replacment of 105 schools, and
- (2) A qualitative component: personnel training, textbooks, teacher guides, equipment and supplies.

Progress

The objectives of this project were not achieved as planned. It took 30 months longer than planned to complete this project. The original completion date was June 31, 1981, but it was extended to December 31, 1983 for a variety of reasons. As can be seen below, all of the life-of-project targets have been largely achieved except for school reconstruction.

	<u>Target</u> <u>(Life of Project)</u>	<u>Actual</u> <u>(9/30/83)</u>
Schools Completed	105	31
Personnel Trained	416	436
Textbooks Printed	51,000	41,500
Teachers' Guides Printed	2,800	5,400

Only 56 schools are planned for construction under the project versus an original target of 105 schools because of inflation and delays in project implementation. USAID/Guatemala has approved the transfer of funds from the construction component to the qualitative component because there was not enough time left in the project to start the construction of more schools.

EXHIBIT B  
(B-10)

The principal factors that have interfered with the efficient implementation of this project were similar to those that delayed AID Loan 520-V-025.

- The GOG took 9 months longer than planned to satisfy the initial conditions precedent because of the time-consuming congressional loan ratification process and because of a change in the GOG administrations on July 1, 1978. The previous administration preferred not to appoint a Project Coordinator and Construction Manager to allow the new government to select its own personnel.
- The GOG preferred to focus on completing the Rural Primary Education Project (AID Loan 520-V-025, signed in 1975) before devoting much effort to this project since the two projects contained parallel qualitative and quantitative activities.
- In December 1982, the GOG created a new implementing unit to administer all school construction programs. Although this change will streamline the school construction process, in the long run certain procedural and managerial bottlenecks had to be resolved. Payments to contractors by this unit have been slow.
- The new implementing unit did not have the administrative capacity to devote full attention to both AID loans. As a result, initiation of procurement activities under this project was delayed six months because the unit devoted its full attention to completing procurement under AID Loan 520-V-025.
- Security conditions affected the construction of two schools.
- Poor performance by two contractors delayed construction.
- Delayed budget transfers from the Ministry of Finance held up a training seminar.
- The transfer and reprogramming of loan funds from the Ministry of Public Works to the Ministry of Education was delayed.
- Although the project was completed on December 31, 1983, \$970,691 of educational material mainly purchased in late 1983, had not been distributed when the project ended. In January 1984, the Ministry prepared a plan to finance the distribution of the commodities.

SMALL FARMER MARKETING SYSTEMS

Background

The Small Farmer Marketing Systems project (No. 520-0238) is financed by AID Loan No. 520-T-030, dated May 18, 1978 for \$3,400,000, and a grant dated June 30, 1978 for \$800,000, as amended. The total estimated cost of the project including the GOG contribution is \$7,150,000. The estimated completion date for the project is May 18, 1984.

The purpose of the project is to establish a Central Agricultural Marketing Cooperative (CECOMERCA) directed towards increasing the incomes of small farmers producing temperate climate fruits and vegetables. The marketing cooperative was to be owned and controlled by local cooperative federations (FECOAR and FENACOAC) and their member cooperatives. The marketing cooperative was to operate three buying stations. Fruits and vegetables were to be purchased directly from farmers or groups of farmers. The marketing cooperative was to establish its operations center in Guatemala City where it would have sold produce to retailers and other wholesalers.

AID loan funds were to be used for the construction and equipping of marketing facilities and for the working capital of the marketing cooperative. Grant funds were to be used for technical assistance and organization costs of the marketing cooperative. The GOG was to finance land acquisition and working capital for the marketing cooperative and production credit to small farmers through the National Agricultural Development Bank (BANDESA).

Progress

The purpose of the project -- to create a marketing cooperative -- has not been achieved. A marketing cooperative (CECOMERCA) was established under the project. Since it could not operate profitably, AID support was withdrawn and its operations were terminated in January 1983. The USAID and GOG are considering the proposal, to finance agro-industrial enterprises to use uncommitted project funds. As of September 30, 1983, \$786,000 of the \$800,000 AID grant and \$420,000 of the \$3,400,000 AID loan had been expended.

