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AGRICULTURAL SECTOR II PROGRAM

PROJECT NO. 522-0150

LOAN NO. 522-T-034

USAID/HONDURAS

AUDIT REPORT NO. 1-522-82-13

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The Agricultural Sector II Program totals about \$98.9 million; AID is to finance \$25.0 million and the GOH \$73.9 million. The broad goal is to build the agricultural capacity and organizational structure to adequately analyze, plan and implement agricultural projects affecting the rural poor. There are three project elements and 11 subprojects being implemented by 17 different GOH organizations.

The program design was very ambitious, complex, and fraught with flaws and erroneous assumptions. The permeating flaw of the entire program was the assumption that the GOH would be able to contribute the counterpart funds needed for the program. But, time after time, the activities show that the GOH was unable to meet its financial commitments for two reasons: the deteriorating economic condition of the country and/or GOH disinterest in the activity. There were other serious problems. As a result, most activities show little progress and the program had many serious implementation, operational, and administrative problems. The original goals cannot be achieved, and the program needs to be redesigned. This report includes 20 recommendations.

## TABLE OF CONTENTS

	<u>Page No.</u>
<b><u>EXECUTIVE SUMMARY</u></b>	
Introduction	i
Purpose and Scope	ii
Conclusions	iii
Recommendations	v
<b>BACKGROUND AND SCOPE</b>	1
Background	1
Scope of Audit	2
<b>AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS</b>	4
An Overall Assessment of Program Goals and Accomplishments	4
Counterpart Contribution by the Government of Honduras	7
The Program Administration and Coordination Unit	10
Planning Systems Component	15
Development of an Information System	18
Marketing Research and Analysis System	19
Extension Service	19
Cooperatives to Provide Integrated Agricultural Services	21
National Agricultural Development Bank (BANADESA)	22
Zonal Infrastructure Packages	25
Small Farmer Consumption Improvement	26
Participant Training	27
In-Service Training Activity	29
Development of the Atlantic Coast Regional University Center	
CURLA	30
Commodity Procurement	31
Project Vehicles	33
Commitment of Funds for Personal Services and Technical	
Assistance Contracts	36
Program Monitoring	37
<b>EXHIBIT A - Activities, Purpose, Funds, and Organizations</b>	39
<b>EXHIBIT B - Financial Plan</b>	42
<b>EXHIBIT C - Financial Report as of December 31, 1981,     Loan 522-T-034</b>	43
<b>EXHIBIT D - Financial Report as of December 31, 1981     Grant No. 522-0150</b>	44
<b>APPENDIX A - List of Recommendations</b>	45
<b>APPENDIX B - List of Recipients</b>	49

## ALPHABETICAL LISTING OF ACRONYMS

AID	Agency for International Development
BANADESA	National Agricultural Development Bank
BID	Interamerican Development Bank
CAR	Regional Agricultural Committee
COHBANA	Honduran Banana Corporation
COHEFOR	Honduran Forestry Development Corporation
CONSUPLANE	Superior Council for Economic Planning.
COPAN	Agricultural Planning Committee
CORFINO	Industrial Forestry Corporation of Olancho
CPA	Agricultural Policy Commission
CURLA	Atlantic Coast Regional University Center
DGEC	Directorate General of Statistics and Census
DIFOCOOP	Directorate of Cooperative Development
GOH	Government of Honduras
IFB	Invitation for Bid
INCAFE	Honduran Coffee Institute
INA	National Agrarian Institute
IHMA	Agricultural Marketing Institute
MNR	Ministry of Natural Resources
PL 48C	United States Public Law 480
PS/SRN	Directorate of Sector Planning of MNR
PROVEDURIA	Office of Procurement
UCFE	Program Administration and Coordination Unit
USAID/Honduras	AID Mission to Honduras

AGRICULTURAL SECTOR II PROGRAM  
Project No. 522-0150  
Loan No. 522-T-034  
USAID/Honduras

EXECUTIVE SUMMARY

Introduction

On June 30, 1979, AID signed a loan and grant agreement with the Government of Honduras (GOH) to assist in financing a program which would establish efficient and cost-effective institutional structures and delivery systems to serve the needs of small farmers. The goal was to increase the incomes of the rural poor in Honduras by increasing the GOH's capability to implement an effective agricultural and rural development programs. This would be accomplished by enlarging the pool of trained personnel needed to manage new development initiatives, and by strengthening the capability of key agriculture sector institutions to plan and implement these new initiatives. At the same time, the project was to provide resources for ongoing GOH efforts designed to increase the well-being of the Honduran poor.

The project consisted in the implementation of eleven subprojects or activities by 17 different organizations. The subprojects were designed to strengthen three major systems within the agriculture sector: (1) Human Resources Development (\$11.2 million) which includes participant training, in-service training, and development of the Agricultural University Center (CURLA) activities; (2) Institutional Development (\$5.1 million) which includes development of agricultural planning, information, and marketing analysis activities; and (3) Delivery of Services and Related outputs (\$8.0 million) which includes extension services improvement, subregional cooperative service centers, credit administration, zonal infrastructure packages, and small farmer consumption activities.

The basic rationale for the program has been that the Honduran agricultural programs are reaching only a small percentage of the rural population. The principal beneficiaries in recent years have been the agrarian reform farmers which are only about 10 percent of the rural poor, and even for them the principal benefit has been the acquisition of land. Provisions for government technical services and credit have lagged. The fundamental deficiencies have been weaknesses in the institutional system to deliver essential services when and where needed. Since the rural poor was the prime target of the GOH in its agriculture sector programs, it was necessary that priority be given to increasing the capacity of the Government to expand its agricultural services to increased numbers of rural people.

The financial plan contemplated a \$98.9 million Agricultural Sector II Program. AID was to finance \$25.0 million (\$21.0 million for a loan and \$4.0 million for a grant). The GOH was to finance the remaining balance (the equivalent of US\$73.9 million). As of December 31, 1981, AID had obligated \$18.0 million (\$16.0 million for the loan portion and \$2.0 million for the grant portion) and had expended \$4.7 million. The GOH was having difficulties meeting its counterpart fund commitments.

