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**An Evaluation
of the
USAID/Honduras
Development
Administration
Project**

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EXECUTIVE SUMMARY:**CONCLUSIONS AND RECOMMENDATIONS****INTRODUCTION**

Although commendable in its aspirations to improve the capacity of the Government of Honduras (GOH) to administer and finance the country's development efforts, the Development Administration Project was overambitious in its objectives and unrealistic in its time frame. Although initially (and perhaps appropriately) conceived of as a pilot project, it set goals for itself that were essentially unattainable within the planned life-of-project time frame. Moreover, the project's design of its planned technical assistance interventions may have been seriously at fault, initiating a set of circumstances that have significantly compromised the capacity of much of the technical assistance that has been provided to contribute significantly to improved administrative practices and procedures that will be self-sustaining following project completion.

Within that context, and with the intent of contributing a set of perspectives that might help reorient the project toward a more realistic timetable and a more appropriate implementation mode, the conclusions and recommendations presented below are offered.

SUMMARY OF FINDINGSAccomplishment of Project Objectives

With rare exceptions -- notably in tax administration and certain treasury management functions -- there is little chance that the project purposes specified in the project documents can be achieved within the time remaining in the project. With the exception of the tax administration activity, the project is significantly behind schedule. Even if the Ministry of Finance and Public Credit (MHCP) and the GOH take action on all pending and outstanding matters in the near future, there is not sufficient time remaining in the current project to install and fully implement the recommended changes.

Sustainability of Results

There is serious doubt about whether the changes that might be initiated during the next few months can or will be sustained without additional assistance. This is the result of the poten-

tially high turnover of personnel, low salaries and a lack of promotion possibilities (which has led to low morale and initiative in the MHCP), general bureaucratic inertia, and the fact that many of the underlying causes for resistance to change have not yet been effectively addressed by the project. In addition, factors internal to the project -- including the absence of sufficient MHCP participation in problem analysis and design solution and the absence of a plan for implementing and reinforcing changes -- militate against sustainability.

Computer Support

Many of the project's activities depend on the development and installation of automated data processing applications. The project, however, stops short of actually programming and installing these programs. There is little or no chance that these systems will be in place by the end of the project.

Government of Honduras Support

There is considerable verbal support for the project in the MHCP. The persons interviewed expressed enthusiasm and support for the changes recommended by the advisers. This support has not, however, been translated into effective action. Few of the major GOH policy actions that were indicated as being required in the project paper have been implemented by the GOH. In addition, many reforms suggested by project advisers have not yet been approved or acted on by the MHCP, resulting in extended delays.

The Specific Administrative Improvement Projects (AIPs)

Tax Administration

The tax administration AIP has accomplished its major objectives, and has resulted in measurable institutional and procedural improvements in tax administration. There are still numerous areas in which improvements are necessary and desirable.

Revenue Collection Administration

Partly because the Customs Office, with which the collection agencies are associated, was having serious administrative and control problems, the revenue collection administration AIP did not begin until September 1984. The Central Bank and MHCP have not implemented the advisers' recommendations as of this date.

Subsequent analysis of the system found that estimates contained in the project paper were incorrect: only 127 employees (instead of 761 as mentioned in the project paper) were solely involved in revenue collection, and only \$385,000 were

spent annually by the agencies to collect \$112,610,000 (\$292 were collected for each dollar spent, instead of \$25 for each dollar spent as reported for 1981 in the project paper). These revised estimates reduced considerably the problem of relocating employees and the estimated benefit-cost ratio for the activity.

Treasury Administration

During the first six months of the bank account reconciliation activity, procedures were written for a new mechanized check system and for the determination of outstanding checks. Subsequently, an agreement between the Central Bank and MHCP was formalized. Following the terms of this agreement, the Central Bank submits magnetic diskettes recording the movement of the several Treasury accounts to the MHCP on a daily basis. This system started operating in January 1984. The Treasurer expressed satisfaction with it.

Regulations and complementary procedures for the processing and control of disbursements against a centralized bank account were also completed. The new system was approved by MHCP in early 1984 and is being implemented. A series of training sessions were offered for special disbursing officers and administrators in Tegucigalpa and San Pedro Sula. While this evaluation was in progress, the system was being generalized and implemented throughout the government.

The revision of contractual relations between the Central Bank and the MHCP to consolidate all central government bank accounts balances, including the Trust Fund account, before determining an overdraft has not been accepted by the Central Bank. With the delay in the negotiations, MHCP will continue to pay 4 percent yearly interest (estimated at \$2 million in interest during 1984 alone) to the Central Bank for its overdrafts. However, negotiations between the Central Bank and MHCP have resulted in the consolidation of more than 300 disbursement officers' bank accounts.

Integrated Government Accounting System

Achieving the objectives of the integrated government accounting system AIP is dependent on the approval and full implementation of new rules and procedures that are now being studied by MHCP officials. There has been an excessive bureaucratic slowness in this process, and the activity is significantly delayed.

Public Employee Bonding System

A draft of a collective bonding contract was prepared to be used by the government in its negotiations with the insurance companies. A draft of a proposed State Insurance and Guaranty

Law was also prepared for establishment of a Bonding Office at MHCP. The Controller objected to the plan and insisted on keeping the office under his jurisdiction. Although MHCP feels that the Office of the Controller should not carry out operational functions that are incompatible with its functions of post-auditing the governmental fiscal operations, it has little choice but to agree to leave the Bonding Directorate there. However, the Budget Directorate has not allocated any funds for the operation of the system.

Computer Utilization

Although all scheduled outputs are either accomplished or sufficiently in progress to be completed by the end of the project, the applications on which many other project activities depend will not be developed or implemented.

Government Procurement

Because of delays caused by the consideration in the National Congress of a new contracting law, this activity cannot be implemented by the end of the project. Despite the fact that the new procurement procedures were drafted in the first months of the project, they have not been approved. The Procurement Office is still without a permanent Director, a fact that complicates decision making. The other achievements contemplated in the AIP -- reorganization of the office, authority for most purchases to be returned to the government's procurement line agencies, and the Procurement Office efficiently providing commonly used materials and warehouse and supply services to all central government agencies -- are all dependent on the approval and implementation of new rules and regulations that are still being debated among MHCP officials.

Franchises and Exemptions System

This new activity and the three discussed below were added when the central transportation AIP was dropped from the project. A report to provide the Franchise Sections with a new organization was prepared by project adviser and submitted to MHCP officials for comments. None had been received by the time this evaluation was undertaken.

MHCP/Donor Coordination

This activity has not started.

Tax Budgeting and Staffing

This activity has not started.

Tax Filing and Record Keeping

This portion of the project has just begun. It is too early to evaluate performance.

EXTERNAL FACTORS AFFECTING PROJECT IMPLEMENTATION

The Civil Service System

The GOH civil service system does not provide effective job security for MHCP personnel. The stability of government procedures and processes depends on the continuity of personnel. The traditionally accepted patronage system that exists in the GOH might at any time wipe out years of investments in human resources training.

Personnel Systems

The GOH does not have a personnel and job grading system that adequately supports reform and increases productivity. Within the administrative units involved in this project, there are numerous examples of chiefs of sections and supervisors receiving lower income than the employees they supervise. This situation has had a negative impact on employee morale and on the willingness of supervisors to fulfill their supervisory roles.

Bureaucratic Slowness

Another factor affecting project implementation is the inherent bureaucratic slowness that creates red tape unnecessarily and tends to slow down the progress of the project.

Active Resistance to Change

Some officials seem to be delaying the approval of some of the advisers' reports beyond the point of the normal bureaucratic slowness. There were rumors that one official had no intention of acting on a report that he had in his possession. However, this could not be verified.

Absence of Effective Coordination

Each office within MHCP seems to operate without any informal coordination with the other offices. Most interactions are done through formally established channels. The top officials of these units try to monopolize their area of activities and see any coordination attempt as an encroachment on their prerogatives and power.

STATUS OF INPUTS

Because the project is behind schedule, the original schedule of inputs has also slipped. Revised estimates of Clapp & Mayne short-term advisory services show that a significant portion of the short-term work is now scheduled for the last five months of the project. This means that many of the activities may reach the introduction and approval stage shortly before the scheduled completion of the project, but that no time will remain in the project for supporting the implementation and institutionalization of the reforms.

The tax administration AIP has proceeded on schedule, although at a substantially lower cost than forecast. Personnel salary rates were lower than scheduled, and several of the short-term technical assistance were cancelled. If the project is terminated on schedule, \$135,000 will have to be deobligated from the tax administration AIP.

STATUS OF OUTPUTS

A checklist of the status of project outputs appears in Annex B.

STATUS OF PROJECT PURPOSE ACHIEVEMENT

A checklist of progress toward conditions expected at end of project appears in Annex A. In summary, with the exception of the tax administration AIP and some of the treasury management functions, there has been little progress to date toward achieving those conditions and, for most of them, little chance that they will be achieved in the time remaining for the project. In retrospect, it appears that the project design was unrealistically optimistic in projecting the changes that could be achieved within such a relatively short period, and underestimated the problems and delays that were likely to occur.

STATUS OF GOAL AND SUBGOAL ACHIEVEMENT

The project should, even if it is not extended, contribute to the goal of improving the GOH's capacity to administer and finance the country's development efforts. Better administration of tax collections has produced increases in government revenues, and improvements in the disbursing and treasury functions have helped to reduce costs and improve performance. Conversations with MHCP officials and staff indicate that there is both an awareness of the need for improving performance and a commitment to do so, in large part a direct result of the activities of this project.

Nonetheless, this project will have little measurable impact on the specific stated project goals of helping the GOH achieve and maintain yearly current account savings of at least 5 percent of the central government budget and realizing at least 90 percent of the investment budget. Other factors -- such as massive government deficits, large amounts of Economic Support Funds, the completion of a single large hydroelectric project and goal-setting mechanisms -- overwhelm the limited contribution that even a successful project could make toward achieving those goals.

RECOMMENDATIONS

Extend the Project

If USAID/Honduras and the GOH want to optimize the contribution of the project to the goal of improving the GOH's capacity to administer and finance the country's development efforts, it must be extended.

Redesign the Project Approach

As it is now designed, the project does not focus sufficiently on implementing recommendations and systems. Any extension of the project should stress implementation.

In addition, the project should increase the role of the MHCP counterparts in analyzing, developing solutions, and implementing the new systems. The advisers should function in an advisory capacity, training and assisting in the implementation of the various activities, but not substituting for counterpart involvement.

METHODOLOGY

In conducting this evaluation, the team reviewed project documentation; interviewed AID, consultant, and MHCP personnel; and analyzed statistics and records kept by the various departments of the ministry. Personal interviews constituted the principal source of information for the evaluation. A listing of persons interviewed and major documents reviewed appears in Annex E.

CHAPTER ONE
INTRODUCTION

The Development Administration Project of the U.S. Agency for International Development (Project No. 522-0174) began in 1982 at the request of the Government of Honduras (GOH). The new government, elected in 1981, had inherited an inefficient and cumbersome administration with heavy financial obligations, declining revenues, several major public sector agencies in arrears on loans to foreign creditors, and an unprogrammed fiscal deficit for 1982 of approximately \$60 million.

The GOH requested assistance in the areas of:

- Improving the tax collection system;
- Improving systems and procedures at the Ministry of Finance and Public Credit (Ministerio de Hacienda y Credito Publico, or MHCP) in the areas of revenue collection accounting, disbursements, public debt accounting and programming, and budget programming and execution;
- Developing improved procurement procedures;
- Organizing a GOH-wide centralized transportation system;
- Developing improved accounting and accountability in the superintendency of autonomous institutions;
- Improving the utilization and reducing the costs of GOH computer operations;
- Establishing a bonding program for public sector employees; and
- Improving the GOH's transaction and program auditing capability to increase the accountability of GOH employees.

AID provided two teams of technical experts -- one from the U.S. Internal Revenue Service (IRS) in tax administration, and the other from Clapp & Mayne in public administration -- to analyze current problems and plan a future long-term assistance

program. The resulting AID project was designed as a pilot effort in one ministry, the MHCP, and incorporated eight separate activities, referred to as administrative improvement projects (AIPs):

- Tax administration;
- Revenue administration;
- Treasury management;
- Integrated government accounting system;
- Public employee bonding system;
- Government procurement;
- Central transportation; and
- Computer utilization.

The central transportation activity was later dropped at GOH request, and four additional activities were added:

- Donor-government relations;
- Records and filing for the Directorate of Taxation (DGT);
- Budgeting and staffing for the DGT; and
- Franchises and exemptions system (to monitor and control customs tax exemptions).

The project began in January 1983 with the arrival of IRS advisers provided through a PASA agreement. The first Clapp & Mayne advisers arrived five months later, in June.

This evaluation is based on field work carried out by Development Alternatives, Inc. (DAI) in Tegucigalpa, Honduras, during the 10-day period from January 22 to February 9, 1985. The work was originally planned as a midterm evaluation to assess the project's success in achieving stated purposes and suggesting possible modifications. By the time the evaluation was actually

conducted in January 1985, the IRS team had only one month remaining in its contract; Clapp & Mayne, five months; and the purpose of the evaluation had changed to recommending whether the project or portions of it should be extended, and changes in project design and approach that might enhance performance in the case of an extension.

The conclusions and recommendations contained in this report are those of the authors, and do not represent the official positions of USAID/Honduras, the GOH, or the technical advisers.

CHAPTER TWO
ANALYSIS OF SPECIFIC PROJECT ACTIVITIES

TAX ADMINISTRATION

Diagnosis

When the project paper was being prepared, the IRS survey team found that tax revenues of the GOH were actually declining and that the government was under increased budget pressure from a number of sources. The team concluded that a strong effort was needed to identify specific remedies for the decrease in tax revenues to help reorganize the DGT, straighten out tax rolls, and develop an efficient tax billing and collection system. Both the GOH and the USAID/Honduras considered this to be the highest priority AIP to be funded by the project.

The GOH's principal tax administration office -- the DGT -- was widely considered to be much less capable in 1982 than it had been a decade before. The DGT was ignored for a number of years (probably because, even with poor administration, economic growth generated sufficient revenues) with the result that, by 1982, it was poorly organized, its personnel poorly trained, and its operations and methods generally inefficient. The survey team proposed a plan of action to improve the DGT's operations that was approved by USAID/Honduras and the GOH.

Implementation

The inputs provided to the project have generally followed the schedule of the project paper. The major exceptions are:

- A scheduled 90-day temporary duty (TDY) of a computer specialist was cancelled because of duplication with a computer adviser provided by the Interamerican Center for Tax Administration (CIAT);

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- The second 60-day TDY of a management analyst was not provided;
- Commodities scheduled under the project were deleted by USAID/Honduras;
- Only four of the scheduled eight DGT personnel have been trained under the INTAX program (although additional participants are scheduled to attend the course during 1985);
- Two additional 80-day TDYs of audit assistance were provided; and
- Scheduled observation trips were reduced in number.

The scope of work was amended in late 1984 to provide four additional TDY assignments, but as a result of excessive delays in amending the PASA in AID/Washington, the inability to schedule TDYs during the Christmas period, and a decision to await the results of this evaluation, these have not been provided.

The GOH provided four full-time counterparts to work with the project; seven others have worked with the advisers in the same capacity on a regular basis, although they were not officially called counterparts. In all cases, these were regular DGT employees, of sufficient rank (section chiefs) to perform effectively as counterparts.

GOH provision of scheduled equipment and supplies has generally not been adequate. Personnel working in the DGT experience continual problems with inadequate facilities, office furnishings, supplies, and travel expenses. Most of the GOH contribution to the project, with the exception of the regular salaries of DGT personnel, has been funded from Economic Support Funds (ESF) of the U.S. foreign aid program. It should be noted, however, that the GOH is facing severe budget limitations, with the result that all AID-funded projects use ESF funds for the counterpart contribution. Even with these limits, the DGT has increased the line items for equipment and commodities from \$3.5 million to \$3.75 million.

For what the project was attempting to accomplish, the government's inputs appear adequate. There are, however, areas in which additional contributions would help turn the DGT into a modern, effective organization, but it is not clear that these should have been provided by the project. Additional inputs that should be provided over the long run include:

- Improved transportation for field auditors and collections agents;
- Office furniture and supplies;
- General increases in and rationalization of salaries;
- Increased per diems and funding for reimbursing auditors and collections agents for travel expenses; and
- Laboratory equipment for testing alcohol production and quality.

The project duration was adequate for this as the first phase of a possible longer-term project, and for the specific scope of the project. The two-year period allowed for adequate follow-up on short-term adviser recommendations, and permitted the advisers to make recommendations and suggestions continually on the limited number of major activities. As both the advisers and the MHCP recognize, there are still innumerable activities that should be undertaken, but the major objectives of this AIP could be accomplished within the time frame of the project.

The project approach called for two long-term (two-year) resident advisers, supported by numerous short-term (60 to 90 day) TDYs in specialized areas of taxation. The role of the resident advisers is to provide technical support and advise in the two major areas of the project -- auditing and collection -- and provide reinforcement and follow-up of the short-term adviser recommendations.

This approach has worked relatively well. The technical nature of the subject and the type and magnitude of changes recommended by the advisers require an extended period of time to reach agreement on implementing the changes, and make sure that the new procedures are well understood and implemented correctly. This is especially true for the short-term advisory recommendations: without the reinforcement and follow-up of the resident advisers, many of these recommendations would not have been implemented. The long-term advisers have also been able to help correct implementation problems.

DGT satisfaction with this approach varies. Interviews with DGT personnel revealed unanimous satisfaction with the quality and technical skills of the advisory teams. Most expressed concern with the extensive use of short-term assistance, pointing to the following problems:

- Short-term advisers can identify problems and impart ideas, but cannot help counterparts gain a deeper understanding of the issues involved and how to implement suggestions.
- Short-term advisers do not have time to react to the local situation; they must arrive with a solution in mind because of the short-term nature of the assignment. They often do not have time to learn how to modify those solutions to fit local conditions.

DGT personnel generally felt that longer-term TDY assistance -- from four to nine months each -- would be a more effective form of assistance.

Accomplishments and Progress

Accomplishment of Outputs

A checklist of accomplishments toward end of project status (EOPS) is included in Annex B. Of the outputs listed in the project paper, most are either completed or being implemented. Among the more significant accomplishments are:

- Established a separate Collections Department;
- Established regional office operations under the direction of the Sub-director;
- Eliminated preliminary auditing;
- Improved declaration filing procedures;
- Established in the national university a two-year training program that 80 auditors will have attended by the end of this year;
- Increased the use of computer programs to pre-audit returns; and
- Established improved procedures and forms for estimated taxes and simplified filing for wage-earners.

The tax administration portion of the project has produced the major outputs specified in the project paper.

Progress toward End of Project Status

The purpose of the taxation portion of the project was to improve income, sales, and excise tax collections. This goal was to be accomplished through improved tax administration, increases in the number of returns audited, improvements in the quality of audits, improved collections, and a reduction in delinquent returns.

The project has witnessed a modest but significant series of accomplishments. The specific conditions expected at the end of the project include increased number of returns audited, improved quality of audits, increased number of returns filed, reduced number and amount of outstanding delinquent accounts, and tax collections increased by 10 percent per year in real terms. Each condition is discussed below.

Increased Number of Returns Audited. The number of returns audited has actually decreased during the past three years, from 13,641 in 1982 to 9,895 in 1984, although the reduction in the final year was due to 30 fewer auditors; 33 auditors assigned to long-term training during October, November, and December; and funding problems that prevented field auditors from commencing work until June or July, instead of February or March, which is normal. In relative terms, however, the number of audits per auditor per month increased from 4.7 in 1983 to over 9 in 1984. Auditor productivity increased during the period even though the actual number of audits performed decreased.

Improved Quality of Audits. In 1982, the appeals process reduced auditors' estimates of additional taxes due by 31.1 percent, whereas in 1984 the reduction was only 23.7 percent. At the same time, the 13,641 audits in 1982 yielded a net increase in taxes due of L.23,012,200, whereas the 9,895 audits in 1984 yielded a net increase in taxes due of L.24,396,000.[1] Both of these indicators support the conclusion that the quality of audits performed by the Audit Department has improved during the past two years.

Increased Number of Returns Filed. The number of returns filed has actually decreased during the period, from 124,774 in 1982 to 99,513 in 1984. This was due to a change in Honduran tax law that reduced the number of potential filers.

Reduced Number and Amount of Outstanding Delinquent Accounts. Accurate data are not available to judge progress toward this EOPS.

1 \$1.00 = 2 lempiras.

