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AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

OFFICE OF THE AUDITOR GENERAL  
AREA AUDITOR GENERAL - LATIN AMERICA

AUDIT REPORT

ROCAP

REGIONAL EXPORT ASSISTANCE - ICAITI

PROJECT No. 596-11-260-033.2

Audit Report No. 1-596-74-12

Date Issued: September 28, 1973

TABLE OF CONTENTS

	<u>Page</u>
PART I - PURPOSE AND SCOPE	1
PART II - BACKGROUND	2
PART III - SUMMARY	4
PART IV - STATEMENTS OF FINDINGS AND RECOMMENDATIONS FOR THE DIRECTOR/ROCAP	
A. Status of Project	
1. Achievements	5
B. Project Design	
1. Non-Capital Assistance Paper	7
C. Project Implementation and Evaluation	
1. Project Implementation Plan	9
2. Project Appraisal Report	10
PART V - GENERAL COMMENTS	11
EXHIBIT A - Summary of ROCAP Expenditures Covered in the Current Audit to June 30, 1973	12
EXHIBIT B - Distribution of Audit Report	13

## PART I

### PURPOSE AND SCOPE

The Area Auditor General, Latin America, performed an initial audit of AID Grant Project No. 596-11-260-033.2, Regional Export Assistance, which was made to the Central American Research Institute for Industry (ICAITI). The primary purpose of the audit was: (i) to determine the accomplishments of the Project, (ii) to review ROCAP effectiveness in planning, monitoring, and evaluating Project activities, (iii) to review ICAITI effectiveness in utilizing AID funds to further its institutional goals, and (iv) to determine the efficiency of management and accountability of AID funds that were used to finance commodities, participant training, and contract services.

The audit included a review of records and other data in the offices of ROCAP and ICAITI. The audit also included a review of principal contracts for technical services, interviews with returned participants, and inspections of major items of commodities provided for the Project under AID funding. We reviewed disbursements totaling \$684,177 (Exhibit A).

The audit covered the period March 30, 1970 to June 30, 1973, and was made in accordance with generally accepted auditing standards, giving due consideration to AID regulations and procedures. Audit emphasis was given to activities representing current operations as of June 30, 1973. Detailed examination of individual transactions was limited to the extent necessary to determine the effectiveness of operations and internal controls, and to ascertain the degree of reliability of accounting and reporting data.

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## PART II

### BACKGROUND

ICAITI is an independent institution, chartered as a non-profit organization. It was founded in July of 1955 by the governments of the five Central American republics with the assistance of the United National Technical Assistance administration. It began operations in Guatemala City in January, 1956.

The Agency for International Development, through the Regional Office for Central America and Panama (ROCAP), has provided financial assistance to ICAITI beginning in 1963 through a loan to the Central American Development Bank (CABEI). The principal objectives of the CABEI loan were the support of regional institutions for integration and the promotion of trade and industrial development within Central America. AID funds were used for the reorganization of ICAITI and a coordinated program was subsequently entered into in 1967 under Project No. 596-11-290-002 (Industrial Investment and Trade Promotion) to provide direct grant assistance to the following regional organizations:

CABEI - Central American Development Bank

ICAITI - Central American Industrial Research Institute

INCAE - Central American Business Administration Institute

FECAICA - Central American Federation of Associations and Chambers of Industry

ODECA - Organization of Central American States

SIECA - Secretariat for Economic Integration of Central America

SITCA - Central American Secretariat of Tourism Integration

The objectives of the coordinated project were to promote private industrial investment and intraregional trade, to improve industrial uses and processing of farm products, and to

encourage a greater distribution of manufactured products to rural areas. ICAITI worked in the areas of food processing, food preservation and packaging, standards of quality for raw materials, and the study and mapping of Central American natural resources.

In 1968, ROCAP redirected part of its efforts under Project No. 596-11-290-027 (Commercial and Industrial Planning), giving priority to CABEI and SIECA to encourage investment in export and import-substitution industries and to study the infrastructure requirements for a reorganization of the Central American Common Market. Under funding from the above ROCAP projects, CABEI, INCAE, and ICAITI cooperated in the development of three "Pilot Projects" for exporting fruits and vegetables to the U.S. ICAITI, which previously limited itself to the industrial sector, had reinterpreted its role to include service to post-harvest aspects of agriculture.