## Purpose and Scope

This is the first audit of this project. It was requested by USAID/Honduras who had realized that the program was having serious problems. The Mission wanted the audit to identify problems, their nature, and possible solution for the future. The review covers the period of June 30, 1979 to December 31, 1981, and was made to (a) evaluate the effectiveness, efficiency, and economy in carrying out the project's objectives; (b) assure that AID funds were used for project purposes; and (c) determine compliance with AID Regulations. Our efforts were directed toward identifying problem areas in the planning, implementation, and monitoring of the project.

## Conclusions

At the early stages of program implementation, USAID/Honduras realized there were serious problems with the program. In March 1980, the Program Administration and Coordination Unit issued an excellent Evaluation Report which helped focus attention on several problems faced by the program. Our review corroborated the concerns of the Mission. The findings in our review present very persuasive evidence that the original design was very ambitious, unusually complex, and contained flaws and erroneous assumptions. The program has had limited success in achieving the objectives. It is having many implementation and administration problems and it is our assessment that, as presently conceived, neither the broad goals, nor the specific objectives of many subprojects can be achieved. We believe that the entire project should be redesigned, and funds reprogrammed. Any excess funds resulting from the redesign should be deobligated.

Although some results were being achieved, we found that actual accomplishments had not kept pace with established schedules due to the design deficiencies, implementation complications, and administration problems. A brief assessment of project accomplishments and problems follow:

- The GOH has not been able to meet counterpart requirements under the Loan Agreement. As a result, project implementation has been significantly delayed and project planning has been hampered. This has resulted primarily because of the economic decline of the country over the past two years. In addition, there were other reasons: (a) confusion within AID and the GOH concerning what constituted counterpart contributions; (b) no system was established for controlling and accounting for the use of counterpart funds; and (c) disinterest by the GOH in some of the activities (page 7).
- There was a need to answer some fundamental questions regarding the Program Administration and Coordination Unit within the Ministry of Natural Resources. It had a series of very complex problems. It was not adequately carrying out its responsibilities of coordinating and administering the various phases of the program. It was not a legal entity. It lacked permanency. It had no authority. It did not have the needed personnel. It was hampered by a low position within the Ministry of Natural Resources organization. It was not performing its reporting responsibilities. It was not providing budget information in a timely manner. And, its administrative aspects were in disarray (page 10).

- Efforts to strengthen the Agricultural Planning Sub-System by providing technical assistance and budgetary support to key GOH planning bodies have been for the most part unsuccessful. Although the loan agreement called for the GOH to assume the cost of 48 additional positions over the life-of-the-project, at the time of our review, they had yet to assume the salary support of any of these personnel. Twenty-eight employees had been contracted with AID loan funds but there is little likelihood of the GOH assuming the cost of any of the new positions. Also, leadership and coordination of the activity has been a constant problem in that project documents did not specify the roles of the different planning institutions in this activity. Progress had been limited primarily to producing annual plans for seven of the planning units in the Public Agricultural Sector as well as a comprehensive sector annual plan. In addition, regional planning had been strengthened by the creation of Regional Planning Units in 4 of the 7 institutions (page 15).
- Limited results have been achieved in strengthening the development of a national documentary information system and a national numerical information system. There has been little coordination among the various GOH units involved in gathering, compiling and disseminating agricultural statistical information. The project design did not specify a particular GOH unit as coordinator of this component, nor did it contain a specific implementation plan. Also, there had been a lack of sufficient counterpart contribution to develop the information system. In spite of these problems, certain outputs have been achieved. Two new units have been created within the Directorate General of Statistics and Census. Within the Ministry of Natural Resources, the Agricultural Documentation and Information Center has established four regional information centers. There had also been progress on the area sample frame (page 18).
- Although considerable delay has been incurred within the Marketing Research and Analysis System component of the project, a contract was recently signed between Kansas State University and the Honduran Agricultural Marketing Institute (IHMA) to provide technical assistance to IHMA in the area of grain marketing and research. This will assist in creating the analytical capability with IHMA to establish effective marketing policies beneficial to the small farmer (page 19).
- Little progress had been made to date in implementing the Extension Service component of the project. Efforts had been directed primarily at the purchase of vehicles, financing personal service contract employees and payment of hardship and merit pay incentives. Other than initial planning efforts, little had been done to establish model training agencies as required by the loan agreement in each of the 7 agricultural regions of the country. The community based voluntary leaders program had made slow progress. Only 35 leaders had been recruited compared to the 900 leaders to be

selected, recruited and trained. Additional positions with the Central Unit of the Extension Service had not been created and filled to ensure coverage of planning, coordination, supervision and technical support (page 19).

- The activities related to cooperatives to provide integrated agricultural services seemed to be headed in the right direction. But, since no direct counterpart funds were available for this component, its future was dependent on the availability of P.L. 480, Title I funds which were not being provided (page 21).
- The National Agricultural Development Bank (BANADESA) has a long history of an ever increasing delinquent loan portfolio. The design of this program component was to address this serious problem. However, very little progress is being made in this direction. None of the regional offices which were to be created were staffed and operational. Some reorganization within the Bank had increased the number of credit specialist. However, BANADESA needs to make a firm commitment to create the regional offices and fill the positions required by the loan agreement. Otherwise, the objectives and goals of reducing levels of delinquency will not be achieved (page 22).
- The Zonal Infrastructure Packages component has made no real progress. The GOH is not committed to this component. Immediate action needs to be taken to select and construct qualified infrastructure projects or to terminate this component of the loan (page 25).
- Reporting requirements were not being carried out by the Ministry of Natural Resources under the Small Farmer Consumption component of the program. Also, we noted that there was no accurate accounting of funds collected from the sale of tree seedlings and seeds under this component (page 26).
- Under the participant training component, there is a need to carry out supply and demand studies to ensure that the priority needs of the sector are being served. Short-term participant training was not being implemented because agreement had not been reached to finance the transportation costs of participants. As a result, no short-term training had taken place and the program had not benefited from this type of training (page 27).
- The In-Service training activity has been reprogrammed and appears to be operating smoothly (page 29).
- Development of the Atlantic Coast Regional University Center had initial problems with counterpart funds and procurement but appears to have turned the corner and is headed in the right direction. However, in order to avoid future problems with regard to funding which may delay project implementation further, it is imperative that a firm commitment on funding be obtained from the university so that funds will be available for construction needs (page 30).