The principal problems that led to the failure of the marketing cooperative were:

- CECOMERCA's export sales were adversely affected by the deteriorating economic and political situation in other Central American countries.
- Internal security problems in Guatemala affected the main production area and probably contributed to a reduced flow of fresh produce.

31

EXHIBIT B  
(B-12)

- Production credit was not provided to farmers under the project because loan rates established under the project did not motivate the banks and cooperatives to make loans.
- Technical assistance provided to CECOMERCA was not adequate. The quality of the assistance was deficient and should have been replaced or altered early in the life of the project. Also, the amount of assistance provided was less than planned because grant funds intended for technical assistance were used to cover shortfalls in CECOMERCA's operating costs.
- USAID/Guatemala staff could not provide the intensive supervision required for this project because their staffing levels had been reduced (FENACOAC complained to us that frequent changes in USAID/Guatemala personnel led to poor communications with AID and contributed to the failure of the project).
- CECOMERCA management was weak and did not show initiative and ability to implement the project.
- The cooperative federations (FECOAR and FENACOAC) and their members did not provide adequate support to CECOMERCA. According to the project paper, 10,000 small farmers were to have purchased and paid for shares worth \$100,000 in CECOMERCA during the first three years. However, only 20 farmers had paid for their shares in CECOMERCA as of June 30, 1983. The federations did not adequately support CECOMERCA because they gave higher priority to their own operations. The farmers did not support CECOMERCA because the project design did not give the farmers a feeling that they were a part of the project. CECOMERCA was the creation of two federations and, as such, several management levels removed from the farmers. Also, the farmers were not given the opportunity to participate in the management of the cooperative through a general assembly.
- The project got off to a slow start because it took much longer than planned to satisfy the initial conditions precedent to the first disbursement. These conditions required among other things, the formation of the marketing cooperative, contributions of capital to the cooperative, and interagency financing agreements. These conditions were not satisfied until September 6, 1979, or 16 months after the loan was signed versus the four months planned.

RURAL ELECTRIFICATION

Background

The Rural Electrification Project (520-0248) is financed by AID Loan No. 520-T-031, dated May 21, 1979, for \$8,600,000. The total estimated cost of the project including the GOG contribution is \$15,000,000. The estimated completion date is December 31, 1985.

The purpose of the project is to increase the number of electric connections in low income rural areas and to improve the National Institute of Electrification's (INDE) capacity for continuing the extension of local power services to those rural areas. The project will finance:

- the construction of 150 kilometers of 69KV sub-transmission lines, 591 kilometers of primary distribution lines, 489 kilometers of secondary lines, and one substation;
- service drops, meters, and customer owned house wiring for 70,000 new users; and
- technical assistance, training, maintenance equipment, and vehicles for INDE to strengthen its administrative and service capability for new customers.

Progress

With eight months remaining in the project life as of September 30, 1983, only \$2,664,000 had been expended under the \$8,600,000 AID loan. Progress has been slow mainly because of weaknesses in GOG project management. In turn, this has increased the cost of the project because of inflation and because INDE, through its normal expansion program, has already served many villages proposed in the original project design. As a result, more costly isolated villages had to be substituted during project reprogramming. On September 30, 1983, USAID and the GOG amended the loan agreement to extend the project to December 31, 1985, to increase project funding by \$7.9 million (\$2 million from AID) so 70,000 new customers can be reached as originally planned. The cost of the project increased because of inflation. Also, the more isolated villages (with higher construction cost) had to be substituted for many of the less isolated originally included in the project because INDE electrified many of the less isolated villages through its normal expansion program before construction started under the project.