Tax Collections Increased by 10 Percent per Year in Real Terms. Total tax revenue increased by 22.9 percent between 1983 and 1984. Overall tax collections increased 21 percent between 1983 and 1984, with the greatest percentage increases in estimated taxes and general sales taxes (see below).

TYPE OF TAX	AMOUNT COLLECTED		PERCENT CHANGE
	1983	1984	
Income Tax	119.5	138.0	15.52
Estimated Taxes	71.5	90.6	26.70
General Sales Tax	91.3	114.6	25.52
Alcohol, Tobacco,	4.3	3.4	-19.76
Inheritance	1.1	1.5	35.04

Figures are in millions of lempiras.

With a stagnant economy, widespread unemployment, and an estimated rate of inflation of 12 percent (the official figure is 4.7 percent) the increase is significant in real terms, and indicates that this EOPS condition has been met. Although all of the changes cannot be directly attributed to the project itself, the overall effect of improvements in the DGT are consistent with the results obtained.

Institutional and Procedural Improvements

In addition to the conditions listed above, the tax administration AIP has successfully initiated institutional and procedural reforms that should be sustainable over the long run and that signify major improvements in tax administration and the ability of the GOH to increase tax revenues.

Institutional Changes

- A separate Collections Department, with a field collections group, was established to follow up and collect delinquent taxes. Performance to date has indicated that monthly expenses of approximately L.600 per month per collections officer in salaries are yielding new revenues of L.15,000 per month, a positive return of some 20:1. Revenues collected in December 1984 alone totaled L.262,818, compared with a total estimated personnel cost of L.13,200. In the Santa Barbara District, the collections officer secured payment on 30 of 31 delinquent accounts.
- An audit group, to verify sales and consumption taxes, was established.

Procedural Improvements

- An experimental program was initiated that allowed auditors not to sign in and out at the ministry when they are on field audits. This increased the productive use of auditor time.
- Procedures were approved and implemented by the DGT to facilitate filing returns, to minimize the time spent in lines by filers.
- Preliminary manual audits were eliminated; these consumed up to 65 percent of the time of the office Audit Department staff and duplicated the work performed by the new computer programs. This reduced the time required to process returns by as much as one month.
- Auditing only the current year's return was approved, with prior year returns audited only if an error is found in the current year. This saves approximately 80 percent of the time spent in auditing a return.
- A simplified reporting form was adopted for salaried workers whose only income is from salaries. These accounted for 50 percent of all individual returns filed in 1984, and reduced the review process by about 90 percent in those cases.
- The interest rate on delinquent accounts was increased from 4 percent per year to 24 percent per year; this increase has greatly reduced delinquencies.

Resolution of Problems

A list of the problems described in the original project paper and their status appear in Annex C. As can be seen in the listing, progress has been made on reducing most of the problems.

REVENUE COLLECTION ADMINISTRATION

Diagnosis

The revenue collection, deposit, and reporting activities of the central government are carried out by the Central Bank of Honduras and its 41 branches and 32 central government collection agencies scattered throughout the country. The project paper recognized that the then-prevailing system was cumbersome and inefficient, resulting in lost revenues and excessive operating costs. In 1981, the Central Bank was collecting 80 percent of the total revenue. For each dollar paid to the Central Bank, \$2,726 were collected. The 32 collection agencies were collecting 18 percent of total revenue, but only \$50 were collected for each dollar spent. The collection agencies combined the functions of assessment and collection for customs duties. This arrangement facilitated fraud against the government because there was no third party supervision.

The procedures used at the collection agencies to account for and report revenue are performed manually, delaying the reporting process considerably, whereas the Central Bank has a fully automated system for accounting and reporting activities to the central government. This system could easily absorb most of the collection functions performed at the collection agencies. In addition, the MHCP does not keep accurate controls on delinquent taxes. Tax delinquency estimates for 1980 and 1981 suggested that \$138,726,915 were uncollected in non-income tax levies.

Implementation

This activity was designed to improve revenue collection by transferring the collection of most revenues to the Central Bank and forming a Collection Department to collect delinquent taxes. Partly because the 32 collection agencies are associated with the Customs Office, which was having serious administrative and control problems, this activity did not start until September 1984. There was also a change in the direction of Customs, and discussions had to be repeated with the new Director. Both the MHCP and USAID/Honduras approved the rescheduling.

This activity originally contemplated 12 person-months of effort but, as a result of budgetary constraints, AID reduced it to 8 person-months. The adviser started working in September 1984, with an analysis of the functions of the collection agencies in order to advise the MHCP on which activities should be transferred to the Central Bank, which ones should remain in the MHCP, which offices could be phased out, and how the MHCP could be reorganized to improve performance. He made recommendations for reorganizing the offices and improving the procedures for those activities, and provided possible options for relocating employees assigned to those activities that might be transferred to the Central Bank.

The adviser found that only 127 employees (instead of 761 as mentioned in the project paper) were solely involved in revenue collection activities. The adviser also found that, in 1983, \$385,000 were spent by the 31 agencies that were operating to collect \$112,610,000. This meant that \$292 were collected for each dollar spent instead of the \$25 collected for each dollar spent as reported in the project paper. These revised estimates considerably reduced the magnitude of the problem of relocating employees and the estimated benefit-cost ratio for the activity. The adviser recommended that the collections function be moved from the Customs office to the Central Bank, and that the collections process be automated.

There has been no official reaction yet from the Central Bank and MHCP to the report. During the interviews conducted for this evaluation, several officials expressed their concerns over the layoffs that might be necessary if the recommendations are approved. A compromise often suggested was to move out of the MHCP only some of the collection functions in order to minimize layoffs. The outcome of the negotiations that will take place between MCHP and Central Bank officials will determine the solution to this problem. The adviser is currently working on a set of procedures that might have to be modified if any alternative other than the one he recommended is chosen.

The only planned activity that has not started is the training of employees in the methodology and procedures of the new collection system. This cannot take place until the procedures are approved and the MHCP and Central Bank agree to implement the adviser's recommendations.

Progress

The four major EOPS objectives of the AIP were: 1) a complete reorganization of revenue collection functions at the MHCP; 2) the collection of almost all central government revenues by the Central Bank; 3) the use of improved collection and reporting procedures by those GOH collection agencies that were not closed; and 4) the organization and satisfactory operation of a Collections Department to monitor and collect delinquent taxes.

The fourth objective was transferred to the IRS unit and is analyzed in the corresponding section of this evaluation. The remaining three objectives will not be attained unless the MHCP approves all new procedures submitted to it. However, the projected financial savings estimated at \$1 million in the AIP that would result from the transfer of all collection functions to the Central Bank has been lowered to about one-half that

amount by the adviser (who was interviewed for this evaluation). These savings would be generated primarily through the elimination of personnel, the reduction in the cost of office operations, and the mechanization of procedures. However, this activity is substantially behind schedule.

TREASURY ADMINISTRATION

Diagnosis

When the AIP was prepared, there were hundreds of Treasury Office accounts without any central supervision or coordination: 50 were in the Treasurer's name, 265 were for disbursing officers, and 83 more were located in the Public Credit Directorate of MHCP. There was neither cash programming nor a consciousness of the need and usefulness for cash flow analysis in the development of financial policy, public credit policy, and financial programming. At present, the Central Bank still charges 4 percent interest on overdrafts in the main account of the Treasurer, without compensating the overdrafts against other Treasury accounts with positive bank balances or paying interest on them. In addition, the Central Bank has absolute control over the public debt redemption fund and replenishes the fund well before it is necessary to do so. Replenishments are charged against the main Treasury account, unnecessarily increasing the overdraft.

To move away from lengthy and cumbersome payment procedures in effect for disbursements from the main Treasury account, disbursement procedures have been decentralized to such an extent that they have contributed to the proliferation of government bank accounts outside the control of the Treasurer, thus weakening his ability to contribute in the formulation of sound financial policies. Many of the 262 accounts held by disbursing officers have been inactive for years, as the officers have left government service without properly closing them.

Implementation

Under this project, the contractual relationships between the Central Bank and MHCP were to be revised to stop the central government from paying excessive amounts of money to the Central Bank for services not received, while forgoing potential financial earnings from the investments of its idle cash balances. All central government bank accounts were to be consolidated under the control of the Treasurer; a cash flow methodology was to be developed to forecast the cash position of the central government; an automated system to reconcile bank accounts on a monthly basis was to be prepared; and finally, drafts of contracts and negotiating instructions were to be prepared for MHCP for renegotiation of the contractual relationships between MHCP and the Central Bank. This AIP was divided into five activities.

Bank Account Reconciliation

This activity started at the beginning of the project. During the first six months, a set of procedures for a new mechanized check system and for the determination of outstanding checks was written.

A contract between the Central Bank and MHCP was formalized, providing that the bank would submit to MHCP, on a daily basis and in addition to the Treasurer's Statement of Account, magnetic diskettes recording the movement of the several Treasury accounts. This was to facilitate the mechanized operation of the bank account reconciliations.

The system started operating in January 1984. The new procedure allows the mechanized issuance of all checks and the reconciliation of the Treasurer's general account by means of the computer. All government checks are now prepared by the computer. The Treasurer can obtain from the computer the exact

number of checks that he can pay each day based on his cash availability, and for the first time in many years, he can reconcile bank accounts. For this purpose, the Central Bank provides him with a tape for the checks paid each day. The implementation of this new system required the installation in the Treasury Office of a data-processing unit with two terminals connected to the National Computer Center's (CENI) mainframe computer.

Some operational problems arose in the implementation of this activity, but they were solved and the system is working. The adviser responsible for the design and installation of this task and for the training of the Treasurer's staff returned to Honduras while this evaluation was taking place and will review the progress achieved to date.

The Treasurer expressed to the evaluator his satisfaction with the system. However, he was still concerned over some minor discrepancies in the reconciliation, although most of these seem to be disappearing. He is abandoning his double-checking the results of the computer's reconciliation by manual means. The Treasurer estimated that as much as a full day of work by his staff is now saved. Apparently, this allows some staff reassignment.

Only two areas of the system elicited negative comments. First, the Treasurer feels that with the old system he had more control over his entire operation, since he could issue a check instantly in his office without requesting it through the computer. Apparently, on a few occasions, the computer did not operate when needed. He also feels that under the old system it was easier to retain any withholdings due from the check's recipients. This situation can probably be rectified during the remaining months of the project.

Disbursement Officers System against a Special or Central Bank Account

The regulations and the complementary procedures for the processing and control of disbursements against a centralized bank account were written during the first six months of the project. The new system was approved by MHCP during the first months of 1984, and a series of training sessions were offered in Tegucigalpa and San Pedro Sula to the special disbursing officers and administrators. During June and July 1984, the new system was implemented in MHCP. Three extra training sessions were held during November 1984 by MHCP officials for the officials of other agencies. While this evaluation was in progress, the system was being generalized and implemented throughout the government. On October 16, 1984, the adviser proposed an amendment to MHCP's Resolution No. 7 to fix the amount of the fidelity bond based on a monthly control over the disbursements of the paymasters.

Revision of the Contractual Relations between the Central Bank and MHCP

This task involves an analysis of all services rendered by the Central Bank to MHCP. It contemplates the preparation of an all-inclusive contract to be negotiated between the two government institutions with the primary objective of rationalizing and regulating the different services. During the first discussions between Central Bank and MHCP officials, the procedures affecting the tasks discussed above were successfully negotiated. These negotiations resulted in the preparation by the Central Bank of a daily tape with information about treasury checks paid during the day and the consolidation of the 300 disbursing officers' bank accounts into one.

The most important objective of this task has not been reached, however. The Central Bank has not yet accepted the system of consolidating all central government bank account balances (including the Trust Fund account) before determining an

overdraft on the Treasurer's bank account for the purpose of charging interest. Moreover, the proposed reduction of the current 4 percent yearly interest charge has not been accepted by the Central Bank. The adviser has prepared a draft of the contract that was submitted to MHCP on August 1, 1984, and sent to the Central Bank for its consideration. The Central Bank has indicated its resistance to including the Trust Fund accounts as part of the central government accounts before declaring the existence of an overdraft.

Notwithstanding the fact that MHCP designated the Vice Minister of Finance and the Budget Director as negotiators with the Central Bank, the negotiation of the contract has been limited to the technical level. Officials at that level reached an impasse in the negotiation in mid-1984. MHCP decided then not to press the case, and to wait until an expert in bank services -- provided by Clapp & Mayne -- conducts an overall analysis of all matters between the Central Bank and MHCP that require review. The expert arrived during July 1984, and on August 1, 1984, he submitted his report for comments jointly with a draft of the proposed overall contract. Up to the time of this evaluation, the comments were not received by the contractor, and the report was pending for study by MHCP staff.

With the delay in the negotiation, MHCP will continue to pay 4 percent interest to the Central Bank for its overdrafts. It was estimated by the advisers that MHCP had paid close to L.4 million in interest during 1984 alone.

Bank Account Consolidation

This activity involves centralizing in the Treasury Office the control of government disbursement and anticipates that the Central Bank will take into consideration existing balances in all government accounts prior to determining an overdraft in the Treasurer's account. The adviser prepared a draft of the proposed new system, and it was submitted to MHCP officials on

July 3, 1984. The report was amended according to comments from MHCP officials and was resubmitted on October 8, 1984. No further progress in the implementation of this activity will be possible until existing contractual relations between the Central Bank and the MHCP are revised.

Idle Cash Investment

The objective of this task is to develop and apply a cash-flow methodology for forecasting the cash position of Treasury and for determining the type of financial instruments in which idle balances could safely be invested. This task has not yet been initiated because it depends on the development of the task related to the consolidation of bank accounts and the revision of the contractual relations between the Central Bank and the MHCP. In the meantime, an on-site training program in Puerto Rico related to investments and funded by AID was provided to a Treasury employee for a two-week period. As a result of the training, this employee developed a better understanding of the task's objective.

Progress

The two main objectives of the EOPS expressed in the AIP were the improvement of Treasury's management function and the design, installation, and satisfactory operation of an efficient government disbursement system.

Some progress has been made toward reaching these objectives. A new computerized system for Treasury checks was put in place, and the new system for special disbursing officers is being partially implemented. In addition, the ability of Treasury to maintain strict control over check issuance has increased remarkably with the installation of the new computerized check issuance system.

In the area of Central Bank accounts, partial implementation was achieved for MHCP disbursing officers from July through December 1984. It shall be extended to the remaining ministries during the first months of 1985.

The achievement of bank account consolidation and other EOPS goals are dependent upon the approval by the Central Bank and MHCP of the procedures submitted to them by the project advisers.

INTEGRATED GOVERNMENT ACCOUNTING SYSTEM

Diagnosis

Central government accounting is carried out in four different offices in the MHCP: the Budget Directorate, the Treasury Office, the Accounting Office, and the Public Credit Directorate. According to the analysis presented in the project paper, each of these offices has developed its own accounting system, even though they all use the same source documents. The net result is the quadruplication of work, costing \$171,000 a year in personnel expenses. The current arrangement also produces unreconciled reports that confuse decision making.

The Public Credit Directorate is responsible for the programming, negotiation, contracting, and management of public credit. Many of those functions are not performed appropriately. For instance, the office has no access to information on the magnitude of the public debt redemption fund, and therefore does not foster the formulation of sound debt policy. The office performs manually most of the capital project auditing, accounting, and payment functions; this taxes its human resources, most of which should be dedicated to public debt programming, negotiation, and contracting. Many of the directorate's current functions should be located in the office of the Budget Directorate and the Treasurer. The dispersion of accounting functions hinders the fulfillment of key functions assigned throughout the ministry.

Implementation

Under the project, a computer-based integrated accounting system should be developed to fulfill information needs throughout the ministry, particularly those of the Budget Directorate, the Office of the Treasurer, the Accounting Office, and the Public Credit Directorate. The system is intended to provide consistent reporting, serve as a basis for most accounting entries, and eliminate manually performed accounting functions that result in wasted effort and costly payrolls.

The project called for the analysis and unification of all accounting functions of the Budget Directorate, Treasury, Public Credit, and Accounting offices of MHCP into a single system to facilitate financial programming, planning, and decision making. The project also called for the development and installation of automated procedures for capital projects accounting, reporting, and payment procedures, and for monitoring, accounting, reporting, and reconciling the public debt redemption fund. Finally, a modern, efficient system for accounting for all public property was to be developed and installed.

During the first six months of the project, a set of procedures for the control and registration of the public debt was drafted. Through these procedures, public debt accounting will be integrally and mechanically controlled, thus making information on public credit readily available to the National Congress, the President, investors, and the public in general. Complete and reliable data will also be available on a timely basis for decision makers in the Public Credit Directorate, the Budget Directorate, and the Treasury. At the same time, information required for the preparation of the government financial statements will be standardized, and the fiscal status of the public credit can be disclosed immediately at the end of each fiscal year.

In addition, an integrated accounting system was to be designed to provide the internal controls required to prevent irregularities and permit their easy disclosure. Required accounts and registers were to be established to reflect the government's financial position at all times. Included also would be a mechanized accounting system to facilitate the entry and retrieval of data on an integrated basis quickly, uniformly, and reliably, thus accelerating the preparation of financial statements by the Accounting Office.

In early 1984, this activity was subdivided into three tasks:

- Procedures for the integration of accounting;
- Procedures for the control and accounting of public debt; and
- Procedures for the control and accounting of national property.

The project adviser worked simultaneously on these three tasks. During the first months of 1984, data were collected on all three tasks. The procedure for integrating the accounting was drafted by an adviser and submitted for MHCP comments in November 1984. The report on the control and accounting of public debt -- comprising procedures for handling internal and external debt, records mechanization, and the trust fund control for the payment of public debt -- was also drafted and presented to staff of the Public Credit Directorate. The adviser plans to finish the system during the remaining months of the project, after considering any comments from Public Credit Directorate officials.

On September 26, 1984, the report on the Control and Accounting of National Property was submitted to the MHCP Project Coordinator. The new concept involves the centralization in the MHCP of all property accounting based on reports submitted by the

different ministries, which will maintain a decentralized control with the necessary detailed records for each public property. In this way, MHCP can maintain a permanent inventory by agency that can properly be audited, controlled, and analyzed. Once the public property system is approved by the MHCP, the new set of rules and regulations prepared for the system will have to be submitted to the President for its promulgation. As this evaluation was taking place, the MHCP had not approved the procedures that were prepared and therefore has not submitted the new regulations for the approval of the President.

To facilitate understanding of this activity's objective, AID provided funds for a two-week period for six MHCP employees to observe a similar system implemented in Puerto Rico.

Progress

The AIP projected that the EOPS would have accomplished the following three points: (1) the creation and use throughout MHCP of a uniform accounting data base; (2) the creation and operation of an automated accounting system to monitor and control all aspects of public debt (for example, outstanding debts and fund for debt redemption); and (3) the installation in the MHCP of a new uniform set of accounting reports to meet critical information needs throughout MHCP.

Achieving these objectives is dependent on the approval and full implementation of new rules and procedures that MHCP officials are now considering. Therefore, the other derivative effects of the proposed changes have not been attained: a projected staff reduction by 40 employees to save \$100,000 per year, a revenue increase of \$1 million investment of idle funds, and a savings in public property management of \$300,000 will not be attainable until the new system is fully operational.

PUBLIC EMPLOYEE BONDING SYSTEM

Diagnosis

By law, every government employee who handles, receives, or has custody of funds or in any other way is involved in the execution of the financial laws of the central government must post a financial guaranty. The usual form of guaranty is an individual fidelity bond, issued either by an insurance company or by a bank, that is normally issued for one year and must be renewed by the employee on a yearly basis.

At the time the project was developed in 1982, 174 persons in the central government were required to post a guaranty. However, the Pre-auditing Department of the Budget Directorate of MHCP could produce records for a total of only 130 employees, with coverages varying from \$2,500 or less (about 50 employees) to the maximum of \$50,000 (16 employees). The lack of compliance was attributed to the high cost of the guaranty, which must be borne by the employee. Designated offices where the employee works are charged with follow-up on renewals. The extent to which these follow-up procedures were carried out was not known when the project was prepared.

This situation constituted a significant disincentive to recruiting qualified personnel for positions requiring the fidelity bond. It hindered the promotion of personnel because good candidates are unwilling to take positions that require the purchase of expensive guaranties, and was recognized as an obstacle to the performance of governmental functions in that employees would be reluctant to make decisions involving funds since they were not protected properly.

Implementation

Under the project, the GOH was to establish a government-wide bonding system supported by a GOH trust fund to be used in a self-insurance plan. The central government was to provide limited first layer coverage for all employees requiring it, and to obtain additional coverage, where needed, through the purchase of a fidelity bond from private insurers. A new directorate -- the Office of Public Insurance and Bonding -- was to be set up in the MHCP to manage the bonding system.