- An excessive amount of time is being spent in procuring project commodities primarily because too much time has been spent in preparing, revising, and approving Invitation-for Bid (page 31).
- The Mission has not maintained adequate controls over the purchase, receipt, and distribution of project commodities. As a result, it cannot effectively and efficiently carry out its oversight responsibilities to insure satisfactory project implementation (page 33).
- Adequate controls had not been established by the GOH on the use of vehicles purchased with AID funds. Consequently, there were possibilities of misuse of vehicles (page 33).
- The GOH had unnecessarily held up the acceptance and receipt of 28 jeeps, thereby delaying project implementation (page 34).
- AID-funded vehicles were not being appropriately marked with "Hand Clasp" emblems (page 35).
- Commitment of funds for personal services and technical assistance contracts were not being adjusted when funds were no longer required. As a result, necessary reprogramming of funds need to take place in order to fully utilize all funds and to avoid excessive disbursements (page 36).
- Mission monitoring of the program had not been performed as effectively as it should have been. This is due in large part to the design and complexity of the program (page 37).

### Recommendations

During the review, we made 25 recommendations addressing the different problem areas. USAID/Honduras implemented five recommendations before the issuance of this report. The remaining 20 recommendations are included in the body of the report and in Appendix A. The findings and recommendations in this report were discussed with USAID/Honduras officials and a draft report was submitted to the Mission for review and comments. These comments, both written and verbal, were considered in preparing the final version of this report.

## BACKGROUND AND SCOPE

### Background

On June 30, 1979, AID signed a loan and a grant agreement with the Government of Honduras to assist in the financing of the Honduras Agricultural Sector II Program. The goal was to build the capacity and organizational structure of the agricultural sector to adequately analyze, plan, and implement agricultural projects impacting on the rural poor. The concern of the GOH, and the basic rationale for the program has been that the Honduran agricultural programs are reaching only a small percentage of the rural population. The principal beneficiaries in recent years have been the agrarian reform farmers; they represent only about 10 percent of the rural poor, and even for them the principal benefit has been the acquisition of land. The fundamental deficiencies have been weaknesses in the institutional system to deliver essential services when and where needed. Since the rural poor was the prime target of the GOH in its agriculture sector programs, it was necessary that priority be given to increase the capacity of the Government to deliver services to more rural people.

The Agricultural Sector II Program focuses on three areas of constraints in sector development as it affects the target group:

#### (a) Institutional Development System

The purpose of this \$5.1 million program component was to strengthen the capabilities of the public agricultural sector to plan, budget, coordinate, analyze, and evaluate programs and policies to aid the small farmer. In order to enhance these capabilities, this component also planned to provide an agricultural information system and a marketing research and analyses system. With the exception of the Marketing Research Analyses Unit, offices and units already existed with responsibilities in the above areas. The underlying strategy was both to strengthen the capabilities of the individual units and to develop and implement procedures for integrating their operations and outputs.

This program component contains three subcomponents:

- (1) Strengthening of the Planning Sub-System;
- (2) Development of an Information System;
- (3) Marketing Research and Analysis System.

#### (b) System for Delivery of Services and Related Inputs Component

This \$8.0 million program component seeks to develop mechanisms through which agricultural services, genetic material, improved technology and infrastructure can be provided at low cost to the rural poor in both the reform and non-reform subsectors.

This program component contains the following five subcomponents:

- (1) Improvement of the Extension Service;
- (2) Cooperatives to provide Integrated Agricultural Services to Agrarian Reform Groups and Small Independent Farmers;
- (3) Regionalization and strengthening of the Field Operations of the National Development Bank;
- (4) Zonal Infrastructure Packages;
- (5) Small Farmer Consumption Improvement.

(c) Human Resources System

The human resources component (\$11.2 million) of the program was designed to assist the GOH in its efforts to increase the diversity and improve the quality of the technical personnel responsible for formulating and carrying out programs in the sector as well as conducting the necessary research, development, and adoption of appropriate farm technologies. Specifically, this component is concerned with increasing the number and improving the quality of trained professionals working in the agriculture sector.

This program component sector contains three subcomponents:

- (1) Participant Training Activity;
- (2) In-Service Training Activity;
- (3) Development of the Atlantic Coast Regional University Center (CURLA).

A more detailed description of the activities is provided in Exhibit A of this report.

AID financing totals \$25.0 million and consists of \$21,000,000 in loan and another \$4,000,000 in grant funds. As of December 31, 1981, AID had obligated \$16,000,000 under the loan and \$2,000,000 under the grant with subsequent increments subject to the availability of funds and to the mutual agreement of the parties. The resources to be provided by the GOH were to total \$73.9 million, including an amount to be less than the equivalent of \$24,011,000 over and above its 1979 level of effort. The financial plan was based on total program costs of \$98 million. The GOH has had problems meeting its commitments (see page 7).

Scope of Audit

This audit was requested by USAID/Honduras who realized that there were serious problems in the implementation of the program. The Mission wanted the audit to identify the problems, their nature, and possible solutions.

The audit covered the period from inception of the program on June 30, 1979 to December 31, 1981. The purposes of the review were to determine (a) if the program was being carried out in an efficient, effective, and economical manner; (b) that AID funds were used for project purpose, and (c) whether AID regulations were being followed. Our efforts were directed toward indentifying problem areas in the planning, implementation and monitoring of the project.