As can be seen below, project accomplishments as of September 30, 1983 have been considerably less than planned:

35

EXHIBIT B  
(B-14)

	<u>Planned</u> <u>(Life of Project)</u>	<u>Actual</u> <u>(As of 9/30/83)</u>
Transmission Lines (kilometers)	150	34
Sub-transmission Lines (kilometers)	591	52
Distribution Networks (kilometers)	489	169
Service & Drop Meters Installed	70,000	6,251
House Wiring Installed	70,000	6,251
Substation Constructed	1	0
INDE Personnel Trained	14	1

Some causes of poor project performance are related below:

- The fulfillment of the initial conditions precedent to the loan agreement was delayed by eight months because of GOG congressional delays in ratifying the AID loan agreement and elections in 1978.
- INDE did not contract for technical assistance, commodities and vehicles on a timely basis. The lack of commodities and vehicles has held up construction activities under the project.
- INDE lent \$357,067 in electrical materials purchased for the AID project to other projects. INDE stated they would purchase new materials with their own funds to replace those taken from the AID project. A lack of materials has held up construction under the AID project.
- INDE gave higher priority to its larger electrical generation projects.

2/10

RURAL ENTERPRISES DEVELOPMENT

Background

The Rural Enterprises Development project (No. 520-0245) is financed by AID Loan No. 520-T-032, dated July 13, 1979 for \$6,000,000, and a grant dated September 10, 1979 for \$1,170,000. As of September 30, 1983, \$850,000 has been obligated under the grant. The total estimated cost of the project including the GOG contribution is \$11,840,000. The estimated completion date of the project is July 13, 1984 for the loan and September 10, 1984 for the grant.

The purpose of the project is to develop and expand small rural industry and artisan enterprises in the highlands by improving the access of such firms to credit, appropriate technologies, and technical assistance. The project will establish a \$7.4 million credit fund within the National Finance Corporation (CORFINA) for making small loans to 5,500 enterprises. The credit fund will be complemented by a small enterprise extension system to provide training and technical assistance to small scale entrepreneurs and artisans. The project will also finance the research and development of appropriate technologies for small enterprises to be implemented by the National Economic Planning Council (SGNEPC). The project will also finance a pilot artisan export program to be carried out by the National Center for Export Promotion.

AID loan funds are to be used to finance the credit and appropriate technology programs. Grant funds are to be used to finance technical assistance costs in support of all project elements. The GOG is to provide \$3.2 million to capitalize the loan fund.

Progress

The implementation of this project has been seriously delayed mainly because of design deficiencies and poor management. With only about one year remaining in the life of the five-year project, only \$1,490,000 has been expended under the AID loan and grant as of September 30, 1983 compared to \$6,850,000 obligated. USAID/Guatemala is in the process of redesigning the project to accelerate the rate of implementation. Below is our analysis of the progress and problems of the four main components of the project:

Credit

As of September 30, 1983, CORFINA has granted loans to only 765 small enterprises for \$1,546,000 compared to the end-of-project target of loans to 5,500 enterprises for \$7,400,000. In addition, loan delinquencies are reported to be about 11 percent of the outstanding portfolio which could threaten the financial viability of the program.

The credit program has not progressed because of inadequate staffing. Project plans called for CORFINA to establish a regional office to manage the program

and hire 26 credit personnel. CORFINA only hired eight such employees of which five were AID-financed.

Also noted were

- lack of effective program promotion
- insufficient technical assistance to beneficiaries
- cumbersome loan processing procedures
- inadequate collection procedures
- lack of field staff to service credit demand
- working capital loans limitations
- security conditions
- a long-term advisor was not provided to CORFINA as planned.

To accelerate implementation of the credit component, USAID/Guatemala is proposing to broaden the scope of the project to include medium as well as small rural enterprises among loan recipients. Also, USAID/Guatemala is proposing to move most of loan funds through the private sector banking system. Under the new program, interest rates are to be increased to market rates and the Bank of Guatemala will discount loans made by intermediate credit institutions.