On December 14, 1982, the Director of USAID/Honduras sent a letter to the Minister of MHCP stating that a legal structure for this activity had to be in place as a condition precedent for technical assistance to begin. The letter requested the formal creation of the Office of Public Insurance and Bonding with its respective allotment in the central government budget before March 31, 1983. These conditions were reiterated in a follow-up letter dated March 1, 1983.

During the first six months of the project, a draft of a collective bonding contract was prepared to be used by the government in its negotiations with insurance companies. A draft of a proposed State Insurance and Guaranty Law was also prepared to create an office to handle and process the bonds within the MHCP. The proposed legislation extended bonding protection to all officials and employees involved in handling or administering public funds, instead of covering only some senior officials. The draft was approved by the MHCP, but the Controller rejected the idea of establishing the new system in the MHCP, insisting instead that the law should assign the function to his office. He reiterated this point vigorously to the evaluator who interviewed him.

Both the project contractor and the MHCP feel that the Office of the Controller should not carry out operational functions that are incompatible with its functions of post-auditing the governmental fiscal operations. However, because of its great interest in having the directorate established, the MHCP agreed to the Controller's position on this matter. The Project Coordinator at MHCP met with the Controller and a letter, dated June 6, 1984, was drafted by the Controller to request technical assistance for this activity.

An adviser arrived in Honduras in July 1984 to design regulations and corresponding procedures. He prepared a draft of amendments to the regulation of the Controller General Office Law and to the procedures for contracting the blanket position bond. The adviser also prepared an estimate of the budget and staffing for the unit in the Office of the Controller, a listing of the names and addresses of all authorized underwriters in Honduras, draft specifications for bidding, and a letter of invitation to bid. All of these documents were handed for comments, during August 1984, to the Controller and MHCP officials. To help these government officials better understand the proposed system, the adviser prepared and delivered an additional document to the Office of the Controller on October 8, 1984. This was followed by an on-site training in Puerto Rico funded by AID. The Controller, the Secretary of the office, and an adviser to the Attorney General all participated in the training.

On December 28, 1984, the Controller verbally approved the proposed system, subject to the availability of funds. In a letter dated January 28, 1985, the Controller requested the necessary funds from the Minister of MHCP to implement this activity.

Progress

The three main objectives of the EOPS were: 1) the creation of the Office of Public Insurance and Bonding within the MHCP to provide a government-wide bonding system to cover employees who authorize and/or handle government funds or valuable documents; 2) the creation of a government self-insurance trust fund to provide basic coverage with additional coverage purchased from private insurance companies; and 3) the development and use of operation handbooks governing the management of the bonding system.

None of the three objectives has been attained. The first one was modified to allow the bonding functions to stay in the Office of the Controller, but no funds were assigned to that office for this activity. The evaluators do not feel that the EOPS objectives will be achieved by the end of the project.

COMPUTER UTILIZATION

Diagnosis

The computer utilization subproject was to:

- Improve the functioning of various ministry agencies by improving their data processing support;
- Increase government revenues by automating revenue collections; and
- Achieve savings through reduction of personnel.

All of the separate activities of the Development Administration Project are heavily dependent on computer support. In fact, most of the conditions expected at the end of project cannot be realized without the successful completion of the computer activities contemplated in the project design.

The computer portion of the project, as implemented, had four basic components:

- Reconfiguring the computer system of CENI to improve efficiency and performance;
- Training CENI personnel;
- Designing automated procedures for specific application development in support of other activities under the project, including an integrated accounting system, national properties inventory system, human resources planning and budgeting system, procurement and inventory system, check writing, and bank reconciliation program; and
- Developing a master plan for an integrated information system.

Another automated system development activity has important implications for the tax administration AIP, but is being financed and implemented by CIAT and the Interamerican Development Bank.

Implementation

An analysis of project outputs indicates that this activity is on schedule: all outputs are either accomplished or sufficiently in progress to be completed by the end of the project:

Planned	Actual
Plan and implement proposed reconfiguration.	Plan was completed and approved; CENI is implementing.
Establish an education plan.	Completed in 1984.
Evaluate existing data processing facilities.	Completed; report being revised.
Design, develop, and implement an integrated accounting system.	Analysis and conceptualization are completed; system design is scheduled for February-April 1985.
Design, develop, and implement an integrated human resource system.	Data processing design should be completed by the end of February; programming not scheduled.
Design and implement a mechanized system for purchases and inventory control.	Study has been completed, but no action can be taken until new Purveyor is appointed.
Design and develop a system to control GOH motor vehicle inventory.	Cancelled at GOH request.
Design an automated inventory control system for national properties.	Systems analysis is approved in the MHCP, but programming cannot begin until President signs approval.
Prepare and conduct education plan.	Completed; IBM and CENADI have given the first course for 35 programmers and analysts.
Automated system for special disbursement officers.	Accounts were centralized, manual system procedures were developed, and the first system developed by the automated data processing units (PAD) in the Budget Directorate.
Develop system to automate check omissions and bank reconciliation.	Prepared manual procedures; system designed and developed by PAD in the Budget Directorate.

Progress

Although the outputs are on schedule, it is unlikely that the project will achieve the objective of automated support for the various project activities before it ends. In this respect, the project will be unable to meet its major objectives of improving the functioning of the various agencies, increasing revenues, and reducing personnel.

Reconfiguration. This activity is well under way. The recommendations of the advisers were well received and have been acted on by CENI.

Training. Thirty-five CENI analysts and programmers have been trained in a special course conducted by IBM and CENADI. Twenty of those are scheduled for further training.

System and Application Development. It is in this area that the project is likely to fall short of meeting expected conditions before ending. Of the eight major systems to be designed, developed, and implemented, only one and one-half are implemented to date. According to the Director of CENI, CENI has a current backlog of programming and applications of approximately 18 months. Although most of the departments have PADs, most do not have the staff or capability to develop programs. Even if all of the outstanding systems were designed and turned over to programming immediately, the backlog and other timing considerations would prevent the completion and testing of the programs before the scheduled end of project.

At present, only the national properties system has been designed, and it cannot be submitted to programming until it is officially approved. The procurement system cannot be approved until a new Purveyor is appointed. Several of the other systems are in various stages of design and approval. It is already too late to have these systems operational by the end of project, and

since so many of the other EOPS in other activities depend on the completion of the computer programs, the entire project will fall short of achieving its purposes within the specified time frame.

Developing a Master Plan for Information System Development.

As stated in the project paper, this activity depends on other reforms in CENI, and will not be accomplished during the life of the project.

Major Problems

There are major design flaws in the computer utilization subproject: achieving the project outputs is not sufficient to produce the conditions expected at end of project. The advisers have defined their responsibility in this activity as being limited to producing a system design for each subsystem, an education plan, and a reconfiguration study. Implementation is interpreted as being beyond their responsibility, even though the project paper states in many cases that the output includes such implementation. As a result, there is no provision for following through to implementing the designed systems.

The absence of an implementation mandate in the project design has permitted the project to ignore major problems such as scheduling, priorities, and staffing. As a result, most of the systems will not be in place by the end of the project, and many may never be implemented.

There is no structure for implementing the designed systems. There should be a work group for each system, consisting of a technical person, a programmer/analyst, a CENI staff representative, and an adviser.

There is a lack of coordination among the various entities that must be involved in implementing the automated systems. No mechanism exists for resolving scheduling conflicts, setting

priorities, and monitoring progress. Thought should be given to establishing a steering committee with these responsibilities. This group would consist of high-level officials of the MHCP (Directors or Sub-Directors of departments with the power to make decisions and commit resources).

There is a discrepancy between the way CENI is being reorganized and the functions expected of it by the project. CENI is being converted into a computer service bureau providing computer resources to MHCP departments and agencies, but does not view its role as one of programming. There have been staff reductions in the area of systems analysts and programmers in CENI in anticipation of this new role. At the same time, the project assumes that many of the systems and applications will be programmed by CENI. This conflict needs to be resolved.

Responsibility for monitoring progress from onset to completion and testing of systems should rest with the AID-provided consultants; their responsibility should not end when the initial system designs are completed.

The basic approach of the advisers does not build a local capacity to perform systems design, or an internal commitment to the product. Instead of the adviser assisting a local systems analyst and technical person to develop the system design, the advisers work in isolation, writing the designs independently, with no counterpart involvement. Expedience in producing systems design has superceded developing local systems design skills. It is unclear how the training of CENI staff under the project is directly related to achieving the programming objectives of the various AIPs.

GOVERNMENT PROCUREMENT

Diagnosis

Purchasing systems and operating procedures at the GOH Procurement Office are antiquated and cumbersome. Procedures have not changed substantially since 1958, the year in which the General Procurement Act was enacted and the office was created. Research for the Administrative Improvement Project Paper report found that the purchasing cycle averages 118 steps and causes unnecessary delays in the purchasing process. It also indicated that few people in the Procurement Office had a knowledge of up-to-date procurement techniques and practices. There was no official organization chart that indicated assignment of authority and responsibility. There were no mechanisms for establishing long-term supply contracts, and inventory functions were hampered by a lack of adequate physical facilities and materials handling systems. The net results were high operating costs and a poorly performed inventory function.

The normal cost of centralized purchasing averages 2 percent for each dollar spent. Procurement Office operations in GOH fiscal year 1981 resulted in procurement costs 1.8 times higher than the acceptable range. Effects were also felt in a slow implementation of investment expenditures that required centralized procurement, which resulted in the underutilization of both domestic and external resources.

Implementation

The project intends to revamp completely the role and purchasing functions performed by the Procurement Office by significantly reducing the number of steps in the purchasing process. The project intends to implement new delegations of authority to various line agencies, leaving the Procurement Office in a strictly advisory and normative role. Other tasks

include redesigning the warehousing functions, improving materials handling procedures, and increasing the technical capabilities of the office through a training program for its employees.

On March 12, 1982, the Director of USAID/Honduras wrote to the Minister of MHCP to inform him that prior to beginning the provision of technical assistance to the Procurement Office, there must be sufficient legal provisions and authority to allow for implementing the procurement AIP. The target date for the provisions and authority to be in place was set for March 31, 1983. This condition was reiterated in a follow-up project implementation letter dated March 13, 1983.

During the first months of the project, a project adviser conducted a comparative study of a centralized versus a decentralized procurement system, recommending a centralized procurement system, with a certain degree of decentralization for specialized or sophisticated purchases. The adviser also reviewed the Auctions Regulations and Purchasing Agents Regulations and completed a study of the organization's structure and functions.

The Director of the Procurement Office objected to the decentralization scheme included in the drafts of the regulation regarding delegation of purchasing authority to purchasing agents. After some amendments were made to the process of delegation of purchasing authority, he agreed to approve it.

Another difficulty was the Director's belief that only constant and frequent staff rotation could prevent corruption in the office. Therefore, employees were moved from one position to another, almost on a monthly basis. This situation created discontent and low morale among the staff and prevented them from developing competence and skill in the performance of their tasks. The rotation system created a chaotic atmosphere that

ended when the Director was dismissed. At the time of the evaluation, the Procurement Office was administered by an interim Director.

Amendments to the existing Procurement Law were also drafted to make possible the implementation of the recommendations. A draft of the GOH Contracting Law was under discussion in the National Congress in 1984. The new law affects basic aspects of the procurement functions. MHCP officials requested the National Congress lawyers to meet with them and the project advisers to coordinate several aspects of the new law with the procurement regulations that were being prepared. During an interview with one member of the evaluation team, the Vice Minister for Administration of the MHCP expressed the support of the ministry to the process. He had been personally involved with different aspects of the project, and his direct participation has helped to create a favorable climate for implementation.

An additional activity that took place during the six months preceding the evaluation was the design of a form to facilitate the implementation of warehouse bids to supply the agencies' procurement needs. This form will be in use this year. Personnel training will take place during the last six months of the project, after the formal adoption of the new regulation, related procedures, and the proposed reorganization.

AID provided funds for two procurement employees to receive on-site training in Puerto Rico for one month. Project advisers feel that the trip helped the counterparts understand the proposed system and increased their willingness to work for its implementation. During a visit to the Procurement Office, one evaluation team member interviewed one of the participants, the Deputy Director of the Purchasing Department. He was so enthusiastic with what he saw in Puerto Rico that he wrote about

his experience and circulated his piece among the Procurement Office employees. He feels that his colleagues are too doubtful about the changes being proposed.

Progress

Despite the fact that the new procurement procedures were drafted in the first months of the project, they have not yet been approved. The Procurement Office is still without a permanent Director, a fact that complicates decision making. The other achievements contemplated in the AIP -- reorganization of the office, authority for most purchases to be returned to the government's procurement line agencies, and the office efficiently providing commonly used materials and warehouse and supply services to all central government agencies -- are all dependent on the approval and implementation of new rules and regulations that are still being debated among MHCP officials. In addition, there has been a considerable delay introduced by the debate over the proposed new contracting law in the National Congress.

Because of these delays, there is little chance that any of the contemplated conditions expected at the end of the project can be accomplished before the project is scheduled to end in June 1985. Consequently, there is also little likelihood that the planned savings in procurement costs of \$3 million will occur during the scheduled life of the project.

FRANCHISES AND EXEMPTIONS SYSTEM

This new activity was added when the transportation activity was dropped from the project. Its main purpose is to improve the administration of franchises to ensure that import exemptions are granted only for the desired objective and are properly utilized. Control of exemptions will begin from the time applications are received for processing, and will continue through their approval

or denial. To that end, it will be necessary to provide the Franchise Section with the organization, systems, and procedures that will allow more efficient and effective control of the entire process and to train the necessary personnel. The project adviser has prepared a report of his findings and recommendations and has submitted it to MHCP officials for comments. No comments had been received while this evaluation was in progress.

MHCP AND DONOR COORDINATION

During the implementation of the AIP, both GOH and AID Project Coordinators have found that a study of GOH/donor relations is necessary to have a more fluid communications and compatible systems and, therefore, to help in the implementation of donor-financed projects, both ongoing and new. This important area, although a project objective, was not contemplated in the scope of technical assistance contracted with both IRS and Clapp & Mayne. Therefore, the project agreement was amended to provide for the following:

- Identify the several channels of communication between the GOH, AID, and other donors with offices in Honduras;
- Interview as many officers of the GOH and donors as possible to gather their opinions about ministry/donor coordination;
- Select two or three projects to study ministry/donor coordination problems;
- Determine the different relationship system problems and list them according to their importance; and
- Propose solutions to the problems for both the donors and the MHCP.

The following performance outputs were to be sought by the end of the contract:

- A clear identification of problems and situations that interfere with good ministry/donor coordination and impede implementation;

- Proposals for solving the coordination problems, categorized according to urgency and the legal and/or administrative actions required; and
- A proposed standard procedure system for ministry/donor coordination.

This activity has not yet started.

TAX BUDGETING AND STAFFING

This portion of the project has not yet begun, and will not be undertaken unless the project is extended.

TAX FILING AND RECORD KEEPING

This portion of the project has just begun; it is too early to evaluate performance.

CHAPTER THREE

PARTICIPATION OF THE
GOVERNMENT OF HONDURAS AND
MINISTRY OF FINANCE AND PUBLIC CREDIT
AND THEIR SUPPORT OF THE PROGRAMINVOLVEMENT OF MINISTRY OF FINANCE AND PUBLIC CREDIT
PERSONNEL IN EVALUATING AND PLANNING THE PROJECTDegree of Involvement in Problem Analysis

The degree of MHCP involvement in the original problem analysis and program design is unclear, but it appears to have been minimal. Although the original topics may have been proposed by the current Budget Director, there is no indication that MHCP personnel participated in the problem analysis and proposal drafting phase, except as resource personnel to the consultant teams.

Responses by DGT personnel indicated a high level of participation in, and commitment to, implementing recommendations. The new Director has initiated a more participatory style of management within the directorate, and has sought to involve section chiefs in both the planning and the implementation process. Meetings are scheduled for the section chiefs to analyze and discuss problems and solutions in anticipation of an extension of this project.

The other administrative units affected by the project have been actively involved in a continuous process of reviewing the findings and recommendations of the advisers. The MHCP Project Coordinator meets regularly with the officials of these units and with the advisers.

Degree of Involvement in Planning Solutions

Personnel interviewed felt they had been involved in planning the solutions and did not perceive the project as a foreign implantation.

Satisfaction with Adviser Recommendations

MHCP personnel were highly complementary of IRS and Clapp & Mayne technical, organizational, and procedural recommendations.

Satisfaction with Training

The DGT perceives a strong need for further training of personnel. Of 112 auditors who took a standard examination in basic tax auditing, only 15 passed with a mark of 60 percent or better. An intensive training course for auditors in the national university has been well received by management (including the Vice Minister). However, the low level of staff skills has been recognized as a major impediment to improving the performance of the department.

The other administrative units involved in the project have been highly satisfied with local training. Those who were trained in Puerto Rico were enthusiastic about the fact that they were able to see first hand how the new procedures recommended by the advisers actually performed in the Puerto Rican agencies.

GOVERNMENT OF HONDURAS SUPPORT OF THE PROJECT

The degree of GOH/MHCP support for the project has varied greatly for each activity.

GOH/MHCP support for the tax administration activity has been relatively strong. The GOH has taken significant steps to increase tax revenues and has implemented most of the major recommendations and conditions precedent of the project. These include major actions on increasing the interest rate on delinquent accounts from 4 percent per year to 24 percent per year, reorganizing the DGT along the lines of the major recommendations made by the Organization of American States in 1980, increasing the standard deduction for low income filers from L.1,500 to L.5,000, and approving changes in the procedures for calculating estimated taxes. Of the five actions specified in the project paper, only a minor recommendation to streamline the use of the tax identification number has not been acted on.

In the revenue collection activity, there has been neither resistance to nor enthusiasm for the proposed changes. However, the contemplated elimination of the 32 collection agencies is a very difficult objective to attain. If the collection functions of these agencies do not pass to the Central Bank, as recommended in the AIP, a compromise alternative, suggested by some MHCP officials, could be to relocate them within the ministry. In this area, as in others, the team conducting this evaluation has noticed a great reluctance on the part of top officials to reduce the size of their operations.

In the treasury administration activity, the attitude of the officials involved seems to have moved from a position of initial resistance to one of complete support for the AIP. The fact that some of the changes prescribed had to be coordinated with the Central Bank has accounted for most of the considerable delays.

In the integrated government accounting activity, four different units of the MHCP are affected: the Audit Department, the Treasury Office, the Budget Directorate, and the Public Credit Directorate. The Audit Department has supported the activity from the start. As officials there have become increasingly aware of the AIP, they have increased their support because they view the EOPS of this activity as a reinforcement of their current functions. The Public Credit Directorate has reacted negatively for the opposite reason. Officials there feel that the intended changes are not needed and have identified other areas in which their office might have benefited more from technical assistance activities. Both the Treasurer and the Budget Director are going along with the changes proposed.

In the public employee bonding system activity, the degree of success has depended on perceptions of how the changes would affect their offices. The Budget Directorate strongly has supported the AIP when it thought that the Bonding Directorate would be transferred there. The Auditor opposed it vehemently and wanted the task to stay under his jurisdiction. After the Auditor's views prevailed, he lent his whole support to the AIP, but the Budget Director withdrew his. Although the Budget Director has not expressed it openly, his changed attitude toward the AIP has been noticed by other officials. Since he controls the national budget, he might be a major obstacle to the allocation of the necessary funds that will be required for the scheme proposed by the advisers.

In the government procurement activity, officials were uncooperative when the activity started. The constant rotation of the technical staff precluded any success in implementing changes. To complicate the situation further, the first project adviser to the AIP did not function satisfactorily. After a new adviser was assigned and the Procurement Director dismissed, some support has been forthcoming from the technical staff. The new adviser seems to enjoy the respect and credibility of the staff.

CURRENT HIGH-LEVEL COMMITMENT BY THE
MINISTRY OF FINANCE AND PUBLIC CREDIT

Budget and Staffing

The size of the Budget Directorate is inadequate for the level of activity expected and required of a modern tax system. As in other governmental agencies, salaries are low, and turnover in personnel (particularly top echelon personnel) is relatively high. There have been four DGT Directors in the past two years.

The budget level is also inadequate for the other activities of the project. The MHCP has not been able to provide basic office supplies and other equipment as anticipated in the project paper.

Action on Adviser Recommendations

Over the past two years, the major recommendations of the tax advisers have been accepted and acted upon, although in most cases only after considerable delays. In this period, the DGT created a Field Collections Office, modified filing procedures, eliminated the preliminary manual audits, assigned collection staff to regional offices, and established permanent tax groups in San Pedro Sula. Nevertheless, numerous recommendations have not been acted on. In most cases, the incumbent Director took no action at all. In only one case did the Director oppose a recommendation of the advisers -- that is, to establish the field collections office as part of the Audit Department.