The review was made in accordance with generally accepted government auditing standards. Taking into account the foreign assistance programs involved, we included tests of the accounting records and such other auditing procedures as we deemed necessary. We reviewed files and records maintained by USAID/Honduras and the GOH. We discussed project progress and problems with USAID/Honduras and GOH officials, and we visited selected subproject sites. The results of our audit were discussed with USAID/Honduras and its comments were considered in the preparation of this report. At the time of our audit, USAID/Honduras had solicited the services of an Evaluation Team to help in the future direction of the program. Our findings and conclusions were made known to the Evaluation Team prior to departure of the Inspector General's audit team from Honduras.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### An Overall Assessment of Program Goals and Accomplishments

The broad goals of the Agricultural Sector II Program were to establish efficient and cost-effective institutional structures and delivery systems to serve the needs of small farmers. The program design anticipated that these broad goals could be accomplished by channelling the assistance through eleven subprojects or activities which would strengthen three major systems within the agricultural sector.

The background section and Exhibit A of this report provide a good idea of the complexity of the program. Briefly, there were three major elements to the program. Within those three elements, a total of 11 sub-activities were being financed and implemented. Each sub-activity had its own budget, purpose, implementation procedures and problems. At least 17 different GOH organizations were implementing or participating in some manner or other in the implementation of this project. From its inception, the design of this program dictated unusual efforts in implementation, coordination, monitoring and financial inputs by both AID and the GOH to harmonize the progress of each sub-activity in relation to the whole.

Early on, USAID/Honduras realized there were problems in the implementation of the program. In March 1980, the Program Administration and Coordination Unit (UCFE) produced an excellent Evaluation Report which helped focus attention on several problems faced by the program. USAID/Honduras was aware that the program was having serious problems for several complex reasons. For instance, the program design was very complex and the activities of the program encompassed a broad spectrum of GOH organizations. Coordination among the organizations and activities was difficult. GOH elections in June 1980 and October 1981 hampered program implementation through changes in personnel. In addition, the economy of the country deteriorated rapidly over the past few years and the financial resources of the country were almost depleted. In fact, GOH financial contributions to the program were not forthcoming in the amounts required. For these reasons, the Mission realized that the program would probably have to be reprogrammed and wanted this audit to assist in determining the problems associated with the project in the past and at the current time with recommendations that were geared for the future.

Our review corroborated the concerns of the Mission. The findings in our review present very persuasive evidence that there were many flaws in the original program design. The program is having many implementation problems and it is our assessment that, as presently conceived, neither the broad goals, nor the specific objectives of many subprojects can be achieved. We believe that the entire project should be redesigned, and any excess funds resulting from the redesign should be denigrated.

Essentially, we found:

- Positive accomplishments in two areas: Participant training and In-Service Training;
- Likely progress - if the recommended action is taken in three areas: Marketing Research and Analysis System, Cooperatives to provide Integrated Agricultural Services, and Development of the Atlantic Coast Regional University Center;
- Serious problems in: Program Administration and Coordination Unit; Counterpart Fund Contributions; Strengthening of the Planning Sub-System; Development of an Information System; Improvement in the Extension Service; Regionalization and Strengthening of the Field Operations of the National Agricultural Development Bank; Zonal Infrastructure Packages; Small Farmer Consumption Improvement; Commodity Procurement; Vehicle Controls and Utilization; Project Monitorship; and administrative matters.

The specific details relating to the above activities and problem areas are discussed in subsequent sections of the report. Our review showed a program with serious technical and administrative problems for the following reasons:

- Expected levels of counterpart fund contributions were not forthcoming; and were based on unclear definitions and unrealistic assumptions;
- The need for GOH administrative and fiscal reforms was known at the time the loan paper was prepared. Yet, they were not made a part of "Memorandum of Understanding" or conditions precedent;
- The opinions on GOH capabilities to harmonize the efforts of its many participating organizations and to implement such a complex program were over-optimistic;
- The lack of GOH interest in several sub-activities (Zonal Infrastructure Packages, Planning Systems, etc.) was either not recognized or disregarded;
- The legal and administrative limitations of the Coordinating Unit were not recognized and addressed from the beginning. The Coordinating Unit is not legally constituted, lacks permanency, shows no growth, and coordinated only three of the many international programs involving agriculture in Honduras;
- Some subactivities: (a) lacked clarity of goals and objectives (Planning Systems and Extension Services components); and (b) were too sophisticated and their emphasis (and/or approach) to the institutional development could have been different, e.g., Planning System component;

- The scope of the program itself might have been too ambitious;
- Leadership and coordination of numerous activity has been a persistent problem;
- Training efforts have been limited in some instances;
- Technical assistance has not been provided as needed;
- GOH has not assumed the support of numerous positions created under the project;
- Excessive amounts of time have been incurred in procuring project commodities;
- Controls over procurement of commodities are inadequate;
- Lack of control over receipt and utilization of vehicles;
- Appropriate publicity has not been given to the project in terms of marking vehicles with required "Hand Clasp" emblem;
- Commitments of funds for Personal services and technical assistance contracts are not indicative of the true requirements of the individual components of the project.

Based on our examination, we believe that the program, as presently designed, cannot achieve the desired objectives and goals. In our opinion, there are two options open to USAID/Honduras: (a) to cease all activities under the program and deobligate all remaining funds, or (b) completely redesign and scale down the objectives and implementation approach of the present program. Since some activities can still be accomplished either as originally planned or in a modified manner; we are recommending option (b).

As of December 31, 1981, only \$4.7 million (of \$24.0 million) had been expended. USAID/Honduras will need to reprogram about \$18.0 million. We do not believe that these funds should be merely redistributed among a lower number of activities. The absorptive capacity of the activities should be carefully analyzed and any excess funds should be deobligated.

Recommendation No. 1

USAID/Honduras should (a) cease financing activities which have not and do not show promise of concrete results and positive program achievement; (b) reexamine, scale down and redesign the objectives and activities of this program; and c) deobligate any excess funds.

## Counterpart Contribution by the Government of Honduras

Summary. The GOH has not been able to meet the counterpart requirements of the Loan Agreement. The primary reason is the economic decline of the country over the past two years. Other reasons were the confusion within AID and the GOH concerning what constituted counterpart contribution and the lack of a system for controlling, accounting, and reporting on the use of counterpart funds. Also, the GOH does not show interest in some activities. As a result, project implementation has been significantly delayed and project planning now needs a reexamination.