#### Technical Assistance to Small Scale Entrepreneurs and Artisans

INTECAP has not provided adequate technical assistance to the project. As of September 30, 1983, INTECAP has only trained 400 borrowers versus 3,500 planned over the life of the project, and 10 credit agents of CORFINA versus 30 planned. In addition, INTECAP has only given 35 credit education courses versus 100 planned. INTECAP has not provided sufficient technical assistance to help delinquent borrowers or to help prospective credit recipients prepare feasibility studies. A recent evaluation of the project disclosed that the courses given by INTECAP to prospective borrowers have not been cost-effective or relevant to their needs. Moreover, coordination between CORFINA and INTECAP was not effective, which adversely affected the provision of INTECAP assistance.

The USAID has proposed redesigning the technical assistance component of the project to include the services of private consultants as well as INTECAP and to provide services through INTECAP that are more relevant and cost-effective.

#### Appropriate Technology

This activity has moved very slowly because of GOG reluctance to use loan funds to finance experimental research and development activities. Also, the GOG entity in charge of this component (the National Economic Planning Council) lacked experience in this area. Accordingly, the USAID is proposing a large reduction in loan funding for this activity from \$1,700,000 to \$40,000,

slightly decreased grant funding from \$500,000 to \$463,600, and the reassignment of the component to another GOG agency with more experience. Most of the loan funds originally intended for this activity are being reprogrammed to the credit component.

Artisan Export Program

This component has not progressed adequately because GUATEXPRO did not have the experience and the authority to carry out a pilot export production and marketing program of artisan products. USAID/Guatemala is proposing to transfer this component to CORFINA's artisan park because of that facility's experience in dealing with artisans.

Satisfaction of Initial Conditions Precedent

The implementation of all project components has been delayed because it took the GOG thirteen months to satisfy the initial conditions precedent versus the four months planned. This was due mainly to the lengthy and cumbersome process required for the GOG congress to ratify the loan agreement.

COMMUNITY-BASED INTEGRATED HEALTH AND NUTRITION SYSTEMS

Background

The Community-Based Integrated Health and Nutrition Systems Project (520-0251) is financed by AID Loan No. 520-U-033, dated September 19, 1980, for \$5 million and a grant dated September 30, 1980 for \$800,000. As of September 30, 1983, \$774,000 has been obligated under the grant. The total estimated cost of the project including GOG contribution is \$12,719,000. Completion of the loan project is scheduled for September 1985.

The purpose of the project is to develop the institutional capacity of the Ministry of Health (MOH) to implement an integrated environmental sanitation program, a primary health care program, and the necessary support systems in small communities in the departments of San Marcos, Totonicapan and Solola. The objectives of the three loan components are as follows:

Environmental Sanitation - The objectives of this component are to construct 114 water systems, 7,000 latrines, and 1,400 home improvement subprojects. These construction activities will be accompanied by a health education outreach program focused on health problems associated with poor sanitation. AID grant funds are to finance a study to set up a system of partial recuperation of the direct investment in sanitation projects financed by the loan.

Primary Health Care Services - This component provides for the construction of 13 new health posts; the equipping of 123 health posts; the renovation of 44 health posts; the training of 1,500 rural health promoters, 950 midwives, 75 rural health technicians, and 95 auxiliary nurses; and the retraining of 600 rural health promoters.

Support Systems - The project will finance the renovation of a regional supply warehouse, equipment, and technical assistance to improve the MOH's maintenance, logistics, and information systems.

Progress

This project is being implemented more slowly than planned and will probably have to be reprogrammed and extended like most of the other USAID/Guatemala loans. Although almost two-thirds of the project life had elapsed as of September 30, 1983, far less than two-thirds of the output targets had been achieved except in the area of training:

EXHIBIT B  
(B-19)