With the arrival of the new Director of Taxation in December 1984, the DGT has aggressively followed up on adviser recommendations. This has included the elimination of preliminary auditing of returns in favor of computer pre-selection, and initiating an experimental program of allowing auditors not to punch in or out in the central ministry office.

At present, it appears that this activity has a high degree of support in the DGT.

Most of the project's other activities have encountered the same problems. MHCP officials have been slow in acting on adviser recommendations and reports, in some cases, as a result of changes in personnel; in others, disagreement with proposals and recommendations; and in still others, the normal, lengthy, process of evaluating and acting on proposals. This is responsible in great part for the delays that have impeded the timely completion of the project, with the result that many project outputs and purpose conditions will not be achieved during the life of the project. The project plan was probably over-optimistic in assuming that these major changes could be achieved within such a short time frame.

Funding to Implement Recommendations

GOH funding for the DGT has not been adequate, as a result in part of the overall fiscal problems of the government. Most funds supporting project recommendations have come from ESF, as has been the case with all current development project counterpart funds. In the Public Bonding Program, although the new procedures were approved at all levels, funding has not been provided to implement the new system.

Government Satisfaction with Participation and Willingness to Expand Its Effort

MHCP personnel unanimously felt that they had participated fully in the design and implementation of project activities. Under the new DGT Director, participation of DGT personnel has increased even more. The personnel are enthusiastic about the new activities and procedures and committed to improving performance.

Other Observations

The evaluators feel that some of the problems that have arisen could have been minimized if the MHCP officials affected had a better understanding of the implications of the project for their own operations. The degree of interaction between the advisers and the units they were advising has not been as extensive as it could have been. Most of the advisers' contacts have been only with their official counterparts. The project advisers are assigned a room on the second floor of MHCP. The room has six desks that practically fill it up and leave little space to move around. The Resident Director and a Secretary occupy two of the desks, and the others are used by the visiting advisers. While this evaluation was in progress, there were more advisers than there were desks available.

This lack of office space for the advisers is not a sign of lack of support for the advisers. The MHCP is overcrowded, and some of its regular employees work under similar conditions. The ideal situation would have been for each adviser to be located in the office he was studying and assisting, as is the case for the adviser in the Office of the Purveyor. This would have allowed the advisers to increase their contacts with their counterparts and to develop a greater awareness of the problems faced by the civil servants. In the case of some of the activities -- where there is no specific office affected or where several are (such as the integrated accounting system activity) -- office space at MHCP could have been used. But whenever possible, the advisers should have been stationed near their counterparts. This arrangement would have increased the active involvement of counterparts in the planning and implementation of project activities.

After this problem was discussed with the Project Liaison Officer at AID and with the Clapp & Mayne Resident Director, some first steps were taken to solve the problem while this evaluation was in progress. The MHCP Project Coordinator arranged for two

short-term advisers to move into the units with which they work. The new arrangement was in operation for two days when one evaluator visited the units involved and observed a marked improvement in the flow of communications between the advisers and their MHCP counterparts. All parties involved appeared satisfied with the new arrangement, which, in a way, underlines the responsiveness of MHCP officials to the concerns of the evaluators.

ADEQUACY OF THE PROJECT COORDINATING OFFICE OF THE
MINISTRY OF FINANCE AND PUBLIC CREDIT

Institutional and Organizational Arrangements

The Project Coordinating Office performs three major functions in the MHCP: economic policy advice and analysis for the Minister, analysis and monitoring of financial and economic policies, and administrative analysis for the MHCP. Support for this project falls under the area of administrative analysis. It is one of three major projects in that section, and one of approximately 10 activities of the Project Coordinating Officer.

The technical adviser to the MHCP is also the Project Coordinator within the MHCP. She is the principal individual responsible for the preparation of project documentation, for coordination, and for liaison with the implementing units and AID. She also chairs the monthly meetings where the reports of the technical advisers contracted by Clapp & Mayne and the IRS are jointly reviewed by herself, the AID Project Officer, the Project Support Officer, the Project Liaison Officer, and the advisers. Project coordination at the MHCP is primarily technical. The Project Coordinator studies the drafts of the advisers' reports and gives feedback to the contractor. She tries to expedite reactions to the reports from the officials of the areas involved, but often her efforts are limited by the changes in personnel that occur and over which she has little control. The project was further delayed when the Minister was

replaced in August 1984, at a crucial moment in the development of the project. At that time, the Project Coordinator, who kept her position as technical adviser to the new Minister, was instrumental in keeping up the momentum of the project.

Originally, according to the Project Implementation Letter No. 3 of March 11, 1983, two professionals on the staff of the technical adviser's office were to work on a permanent basis with the project. However, the two have been fulfilling other duties as well. The evaluators do not feel that their full-time participation was required at all times since the approval of the new regulations and the amendments to the existing ones have been taking place slowly. The support of the Project Coordinator and the project staff appears adequate. Sometimes the staff have not been able to supply the advisers with the necessary office equipment and supplies, but this has always been because of the budget squeeze that affects the entire MHCP. The evaluator feels that both the GOH and the MHCP have fulfilled their contractual obligations within the limits of their budgetary capability.

Effectiveness of Project Coordinating Office in Promoting, Assisting, and Sustaining the Project

The Project Coordinating Office is a staff office supporting the Minister. It has functioned well as an entry point for the advisers but has been less effective as a decision-making or implementation office because it lacks the line authority to enforce decisions and to demand action. The large number of unresolved or pending actions illustrates this situation. This role in implementation will become more important if the project is extended, and the contractor activities move from the planning and design stage to an implementation phase.

Alternatives

If the project is extended, either the functions of the Project Coordinating Office should be substantially revised to

provide a more direct implementation role or an alternative implementation mechanism should be created to replace the Project Coordinating Office. Alternatives include:

- Establish systems and methods groups, much as those suggested by the contractor team, to oversee development. These could be a single major unit under the direct supervision of the Minister, or staff departments under each of the Vice Ministers. Whichever is the case, these should have authority to enforce implementation of the new systems and procedures and to monitor and enforce adherence to procedures. At a lower level, each department should have an internal systems and methods group. The AID advisers would assist these groups rather than providing direct implementation assistance.
- Establish a project management unit with a steering committee, consisting of the Directors or Sub-Directors of the various agencies, to meet regularly to review implementation progress and decide on issues presented by the advisers and local counterparts. Below this committee, a series of implementation groups would be established to implement each activity. These would consist of local personnel, with a group leader from the agency involved, a systems analyst/programmer from that agency's PAD, a representative from CENI, and other persons as needed. This group would have the responsibility to implement the project, making regular reports of progress to the steering committee and raising problems and issues for decisions by that group.

The Project Liaison Officer at AID has played an important role in facilitating the work of the MHCP Project Coordinator. His wide knowledge of the working of the MHCP and the GOH has been a valuable asset to the AIP. His continued association with the project should be seriously considered if the project is extended.

CHAPTER FOUR

IMPACT OF THE DEVELOPMENT ADMINISTRATION PROJECT
ON THE MINISTRY OF FINANCE AND PUBLIC CREDIT

Although it is too early to assess the project's full impact on MHCP, this evaluation uncovered several areas in which the project has made a difference. The first of these relates to the information it provided to top MHCP officials. Several of those interviewed, including the Vice Minister, stated that, although they were aware of problem areas under their jurisdiction, the project increased their awareness of the magnitude of the problems. They feel that the project facilitated decision making and increased their effectiveness by making valuable information available to them. One example is the problem that existed in the Purveyor's Office. Since that office is not situated in the main MHCP building, its activities were not closely supervised. Rumors had circulated about the capricious management style of the Purveyor, but only when the project analysis enabled the problem to be brought to the attention of the MHCP did the Vice Minister realize the full extent of the situation. In several other areas, the project has provided valuable information to MHCP decision makers.

In addition to the availability of information, the project has given a sense of self-confidence to some MHCP officials. They were isolated and tended to view problems within a narrow confine. Interaction with the advisers has established for them a valuable professional network. Those who were sent to Puerto Rico or the United States to observe how similar systems work have all come back with a sense of commitment to the project and a faith that changes are possible after all. As one of them pointed out to the evaluator: "After all, Puerto Rico was like us 50 years ago."

In the few activities in which partial implementation is taking place, the savings in time can already be seen. In the Treasurer's Office, for example, the mechanization of the checks

is allowing a shifting in duties among the numerous people who were involved in the manual process. Some long-neglected operations and backlogs can now be taken care of.

Even in those areas where implementation is not yet under way, the officials have acquired a new awareness of the importance of their functions. A good example is the Directorate for National Property in the Audit Department. The head of that office returned from his training in Puerto Rico with the firm conviction that the proposed changes in his program are absolutely necessary and is now willing to promote them. Data mechanization will allow him, at any given moment, to know instantly the total value of the national patrimony.

Another important impact has been the sensitization of MHCP officials to the interaction that exists between the different activities. Prior to the project, the tendency was for each unit to operate as a separate island. Each official wanted a full monopoly over his own information. Despite the continuing resistance of some officials in this area, many of them acknowledge that they perceive better the exact contribution of their tasks to the working of the entire MHCP. The greater efficiency and effectiveness of the operations in those areas where the project is being partially implemented have led to the belief that MHCP operations will improve considerably when all the reforms contemplated by the project have occurred.

Because of the patronage system that exists in the GOH, the evaluators do not believe that the savings projected from personnel reductions will be achieved. As certain operations are eliminated, affected personnel will probably be integrated in other existing units: no reductions in personnel have occurred to date. The projected savings were in most cases short-run ones that were easy to identify and quantify by the designers of the project. The real long-run savings to the MHCP and the GOH cannot be measured until most of the changes advocated by the project have been implemented over an extended period.

CHAPTER FIVE

SUSTAINABILITY OF RESULTS

In spite of the accomplishments of the Development Administration Project, the evaluation team is concerned with the prospects for long-term sustainability of these results. These concerns derive from five specific conditions, two external to the immediate focus of the project, and three related to the nature and approach of the project itself.

In the former category is the possibility that GOH civil service and personnel systems could lead to high employee turnover, low morale, and low productivity, regardless of the success or failure of the project. In the latter category, the short time frame and short-term assistance focus of the project, the formalistic approach to organizational reform, and the absence of continuous GOH participation in problem analysis and the design and implementation of solutions could militate against the long-term continuation of project-developed reforms.

FACTORS EXTERNAL TO THE PROJECT

The Civil Service System

The GOH civil service system does not provide effective job security for ministry personnel. In the event of a change in government, or even in factions within the government, wholesale personnel changes are not only possible, but also likely. These changes would affect not only the clerical and operational staff, but also the upper echelon personnel. In fact, it was reported to the evaluation team that changes in secretarial and operational staff were likely because these skills can be easily duplicated.

The stability of government procedures and processes depends on the stability of the personnel. The traditionally accepted patronage system that exists in the GOH might at any time wipe out years of investments in human resources training. New employees would not have any commitment to the project, and the entire effort could be set back several years. To the extent that large-scale personnel replacement could occur, the sustainability of the results of this project (or any other one similar to it) is in jeopardy.

Personnel System

The GOH does not have a personnel and job grading system that adequately supports reform and increased productivity. Within the administrative units involved in this project, there are numerous examples of chiefs of sections and supervisors receiving lower income than the employees they supervise. This has had a negative impact on employee morale and on the willingness of supervisors to fulfill their supervisory role.

This situation is aggravated by the serious financial difficulty the GOH is currently experiencing. Raises have been few for existing employees, even when the employee is promoted to a position of higher responsibility and authority. In some instances, newly hired, untrained and unskilled employees receive higher salaries than experienced and qualified existing employees. In others, newly appointed supervisors have been reluctant to exercise supervisory responsibility because, as one supervisor put it, "I did not receive any additional salary for this promotion. I am not being paid for the additional grief that would be brought on by trying to supervise and criticize these employees, so why should I do it?" In many cases, the employees being supervised have independent political support that makes them immune to effective supervision.

Bureaucratic Slowness

Another factor is the inherent bureaucratic slowness that creates red tape where it does not need to exist and tends to slow down the progress of the project. At first, the evaluators thought that this was a form of passive resistance to the project, but after further observation and interviews, it appears that this slow performance instead is ingrained in the bureaucracy.

Active Resistance to Change

Some officials seem to be delaying the approval of some of the advisers' reports beyond the point of normal bureaucratic slowness. There were rumors that one official had no intention of acting on a report that he had. However, this could not be verified.

Absence of Effective Coordination

Finally, each office within the MHCP seems to operate without any informal coordination with the others. Most interactions are done through formally established channels. The top officials of these units often try to monopolize their areas of activity and see any coordination attempt as a dangerous encroachment to their prerogatives and power. More than once, the evaluators were told by high-ranking officials: "The Organic Law of the Republic gives me responsibility for. . . ."

Impact of External Factors

Dissatisfaction with wage levels and promotions has led to low productivity, low initiative, reluctance to pursue or support change, and rapid turnover in personnel. The absence of civil service job security will also lead to high personnel turnover.

Stability of personnel and a willingness to initiate and support changes are essential to successful long-term administrative reform. In the absence of corrective action in these two areas, the chances of achieving meaningful improvements in public administration appear doubtful.

PROJECT-RELATED FACTORS

Time Frame of the Project

The Development Assistance Project, which was scheduled to be a two-year activity, incorporated an ambitious range of activities and levels of expected accomplishments. In retrospect, the actual levels of accomplishment of scheduled outputs and project conditions are evidence that these were overly optimistic. Improving development administration implies changes in human and organizational behavior; yet these can seldom be accomplished in a short time. The delays in implementation that occurred in this project were those of introducing behavioral change.

The result, however, has been that many activities have not been completed, and will most likely not be during the life of the project. A review both of the conditions expected at end of project and of the expected outputs shows that many will have reached the stage of adoption, but will not have been institutionalized because there is insufficient time to reinforce and supervise their implementation. In fact, many activities will just be in the stage of formal approval at the scheduled end-of-project time. Without adequate follow-up, it is unlikely that the procedure, rules, forms, and manuals that constitute much of the expected output and EOPS will in fact be implemented and sustained.

Short-Term Technical Assistance

The use of short-term technical experts to accomplish specific tasks has frequently been accompanied by an inability to provide implementation assistance or follow-up on initiatives. Particularly in the case of the Clapp & Mayne activities -- where the project design stipulates that the contractor provides short-term TDY to develop recommendations, obtain GOH approval, and implement the recommendations -- the project is brought to the point of adoption. However, there is either no time left in the short-term technical assistance contract for implementation, or the approval process has taken so long that the technician has already left post. There has been less of a problem in this respect with the IRS portion of the project because the long-term advisers are able to provide extended technical follow-up and reinforcement for the short-term advisers recommendations.

Institutional change requires time, and it requires reinforcement and follow-up. These have been lacking in the design of this project.

Absence of Government of Honduras Participation

From a review of project documentation, interviews with MHCP officials, and discussions with USAID and contractor personnel, the evaluation team concludes that there was little GOH participation in problem analysis and definition, project design, and even project implementation. This project appears to be one that was conceived from outside, and analyzed, designed, and implemented by outsiders. GOH participation in the initial analysis of problems and development of AIPs was limited to providing information to the consultant teams and approving the conclusions and recommendations. Counterparts, particularly in the Clapp & Mayne activities, fulfill the role of providers of information but not of active participants and designers or decision makers.

There is frequently a tradeoff between having an outside expert do the work to produce the specified project outputs quickly, and taking the time to develop local capacity and understanding to achieve better adoption and institutionalization of the results.

Development assistance in institution building has taught that organizational change will not take place unless the personnel of that organization are active (even primary) participants in the process of analyzing problems, designing solutions, and implementing the changes. The Development Assistance Project is notably lacking in this aspect, and much of the resistance and lack of measurable progress toward EOPS can, in the opinion of the evaluation team, be directly traced to this fact.

Project Approach

This project, especially the Clapp & Mayne components, has been implemented (in response to the project design) using a formalistic and legalistic approach to institutional reform. If one looks at the outputs and EOPS specified in that project design, one finds that these are defined in terms of procedures, regulations, forms, and manuals developed and of procedures, regulations, forms, and manuals legalized. A brief training course for lower-echelon people is the only form of implementation support mentioned in the project documentation and in the interviews this evaluation team conducted with the contractor staff. There is virtually no provision for participation by local personnel, for follow-up and reinforcement, for trouble shooting, and for correcting problems. The project design assumes that the approval and publication of rules regulations, procedures, forms, and manuals will produce the changes necessary to implement the new system. This approach has seldom worked in the past 25 years of AID involvement in Latin America, and it is doubtful that it will lead to implemented or sustained results in Honduras today.

Building Sustainability

Despite all of the negative factors, the project, when it is fully implemented, might be successful if those officials who are affected are properly trained. New employees will also have to be trained. USAID/Honduras should constantly remind successive officials at the MHCP that their own success will depend partly on the utilization of talents that are already in place.

In addition to training programs, a mechanism has to be put in place to follow through with the implementation of the AIPs after this project is completed. A number of impressive starts have been made through this project. And notwithstanding the extent to which project, AID, and MHCP staff seem to be generally satisfied with progress to date, further actions are essential if any sustainability is to be ensured. In the absence of these actions, the project will leave the MHCP with a series of activities in various stages of development and implementation. The evaluation team's recommendations for increasing the institutionalization and sustainability of the results include the following:

- Extend the Project. Given the status of many project activities, the limited time and funds remaining do not permit sufficient follow-up and reinforcement of the short-term advisory recommendations.
- Change the Role of the Technical Advisers, particularly in the case of the Clapp & Mayne activities. In the follow-on project, the advisers should serve as advisers to ministry personnel who are in charge of supervising and implementing the changes. The advisers should not be the implementers or the supervisors.
- Establish Departmental Systems and Methods Groups. One suggestion that Clapp & Mayne has made repeatedly should be implemented: each department in the ministry that participates in this project should establish a systems and methods group, which has the responsibility for both developing and overseeing the implementation of new procedures and systems. Adviser activity should support these groups, but the groups should be the responsible implementers.

- Establish a Ministerial-Level Systems and Methods Group. A similar project implementation unit should be established ideally at the level of the Minister's office. This unit would be more operational than the current Project Coordinating Office, and would oversee the implementation and enforce the observance of procedures, standards, and rules.
- Develop a More Participatory Approach to the Project. In both the implementation of current activities and the design and development of new ones, the project should be designed along a more collaborative and participatory style. Under no circumstances should the advisers be permitted to continue working in isolation, doing the work of the project. They should be supporting the work of MHCP personnel, and it should be those personnel who analyze the problems, design the solutions, and make the recommendations for change. The role of the advisers should be one of facilitating and technically supporting the work of the ministry personnel, not doing that work for them.

CHAPTER SIX
RECOMMENDATIONS

1. Pressure the MHCP for Faster Action on AIPs.

A major cause for the delay in the progress of the AIPs has been the repeated delays by MHCP officials in acting on the advisers' reports. Many of the EOPS will not be attainable until the regulations for the new organization are approved and become operative. It is important that the highest ranking officials of the MHCP become involved and pressure their staff to expedite the consideration and approval of the reports. In some instances, modifications to the advisers' recommendations might be needed, and a procedure should be set up for quick final approval as soon as any needed modifications are completed.

2. The Project Should Be Extended.

If USAID/Honduras and the GOH want to achieve the stated purposes of this project, the project will have to be extended. There is little chance that fully implemented and sustainable systems will be in place during the remaining life of the project. The process of institutionalizing reforms is long term. Even after the DGT had officially adopted new procedures and policies, the advisers found numerous errors in implementing them. Additional assistance should be provided to reinforce and ensure the continuation of adopted policies and procedures, but it should be less intensive.

One key aspect of the project is the training component that is included at the time the adviser's recommendations are being implemented. This training will allow MHCP officials to familiarize themselves with their new functions and should develop in them a sense of commitment to the proposed changes. There is little likelihood that the project will reach that stage by June 1985. Terminating it according to schedule might result in a total loss.

3. Create a Systems Office in the MHCP.

One project objective was to increase MHCP performance by creating a network of functionally and closely interrelated units. A quick review of MHCP's current organization reveals that many old-fashioned units and systems are superimposed on and frequently conflict with modern ones.

Therefore, it will be necessary to design and implement systems and administrative procedures to facilitate the interactions among these units. In addition, these systems and procedures will also define the proper linkages that should exist between the individual units and the main center of decision making, the Minister's office. The new Systems Office might serve as counterpart to the advisers and undertake their tasks after they are gone.