Background Material. The Agricultural Sector II Program contemplated a financial plan equivalent to \$98.9 million to be contributed by the parties to the agreement in the following manner:

<u>Source of Funds</u>	<u>In U.S.\$</u>		
	<u>AID</u>	<u>GOES</u>	<u>Total</u>
AID Loan	\$21,000		\$21,000
AID Grant	4,000		4,000
Current Budgetary Support Costs		49,848	49,848
Additional Assistance to the Program		24,011	24,011
<b>Total Program Costs</b>	<b>\$25,000</b> =====	<b>\$73,859</b> =====	<b>\$98,859</b> =====

Some clarifications of the contribution plan are in order:

- The "Current Budgetary Support Costs" represented current levels or continuing contributions of the GOH in support of ongoing activities with the different organizations that would be involved in the program (CURLA, BANADESA, MNR, etc.). The \$49.8 million was to be provided over the life-of-the-project and included an increase of 10 percent each year for the expected rate of inflation;
- The "Additional Assistance" funding (\$24.0 million) was additive to the Current Budgetary Support Costs and also included "In-kind" type of costs. At least \$12,252,750 was to come from "National Funds", and the source of the remainder was not specified.
- The total cost of the project was estimated at \$98.9 million. Of this amount, \$49.9 million was considered indirect contribution by the GOH and \$49.9 million was direct contribution to be provided by AID (\$25.0 million) and the GOH and other sources \$24.0 million).

According to the Project Paper, costs solely due to the Project were to be compiled by determining the difference between the 1979 cost (adjusted upwards annually for inflation) and the total cost in each successive year.

Using the above formula, we compared the planned versus the actual budgets of the different organizations related with this project for the years 1979 through 1982. The following table illustrates the analysis related to the largest participating organization (Ministry of Natural Resources - MNR):

	(In 000 Lempiras)				
	<u>Annual Base</u>	<u>Increase of 10%</u>	<u>Budget Required</u>	<u>Actual Amount</u>	<u>Shortfall</u>
1979	79,533.5	---	---	---	---
1980	79,533.5	7953.3	87,486.8	88,228.8	(742.0)
1981	87,486.8	8748.7	96,235.5	73,860.8	22,374.7
1982	96,235.5	9623.6	105,859.1	76,416.3	<u>29,442.8</u>
					51,075.5 =====

The above illustrates the three essential conclusions drawn from our examination:

- The assumptions made at the time of the project design did not materialize. For example, the projection was for an economic condition where the annual budget base would be expanding by 10 percent. This did not come about and the base has actually contracted.
- Like in the case of the MNR, the cumulative shortfall (L. 51.1 million) continued to grow with each year since 1980. Based on our review of the budgets of the different organizations, the analysis showed a total shortfall of L. 189,400,100 (equivalent to \$94.7 million) over the life-of-the-project.
- The budget support of the GOH for the project has actually gone down - not up - since 1979. The GOH was not and will not be able to maintain the levels of the effort in each activity as required by the Loan Agreement.

The GOH has not been able to meet counterpart contribution primarily because of the economic decline of the country over the past two years. This economic decline is due to the country's limited internal market and high dependence on external trade, lower prices for major imports along with increasing prices for imports, an increasingly unsettled political situation in Central America, a severe contraction in international credit, and other factors.

Control and Reports of Counterpart Funds. In addition, a system to account and control the counterpart funds to be contributed was not established. Reliance was placed on determining the amount of contributions by the formula shown above. However, the formula became impossible to use when the economic assumption of an ever expanding budget base did not materialize

and the budget support for the different organizations decreased since 1979. For this reason, it is not possible to determine whether the GOH is meeting the additive requirement of the \$24.0 million counterpart contribution.

The absence of an accounting and control system, combined with the faulty assumptions, resulted in additional problems of reporting. For example, the 1980 evaluation of the Project attempted to measure actual counterpart contributions against the Financial Plan. The Plan based on total budget support shows L 30,516,300 (equivalent to \$15,258,150) scheduled to be expended. The evaluation shows that the GOH only spent L 344,900 (\$172,450) about 1 percent of the planned amount. This comparison is inaccurate because it measures only direct Project expenditures against total budget support presented in the Financial Plan. In contrast, our analysis shows that the GOH exceeded at least the "budgeted" amounts required for continuing program support. The fault of the above comparison lies not with the Project Evaluation but with Project Design which failed to include a Financial Plan based on direct Project activities.

Obviously, the GOH has spent money supporting the Project. However, determining the exact amount or even a close approximation is difficult. For example, the Loan Agreement required a counterpart contribution of the equivalent of \$12,252,750 from strictly national funds over the length of the Project. We were able to identify only L.1,845,350 of expenditures as strictly national funds through 1981. However, this is understated since it does not include all in-kind contributions, expenditures outside of the MNR for scholarships and in-service training, or transfer from the national government to autonomous agencies.

Lack of GOH Interest. At least 9 of the 11 activities have incurred implementation delays related at least to some extent because of inadequate GOH counterpart support. For example, Zonal Infrastructure Packages and Cooperatives to Provide Integrated Agricultural Services components have received no direct counterpart funds nor are any anticipated. Under the Planning System Component, the GOH has not assumed any of the 48 additional positions to have been created under the Project. Similar counterpart problems in the other components of the project.

Concluding Remarks. The effects of the diminished and unclear counterpart contributions are delays in project implementation not only because the money is simply not there but also because of administrative delays due to lack of hiring, procurement delays, and other measures the GOH has taken to limit expenditures.

Due to these economic factors and the recognition of problems meeting the counterpart requirements, the GOH presented a reprogramming proposal which deals only with the counterpart contribution to be made for new activities or the expansion of ongoing activities under the project. This proposal lowers the direct GOH counterpart cost of the program to \$8,333,350 from the original \$24,011,000. This would reduce GOH counterpart to the minimal

acceptable level of 25 percent of total project costs as required by Section (a) of the Foreign Assistance Act.