	<u>Target</u> <u>(Life of Project)</u>	<u>Achieved</u> <u>(9/30/83)</u>
<u>Loan/Grant Expenditures</u>		
Loan	\$5,000,000	\$770,000
Grant	800,000	269,000
	<u>\$5,800,000</u>	<u>\$1,039,000</u>
<u>Sanitation</u>		
Water Systems	114	17
Latrines	7,000	782
Housing Improvements	1,500	0
<u>Primary Health Care</u>		
Rural Health Promoters Trained	1,500	640
Rural Health Promoters Retrained	600	0
Midwives Trained	950	610
Rural Health Technicians Trained	75	48
Auxiliary Nurses Trained	95	60
Health Posts Constructed	13	0
Health Posts Renovated	44	0
Health Posts Equipped	123	10
<u>Support</u>		
Regional Service Center Renovated	1	0
Information System Improved	1	0
Maintenance Systems Improved	1	0
Supply Systems Improved	1	1

Project implementation has been delayed because:

- The GOG took nine months to satisfy the initial conditions precedent to the loan instead of four months planned because of the time-consuming congressional ratification process.
- Cumbersome GOG contract approval procedures delayed the training of water technicians and the hiring of project personnel.
- The program director and deputy director were replaced after a change in government in March 1982. These new GOG personnel have less experience in dealing with the bureaucracy than their predecessors.
- A flood disaster in September 1982 interrupted the focus of GOG personnel on the project by diverting their attention to emergency relief measures.

41

Also observed as obstacles to speedy implementation were:

- Lack of sufficient GOG staff to manage the construction program.
- Lack of adequate GOG logistic support for the training program.
- Poor performance by the first GOG project manager.
- Lack of vehicles for transportation of materials held up construction activities. USAID/Guatemala plans to lease transport until project-financed vehicles arrive.
- The project disbursement system has delayed project implementation. USAID/Guatemala disburses funds on an advance basis but the GOG liquidated advances so slowly that funds are exhausted before they are able to obtain a new advance.
- Construction of housing improvements have been delayed pending the creation of the Revolving Loan Fund. The creation of this fund took longer than planned because of cumbersome GOG procedures for contracting technical assistance to design the fund and for approving the creation of the fund.
- A lack of foreign exchange to purchase vaccines has delayed the immunization campaign. It also delayed the purchase of parts and tools needed to repair project equipment. As a result, USAID/Guatemala may procure some commodities directly.
- In August 1983, the Minister and other key officials were replaced after a change in military governments. This has slowed project implementation.
- Delays by the GOG in the procurement of commodities has slowed the construction of water systems and latrines.
- Plans for the renovation/construction of health centers have not been prepared because the Ministry lacked administrative resources to construct both water systems and health centers. Priority was given to the water systems. This activity could be further delayed because the GOG did not budget enough funds for this activity in 1984.

SMALL FARMER DIVERSIFICATION

Background

The Small Farmer Diversification Project (No. 520-0255) is financed with AID loan No. 520-T-034, dated September 24, 1981, for \$5,500,000 and a grant dated August 28, 1981 for \$2,600,000. As of September 30, 1983, \$1,696,000 has been obligated under the grant. The total estimated cost of the project including the GOG contribution is \$14,800,000. The estimated completion date for the project is March 31, 1987.

The purpose of the project is to strengthen the public agriculture sector capacity to stimulate small farm diversification in the northwestern highlands from basic grains to higher value diversified crops requiring greater labor intensity. It is expected that crop diversification will increase on-farm employment opportunities and raise small farmer incomes.

The project includes three basic components:

Applied Research and Technology Adaptation - The Institute of Agricultural Science and Technology (ICTA) will be the principal implementing agency for this component. The project will provide technical assistance and research training to develop ICTA's research capacity in diversified crops. The steps included in this component are (a) a small farm management survey, (b) analysis of survey results and development of small farm models, and (c) design and implementation of a research program based on the models and surveys. The project will finance facilities, equipment and technical assistance to accomplish the above steps.

Technology Transfer and Technical Assistance - This component is to be implemented by the General Directorate for Agricultural Services (DIGESA) and the General Directorate for Livestock Services (DIGESEPE) in cooperation with ICTA. The project will provide technical assistance, training facilities, and equipment to these agencies so they can provide better extension services to small farmers in diversified crop/livestock technologies. In addition, project assistance will be provided to DIGESA so they can promote on-farm investment in mini-irrigation and conservation systems to be financed by project-sponsored credit facilities.