4. Redesign the Project Approach.

Any continuation of the project should substantially modify the approach utilized. The focus should be on implementing recommendations rather than formulating them. The project should also be developed around a more collaborative style, with consultants doing less of the direct work. They should act more as advisers to the work of counterparts than as implementers themselves.

CHAPTER SEVEN

NEW AREAS TO BE SUPPORTED

The Development Assistance Project was intended to be a pilot project. Therefore, it was limited in scope and budget. A decision on whether to extend the project to include new activities or to provide assistance to other government Ministries was to depend on the success in implementing the limited set of objectives in the MCHP. Some new activities have been identified by the advisers and coordinators that could be covered if the project were to be extended.

OTHER ACTIVITIES IN AREAS CURRENTLY INCLUDED
IN THE PROJECT

The identification and inclusion in the project of key administrative units have permitted, through the implementation of the AIPs, the elimination of blockages to improved performance. In the process, project participants have realized that certain areas remain in which additional action is necessary to complete the work already done. Some of these areas are discussed below.

1. Implementation of Improvements to the Mechanized System. The programming for public employees payroll has to be completely amended, according to the data processing experts. This system has to be updated and totally mechanized so that the MHCP can rely on a modern payroll system to expedite the process. During the evaluation of the MHCP PAD's task, the adviser in charge recommended a complete reprogramming of all Budget Directorate applications and a reorganization of MHCP data processing activities. Implementation of this recommendation is strongly urged in order that the MHCP data processing system be based on updated and modern techniques.

2. Integrated Government Accounting System. While implementing the present AIP scope of work, which deals with the integration of the GOH accounting system, the project advisers have found that GOH financial statements do not comply with generally accepted accounting principles. They have recommended an automated system for the recording of accounting entries in the general ledger, thus accelerating the process and the preparation of accurate, reliable, and timely financial statements for the GOH, investors, and the general public. At present, no reliable financial statements are produced for the process of decision making. This activity should be undertaken as soon as the integrated government accounting system activity currently under way is completed.

3. Public Employee Bonding System. The current AIP is limited to central government employees bonding. Once it is implemented, its extension to decentralized institutions and contractors should be studied for coordination and cost-reducing purposes.

4. Tax Administration. The Director of Taxation has scheduled meetings with his senior staff to discuss problem areas and needs for future assistance. Actual determination of suggested areas for assistance should come from that group. The advisers already have identified a number of areas that, in their opinion, should be addressed.

ACTIVITIES IN NEWLY IDENTIFIED AREAS

Through the study of specific activities in selected key units, the participants in the project have become aware of new areas of action in these units, and they have also identified some important activities in new units that should be considered in any extension of the project. These new areas are discussed below.

1. Technical Assistance to the Public Credit Directorate. Involvement of the project with Public Credit Directorate has been limited to its participation in the GOH accounting system. The advisers have realized, however, that the directorate deals with many matters not related functionally to it. Recommendations have been issued, therefore, for the directorate to be released from these functions. In addition, the directorate lacks sufficient expertise to deal with matters inherent to its functions, such as loan negotiation and contracting as well as all of the loan preparation and loan allocation processes. The MHCP has tried to provide the required expertise by contracting national experts, and ESF financing has been considered for that purpose. However, this would only partially solve the problem. Technical assistance should include both organizational and technical consultancy for an institutional improvement at Public Credit Directorate.

2. Insurance Program for the GOH. In implementing the public employee bonding AIP, project members have become aware of the almost complete lack of an insurance system for government real property, employees, and third persons in GOH premises. Technical assistance is therefore suggested to design and implement a comprehensive insurance program for the GOH.

3. Customs Administration. This activity was intended for inclusion in the current project. Currently, both AID and the MHCP have expressed interest in its implementation.

4. Analysis of Functions of the Decentralized Institutions Superintendency of the Budget Directorate. Early in the implementation of the project, MHCP requested assistance from AID to analyze the functions of this office. Although no agreement was reached, interest remains.

5. Improvement of Procedures and Auditing Capability of the GOH. The Controller has requested assistance from AID to organize his office. A proposal has been drafted to extend this assistance to all auditing units of the GOH. Besides the updating of the GOH auditing system, the new procedures would improve surveillance of AID-financed projects.

6. Analysis and Review of the Franchise System. In dealing with the Franchise Administration Unit at the MHCP, the project members have realized that the problem is to be seen in a wider context. Assistance is currently limited to the processing of franchises in the Franchise Administration Unit. Additional technical assistance is important for a comprehensive examination of the administration of the system, extending the scope of work to other ministries and agencies where the processing of franchises begins. Examination of existing laws for the control of franchises and recommendations on amendments to the laws in force would also be essential.

7. Analysis and Review of the Income Unit. In recent years, a unit has been created in the Budget Directorate to deal with GOH income. As a result of the importance of this matter, the GOH officers have indicated their interest in receiving AID technical assistance for this office. Attention for this would be a logical step after implementing the revenue collection AIF presently under way.

8. Training. Training played a limited role in the original design of the project, and as a result, emphasis is being given to on-the-job training. It was quickly realized that a wider training program needed to be developed to facilitate achievement of the project's objective to be self-sustaining. Therefore, resources have been divorced from other AID projects to finance short- and long-term training both in-country and abroad. A wide training program should be designed and implemented to support the administrative reforms achieved through the project.

ANNEX A
PROGRESS TOWARD ACHIEVING PROJECT PURPOSE

ANNEX A

PROGRESS TOWARD ACHIEVING PROJECT PURPOSE

Details on the conditions expected at the end of the project (EOPS) were extracted from the project paper and project agreement. Data on current status were provided by the project's resident advisers. Although this checklist should not be used as the only criteria for evaluating project success, it provides a quick comparison between the planned results that justified the project and the current status of progress toward meeting those specific objectives.

Planned	Actual
<u>Tax Administration</u>	
Tax collections increased by 10% per year in real terms.	Revenues increased 21.02% between 1983 and 1984 in current terms.
Increase in number of returns filed (after allowance for 1983 legislation that reduced the number).	Because of legislation the number of returns filed decreased from 124,774 in 1982 to 99,513 in 1984.
Increased number of tax returns audited each year.	The number has decreased from 13,641 in 1982 to 9,895 in 1984, as a result of several extraneous factors.
Improved quality of audits.	Additional assessments resulting from audits increased from L.23,012,200 in 1982 to L.24,396,000 in 1984, even though the number of audits declined. Also, the amount of reduction of additional assessments in the appeals process decreased from 31.0% in 1982 to 23.75% in 1984.
Reduced number and amount of delinquent accounts.	Accurate data are not available on either the number or amount of delinquent accounts. Experience of the new Collections Department has been positive.

PROGRESS -- Continued

Planned	Actual
<u>Revenue Administration</u>	
Increase financial savings an estimated \$1 million per year by transferring collections to the Central Bank.	Collections have not been transferred to the Central Bank, so no savings have been realized.
Increase financial savings by mechanizing all reporting work.	Manual procedures have not yet been approved, so no progress has been made on automating procedures and no savings have been realized.
Increase revenues by increasing the collection of outstanding tax debts.	Transferred to IRS portion of project.

Treasury Management

Increase central government revenues through short-term investment of idle cash funds.	This depends on consolidating accounts in the Central Bank; this has not been accomplished.
Reduced costs to MHCP of interest on overdrafts.	Also depends on consolidation of bank accounts and contract between Central Bank and MHCP; these have not been achieved
Improved capacity of Treasury Office to administer funds, including: <ul style="list-style-type: none"> ● Control in MHCP of all cash funds; ● Reduction in number of accounts; ● Fair compensation program with Central Bank; ● Improved public debt programming; ● Improved cash management; and ● Greater control over disbursing officers and payment administrators. 	No information.

PROGRESS -- Continued

Planned	Actual
Improved quality of staff -- from bookkeepers to a source of financial expertise for developing financial policy.	No information.
Efficient GOH disbursement system installed and operating satisfactorily.	A new computerized check-writing system has been installed in the Treasury, and a system for special disbursing officers has been partially implemented.
Increased savings to GOH through reduction of personnel in check-writing function.	No reductions to date; personnel will apparently be relocated to other functions.
Ability to maintain strict control over check issuance.	Check issuance is strictly controlled by the new computerized system.

Procurement Administration

Savings of approximately \$3 million per year in procurement costs.	Recommendations have not been acted on; no savings to date.
Reduced losses from poor quality products, rough handling of materials, and theft.	Recommendations have not been acted on; no reduction in losses to date.
Reduction in number of procedural steps required for procurement.	Recommendations have not been acted on; no reduction to date.
Improved quality of procurement operations and increased productivity.	Recommendations have not been acted on; no improvements to date.
Revised purchasing system with delegation of authority, effective centralized norms, regulations, procedures, information, and control.	Recommendations have not been acted on; no revisions to date.
Improved purchasing capabilities and technical knowledge of employees.	Four purchasing analysts and counterparts have been trained.

PROGRESS -- Continued

Planned	Actual
<u>Public Employee Bonding</u>	
Improved protection of GOH funds and assets from criminal and negligent acts.	Recommendations have not been acted on; no improvement to date.
Improved personnel because of elimination of personal cost and liability for bond.	Recommendations have not been acted on; no improvement to date.
Modern methods of risk administration in operation in the GOH.	Recommendations have not been acted on; no improvement to date.
Reduced cost of risk administration.	Recommendations have not been acted on; no improvement to date.
Savings to GOH by being able to contract insurance and bonding without being subject to premium rate controls.	Recommendations have not been acted on; no improvement to date.
Office of Public Insurance and Bonding established, and:	Recommendations have not been acted on; no improvement to date.
<ul style="list-style-type: none"> ● Determining correct amounts of guarantees required; ● Soliciting and evaluating bids, and awarding contracts for insurance; ● Budgeting; ● Maintaining records; ● Enforcing regulations; ● Handling claims; and ● Coordinating with other agencies. 	

PROGRESS -- Continued

Planned

Actual

Integrated Accounting System

Savings to GOH of \$100,000 per year by reducing staff by 40 persons.	Recommendations have not been acted on; no savings to date.
Savings of \$330,000 per year through improved public property management.	Recommendations have not been acted on; no savings to date.
Savings to GOH through the mechanization of manual accounting procedures.	Automation is partially implemented; no savings to date.
Simplified centralized property accounting system operational.	System has not yet been designed and programmed.
Integrated payment and accounting system in operation.	Automated check issuance subsystem is operational; others are yet to be designed.
Improved fiscal accounting, financial management, and public property information system in operation.	These systems are in various stages of research and design.

Computer Utilization

Improved functions of various MHCP agencies by improving their data processing support.	Improvements have been noticed in the performance of the Treasury through the automated check issuance and disbursement systems.
Increase GOH revenues by automating revenue collection administration.	System design and programming have not initiated yet, so no impact to date.
Achieve savings through reduction of personnel in areas that have been automated.	There has been no reduction of personnel in these areas to date.
Improved utilization and performance of CENI computer facility.	Since the reconfiguration is not yet complete and few of the new systems are implemented, the project has had no impact on CENI performance and utilization to date.

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ANNEX B

OUTPUTS

ANNEX B

OUTPUTS

Details on expected outputs were extracted from the project paper and project agreement. Information on the current status of outputs was provided by the project's resident advisers.

<u>Planned</u>	<u>Actual</u>
<u>Tax Administration</u>	
Design and put into effect an organizational structure; transfer collection from customs to DGT; establish Collections Department.	Established Collections Department; removed regional office operations from Audit Department and placed under Sub-director; pending - restructure Alcohol Unit.
Update the RTN master file to separate taxpayers from non-taxpayers.	In process - is a part of the RUC/CC project of CIAT advisers.
Add check digit.	Check digit added in 1983.
Establish system to key current addresses on all taxpayers.	Address routinely transcribed if income tax return is not pre-addressed.
Develop and install computer-assisted methods of cross-checking selective returns for audit. Reduce manual review of returns.	Manual review reduced; computerized audit selection implemented and in process of refinement.
Design and install simplified system for tax withholding and estimated taxes; automate the withholding process.	Estimated taxes calculation simplified. Withholding to be automated and included on current account by CIAT advisers.
Improve tax appeal process.	TDY suggestions made to improve the flow of work and control of documents.
Train auditors in tax audit techniques.	Training given by IRS TDY.
Eliminate duplication of focus and effort.	Some forms eliminated, others re-designed.

OUTPUTS -- Continued

<u>Planned</u>	<u>Actual</u>
<u>Staff Training</u>	
8 middle management officials in the INTAX program,	4 INTAX participants, 1984 session.
2 upper-level tax officials in observation program, and	(5 DG. employees studying English as candidates for 1985 (INTAX).
7 auditors receiving formal audit training.	5 upper-level officials visited IRS offices in Washington, D.C., Philadelphia (Service Center), St. Louis (District Office), and Chicago (Regional Office).
Techniques developed to identify returns most likely to yield revenues through audit.	Audit criteria modified and computer used to select, using some of the new criteria developed.
Install mechanical or other counting device or measuring device to report volume produced for sale (alcohol).	Alcohol and tobacco tax TDY advisor advised against this measure in favor of existing one.
Develop manual procedures for changes introduced by new computer procedures or by law.	Manual procedures, forms, and other instructions developed for Field Collection Office and Central Collection Office; also, an Audit Manual has been prepared, and instructions were prepared for new forms designed for Audit Dept. (time reporting, work papers, evaluation of personnel).

Revenue Administration

Reorganize the revenue function by:

- | | |
|--|---|
| a) Eliminating as many collection offices as possible. | A report, pending approval, emphasizes that the best alternative for collection functions is the centralization of services in Central Bank, although other alternatives are mentioned. |
| b) Transferring collection functions to Central Bank. | |

OUTPUTS -- Continued

<u>Planned</u>	<u>Actual</u>
Improve and mechanize manual procedures.	Mechanization of collections is recommended. This will be considered at a later date. No progress to date.
Design a new accounting and reporting system for collection functions.	The design of new accounting and reporting systems depends on approval of report. No progress to date.
Assessment activities separated from collection agencies.	When research for AIP was done, both assesment of custom duties and collection of inquiries were performed by the same office.
Develop and make adjustment to collection forms for Central Bank.	Adjustments depend on alternative presented in the report, which is pending on approval.
Employees trained in the methodology and procedures of collection.	Training will take place after procedures are written.
Develop a national plan to attack problems of uncollected debts.	Transferred to IRS unit.
Collections Department established and staffed with at least 3 employees.	Transferred to IRS unit.
Prepare written procedures for the outstanding debt collection function.	Transferred to IRS unit.
Draft contracts for the services of private collection agencies.	Transferred to IRS unit.

Treasury Management

Consolidate the numerous bank accounts of the Treasurer into six accounts.	Have consolidated the special disbursing offices accounts.
Appropriate decrees drafted.	No information.

OUTPUTS -- Continued

Planned	Actual
Develop cash flow analysis system to forecast receipts, payments, and cash balances.	This cannot be done until the three subprojects are fully implemented.
Train two Treasury employees in investment policy and practices.	A group of employees received short-term on-the-job training in Puerto Rico.
Completely automate the check issuance and outstanding check determination procedures, including collection and bank deposit central accounting processes.	The computerized check issuance was implemented in January 1984. The outstanding check determination is part of the computerized procedures that are being implemented. The bank reconciliation has some difficulties that are being resolved. The bank deposits and accounting procedures are part of the procedures that are being implemented.
Develop new instructions to manage the automated bank reconciliation and checking function.	This is part of the procedures referred to in previous paragraph.
Prepare and negotiate a new contract between the Central Bank and MHCP.	Has not been approved.
Design a new system for disbursing officers and payment administrators to process authorized payments; decentralize smaller payments.	Being implemented.
Design new procedures to centrally audit and account for payments made by disbursing officers.	Procedures have been completed.
Train employees in payment system procedures: 2 for investment policy; and all disbursing and payment officers.	Both groups of employees already received the training and workshops originally planned.

OUTPUTS -- Continued

<u>Planned</u>	<u>Actual</u>
<u>Integrated Accounting Systems</u>	
All fiscal accounting functions analyzed.	Completed.
Set of monthly summary reports developed.	Not yet begun.
Develop procedures for entering data into the accounting record.	Partially implemented regarding Treasury accounting.
New accounting reports developed for economic and financial planning, programming, and policy making.	Not yet begun.
Capital projects accounting analyzed; payment and reporting processes analyzed.	In process.
Capital projects accounting system integrated into central fiscal accounting system.	In process.
83 bank accounts integrated into one special bank account under the control of the Treasurer.	In process. Subject to MHCP request to Central Bank.
Automated system for the Public Credit Directorate to control, account, report, and reconcile the trust fund for debt redemption designed and implemented.	Partially completed. Final goals subject to fall implementation.
Accounting Office Organic Law reviewed and recommended changes identified.	Pending.
Regulation for public property accounting and control prepared.	Already prepared. Not yet approved.
Manual for public property accounting control revised to become a manual of system and procedures to account for the public property of the agencies.	

OUTPUTS -- Continued

Planned	Actual
New manual and procedures to account for and central public property development.	Already prepared. Computerized system has been designed, but not yet programmed.
Personnel trained in public property accounting and central.	The chief of the Property Unit went to Puerto Rico for two weeks for on-site training. The rest of the personnel will be trained once the system is approved.
Personnel trained: 20 employees in general accounting.	One of the key accounting employees spent two weeks to Puerto Rico for on-site training. The rest of the group will be trained upon completion of the activity.
Examine need to establish a purchasing office of the GOH in the United States.	No action has been taken.
Revise and attain approval for documents prepared during 1982 evaluation of the procurement function:	
<ul style="list-style-type: none"> a) survey and evaluation b) draft of new decree No. 40 c) draft of new bidding regulations d) procedure for publishing bids e) simplified procedure for recording quotations f) new and complete "Bidder's Mailing List Application" g) new "Commodities Classification Index" h) New purchase requisition form i) new purchase order and continuation sheet j) new purchase order change notice k) new bid opening records form 	<p>Was revised by consultant, approved by Procurement Director, and submitted to the Secretary of Finance.</p> <p>Were not implemented by Procurement Office.</p>

OUTPUTS -- Continued

Planned	Actual
1) new purchase requisition record, bid record, and purchase order record	
Approval and application of new regulations:	These were revised and consolidated in the procurement regulations, and were discussed and approved by concerned procurement staff. Said document will be submitted for approval to the Secretary of Finance.
a) Emergency purchasing regulations	
b) Receiving agents regulations	
c) Delegated procurement regulations	
Restructure the Procurement Office along the lines of the plan submitted prior to the project paper.	
a) Draft organization chart with functions, activities, and responsibilities of each department	A preliminary chart is being revised and expanded.
b) Establish five specialized purchasing sections	Reorganization plan will provide for these.
c) Provide individual and intensive training to the personnel of each section	Two analysts were trained in Puerto Rico to help train the rest of the staff together with the counterpart. Additional training in Puerto Rico was recommended to AID.
d) Establish a contract with a U.S.-based purchasing agent	Pending.
e) Design and implement procedures and norms to expedite bidding and related activities	Draft of procedures was prepared.
f) Establish long-term supply contracts	Pending completion of the procedure.
g) Develop a computer system for the decentralized procurement of services, and implement	Was incorporated into law and regulations prepared; draft procedure was prepared.

OUTPUTS -- Continued

<u>Planned</u>	<u>Actual</u>
h) Train personnel in decentralized management	Pending system's installation.
Design and install new procedures to improve the handling of materials at the procurement central warehouse.	New procedures have been developed, but not implemented because of other delays in the project.
a) Unit or procedures for inventory control and management	
b) Standard specification system for inventory items	
c) Central warehouse functions with very limited amounts of common items, and acting primarily as a depot for the ministries and agencies with no or limited storage facilities	

Public Employee Bonding

Train all personnel in modern purchasing practices and techniques, new procedures, and new regulations.	Training program has not yet been developed, pending approval of recommended procedures.
Establish Office of Public Insurance and Bonding with a minimum of 4 people.	Office has been established in the Controller's office, but it has not been funded.
Design and install a self-insurance program to provide a first-layer of protection.	No action pending decision on establishment of program.
Determine positions to be covered by bonds and amount of bonding required per position.	Completed.
Develop procedures manual, including procedures and forms, to purchase insurance through bidding.	Completed.