Nevertheless, because it deals only with the costs of activities directly associated with the project, we feel this proposal is in the right direction and should form the basis for negotiation with the GOH for reprogramming the counterpart contribution.

#### Recommendation No. 2

When the Project is reprogrammed, USAID/Honduras should include a new financial plan using realistic GOH counterpart contributions related directly to project activities.

#### Recommendation No. 3

After reprogramming, USAID/Honduras should obtain evidence that the GOH has established a system for adequately controlling and accounting for the use of counterpart funds.

### The Program Administration and Coordination Unit

Summary. The Program Administration and Coordination Unit (UCFE) within the Ministry of Natural Resources was charged with the responsibility of coordination and administration of the various phases of the program. However, our review showed that UCFE had a series of very complex problems. It was not a legal entity. It lacked permanency. It had no authority. It did not have the needed personnel. It was hampered by a low position with the MNR organization. It was not performing its reporting responsibilities. It did not produce budget information in a timely manner. And, its administrative aspects were in a disarray. As a result, the program did not have an effective and efficient coordinating, administering and reporting organization. Moreover, the probabilities were that UCFE would not evolve into a Coordination Unit able to manage the assistance of all foreign donors as envisioned. Since UCFE lacked legality and permanency, the program appeared to be providing budgetary support with no possibilities of future returns. There were fundamental questions to be answered related to UCFE. When this program is redesigned, efforts must be made to correct the administrative and reporting deficiencies of the program.

Background Material. UCFE was formed at the time the Agricultural Sector I Program (AID Loan 522-T-025) was being implemented. In late 1978, the Agricultural Policy Commission (CPA) Technical Secretariat drew up a proposal to transform the Unit into a broader coordinating unit which would be concerned, in due course, with all AID, and possibly at a later date, all internationally funded programs in the Agricultural Sector.

According to the Loan Agreement, the principal responsibilities of the Coordination Unit under the Agricultural Sector II Program were the following:

(a) To work with the GOH participating agencies in specifying activities, goals and periodic budgets within the framework of the project;

(b) To review and approve periodic budgets as proposed by the participating agencies, and prepare consolidated budgets for submission to AID;

(c) To arrange for transfer of GOH funds (later to be reimbursed by AID) to participating institutions;

(d) To review and approve all procurement actions proposed by the participating agencies, such as, the contracting of professional or technical services, construction, and purchase of materials and equipment;

(e) To audit all request for reimbursement as submitted by participating agencies;

(f) To carry out annual evaluations of the program jointly with participating agencies, and recommend possible changes in emphasis or objectives; and,

(g) To maintain financial controls with respect to the Sector II Program.

In line with the above responsibilities, UCFE was required to submit the following reports to USAID/EI Salvador:

- Quarterly (now semester) Budgets
- Quarterly Financial Reports
- Quarterly Procurement Plan
- Quarterly Administrative Reviews
- Annual Evaluation (to include end-use)
- Annual Counterpart Contribution Reports
- Annual Participating Agency Budgets

The Role of UCFE. Our review raised questions related to the role of this entity in the program that emerges from the redesign for the following reasons:

(a) UCFE was not created by law or decree, and, therefore, lacks permanency. In fact, it does not appear in the MNR organizational chart. In our opinion, there is no real institutional development by continued funding of such an entity, and the program is providing budgetary support with no possibilities of future returns.

(b) AID finances only one division of UCFE. In theory, the Coordinating Unit was to expand and broaden its functions and responsibilities to that of

managing the assistance of all foreign donors. This ambitious plan was never put into effect although the Unit has been given responsibilities over both AID and other donor projects. The Unit currently has coordinating responsibility for AID's Agricultural Sector II Program, Loan 522-T-034, and two Inter-American Development Bank projects, (Research and Farming Extension, Second Stage, BID 555/SF-HO and Program of Regional Development of the Western Region (PRODERO), BID 613-SF-HO and AT-BID-SF 182-HO).

(c) Since the Coordinating Unit has no legality, it has no authority over the implementing organizations, particularly the semi-autonomous ones. There was ample evidence noted in our review that reflected on the ineffectiveness of the Coordinating Unit resulting, we believe, from the lack of authority.

The Administrative Affairs of UCFE. UCFE had performed some assigned administrative responsibilities. For instance, it conducted a thorough evaluation of the Program in 1980 which contained many constructive recommendations. It had also reviewed the requests for reimbursement submitted by the participating agencies. However, generally, the administrative affairs of UCFE were in disarray. Specifically, UCFE had serious difficulties in the areas of reporting, budgeting, and maintaining financial and administrative control over the program. The following subsections provide more details of the several problems.

Quarterly Reports. The Coordinating Unit had not submitted quarterly financial reports, quarterly procurement plans, and annual participating agency budgets. Periodic financial audits were also required by Implementation Letter No. 3 of the Loan Agreement. Although the actual conduct of these audits was not the specific responsibility of UCFE, it was their responsibility to see that they are conducted and submitted. No audit reports had been submitted.

The Mission obtained some information, such as annual agency budgets, directly from the participating agencies. However, quarterly financial reports were not submitted nor obtained. Such information is critical for effective project monitoring and will certainly be necessary for project reprogramming.

The reports submitted were not adequate. The quarterly administrative reviews were nothing more than statements of project progress as measured by the critical path. There was little analysis or attempt to describe the reasons for implementation delays and project problems. The project manager felt that these reports were of limited value. One evaluation report was prepared. It was a good report and did analyze project delays and offered recommendations for improvement. However, there was no "end-use" review of commodities purchased as required by the implementation letter.

The reason for the inadequate reporting systems was the lack of staff and effective organization within the Coordinating Unit. The "evaluator" had to spend months at the USAID Mission because the Coordinating Unit did

not have adequate secretarial and other support resources. The programmer prepared the quarterly critical path review without input from the evaluator or the project officials who could offer analysis. There was no systematic combined effort at project analyses. Although the staff had three accountants, they were reportedly working full-time on budgets and reimbursement reviews. The quarterly financial report was a low priority.