7 In March of 1971, ROCAP Project No. 596-11-260.033.2 (Regional Export Assistance) was signed with ICAITI aiming to improve the Central American balance of payments by increasing non-traditional exports to the rest of the world. The Non-Capital Project Paper (PROP) envisioned cooperation between ICAITI, INCAE, and the recently established Central American Program for Export Development (PROMECA) to extend to eight the number of "Pilot Projects" for export products. These three institutions would coordinate technical assistance from all regional organizations for the benefit of the private sector groups to be involved in the projects.

PART III

SUMMARY

*evidence 2  
(see p 7)*

ICAITI has attained a position of eminence in Central America in its role of applying modern technology to promote industrial growth and economic integration. However, the ROCAP funded Regional Export Assistance Project covered in this report has had difficulties in its implementation and opportunities exist to improve procedures and controls in certain management areas.

Non-Capital Assistance Paper

Significant changes have occurred in Project direction and character without a corresponding revision of the Non-Capital Assistance Paper (PROP) and, therefore, recent provisions of ICAITI project agreements are not directly related to the Project purpose as shown in the PROP.

Project Implementation Plan

A Project Implementation Plan (PIP) was not prepared by ROCAP establishing a detailed plan of action to correlate the inputs from the various organizations and institutions participating in the Project nor were target dates established as a time frame for Project outputs.

Project Appraisal Report

Annual Project Appraisal Reports were not prepared for the Project.

In Part IV of this audit report we have shown in more detail the above conditions and have made recommendations to assist management in assuring more effective implementation of the Project. General information regarding the audit exit conference is presented in Part V.

PART IV

STATEMENTS OF FINDINGS AND RECOMMENDATIONS

FOR THE DIRECTOR/ROCAP

A. STATUS OF PROJECT

1. Achievements

ICAITI has attained a position of eminence in Central America in its role of applying modern technologies to promote industrial growth and economic integration. It has put technological advances at the disposal of Central America's industry and has assisted the regional authorities and manufacturers in the planning, development, and expansion of a broad range of projects.

Recent accomplishments are noted below as they relate to the AID sponsored programs:

a. ICAITI has been able to significantly increase its income from contractual services. In 1973 the increase will be nearly \$100,000 over the income of the prior year and the percentage of income from services in relation to all other sources of funding has increased to 37 per cent as compared to 15 per cent of two to three years ago. If this increase continues, the Institution will, within a few years, no longer need to depend on financing from outside the Central American area;

b. Although the overall Regional Export Assistance Project covered in this report has not made notable progress as contemplated in the Project design, ICAITI has maintained its area of responsibility at a high level and is at present capable of meeting requirements placed on it by AID projects and other programs of International Lending Institutions;

c. ICAITI is putting into effect a system of program budgeting for all activities. This system will enable them to more effectively manage their resources and controls costs within individual projects and throughout the organization. ICAITI already has an adequate system of accounting and properly reports expenditures of AID funding;

d. ICAITI has efficiently used AID funds allocated for commodities and participant training. The returned participants interviewed by us have been given added responsibility within the organization based on increased skills derived from this training.

## B. PROJECT DESIGN

### 1. Non-Capital Assistance Paper

Significant changes have occurred in Project direction and character without a corresponding revision of the Non-Capital Project Paper (PROP) and, therefore, recent provisions of ICAITI Project Agreements (Pro Ags) are not directly related to the Project purpose as shown in the PROP.

The most recent PROP, submitted on March 12, 1971, envisioned the development of eight "Pilot Projects" of non-traditional export products under private sector producer/exporter groups. <sup>increasing</sup> Three projects had previously been established and by expanding those projects to eight, a greater private sector demand would be created for coordinated national and regional export policies along with a demand for assistance from regional support institutions. ROCAP planned to continue its support to ICAITI in order for it to increase its capability to respond to the new demands and subsequently become self-sustaining by offering services on a cost-recovery basis to the new groups. A five year plan for regional export promotion activities called for the creation of a Regional Export Commission with representatives from each Central American country to coordinate the major activities of the export development program.

A separate Coordinating Board would be established including senior officers from ICAITI, PROMECA, and INCAE, along with the ROCAP Project Manager and a private sector representative.