OUTPUTS -- Continued

<u>Planned</u>	<u>Actual</u>
Evaluate alternatives of securing insurance through Puerto Rico U.S. companies.	In progress.
Solicit and evaluate first bids.	Not completed.
Draft regulation for the law creating the Office of Public Insurance and Bonding.	This was already done, but then GOH decided to leave the bonding system under the Controller's Office.
Train personnel in theory and practice of risk management.	To be done after GOH approval to implement the system.
Develop and install loss control procedures.	Procedures are developed. Have not been approved.
Develop and distribute plan to all affected government agencies.	
New trustees.	Pending approval.
Conditions for investment of the fund drafted, negotiated, and approved.	Pending.

ANNEX C
PROBLEMS AND IMPROVEMENTS

ANNEX C

PROBLEMS AND IMPROVEMENTS

Analysis of original problems was extracted from the original studies of the project planning team and the project papers. Data on the degree of resolution of those problems were provided by the project's resident advisers.

<u>Planned</u>	<u>Actual</u>
<u>Tax Administration</u>	
Inventory of appeal cases was increasing from an inventory of 1982 in 1980 to inventory of 1,722 at beginning of 1981.	The number of appeals cases was not correctly estimated in the project paper. The real number of cases was approximately 450. That has declined to approximately 160 outstanding cases.
The appeals process facilitates and encourages the submission of frivolous claims.	No change.
Auditors typically handle only one case at a time.	At present, auditors handle more than one case at a time although the average is still low.
Some computer listings are of little value to the user.	Some lists eliminated, many have been re-done.
Informal channels can thwart audit cycle; clients appeal directly to higher levels in the directorate to squelch an audit.	Did exist at one time, but do not know if it has changed.
Employees can appeal disciplinary action to higher authority without supervisor's knowledge.	Changed by new Director. All actions must go through supervisor.
Process for protesting a "reclaim" decision is supposed to take 30 days, when in fact it takes 6 months.	More attention is paid to time frame now.
Estimated amount of delinquent accounts is between \$22.5 and \$75 million.	Accurate data do not exist on the amount of delinquent accounts.
Tax law provides only minimal interest charge on overdue payments.	Changed from 4 1/2% per year to 2% per month.

PROBLEMS AND IMPROVEMENTS -- Continued

<u>Planned</u>	<u>Actual</u>
No data on number and amount of of delinquent accounts.	Number and amount exaggerated by inclusion of old (10-25 yr).
No current estimates of number of delinquent returns.	Still no current estimate.
<u>Revenue Administration</u>	
Current revenue system is costly -- Personnel budget of \$26.5 million to collect \$370,575,000; \$1 to collect \$25 average of 32 subunits.	Actually, an estimated 127 employees at a cost of about \$385,000 perform collection functions. That compares with collections in 1983 of \$112,610,00 (\$1 to collect \$292).
Collection agencies are manual procedures.	Manual procedures for collection agencies are pending approval of report about collection alternatives.
Power of both assessment and collection resides in the same officials of the 32 collection agencies.	Actually collection of assessed taxes is realized by Central Bank.
Because of uncollected debts, the tax system becomes distorted, taxpayers lose respect for the system, and the GOH loses badly needed revenue.	Transferred to IRS unit.
<u>Treasury Management</u>	
No central supervision or coordination over hundreds of Treasurer's accounts.	Has improved with partial implementation of new systems.
No cash programming or understanding of cash flow analysis and its use.	Problem still exists.
Frequent overdraft, even when positive balances exist.	Problem still exists.
MHCP paid \$753,027 in 1981 in interest on overdrafts.	Problem still exists.

PROBLEMS AND IMPROVEMENTS -- Continued

<u>Planned</u>	<u>Actual</u>
Over 300 GOH accounts in the Central Bank.	Problem still exists, although the number of accounts has been reduced.
GOH loses potential revenue from investment of surplus funds.	Problem still exists.
No service contract between the Central Bank and the MHCP.	Draft of contract was sent to MHCP; waiting for suggestions for revision of draft.
MHCP has no access to data on Bond Retirement Fund balances in the Central Bank.	Recommendation was submitted to MHCP and its adoption depends on MHCF action or with the Central Bank contract.
Check writing procedures involve too many steps, is too inefficient, requires too many people to process the checks.	Check issuance was fully computerized.

Integrated Accounting

Multiple accounting systems in four different offices - the Budget Directorate, Treasury Office, Accounting Office, Public Credit Directorate.	Partially completed. Design of written procedures was completed; design of computerized procedures was partially started.
Duplication of work and effort.	Has improved.
Reports are inconsistent, with no possibility of reconciliation.	Has improved.
There is no integrated system development taking place.	In process.
Established accounting sub-systems have not been integrated.	To be attained upon full implementation.
Manual systems duplicate efforts and introduce errors.	Partially mechanized relating Treasury systems.
MHCP has no up-to-date statistics on public debt.	Computerized design is in process.
Public Credit Directorate does not have a record of Trust Fund transfers, interests, and payments.	Depends on final consideration of contract between MHCP and Central Bank.

PROBLEMS AND IMPROVEMENTS -- Continued

<u>Planned</u>	<u>Actual</u>
There are no reports on Trust Fund operations and balances.	Has improved.
Accounting worth in the capital expenditures budget is performed manually.	To be mechanized.
Automation of manual procedures for Public Credit Directorate is being done independently from the central accounting data base.	Integration is to be accomplished through computerized procedures; in process.
Absence of Trust Fund cash flow management.	Problem still exists.
Public Credit Directorate exercises no control over Trust Fund and does not have cash flows needed for debt programming.	Problem still exists.
Accounting Office has no information to allow it to prepare a public property inventory.	In process; to be attained upon full implementation of property procedures already designed; end pending MHCP approval.
Physical inventory of public property required by Article 51 has never been taken.	Partially accomplished.
Office lacks inspection and expediting unit to follow up on deliveries and to determine Supplies' compliance with specifications and other contractual conditions.	Problem still exists.
No norms or procedure for delegated purchases.	Regulations has been prepared by consultant and discussed with concerned officials; procedures are being drafted.
No control exercised on purchasing activities delegated to other government agencies.	No progress has been attained; this shall be a result of the implementation of rules and procedures being drafted.

PROBLEMS AND IMPROVEMENTS -- Continued

<u>Planned</u>	<u>Actual</u>
No mechanisms for establishing long-term supply contracts.	Problem still exists; will be provided in new system under development.
One-time bulk purchase instead of periodic smaller purchases results in cash flow and warehousing problem.	Same status; procedures drafted will change these.
Lack of adequate physical facilities for inventory.	Same status.
Poor inventory control system - does not have a perpetual inventory system.	Same status.
High cost and inefficient inventory operation.	Same status.

Procurement

Large number of steps in the purchasing process cause unnecessary delays.	Procedures being developed simplify the process, but these have not yet been adopted.
Ad hoc decentralization of the purchasing function.	The prepared law submitted to the Secretary of Finance as well as the Procurement Regulation provides for delegation of the purchasing function with adequate controls.
Purchasing Office is unable to control and supervise the decentralized purchasing operation properly.	
Procurement Office does no independent analysis of bid requests, just copies relevant information for ministry requests.	Situation has improved.
Purchasing agents do not have a good basic knowledge of procurement processes or sound, up-to-date scientific procurement techniques and practices.	Lack of changes of personnel in last months has contributed to improve this situation.

PROBLEMS AND IMPROVEMENTS -- Continued

Planned	Actual
Poor description of items leads to confusion on part of bidders, unfair advantages, and lack of bidding uniformity, and inhibits competition.	Problem still exists.
No official organization chart.	Reorganization is being revised by consultant.
Office produces no periodic reports for performance evaluation or projecting the impact of improvements.	No progress in this aspect.
Poor records and follow-up of employee bonds.	Problem still exists.
Of 174 positions that should have a bond, only 130 bonds could be identified.	Problem still exists.
Since the bond must be posted by the individual at his or her own expense, GOH cannot find qualified people to fill positions.	Problem still exists.
The amount of the bonds is generally inadequate to cover risk.	Problem still exists.

ANNEX D
REQUIRED GOH POLICY DECISIONS

ANNEX D

REQUIRED GOH POLICY DECISIONS

Required policy decisions were extracted from the project paper, project agreement, and subsequent AID and consultant memoranda. Some of these decisions may have been rejected by the MHCP. Data on current states were provided by the project's resident advisors.

<u>Planned or Requested</u>	<u>Actions Taken</u>
<u>Tax Administration</u>	
Increased sanctions, including higher interest rates, for unpaid taxes.	Interest on unpaid taxes changed from 4 1/2% flat rate to 2% per month. Also, a one-time charge of 10% on the amount of unpaid taxes is assessed as a penalty for not paying.
Eliminate many of the requirements for obtaining a RTN and use it only for control with taxpayers filing tax returns.	Not changed.
Change the requirement for filing tax returns from \$1,500 to \$2,500 and, in the future, adjust the amount as the standard deduction allowance changes.	Minimum raised from \$1,500 (L.3,000) to \$2,500 (L.5000) for 1983 and 1984.
Change estimated tax procedure for calculating the amount of estimated payments so that data on file at the DGT can be used to estimate the amount of payment for the taxpayer.	Separate form for calculating estimated tax, and calculation now made based on data on the income tax return.
Reorganize the DGT along the lines recommended in the Organization of American States report of September 1980.	Several organizational changes made along lines of Organization of American States recommendations.
<u>Revenue Administration</u>	
Approve the recommendation to transfer to the Central Bank most collection functions performed by the government collection agencies.	Pending approval.
Create the recommended outstanding Debts Collection Department.	Completed -- transferred to Tax Administration Division.

REQUIRED GOH POLICY DECISIONS --- Continued

<u>Planned or Requested</u>	<u>Actions Taken</u>
<u>Treasury Administration</u>	
Instruct the Treasurer to create the recommended Bank Reconciliation Section - by December 1982.	Completed.
Issue a policy determination not to open new bank accounts by December 1982.	Completed.
Issue a policy determination to proceed with the Treasurer bank accounts consolidation activity by December 1982.	Pending approval from MHCP.
Issue regulation relative to investment of idle cash funds.	Pending implementation of other Treasury management projects.
Review (and act on) contractual relationships with the Central Bank to facilitate implementation of the investment program, by January 1983.	Revision of contract draft waiting for amendments recommendations from the MHCP.
Issue policy determination to consolidate into one bank account, under the control of the Treasurer, the existing bank accounts under name of disbursing officers and payment administrators by December 1982.	Completed.
Issue now Disbursing Office Regulation and Procedures.	The regulation and procedures were issued and are being implemented.

Integrated Central Government
Accounting System

Issue a policy determination to develop an integrated central fiscal accounting and reporting system, and instruct the various offices involved to cooperate in the development of the integrated system.	Completed.
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REQUIRED GOH POLICY DECISIONS -- Continued

<u>Planned or requested</u>	<u>Actions Taken</u>
Make policy determination to consolidate into one bank account under the control of the Treasurer the 83 bank accounts in the name of the Public Credit Director.	Pending MHCP approval.
Approve the suggested concept of centralization and control of public property by December 1982.	Completed.
Amend the Organic Law of the General Accounting Office of the Republic, Act No. 1001 of July 14, 1980, by a early part of 1983.	According to analysis made, it is not necessary to amend the Organic Law.
Approve a program early in the development of the project, for the assignment of new functions to employees displaced by the project and for the elimination of vacant positions.	Pending MHCP approval of the related regulations and procedures.
<u>Public Employee Bonding Program</u>	
Create the Office of Public Insurance and Bonding to manage the GOH's exposure to financial loss with a modern approach to the treatment of risk.	Pending GOH approval of the related regulations and procedures.
Reallocate government functions to transfer from Office of the Controller to the Office of Public Insurance and Bonding.	GOH decided that the office will stay at the Controller's Office, according to law.
Permit the government's assumption of risks and appropriate the necessary monies to create a trust fund earmarked for a self-insurance plan.	Pending GOH approval.
Exempt the government from the provisions of the insurance laws and regulations that regulate local insurance prices.	According to the analysis made, this is not necessary.

REQUIRED GOH POLICY DECISIONS -- Continued

<u>Planned or Requested</u>	<u>Actions Taken</u>
Purchase guaranty insurance and appropriate funds for the premiums payable.	Pending approval.
Change the current method for determining the amount of the guaranty for the employees who handle funds.	Regulation is pending GOH approval.
<u>Government Procurement</u>	
Approve and submit to the National Congress the proposed decrease revising the Procurement Law of the Republic of Honduras. Approve and submit to the National Congress the proposed decrees pertaining to general procurement activities, in order to improve and expedite the corresponding purchasing processes.	Approved by the Procurement Director and submitted for the Minister's approval. Not yet approved by the Minister.
Include in the 1983 budget of the Procurement Office two new positions, one for a registered pharmacist and the other for a mechanical engineer to direct and two new procurement sections.	Was not included in the budget.
Create two new procurement sections by December 1982.	The overall reorganization plan is pending submission by the O & H. Specialist said plan will be finished and submitted after the system is completed pending approval.
Approve the delegation and decentralization of the purchasing function.	Not approved to date.

REQUIRED GOH POLICY DECISIONS -- Continued

<u>Planned or Requested</u>	<u>Actions Taken</u>
<u>Electronic Data Processing</u>	
Approve the reorganization and reconfiguration of CENI and the leasing of equipment for the interconnection of the two computers and for control of communications.	The reconfiguration was approved. The leasing of the equipment depends on the contract that is being prepared by CENI Director. IBM needs about 8 months to ship the equipment.
Arrange and approve direct communication with the Central Bank computer.	Not started.
Approve new applications planned for the MHCP.	The property application was submitted and verbally approved. It is now pending GOH approval of the related regulations and procedures. The public credit application was submitted and is pending MHCP approval.
Authorize the educational plan and CENADI participation in the educational plan.	Approved and is being offered to MHCP employees in CENADI facilities.
Approve the installation and reorganization of various PADs within the ministry.	The analysis was made and the document with recommendations is being drafted for MHCP comments. It was discussed with concerned MHCP officials and accepted in a preliminary form.
Authorize the interconnection of data processing equipment in other ministries or institutions with that CENI.	Pending GOH approval.
Authorize the use of a common data base by MHCP and other ministries or institutions.	Not yet started.

ANNEX E

NUMBER OF POSITIONS AND SALARIES OF THE
CIVIL SERVICE IN THE 1985 BUDGET

ANNEX E

NUMBER OF POSITIONS AND SALARIES OF THE
CIVIL SERVICE IN THE 1985 BUDGET

<u>Offices of Ministries</u>	<u>No. of Civil Employees</u>	<u>Salaries</u>
The Presidency of the Republic	653	L 8,039,820.00
Interior and Justice	1,648	8,058,036.00
External Relations	350	8,458,788.00
Economy and Commerce	593	6,026,580.00
Finance and Public Credit	2,704	26,053,200.00
The Attorney General of the Republic	44	851,760.00
Public Education	4,228	48,983,630.04
Public Health	9,131	55,655,874.00
Culture and Tourism	460	3,411,240.00
Labor and Welfare	887	6,006,564.00
Communications, Public Works and Transportation	4,450	24,393,180.00
Natural Resources	<u>2,723</u>	<u>23,680,560.00</u>
TOTAL	<u>27,871</u> =====	<u>L219,619,232.04*</u> =====

This amount represents less than 9 percent of the 1985 budget, which amounts to L 1,854,897,713.00.

ANNEX F
METHODOLOGY AND LISTING OF PERSONS INTERVIEWED

ANNEX F

METHODOLOGY AND LISTING OF PERSONS INTERVIEWED

In conducting this evaluation, the team reviewed project documentation; interviewed USAID/Honduras personnel, IRS, and Clapp & Mayne consultants, and MHCP personnel and the Controller; and reviewed statistics and records kept by the various departments of the ministry. Personal interviews constituted the principal source of information for the evaluation.

Project documentation reviewed during the evaluation included:

- Project Paper
- Original analysis reports
- Consultant memoranda
- Monthly, quarterly and semi-annual progress reports
- Project Manager reports
- First Year Mini Evaluation Report

Persons interviewed during the course of the evaluation included:

USAID/Honduras

Anthony J. Cauterucci, Mission Director
Carl Leonard, Deputy Mission Director
Kenneth L. Martin, Chief, Human Resources Division
Jose Vicente Diaz, Project Liaison Officer
Luis Arriaga, Economist

IRS Consultant Staff

C. Oakley Austin, IRS Chief of Party
Luis Rodriguez, Audit Specialist

Clapp & Mayne Consultant Staff

Alida Guzman, Clapp & Mayne Chief of Party
Minerva Liceaga, Systems Analyst
Luis Rodriguez Cortes, Adviser*
Andres Medina Pena, Adviser*
Miguel Limardo, Adviser*
Carmen Davila, Adviser
Hilda Nazario, Adviser

Office of the Controller General

Ludovico Hernandez, Controller General**

Ministry of Finance and Public Credit (MHCP)

Rodolfo Matamoros, Vice Minister of Administration and Public Credit

Jorge Vasquez, Vice Minister of Income

Rolando Bustillo, Director General of Taxation

Urbano Castro, Director General of the Treasury

Hector Medina, Director General of the Budget

Gaelo Montenegro, Director of Centro Nacional de Informatica (CENI)

Tomas Fuentes Venegas, Auditor General

Maria Antonietta Dominguez, Director General of Public Credit

Tomas Fuentes Venegas, Accountant General

Walterio Barcenas, Director of National Property, Office of the Auditor**

Agustin Quesada, Chief of Audit Department, Dept. of Taxation

Sigfredo Bustillo, Assistant Chief of Audit Department, Dept. of Taxation

Lourdes Lagos, Assistant Chief of Audit Section, Dept. of Taxation

Ina Medrano, Chief of Collections, Dept. of Taxation

Jorge Trochez, Chief of Appeals Section, Dept. of Taxation

Flavia Romero, Chief of Archives, Dept. of Taxation**

Dagoberto Valeriano, Technical Adviser, Office of the Purveyor**

Armando Rivas Argenal, Office of the Budget**

Abraham Lozano, Deputy Chief for Purchases, Office of the Purveyor**

Cesar Carranza, Deputy Director of Public Credit

Zoe Vasquez, Chief Accountant, Office of the Auditor

Virgilio Cruz, Chief of Conciliation Accounts, Office of the Treasurer

Cristiana N. de Figueroa, Technical Adviser* and Project Coordinator**

Sagrario de Fu, Assistant to the Technical Adviser* (directly responsible for Project coordination)**

* Interviewed more than once.

** Participated in training programs in Puerto Rico.

Interview Schedule

Interviews with consultant staff and MHCP personnel were conducted as open-ended interview sessions. While a structured interview schedule was not used, questions were oriented toward obtaining the following information:

1. Respondent's perception of the accomplishments, impact and success of the project to date.
2. Respondent's perception of the ways in which the project had fallen short, or not accomplished major objectives.
3. Respondent's perception of the major factors accounting for the success or shortcomings of the project.
4. Respondent's evaluation of the approach and implementation of the project.
5. Respondent's perception of steps that should be taken to improve the project.
6. Respondent's perception of additional actions or activities that need to be undertaken.

ANNEX G
PARTIAL BIBLIOGRAPHY

ANNEX G

PARTIAL BIBLIOGRAPHY*

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ANNEX H
DIALOGUE FOLLOWING THE EVALUATION

ANNEX H

DIALOGUE FOLLOWING THE EVALUATION

- H.1. GOH and AID comments on first draft of evaluation report. Note that many of these comments are fully addressed in this final version.
- H.2. Evaluators' response to GOH and AID comments on first draft of evaluation report, indicating why not all comments could be incorporated into this final version of the evaluation report.

ANNEX H.1

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OPERATIONS DIRECTOR, DEVELOPMENT ALTERNATIVES, INC.
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WASHINGTON, D.C. 20001 TEL. (202) 783-9110
REF: LETTER BETTS/MARTIN FEBRUARY 19, 1985

1. THE PURPOSE OF THIS CABLE IS TO PRESENT BOTH THE MISSION'S AND THE MINISTRY OF FINANCE'S (MOF) REACTIONS TO THE DRAFT EVALUATION REPORT PREPARED BY JEAN-CLAUDE GARCIA-ZAMOR AND JOHN MAGILL FOR PROJECT 2174 DEVELOPMENT ADMINISTRATION. WE SUGGEST THE EVALUATORS TAKE THE FOLLOWING COMMENTS INTO ACCOUNT IN PREPARATION OF THE FINAL REPORT.