The Mission issued Implementation Letter No. 75 on February 1, 1982, which called attention to the lack of reports. It stated, "For certain of the ASPII Ag. Sector II Activities, we have not received any quarterly progress reports. Unless AID receives a quarterly progress report each quarter on a given activity, we cannot approve subsequent budget request, nor be able to reimburse funds for that activity after March 15, 1982." The Mission, in conjunction with the GOH, will have to determine if the Coordinating Unit, as presently constituted, has the capability to carry out the reporting requirements for the project.

Reports on Counterpart Funds. The Coordinating Unit is responsible for providing an annual report on counterpart contributions. The Mission requested the GOH to maintain a full accounting of the costs incurred in carrying out the program, whether or not these costs were included as counterpart costs.

The Coordinating Unit presented some information on counterpart funds to the Mission on October 9, 1980. However, this information was not sufficiently detailed and did not fulfill the financial reporting requirements as specified in Implementation Letter No. 3. Also, the counterpart information contained in the 1980 project evaluation was not complete and attempted to compare actual direct counterpart expenditures with the financial plan. This comparison was not proper because the financial plan is based on a total budget concept. In addition, the financial plan used for the comparison differed slightly from that of the official financial plan contained in Implementation Letter No. 3.

The cause for this situation was that counterpart contributions to the project go directly to implementing agencies and these agencies did not report to the Coordinating Unit. Even the counterpart funds of the Ministry of Natural Resources, of which UCFE is a part, were budgeted and disbursed directly to implementing agencies.

At a meeting in March of 1981, UCFE required executing agencies within the MNR to submit to the UCFE for approval all counterpart expenditures, and also required autonomous agencies to inform UCFE monthly on the utilization of counterpart funds. Neither of these "requirements" had been carried out.

The result was that neither the Mission nor the GOH knew the status of counterpart expenditures. Officials of the Coordinating Unit stated that reported counterpart expenditures could have been actually spent on other than project purposes. The Mission, in conjunction with the GOH will have to determine if the Coordinating Unit is able to maintain financial control of the Project or if this responsibility should be placed elsewhere.

Budget and Planning Process. Implementation Letter No. 3, dated January 22, 1980, established the budget and planning process to be used by the project. It provided that the Coordinating Unit in the Ministry of Natural Resources would submit to AID detailed budget and planning documents every three months. This requirement was subsequently changed to six months. The Coordinating Unit was to submit them at least 15 calendar days prior to the initiation of budgetary period and AID was to approve or disapprove it within two weeks. The approval constituted AID's confirmation of project financing. The budget and planning documents were developed by the agencies participating in the program and were subject to the review and approval of the Coordinating Unit prior to submission to AID.

The Coordinating Unit submitted only one of eight budgets 15 days prior to the beginning of the budgetary period. Four of the budgets were submitted after the beginning of the budgetary period. Of the 7 budgets received late, the average delay was 28 days. The range was from 10 to 65 days late.

The major reason for these late submissions by the Coordinating Unit was that the implementing agencies, particularly the Agricultural Documentation and Information Center, Directorate of Cooperative Development, Extension Planning Sub-System, Atlantic Coast Regional University Center, and the Directorate of Sector Planning of the Ministry of Natural Resources submitted their budgets late to the Coordinating Unit. The Unit consistently requested well in advance of the budgetary periods, that the participating agencies submit their budgets. However, the Unit has no authority over the implementing agencies and cannot enforce prompt submission.

The Mission had not approved or disapproved a budget request within the stipulated two weeks period. The average length of time to approve the budgets was 45 days. The range was from 22 to 91 days. Mission processing of budget requests entails 17 steps, each step can take from 1 to 10 days. In many instances, numerous steps may have to be repeated before the budget is approved.

In order to avoid delays in project implementation and to provide for smooth continuous operation, the Mission must receive accurate budgets in a timely manner from the GOH. Whether or not the Coordinating Unit has the authority or the capability to fulfill this responsibility must be decided by the Mission and the GOH.

Concluding Remarks. Our review showed that UCFE has a series of very complex problems which relate to its legality, permanency, authority, long-term goals, budget preparation and planning, reporting, and administrative functions. The future of UCFE needs to be carefully reexamined. We do not believe that USAID/Honduras should continue to provide what amounts to budgetary support to only a division of the Coordinating unit as it is presently established. In the manner that it is currently established, no permanent institution will exist after this program is completed. In our opinion, there are fundamental questions which must be answered in relation to UCFE.

The principal one is: What is the output that the Mission wants in this component? The remaining questions relate to the legality and permanency of the organization, the scope of its responsibilities, its administrative, financial, budgeting, and reporting functions, and its personnel needs.

#### Recommendation No. 4

When the program is reprogrammed, USAID/Honduras should address and clearly define for the Coordinating Unit component, the questions related to expected outputs, legality, responsibilities, administrative, financial, budgetary, and reporting problems, and personnel needs.

#### Planning Systems Component

Summary. The Loan Agreement provided for strengthening of the Agricultural Planning Sub-System by providing technical assistance and budgetary support to key GOH planning bodies. Our review showed some progress related to the planning units of the Agricultural Sector. However, for the most part, the principal objectives of this activity were not being achieved. We found the following problems:

- Leadership and coordination of the activity was a persistent problem because project documents were ambiguous and did not specify the roles of the different planning institutions;
- The GOH did not assume the support of any of the contract personnel being funded by AID to fill the 48 additional positions created within the GOH planning entities;
- The proposed Comprehensive Resource Inventory and Evaluation System established under the activity produced only two reports and there have been no special studies; and,
- Training efforts were very limited.

There were three basic reasons for the above problems: (a) the poor project design; (b) the declining economic condition of the country; and more importantly (c) the lack of interest in this component on the part of the GOH. As a result, implementation of this activity is significantly behind schedule and the problems will be extremely difficult to resolve. The most advisable course of action is for the activity goals to be reprogrammed and reduced.