Credit Fund - The project will establish within the National Agricultural Development Bank (BANDESA) a production credit fund of \$1.8 million and a small farm improvement fund of \$3.4 million to support the small farmer diversification program.

4/11

In addition to the above three components, the project will finance an Nutritional Impact Evaluation and the cost of a central project coordination unit.

Progress

Four activities had not met their projected completion date as of September 30, 1983. These activities included:

None of the following activities have been accomplished as of September 30, 1983, even though they were scheduled for completion in the project paper as of the dates shown below:

- farm management survey completed and analyzed (June 1983)
- purchase of laboratory equipment (December 1982),
- construction of training center for DIGESA (December 1982), and
- construction of a laboratory and greenhouse for ICTA (March and June 1983).

Some causes of these project delays were:

- The institutional responsibilities for doing surveys was not clearly defined. This has been clarified with technical assistance. The surveys have been started and it was estimated they would be completed and the farm models developed by April 1984. The extension services (DIGESA and DIGESEPE) in coordination of the agricultural bank (BANDESA) have not started to promote and grant production credits because the farm models have not been developed. Once the models are developed and the GOG agencies know in what areas they are to work, the production credit component of the project can be started.
- The project coordination committee of participating GOG agencies and the coordination unit were located in Guatemala City. A regional coordination committee was established at the project site in Quezaltenango in May 1983 and the coordination unit also moved its office there in August 1983. This arrangement is working better but USAID/Guatemala and GOG plan to change the chief of the coordination unit when his contract expires in December 1983.
- The GOG did not promptly satisfy the initial conditions precedent to the AID loan due to cumbersome procedures and the GOG congressional loan ratification process. It took the GOG 10 months to satisfy the conditions precedent versus four planned.

EXHIBIT B  
(B-23)

- Project construction and procurement are behind schedule partly because the GOG agencies involved lacked the technical expertise to prepare plans and specifications. This type of problem needs to be promptly identified by the USAID at the time the project procurement and construction plans are prepared so needed technical assistance can be provided.
- The contracting of technical assistance has been delayed because the GOG wanted more Guatemalan advisors than planned. It was therefore necessary for USAID/Guatemala and the GOG to renegotiate the technical assistance plan included in the project paper. The first advisor arrived in November 1983 and the rest were to arrive in early 1984.
- Staffing of new GOG project positions has been delayed because of cumbersome GOG procedures and a change in government in August 1983. A total of 80 new positions were planned for the project and included in the 1983 budget (38 for DIGESA, 20 for ICTA, 18 for DIGESEPE and 4 for BANDESA). As of December 6, 1983, the GOG had hired 53 of these new employees.

45

NON-FORMAL EDUCATION

Background

The Non-Formal Education project (No. 520-0281) is financed with AID loan No. 520-V-035 dated August 31, 1982 for \$3,000,000 and a grant dated August 31, 1982 for \$860,000. As of September 30, 1983, \$433,000 has been obligated under the grant. The total estimated cost of the project including the GOG contribution is \$8,576,000. The estimated completion date of the project is August 31, 1987.

The purpose of the project is to improve and expand the non-formal education program of the National Board of Non-Formal Education Board. The Board supports the non-formal education efforts of other public and private agencies through staff training, technical assistance, radio coverage and publications.

The project strategy calls for the Board to assist other government agencies to deliver development-oriented non-formal education messages to the rural poor through printed material, radio broadcasts, and through the personal contacts of promoters and extension agents employed by other GOG agencies. While the Board has a staff of 174 promoters for message delivery, project planners decided it would be more cost-effective to train the promoters and extension agents of other GOG agencies in non-formal education techniques rather than to expand its own staff of promoters.