2. THE MOF COMMENTS TO THE DRAFT EVALUATION REPORT ARE SUMMARIZED BELOW.

- A. TAX ADMINISTRATION

- 1. THE EVALUATION INDICATES (P. 11 PAR. 3) THAT COUNTERPART EXPENSES HAVE BEEN FINANCED BY ESF FUNDS, THEREBY IMPLYING THAT A GENUINE GOH BUDGETARY CONTRIBUTION HAS NOT BEEN FORTHCOMING. HOWEVER, IT SHOULD BE NOTED THAT DESPITE PRESENT BUDGETARY LIMITATIONS, THE DIRECCION GENERAL DE TRIBUTACION (DGT) HAS INCREASED THE LINE ITEMS FOR EQUIPMENT AND COMMODITIES FROM DOLS 3.5 MILLION IN 1984 TO DOLS 3.75 MILLION IN 1985. FURTHERMORE, BASED ON THE ADVISOR'S RECOMMENDATIONS, THE MOF HAS BEGUN TO SET UP A LABORATORY (P. 11) FOR THE CUSTOMS DIRECTORATE, WHICH WILL ALSO PROVIDE SERVICES TO THE DGT ALCOHOL UNIT.

CONSEQUENTLY, THE EVALUATION UNDERESTIMATES COUNTERPART CONTRIBUTIONS FOR THE PROJECT.

- 2. THE EVALUATION IMPLIES THAT A 24 PERCENT INCREASE IN TAX COLLECTION IS ATTRIBUTABLE TO THE PROJECT (P. 14). THE MOF BELIEVES THAT IN FACT THE PROJECT MAY HAVE BEEN ONLY ONE IMPORTANT VARIABLE IN INCREASING COLLECTIONS. NEVERTHELESS, THE MOF IS OF THE OPINION THAT THE FACTORS THAT MORE CORRECTLY EXPLAIN THE INCREASES ARE CHANGES IN TAX RATES AND IMPROVEMENTS IN SOME MACROECONOMIC VARIABLES. THESE FACTORS ARE TOTALLY UNRELATED TO THE PROJECT.

- 3. DGT HAS A HIGHER CAPACITY TO ABSORB

TECHNICAL ASSISTANCE AS COMPARED TO OTHER MOF UNITS ASSISTED BY THE PROJECT. THIS IS DUE TO ITS LONG EXPERIENCE IN DEVELOPMENT ADMINISTRATION PROJECTS FINANCED BY OTHER DONORS. PRESENTLY, FOR EXAMPLE, AN IDB FUNDED REGIONAL PROJECT IS ALSO ASSISTING DGT TO IMPROVE TAX ADMINISTRATION. (NB EVALUATION SOW NOTED NON-AID DONOR ASSISTANCE SHOULD BE EXAMINED TO SEE IF ANY DUPLICATION OF EFFORT EXISTED). THE EVALUATORS, HOWEVER, DID NOT ANALYZE THAT DEVELOPED ABSORPTIVE CAPACITY IN ANY DETAIL.

- B. REVENUE ADMINISTRATION: IT IS PREMATURE TO DRAW CONCLUSIONS (P. 19) CONCERNING THIS AIP SINCE THE ADVISOR'S REPORT HAS NOT YET BEEN REVIEWED. THE EVALUATORS WERE APPARENTLY CONFUSED BETWEEN DELINQUENT ACCOUNTS OF INCOME TAX AND GENERAL REVENUE COLLECTION. THIS CONFUSION NEEDS TO BE ADDRESSED IN THE FINAL REPORT.

- C. INTEGRATED ACCOUNTING SYSTEM: THE VIEW EXPRESSED IN THE FIRST PARAGRAPH (P. 22) IS NOT FULLY SHARED BY MOF. FUNDAMENTAL CHANGES IN THE PUBLIC CREDIT DIRECTORATE COULD LEAD TO LONGER DELAYS IN IMPLEMENTATION OF EXTERNALLY FINANCED PROJECTS. MOF FEELS THAT MANY FUNCTIONS OF THIS DIRECTORATE SHOULD NOT BE LOCATED ELSEWHERE. THIS PROJECT AFFECTS ESSENTIALLY THE PUBLIC CREDIT DIRECTORATE'S FUNCTION OF CASH FLOWS ACCOUNTING, BUT NOT THE TOTAL PUBLIC DEBT SYSTEM. THIS AIP DEALS WITH THE DEVELOPMENT AND APPROVAL OF PROCEDURES FOR SEVERAL MOF UNITS AND THE ADOPTION OF CHANGES INTRODUCED WILL NECESSARILY TAKE PLACE SLOWLY. THIS IS POSSIBLY THE MOST COMPLEX PROJECT COMPONENT TO EVALUATE. ITS ACHIEVEMENTS SHOULD BE MEASURED NOT IN QUANTITATIVE BUT IN QUALITATIVE TERMS: EFFICIENCY AND EFFECTIVENESS OF THE UNITS INVOLVED. THE EVALUATORS SHOULD GIVE MORE THOUGHT TO ISSUES DISCUSSED WITH RESPECT TO THIS AIP.

- D. COMPUTER UTILIZATION: THE OBSERVATION THAT CENI IS NOT INVOLVED IN PROGRAMMING FOR MOF UNITS (PP. 29, 30) IS INCORRECT. PROGRAMMING RESPONSIBILITIES ARE SHARED BOTH BY THE INDIVIDUAL UNITS AND CENI.

BASED ON THE ASSUMPTION THAT CENI MUST PLAY THE PRINCIPAL ROLE IN THIS FIELD, THE PROJECT INCLUDES A TRAINING PLAN FOR CENI'S PERSONNEL. THIS PLAN IS NOW BEING IMPLEMENTED.

- E. GOH/MHCP PARTICIPATION AND SUPPORT FOR THE PROJECT (P. 35)

- 1. THE DISCUSSION ON A MINIMAL MOF INVOLVEMENT IN THE ORIGINAL PROBLEM ANALYSIS AND PROGRAM DESIGN (P. 34, PAR. 2) IS NOT ACCURATE. PROFILES FOR THE DIFFERENT AIP'S WERE SUBMITTED TO AID BY THE PRESENT

BUDGET DIRECTOR. HE IS THE MOF OFFICIAL WITH THE LONGEST TENURE IN OFFICE AND THE GREATEST FAMILIARITY WITH MOF PROBLEMS.

- 2. REGARDING THE STATEMENT THAT NUMEROUS RECOMMENDATIONS MADE BY FOREIGN ADVISORS HAVE NOT BEEN IMPLEMENTED (P. 38), THE EVALUATORS MUST BE AWARE OF THE FACT THAT BOTH COUNTERPARTS AND THEIR SUPERVISORS ANALYZE THE APPROPRIATENESS OF SUCH RECOMMENDATIONS.

IF THEY ARE CONSIDERED INAPPROPRIATE OR DIFFICULT TO IMPLEMENT IN THE HONDURAN CONTEXT, ALTERNATIVE APPROACHES ARE CONSIDERED. THE CONCLUSION THAT MOF RESPONSE TO THE RECOMMENDATIONS MADE BY ADVISERS IS SLOW (P. 38) MUST BE QUALIFIED SINCE SUCH REACTION IS THE EXCEPTION RATHER THAN THE RULE. PROMULGATION OF LAWS AND ENHANCEMENT OF NEW REGULATION CHANGES IS NECESSARILY SLOW SINCE MANY MOF UNITS AND EVEN OUTSIDE OFFICES ARE INVOLVED IN THE PROCESS.

- 3. REGARDING ESF FUNDING FOR IMPLEMENTING RECOMMENDATIONS (P. 38), THE EVALUATORS MUST TAKE INTO ACCOUNT THAT HONDURAS IS CURRENTLY FACING BUDGETARY LIMITATIONS AND THAT ALL AID FUNDED PROJECTS ARE USING SUCH COUNTERPART FUNDING.

- 4. THE PROJECT COORDINATING OFFICE (PCO) HAS PLAYED A LEADING ROLE IN PROJECT IMPLEMENTATION, PARTICULARLY IN MOTIVATING PERTINENT MOF OFFICIALS TO MAKE REQUIRED DECISIONS. GIVEN EXISTING WORKING PARAMETERS, NEVERTHELESS, PCO CANNOT IMPOSE DECISION-MAKING. THIS IS A PREROGATIVE OF DIRECTOR GENERALS. THE MOF BELIEVES THAT THE EVALUATORS FAILED TO RECOGNIZE ALL THE EFFORT THAT PCO HAS EXPENDED TO ACCOMPLISH PROJECT OBJECTIVES.

- FURTHERMORE, THE EVALUATORS HAVE ALSO FAILED TO RECOGNIZE THAT PCO HAS BEEN REORGANIZED AND STRENGTHENED. THE STAFF OF THIS OFFICE HAS BEEN INCREASED. A NEW ADMINISTRATIVE ANALYSIS SECTION HAS BEEN CREATED, AND A TRAINING PROGRAM TO IMPROVE THE PERFORMANCE OF PCO'S PERSONNEL IS BEING IMPLEMENTED.

NEW PERSONNEL HIRED HAVE BEEN INVOLVED IN PROJECT IMPLEMENTATION. NO MENTION IS MADE IN THE EVALUATION REPORT THAT IF A FOLLOW-ON PROJECT WERE TO BE APPROVED, PCO WOULD BE IN A BETTER POSITION TO IMPLEMENT IT.

- FINALLY, THE EVALUATORS HAVE FAILED TO ASSESS THE IMPACT THAT THE CREATION OF TWO SUB-SECRETARIES HAS HAD ON PROJECT IMPLEMENTATION. PREVIOUSLY, DIRECTOR GENERALS HAD TO DISCUSS PROBLEMS WITH THE MINISTER HIMSELF FOR ALL DECISIONS TO BE MADE. AT PRESENT, HOWEVER, THEY CAN CONSULT WITH THE

SUB-SECRETARIES. THIS SYSTEM HAS ADDED EFFICIENCY TO THE MOF ADMINISTRATIVE APPARATUS AND HAS CONTRIBUTED TO ACCELERATION OF THE DECISION-MAKING PROCESS, INCLUDING DECISION-MAKING RELATED TO THE PROJECT.

- MOF CONCLUDES THAT THE SECTION ENTITLED +ABSENCE OF GOH PARTICIPATION+ (P. 47) SHOULD BE DELETED AS MANY OF THE VIEWS EXPRESSED THEREIN ARE SUBJECTIVE WITH NO EMPIRICAL SUPPORT.
- 5. THE SECTION ENTITLED +PROJECT APPROACH+, SHOULD ALSO BE DELETED. IT IS TOTALLY NEGATIVE AND GENERALIZES PARTICULARITIES TO ALL ACTIVITIES. AT THE TIME OF PROJECT DESIGN, THE GOH INSISTED THAT FOREIGN EXPERTS WORK SIDE BY SIDE WITH MOF COUNTERPARTS IN PROJECT IMPLEMENTATION INSTEAD OF SIMPLY SERVING STRICTLY AS ADVISORS (P. 48, B AND C). THE MOF DOES NOT AGREE WITH THE IDEA THAT THERE SHOULD BE A SEPARATION OF RESPONSIBILITIES BETWEEN ADVISORS AND COUNTERPARTS. COUNTERPARTS COULD NOT ACHIEVE SOLUTIONS AND IMPLEMENT SYSTEMS IF ADVISORS DO NOT PLAY AN ACTIVE ROLE IN IMPLEMENTING RECOMMENDATIONS.
- 6. (P. 49, PAR. D). THE EVALUATION DID NOT STUDY THE ADMINISTRATIVE ANALYSIS UNIT'S CAPACITY TO OVERSEE IMPLEMENTATION BEFORE RECOMMENDING SETTING UP A NEW UNIT. ACCORDING TO EVALUATORS, THIS NEW UNIT SHOULD BE UNDER THE DIRECT MANAGEMENT OF THE MINISTER. THE MOF FEELS THAT THE ADMINISTRATIVE RESPONSIBILITIES OF THE MINISTER SHOULD NOT BE BROADENED THROUGH THE CREATION OF NEW UNITS.
- 7. THE MOF ALSO DOES NOT AGREE WITH CERTAIN RECOMMENDATIONS, INCLUDING THE CREATION OF A NEW OFFICE IN CHARGE OF OPERATIONAL AND SYSTEMS ANALYSIS WHICH WOULD FUNCTION AS THE COUNTERPART OFFICE FOR THE PROJECT (P. 50, PAR. 3). THE PCO'S EFFORT TO MAKE INVOLVED IMPLEMENTING AGENCIES ASSIGN COUNTERPARTS TO FOREIGN ADVISORS, AS SHOWN THE DIFFICULTY IN TRYING TO IMPOSE CHANGES. IN THE LONG RUN, PERSUASION IS MORE EFFECTIVE THAN IMPOSITION.
- 8. THE MOF DOES NOT AGREE WITH RECOMMENDATION 4 ON PAGE 51 FOR THE REASONS MENTIONED ABOVE.
- 9. THE MOF PREFERS NOT TO COMMENT AT THIS TIME ON THE NEW ACTIVITIES THAT COULD BE SUPPORTED IN A FOLLOW-ON PROJECT. DISCUSSIONS ON THIS ISSUE WILL BE HELD WITH AID WHEN THE DECISION TO CONTINUE SUPPORTING INTERVENTIONS IN THIS AREA IS MADE. NEVERTHELESS, MOF OFFICIALS SUGGEST THAT SECTION C ON PAGE 34 BE DELETED FROM THE EVALUATION REPORT AS IT REFLECTS A LACK OF KNOWLEDGE ABOUT OPERATIONAL REALITY AND THE PRESENT SITUATION IN HONDURAS.

- F. GENERAL COMMENTS

- 1. THE EXECUTIVE SUMMARY IS NOT APPROPRIATE AND SHOULD BE REVISED AS IT DOES NOT OBJECTIVELY REFLECT ALL PROJECT OUTPUTS, UNDERLINES NEGATIVE ASPECTS ALREADY COMMENTED UPON, AND MANY SUBJECTIVE VIEWPOINTS ARE PRESENTED AS CONCLUSIONS.

- 2. WITH REFERENCES TO ANNEXES A, B, C AND D, THE EVALUATORS MUST BE AWARE OF THE DIFFICULTY OF QUANTIFYING RESULTS IN A PROJECT OF THIS NATURE. SINCE SOME COMMENTS IN THESE SECTIONS DO NOT REFLECT THE REAL STATUS OF CERTAIN ACTIVITIES, THIS SECTION MUST BE REVISED.

- 3. THERE ARE SEVERAL POSITIVE ASPECTS THAT SHOULD BE INCLUDED. IF IT IS TRUE THAT EXTERNAL FACTORS SUCH AS LACK OF INCENTIVES FOR THE STAFF ARE OBSTACLES FOR PROJECT IMPLEMENTATION, IT MUST BE RECOGNIZED THAT CHANGES IN PERSONNEL ATTITUDES HAVE OCCURRED DURING THE LIFE OF THE PROJECT. THE TRIP TO PUERTO RICO BY CERTAIN COUNTERPARTS WITH THE PURPOSE OF OBSERVING MORE ADVANCED ADMINISTRATIVE SYSTEMS INCREASED MORALE AND HELPED TO INCREASE COMMITMENT TO PROJECT OBJECTIVES.

- 4. THE REPORT CASTS DOUBT ON MOF'S ABILITY TO MAINTAIN THE CHANGES WITHOUT ASSISTANCE DUE TO THE FOLLOWING REASONS: PERSONNEL TURNOVER, LOW SALARIES, ABSENCE OF PROMOTIONS, BUREAUCRATIC INERTIA AND RESISTANCE TO CHANGES. THESE WERE VARIABLES AFFECTING IMPLEMENTATION AT THE OUTSET OF THE PROJECT. AT PRESENT, HOWEVER, COUNTERPARTS ARE WORKING HAND IN HAND WITH THE ADVISORS. IT IS BELIEVED THAT THE INFLUENCE OF SOME OF THOSE VARIABLES HAS BEEN EITHER MINIMIZED OR HAS DISAPPEARED.

- 5. ALL DOCUMENTS SUBMITTED FOR COMMENTS HAVE BEEN DISCUSSED WITH THE ADVISORS AND THE AID LIAISON OFFICER WITHIN A REASONABLE AMOUNT OF TIME FOLLOWING SUBMISSION. FURTHERMORE, MEETINGS HAVE BEEN HELD BETWEEN THE ADVISORS, THE COUNTERPARTS IN MOF, AND AID PROJECT COORDINATORS. SUB-SECRETARIES HAVE ATTENDED THESE MEETINGS WHEN THEIR PARTICIPATION HAS BEEN CONSIDERED NECESSARY. OBSERVED DELAYS HAVE EXISTED ONLY AT HIGHER LEVELS, PARTICULARLY WHEN BILLS AND BY-LAWS MUST BE SUBMITTED FOR LEGISLATIVE OR EXECUTIVE APPROVAL.

- 6. RESISTANCE TO CHANGE IS NO LONGER A FACTOR AFFECTING PROJECT IMPLEMENTATION. AT PRESENT, MOF OFFICIALS UNDERSTAND THE DESIRABILITY OF CERTAIN CHANGES AND AT THIS POINT, ACCEPT MOST OF THE SUGGESTED REFORMS. SOME OF THEM ARE ONLY WAITING FOR

HIGHER LEVEL APPROVALS IN THEIR FIELDS. MOST MOF OFFICIALS ARE NOT CONCERNED ABOUT JURISDICTIONAL STRUGGLING TO EXTEND THEIR AREAS OF INFLUENCE. IT CAN BE SAID THAT THIS PROJECT HAS HELPED ADMINISTRATIVE ISLANDS COME TOGETHER TO WORK TOWARDS THE TARGETED GOALS.

3. THE MISSION'S COMMENTS ON THE DRAFT REPORT ARE SUMMARIZED BELOW.

- 1. CONCLUSIONS PRESENTED IN THE EXECUTIVE SUMMARY DO NOT COINCIDE WITH THE DISCUSSION IN THE BODY OF THE REPORT. THE EXECUTIVE SUMMARY HAS AN OVERALL NEGATIVE TONE WHICH DOES NOT CHARACTERIZE THE REPORT ITSELF. GENERALIZATIONS NOT SUPPORTED IN THE MORE DETAILED DISCUSSION ARE OFTEN PRESENTED. IN THE BODY OF THE REPORT, THE EVALUATORS HAVE IMPLICITLY GROUPED THE DIFFERENT AIP'S INTO THE FOLLOWING CATEGORIES: THOSE REALLY SUPPORTED FROM THE BEGINNING OF PROJECT IMPLEMENTATION= THOSE ONLY PARTIALLY SUPPORTED= THOSE SUPPORTED NOW AS A RESULT OF TRAINING PROVIDED TO CERTAIN CRUCIAL EMPLOYEES AND THE DEVELOPED AWARENESS ABOUT EXISTING PROBLEMS= THOSE WHERE ACCEPTANCE WILL BE MORE DIFFICULT GIVEN THE NATURE OF THE PROBLEM AT HAND AND TYPICAL BUREAUCRATIC BEHAVIOUR IN HONDURAS, AND THOSE THAT HAVE BEEN RECENTLY INITIATED AND WHERE IT WOULD BE PREMATURE TO FIND ANY REACTION TO RECOMMENDATIONS MADE. THE EXECUTIVE SUMMARY SHOULD REFLECT THESE VARIATIONS.

INAPPROPRIATE GENERALIZATIONS OR EXTRAPOLATIONS FROM SPECIFIC ACTIVITIES SHOULD BE AVOIDED ESPECIALLY WHEN THEY AFFECT ACTIVITIES INVOLVING DIFFERENT CONSULTANT TEAMS, THAT IS, CLAPP AND MAYNE OR IRS.

- 2. CONTRADICTIONS ARE FOUND IN SEVERAL PARTS OF THE REPORT. TYPICAL EXAMPLES ARE: A) THE DISCUSSION ON PAGES 27 AND 28 ON THE ACCOMPLISHMENT OF PROJECT OUTPUTS= B) THE DISCUSSION ON PAGES 27 AND 30 WITH RESPECT TO CENI'S RECONFIGURATION= AND C) THE DISCUSSION ON PAGES 35 AND 47 ON THE PARTICIPATION OF MOF OFFICIALS IN PROJECT DESIGN. MISSION SUGGESTS THAT THE EVALUATION TEAM CLARIFY THOSE CONTRADICTIONS IN THE FINAL REPORT. IT IS PROBABLE THAT THIS WILL REQUIRE INDICATING THAT DIFFERENT ACTORS IN THE PROCESS HAVE DIFFERENT POINTS OF VIEW REGARDING GIVEN ISSUES.