ICAITI would assign commodity specialist teams required for export product development, train specialists and conduct research in specific areas, and provide minimal technical assistance in overall research institution management.

Shortly after the PROP submission in 1971, serious problems began in the three existing pilot projects. Two of the three projects eventually failed and are no longer in operation. The Regional Export Commission has not been established and the Coordinating Board is no longer functioning. PROMECA has not yet been assigned legal status in the Central American community and has not provided the input required for the Project

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and, therefore, the activities of ICAITI have not been directed to specific export products, but have continued in general areas and thus have not produced the necessary independent income to make the institution completely self-sustaining.

Due to the changes required by current situations in the other areas of the Project, recent ICAITI Pro Aqs refer only vaguely to provisions of the PROP such as that shown in the most recent Project Agreement: "Provide technical assistance to industry in collaboration with PROMECA and/or the National Level Export Promotion Centers for expansion of non-traditional exports."

Recommendation No. 1

We recommend that ROCAP revise the Non-Capital Project Paper (PROP), to reflect the significant operating changes that have occurred since the beginning of the Project.

*approval  
needed*

*UPDATE*

## C. PROJECT IMPLEMENTATION AND EVALUATION

### 1. Project Implementation Plan

A Project Implementation Plan (PIP) was not prepared by ROCAP establishing a detailed plan of action to correlate the inputs from the various organizations and institutions participating in the Project nor were target dates established as a time frame for Project outputs. Therefore, although ICAITI strengthened its own capabilities during the period of the Project, the effectiveness of the technical assistance made available from them could not be adequately appraised in relation to overall Project purposes.

ROCAP would have been more able to monitor Project activities had reference points been established beforehand to readily measure and evaluate Project achievements.

#### Recommendation No. 2

We recommend that ROCAP prepare a Project Implementation Plan in conjunction with its revision of the Non-Capital Assistance Paper, thereby, providing a framework for Project implementation and evaluation.

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## 2. Project Appraisal Report

Annual Project Appraisal Reports (PARs) were not prepared for the Project. Since periodic appraisals were not made, comparing plans to actual results, ROCAP did not make the necessary revisions redirecting activities to accomplish preliminary Project purposes.

The Project, as outlined in the PROP, was a continuation of prior ICAITI activities financed by ROCAP. The evaluation of the prior activities, as called for in the PROP, was not done and no formal periodic evaluations were made of subsequent activities under the Project.

### Recommendation No. 3

We recommend that ROCAP prepare a Project Appraisal Report or other detailed analysis of Project activities and results to date, and that periodic appraisals be made thereafter.

**PART V**

**GENERAL COMMENTS**

**A. Exit Conference**

A formal exit conference was held on September 27, 1973, to discuss the audit report with the ROCAP Mission Director and his staff. ROCAP agreed with the general contents of the report and is putting into effect plans for implementation of the recommendations.

**B. Prior AID Auditor General Audit Reports, Inspections, and Appraisals**

This was the initial audit of Project No. 596-11-260-033.2.

**EXHIBIT A**

**Regional Export Assistance - ICAITI  
Project No. 596-11-260-033.2  
Summary of ROCAF Expenditures Covered in the Current Audit  
to June 30, 1973**

<u>Project Agreement No.</u>	<u>Contract Services</u>	<u>Commodities</u>	<u>Participants</u>	<u>Other Costs</u>	<u>Total Expenditures</u>
70-14	\$ 91,240	\$ -	\$ -	\$137,000	\$ 228,240
71-10	5,124	-	-	15,000	20,124
71-14	37,665	7,000	8,423	184,800	237,888
72-14	7,191	-	-	180,960	188,151
73-2	<u>-</u>	<u>9,774</u>	<u>-</u>	<u>-</u>	<u>9,774</u>
	<u>\$141,220</u>	<u>\$ 16,774</u>	<u>\$ 8,423</u>	<u>\$517,760</u>	<u>\$ 684,177</u>

EXHIBIT B

DISTRIBUTION OF AUDIT REPORT

	<u>No. of Copies</u>
Mission Director, ROCAP/Guatemala	4
AG/AUD, AID/W	4
LA/OPNS, AID/W	2
ROCAP Desk Officer, AID/W	1
IGA, Washington	1
IIS, Panama	1