The project consists of three components as follows:

Secretariat - The project will assist to the Secretariat to strengthen its capability to support the activities of its regional offices.

Regional Offices - The project will strengthen the Secretariat's regional office in Quezaltenango and establish two new offices in Baja Verapaz and Quiche.

Radio Broadcast Services - The project will finance the expansion and improvement of the radio messages of the Secretariat and its regional offices. The component also includes the opening of a new public radio station in Baja Verapaz and the establishment of mobile radio units for each of the three regional offices. The mobile units are to be used to develop radio messages relevant to the needs of the rural population.

The major inputs to be financed by the project are vehicles, a radio station, three mobile radio units, publication of written materials, radio broadcast time, a training program, salaries for new GOG staff, and technical assistance.

46

Progress

This project has gotten off to a slow start because of GOG delays in satisfying conditions precedent to disbursement of the loan agreement. As of September 30, 1983, nothing had been disbursed under the loan and grant.

As shown below, it has taken the GOG four to eight months longer than planned to satisfy the conditions precedent.

<u>Condition Precedent</u>	<u>Date Satisfied</u>	<u>Planned</u>	<u>Months Actual</u>	<u>Excess</u>
Section 5.1- GOG legal opinion and signatures of representatives	4/28/83	4	8	4
Section 5.2- Implementation Plan	8/01/83	6	11	5
Section 5.3- Staffing of new GOG project positions	11/3/83	6	14	8

Renegotiation of the project description annex to the loan agreement contributed to the delay in satisfying the conditions precedent. USAID/Guatemala and the GOG signed the loan agreement on August 31, 1983 before they had reached full agreement on the project description. This was done, because AID/W asked USAID/G to sign the loan before the end of August. USAID/Guatemala and GOG took almost four months to renegotiate the loan after it was signed.

111

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Guatemala develop and issue a Mission Order:

- (a) regulating the identification and design of AID projects and
- (b) making specific provision for taking into account those conditions that have impeded project implementation in the past.

Recommendation No. 1

USAID/Guatemala include among the provisions of the Mission Order to be developed in response to Recommendation No. 1:

- (c) specific guidance for designers of future AID projects in order to avoid the design deficiencies enumerated above.

Recommendation No. 2

USAID/Guatemala develop:

- (a) guidance for the GOG on the preparation of implementation plans in order to standardize the type of information and schedules to be included in such plans;
- (b) procedures to revise implementation plans for all projects annually prior to the preparation of GOG budgets.

Recommendation No. 3

USAID/Guatemala revise the format of its Quarterly Progress Report in order to assess the status of the major inputs during the life of the project in comparison with plans.

48

Recommendation No. 4

USAID/Guatemala obtain evidence from the Ministry of Education that commodities have been distributed as planned under AID loans 520-L-015, 520-V-025 and 520-V-029.

Recommendation No. 5

USAID/Guatemala obtain evidence from the Ministry of Health that sufficient personnel have been assigned or contracted for the construction program under AID Loan 520-V-033.

Recommendation No. 6

USAID/Guatemala obtain from the GOG a satisfactory commodity procurement plan under the Small Farmer Diversification project.

Recommendation No. 7

USAID/Guatemala obtain from the GOG ministries involved satisfactory construction programs for the construction of facilities under AID loans 520-T-034 and 520-U-033.

Recommendation No. 8

USAID/Guatemala fund the Community-Based Health project on a reimbursable basis.

49

LIST OF REPORT RECIPIENTS

USAID/Guatemala	5
Assistant Administrator, Latin America and the Caribbean	5
LAC/CAP	2
LAC/CAP/NG	2
LAC/DR	1
LAC/DR/CEN	2
LAC/DP	1
LAC/DP/PO	3
DAA/S&T	1
PPC/E	1
PPC/E/DIU	2
Director, Office of Legislative Affairs (LEG)	1
Assistant to the Administrator (AA/M)	1
Office of Financial Management (M/FM/ASD)	3
Special Assistant, Bureau for External Affairs	1