- 3. THE MISSION FEELS THAT THE EVALUATORS DO NOT THOROUGHLY ANALYZE EVENTS DISCUSSED BEFORE ARRIVING AT CONCLUSIONS. CONTRADICTIONS CITED ABOVE ARE PROBABLY A RESULT OF THIS PARTIAL ANALYSIS. THE MISSION DOES NOT AGREE WITH CERTAIN CONCLUSIONS PRESENTED BY THE EVALUATORS. FOR EXAMPLE, THE INVOLVEMENT OF MOF OFFICIALS IN PROJECT DESIGN, THE

IMPORTANCE OF PHYSICAL PROXIMITY BETWEEN ADVISERS AND COUNTERPARTS TO INSURE SUCCESS, THE LACK OF AN IMPLEMENTATION MANDATE FOR ADVISERS AND THEIR SUPPOSED LACK OF INVOLVEMENT IN SOLVING PROBLEMS DETECTED IN ALL AIP'S, AND THE LIMITED INVOLVEMENT OF CENI IN PROGRAMMING. TO ALL THOSE INVOLVED IN THE PROJECT FROM THE OUTSET, IT IS CLEAR THAT MOF OFFICIALS WERE RESPONSIBLE FOR THE AIP'S INCLUDED IN THE PROJECT.

PHYSICAL PROXIMITY IS NOT A GUARANTEE FOR SUCCESS AS DEMONSTRATED BY THE OPPOSING RESULTS OBTAINED IN TWO AIP'S: PROCUREMENT AND THE SPECIAL DISBURSING OFFICERS' SYSTEM. THERE IS IN FACT AN IMPLEMENTATION MANDATE AND FROM THE OUTSET OF THE PROJECT THE ROLE OF THE ADVISORS WAS NOT LIMITED TO THE MERE PRESENTATION OF RECOMMENDATIONS AS DEMONSTRATED BY EVENTS IN THE SETTING OF THE COLLECTION UNIT AT DGT= THE LIMITED INVOLVEMENT OF CENI IN PROGRAMMING IS RELATED TO THE EXISTENCE OF PADS IN DIFFERENT OFFICES AND TO THE FACT THAT CENI PERSONNEL MUST BE ADEQUATELY TRAINED BEFORE THEY ASSUME MORE PROGRAMMING RESPONSIBILITIES. THE MISSION FEELS INACCURATE CONCLUSIONS RESULTED FROM PARTIAL ANALYSES.

- 4. THE EVALUATION REPORT OFFERS VERY LITTLE EXPLANATION FOR THE APPARENT RESISTANCE TO CHANGE THAT HAS BEEN OBSERVED IN THE MOF WITH RESPECT TO RECOMMENDATIONS MADE BY THE EVALUATORS, PARTICULARLY WHEN AIP'S HAVE BEEN UNDER IMPLEMENTATION FOR A LONG PERIOD OF TIME. (SEE PP. 20 AND 24). WHENEVER POSSIBLE, THESE EXPLANATIONS SHOULD BE ELABORATED SO THAT THE MISSION AND PROJECT IMPLEMENTATORS HAVE A MORE THOROUGH UNDERSTANDING OF WHAT HAS BEEN PERCEIVED BY THE EVALUATION TEAM. IF IT EXISTS, IT IS IMPORTANT TO DETERMINE THE UNDERLYING CAUSE OF THIS RESISTANCE TO CHANGE. IS IT A RESULT OF THE PERCEIVED LOSS OF POWER THAT THE ADOPTION OF TECHNICAL EXPERTS'

RECOMMENDATIONS MAY IMPLY FOR INVOLVED MOF OFFICIALS?

IS IT A RESULT OF THE NATURE OF PROBLEMS AT HAND? IS IT A RESULT OF THE CONFLICTING RESPONSIBILITIES OR WORKLOADS FACED BY THOSE IN CHARGE OF RECEIVING AND IMPLEMENTING RECOMMENDATIONS BY THE TECHNICAL EXPERTS?

- 5. ON PAGES 10 AND 16 OF THE DRAFT REPORT, AS WELL AS IN OTHER PLACES, SEVERAL COMMENTS REFER TO THE CHANGES INTRODUCED IN DIFFERENT AIP'S AS THEY WERE BEING IMPLEMENTED. THE IMPLICATION IS THAT THESE CHANGES WERE INADEQUATE. HOW?, THERE IS GENERALLY NO DISCUSSION REGARDING THE NEGATIVE IMPACT THAT SUCH MODIFICATIONS MAY HAVE ACTUALLY HAD ON THE PROJECT'S PURPOSE. THE SIGNIFICANCE OF CHANGES INTRODUCED SHOULD BE EXPLAINED IN CASE THEY HAVE IMPORTANT IMPLICATIONS WITH RESPECT TO THE PROJECT'S OBJECTIVES.

- 6. WE SUGGEST THAT THE LIST OF DOCUMENTS REVIEWED AND THE INTERVIEW GUIDELINES UTILIZED IN THE EVALUATION BE INCLUDED AS AN ANNEX TO THE REPORT.

THIS WOULD PROVIDE AN INDICATION OF THE DATA ON WHICH OPINIONS EXPRESSED ARE BASED AND OF THE LIMITATIONS ON THE VALIDITY OF CONCLUSIONS.

7. APPENDICES SHOULD BE REVIEWED AND REORGANIZED FOR BETTER UNDERSTANDING.

4. THE MISSION HOPES THAT THE EVALUATION TEAM WILL FACE NO MAJOR DELAYS IN THE PREPARATION OF THE FINAL REPORT. AMERICAN EMBASSY TEGUCIGALPA HONDURAS 5401 2503L

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ANNEX H.2

Response to Mission and MHCP Comments Regarding
the Draft Evaluation Report for Project 0174,
Development Administration

In reviewing MOF and Mission comments on the Honduran Public Administration evaluation, and attempting to accommodate those comments in the final draft of the report, we want to point out that, as can be expected, we agree completely with some of the observations and suggestions, agree partially with others, recognize that others are a matter of interpretation, and disagree completely with others. In drafting the final report we have attempted to incorporate those comments that are consistent with our findings and offer greater explanation in those cases involving partial agreement or differences in interpretation. For those cases in which we disagree substantially with the observations and suggestions of the reviewers, we present the following explanations for the position we have taken.

The following notes refer to the specific points raised in Mission Cable; not all points are addressed in this document.

MHCP Comments

Item A-2. While the 24 percent increase cannot be attributed solely to this project, the alternative explanations stated are not consistent with the data we were given in Honduras. According to the information we were able to examine during the course of the evaluation, only the alcohol tax rate was increased during the period in question, and revenues in that sector fell. Other actions, such as the increase in the lower limit for filing estimated tax returns, would have lowered rather than increased tax collections. Furthermore, there is no indication of "general improvements" in the economy during the period in question that would have accounted for the increases in revenues. We were unable to obtain data that would have allowed a factor analysis of the components of the increase in tax revenues during such a short evaluation. Our only conclusion is that the trends in the data are consistent with the objectives of the project paper, and not inconsistent with the status of implementation and observable results of the project.

Item A-3. The point is well taken; remnants of earlier assistance programs were in evidence in the operations, procedures and structure of the DGT. The extent to which this factor (as opposed to such factors as the limited focus of activity of the adviser team, the approach of the adviser team, and the common base of taxation programs as opposed to the more diversified and less standard set of activities in the other departments of the MHCP) explains the difference between performance in the different AIPs, is not possible to ascertain in a brief evaluation. Furthermore, we were not attempting to compare levels of success among the different AIPs and contractors, but to evaluate the appropriateness of the approach and the degree of success in each one independently.

Item A-3. None of the persons interviewed (DGT personnel, the Director of CENI or the IRS advisers) responded negatively about current conflicts between the IRS team and the CIAT advisers, because of the limited scope of work of the RUC/CC project. Rather than duplication of effort there were suggestions of personal interference and obstruction, but since we could not verify these we decided to exclude any references to them in the report.

Item B. We assume that the comments refer to section B, "Revenue Collection Administration," that was on pages 15-17 of the draft report. The project was less than 6 months from termination at the time this evaluation was conducted. With the end of the project so close, and the fact that the adviser's report had not yet been reviewed, this activity was considerable behind both original and revised projections. Even if the recommendations were approved there was little time left in the project to accomplish more than a cursory implementation of a complex set of changes. On page 18 of the draft we noted that the Tax Collection unit had been removed from this AIP and was being implemented under the tax administration AIP.

Item D. As we reported in a meeting with the MHCP project coordinator, this is a serious problem with significant implications for the project. The information we received in the field is not consistent with the MHCP comments in the telegram. CENI staff has been reduced significantly, and the CENI director does not foresee a major role in writing application programs for the independent offices and directorates of the MHCP. The teams that have been put together to support the various offices are for routine operations and batch systems support, not new program development. The training plan for CENI (of which the CENI director was very laudatory) is oriented toward upgrading the overall capacity of CENI staff to manage the computer center, and is not directly related to accomplishing the stated objectives of the other AIPs. Our basic conclusion is that an adequate mechanism for achieving the programming objectives of the AIPs does not exist, and that the Ministry and A.I.D. should look into this more closely.

Item E-1. While the Budget Director may have submitted the profiles for the AIPs to AID, this hardly constitutes "participation" of the type needed to bring about large scale change in an organization. The amount and quality of "participation" is obviously a subjective judgment. From our past experience (as individuals and as DAI) the active participation of the recipient personnel in developing and drafting and arguing for recommended changes is the single most important variable explaining the ultimate success or failure of projects that are designed to bring about changes in organizational behavior. We did not see sufficient indication of this type of involvement in the project during the course of our evaluation.

Item E-2. We recognize that it is unrealistic to expect every, or even a large number of the recommendations to be acted upon in a short period of time. The point we are trying to make is that the absence of action is an indication of one or more different factors: either (a) the time-frame of the project was unrealistic in terms of the magnitude and complexity of the changes that were needed, in which case

the assumptions were unrealistic, (b) the quality of of the advise is questionable, leading to substantial disagreement and delay, or (c) the approach to arriving at the recommendations was not consistent with a smooth adoption and approval of them, usually due to a lack of involvement of host institution in the process of developing the recommendations. Our observation is that at least the first and third factors are involved. We believe that the initial time frame of the project was too short to realistically expect such major changes. On the other hand, we observed that the role of MHCP personnel in the project (comments in the telegram to the contrary) was largely limited to serving as resource and information sources to the consultant teams rather than as formulators of proposals and recommendations. In almost every case the recommendations and proposals were written entirely by the consultant staff, working (at the time we observed the project) in almost complete isolation from the Ministry staff. Interviews with consultant staff indicated that this was the norm throughout the project. DAI's past experience in developing, implementing and evaluating both public administration and other developmental projects has, without exception, concluded that such an approach mitigates against host institution approval and eventual implementation of the consultant recommendations. The main issue, however, is that because of the delays in approving courses of action, the project will not be able to produce the results specified in the project paper within the time frame and the budget of the project.

Items E-4, 6 and 7. We were impressed with the activity and dedication of the PCO and its staff. However, the fact remains that many actions and decisions required for the project to reach its stated objectives on time (be successful), had not and were not occurring. Because the decisions are in fact the prerogative of the Director Generals, and because these are responsible to the new Sub-Secretaries, we see no reason to believe that the "reorganized" PCO can be much more effective than it has been. The suggestion that an operations and methods unit be established in the Minister's office is only one of several alternatives discussed in the report. We suggest that such a function be located in the Minister's office to give an overall coordinated focus to Ministry activities. If, in evaluating alternatives, the Ministry feels the function should be located elsewhere, or that the current PCO can effectively perform that role, that decision would not be inconsistent with our recommendations. Our review led us to the conclusion that the PCO could not perform that function and that it should be located in the Minister's office, but that is only one of several alternative possibilities.

Item E4 and 5 (sections entitled "Absence of GOH Participation and Project Approach"). Our perceptions of the degree of participation and the significance of that participation vary from the MHCP. While there is no "empirical" evidence, this conclusion was certainly supported by our interviews, our observation of actual work practices and in the tone and content of consultant reports and memorandum. The role of counterpart participation has been found to be such a critical variable in explaining the adoption of recommendations and implementation of change that the absence of effective participation in this project was especially striking. Based on our observations and

conversations, we believe that the relatively slow pace of the approval process can be traced primarily to this factor.

Also, there is a difference between foreign experts being actively involved and coopting the analysis, problem-solving and decision-making. No one will disagree that advisers should play an active role in the process, but there is often a tendency for the foreign adviser to "do" the work because it is more efficient, less costly and less time consuming. But the literature and experience in the field have unequivocally shown that when this occurs there are problems in local acceptance, delays in approvals, often rejection of the recommendations as inappropriate, and delays in implementation. That is precisely what has happened in this project, and we ascribe that to a fundamental approach to the project that is evidenced in the project paper, flows through the documentation of the project, and is reflected in the failure of most components of the project to meet their objectives and schedule.

Item E-6. Our suggestions that such a unit be established do not mean that an existing unit could not be assigned the responsibilities of performing those functions if that appears the best course of action in the Ministry's viewpoint. The important thing is that the function be accomplished. Our reasons for recommending that such a unit be responsible to the Minister is that it should provide Ministry-wide standards and review. Locating such a function elsewhere in the Ministry might not provide such an overview.

Item E-7. Once again, the function rather than the specific office in charge is the important conclusion. The fact remains that little implementation of key recommendations has occurred, and the project is considerably behind schedule. These imply that the present system has not been effective in accomplishing the objectives of the project on the project's schedule. If the PCO has been reorganized with new personnel, as suggested in the MHCP comments, then perhaps the PCO is the logical unit to oversee the implementation phase of the project. We are not debating whether moral suasion is superior to imposition; the structure has not produced the predicted results.

Item E-8. Once the recommendations, procedures, etc. are written (and, perhaps, approved) they must be implemented or the entire effort will result in little more than a series of forgotten recommendations. The project must be prepared to move into an implementation phase. There is little justification for a continuation of the project to do more of the same, but rather to put into place the agreed-upon improvements. The types of changes being recommended in the project are difficult structural, personal and behavioral changes. These cannot be implemented by anyone other than personnel of the Ministry. The foreign experts can advise, but there is no way they can implement the changes.

Item E-9. We did not have strong feelings about the activities of a follow-on project, so we do not object to removing Section C. However, since these were points that were brought up directly by the consultant team, it is important to note that if the Ministry

considers that they represent a lack of knowledge about operational reality and the present situation in Honduras, there is a substantial disagreement about these items between the advisers and the Ministry. This difference should be resolved.

Item F-1. We disagree with this recommendation. The Executive Summary represents a fair synopsis of the findings. If these appear more negative than the text it is because they are more succinct and to the point. The project, especially those activities not related to the taxation administration, had very few concrete accomplishments, either in relation to the original project design as presented in the Project Paper, or subsequent documentation. This is in spite of the fact that the project was within 6 months of scheduled completion. The summary stresses those problems because that is what those who are considering whether or not to extend or continue the project must face up to.

Item F-2. We are aware of the difficulty of quantifying outputs and end-of-project status. However, the project was developed and funded to accomplish specific objectives, and these are stated very well in the checklists of Annexes A, B, C, and D, which were derived from statements and conditions in the project paper, project agreement and implementation letters. What has happened throughout the project is that the impression has been given that the project has been proceeding smoothly and has been accomplishing its objectives. What the data in the appendices show is that, on relatively objective criteria, the project is considerably behind schedule in most of the major activities, and has little possibility of achieving its objectives within the time-frame or budget allocated for the project. These appendices are not intended to be the sole basis for evaluating the project, but they do serve the purpose of tying actual status back to the original plans. All data for these tables was supplied by the resident advisers. To the extent that these indicators are incorrect, then there is a substantial disagreement between the Ministry and adviser personnel that should be resolved.

Item F-3. We mentioned the positive benefits of the study trips to Puerto Rico. Relatively few people participated in these, however, and the consequences of those trips are not directly observable in measurable changes of performance within the Ministry.

Item F-4 and 6. We saw no indications in the interviews we conducted to support this more sanguine conclusion about the sustainability of results. In fact, interviewees were quite open in pointing to these problems and there was no indication that the variables mentioned have been minimized or disappeared. Likewise, with item number 6 these problems were repeatedly stressed during the interviews. If the conclusion is that ". . . administrative islands [have] come together to work towards the targeted goals . . ." it was certainly not evidenced in the statements of MHCP personnel interviewed or in tangible progress toward achieving the specific outputs and end-of-project status indicators.

Mission Comments.

Item 1. As stated above, we do not believe the executive summary is overly negative vis-a-vis the body of the report. With the exception of the tax administration subproject and a check-writing program, the project has been relatively successful in producing specified outputs, but very unsuccessful in producing measurable improvements in actual operations or performance as specified in the "Purpose" and "End-of-Project" status conditions.

The intended structure of the body of the report was intended to parallel the order in which activities were listed in the Project Paper.

Item 2. We are attempting to identify and clarify areas of apparent contradiction. It appears that the confusion in the CENI case is that the reconfiguration is, in fact, occurring on schedule and is relatively successful. What is not occurring is the programming for the various AIP computer applications.

Item 3. Our observations do not agree with Mission's comments. The CENI director plainly stated that his office did not have responsibility for programming the new systems for this project. His staff had not been involved in conducting the systems analysis, preparing the external design, or any other aspect of the computer applications for most of the AIPs. Clapp and Mayne advisers repeatedly stated that their responsibility for project implementation ended with the presentation of recommendations and a brief training session for local staff once those had been approved. This was especially true in the case of the computer applications.

While implementation may have been intended in the project, it is not provided for in the project design. The project paper, project agreement and implementation letters show very little in the way of outputs beyond the presentation of recommendations, development of draft procedures and the like. Furthermore, the project design allows little time for implementation and dedicates virtually no resources to that activity in the Clapp and Mayne sections of the project. While this may or may not have been the intent, it has become the de facto situation -- at least within the time frame of the project. As we look at the revised schedule of events, the estimated approval dates and the time remaining in the project there is no provision and no time for anything more than a superficial installation of procedural changes within the constraints of the current project. If these are to occur the project must be extended and the focus must be on implementing the recommendations. Furthermore, the scheduling of short-term advisers in the Clapp and Mayne activities (both in the original and subsequent schedules) does not provide for extensive follow-up and implementation assistance. Unlike the IRS component of the project, the role of the resident adviser in the Clapp and Mayne project has been defined (at the request of the MHCP) to preclude that person acting as a technical adviser to assist in implementing the various recommendations.

While physical proximity is obviously no guarantee for success, the work of advisers in isolation is almost certainly a guarantee of failure. While it is possible that our brief visit to Honduras may have occurred during an atypical period, that does not appear to be the case.

Item 4. It is very difficult in an evaluation of such short duration to delve into the reasons behind resistance to change. Several factors that we believe are related to this are mentioned in the report. In one case (Public Employee Bonding) the resistance was clearly due to a jurisdictional dispute between the executive and legislative branches of government as to who was responsible for implementing and funding the system. In another case (Procurement) the high level of turnover in personnel and machinations of the former director of the office seemed to be the primary cause of a lack of action on recommendations. Between the Central Bank and the Ministry several factors could explain the resistance to change, although we did not have the time to explore them: loss of revenue to the Central Bank, reduction of control over expenditures and income and perceived lack of importance of such a change may have been present.

But throughout the report we have stressed two overriding factors that have undoubtedly influenced the degree of adoption and change. First, the magnitude and complexity of the changes envisioned by the project were such that it was overly optimistic from the outset to believe that they could be accomplished in such a short period of time. Behavior change in public sector organizations is a difficult process, and the project underestimated the amount of time and effort required to bring about those changes. Second, the approach of the Clapp and Mayne portions of the project was inconsistent with what is accepted in development theory and practice as an effective approach to introducing change in organizations. Mission and MHCP comments to the contrary, the "participation" of the MHCP in those aspects of the project has been formalistic and reactive -- MHCP officials reviewed and approved/disapproved recommendations presented to them rather than participate in the drafting and formulation of those recommendations. The advisers formulated their recommendations in relative isolation, and presented them to the MHCP for review and approval. Then, since the adviser was a short-term person he/she went home. The Revenue Administration implementation on page 16-17 of the draft report is a well-described example of this process. The adviser evaluated the units, the adviser drew the conclusions and the adviser drafted the recommendations. "There has been no official reaction yet from the Central Bank to the report." In addition, the adviser is working, again independently, to draft an alternative set of procedures. This approach does not generally yield good results in initiating major change in organizations.

Item 5. The intent behind mentioning changes in the implementation plan was not to suggest that they were in error or had a negative impact. We were merely recording the difference between the originally planned and the actual implementation.

Item 6. A list of documents reviewed is being compiled. However,

many of the items reviewed in the MHCP were memorandum, statistical tables and other informal documents that we no longer have access to.

Item 7. We are reviewing the appendices as requested by the Mission. To the extent that revision is feasible we will do so.