Background Material. The loan agreement specified that the planning system covered five basic functions: annual planning, budgeting and programming; medium-term planning, control of annual program and budget execution; evaluation; analyses; and special studies. The activity was to be

accomplished by providing technical assistance and budgetary support to enable key GOH planning bodies or offices to more effectively formulate policies, plans, and budget on a coordinated, sectoral basis, both at the national and regional level. The GOH organizations that were to participate in this activity were the Agricultural Policy Commission, the Technical Secretariat of the Superior Council for Economic Planning, the Regional Agricultural Committees, the Planning Departments of the Ministry of Natural Resources, the National Development Bank, and the National Agrarian Institute. AID was to finance 48 positions under contract and these costs were to be assumed as additional positions by the GOH over the life-of-the-project.

Leadership and Coordination. Our review showed some progress related to the Planning Units of the Agricultural Sector. For instance, seven units in the Public Agricultural Sector now produce annual plans and there is a comprehensive sector annual plan. An evaluation of the Public Agricultural Sector was completed in 1980. Regional planning was strengthened by the creation of Regional Planning Units in four of the seven institutions.

However, the project documents (Loan Paper and Loan Agreement) were ambiguous and did not specify the roles of the different planning institutions in this activity. As a result, leadership and coordination of the activity has been a persistent problem. Two groups, the Technical Secretariat of the Superior Council for Economic Planning and the Technical Secretariat of the Agricultural Planning Commission vied for leadership roles. As late as July of 1980, the AID Project Manager stated, "Consequently, at present we have no clear idea of how the GOH intends to implement this activity or which institution will end up as the leader and coordinator of Honduras Agricultural Planning efforts."

The Technical Secretariat of the Agricultural Planning Commission was dissolved in November 1980. The leadership and coordination role was not clear between the Technical Secretariat of Superior Council for Economic Planning and the Sector Planning Unit of the MNR. The change in personnel with the installation of the new government in January 1982 may alleviate this situation. However, we believe that the leadership and coordination problems will continue because there is no clear definition on roles for the various institutions.

The absence of a clear definition is due to the fact that the Planning activity has never had an official plan of operation. As mentioned earlier, the Project Paper and the Loan Agreement were far too ambiguous to function as a plan of operation. Accordingly, the Mission provided technical assistance for an agricultural plan to be developed by the Interamerican Institute for Agricultural Cooperation. USAID paid \$19,500 for this assistance. The Latin American Institute for Economic Planning was also hired to work on an agricultural plan. However, these two groups used different methodologies and produced two different plans. Neither plan was approved by the GOH. USAID/Honduras and the GOH, under the leadership of the Agricultural Planning Committee combined these two reports and produced an additional plan in March of 1981. This plan had not been approved by the Agricultural Policy

Commission at the time of our review. The lack of an official plan of operation for the planning component significantly delayed this activity.

Contract Personnel. The loan agreement called for the GOH to assume, over the life-of-the-project, the cost of 48 positions created within the different planning institutions. USAID/Honduras has contracted 28 of these additional personnel called for by the loan. However, the GOH has yet to assume the salary support of any of these personnel. As a result, USAID/Honduras has had to extend the contracts of 15 of these contractors or else their services would have been lost. GOH officials admitted there was little likelihood of the GOH assuming any new positions unless the economy improves. Consequently, USAID/Honduras should carefully review the contracting of additional personnel for the planning component and the extension of the contracts of existing personnel unless the GOH can demonstrate the capacity to assume the costs of additional personnel.

The Comprehensive Resource Inventory and Evaluation Report. The Project Paper proposed that a Comprehensive Resource Inventory and Evaluation System be established and that certain "special studies" be conducted. There was little activity under this system. Only two reports were produced. One of the main reasons for the lack of activity was that the GOH would not assume the salary cost of the Resident Agricultural Economist assigned to this aspect. Since he left on December 1980, there has been little activity in this component. Also, no special studies were conducted although the Director of the Sector Planning Unit for the MNR wanted to conduct one soon.

Need for Additional Training. There was a need for additional training, especially in the Regional Planning Units of the Public Agricultural Sector. Only one course in Agricultural Planning had been developed under this loan and it took over 2 years to establish. Reportedly, this was the first course in the country on Agricultural Planning. We believe there is a need for more such courses especially in view of the probability that contractors furnished by AID will not be picked up by the GOH. In such a case, it is essential that existing personnel be given adequate training to carry on the planning activity after loan funds are terminated.

Concluding Remarks. There has been a limited, but discernible, degree of progress in one area of this activity. However, the activity is confronted by several complicated problems. Project documents were ambiguous and there was no clear idea how the activity was to be implemented and what GOH institution would manage and implement it. The GOH did not appear to have the financial resources to assume the 48 additional positions for the effective and efficient implementation of the project. The Comprehensive Resource Inventory and Evaluation System was not achieving the desired results. The required special studies had not been made. Training was not being done. However, the most significant problem was the lack of interest that the GOH had in this activity. For instance, in July 1981, the GOH proposed a reprogramming of the counterpart funding for the entire Agricultural Sector II Project. Significantly two of the three alternatives presented called for the elimination of all counterpart contribution for the

planning component while the other called for a significant reduction. We believe that the GOH had no interest in implementing this activity. Without the full cooperation of the GOH, the problems of this activity cannot be overcome.

Recommendation No. 5

When the program is reprogrammed, USAID/Honduras should reevaluate the Planning System Component and reprogram funds into other appropriate activities if necessary.

Development of an Information System

Summary. There was a need to reexamine and reduce the scope of the Information System. Designed to strengthen the development of a national documentary information system and a national numerical information system, the component had produced only limited results. Three essential problems were noted in our review: (a) poor project design; (b) lack of coordination among the various implementing organizations; and (c) a lack of sufficient counterpart funds.

There was some progress in the area of sample frame. In addition, two new units were created.

<u>New Units</u>	<u>Parent Ministry</u>
Agricultural Rural Survey Department	DGEC
Four Regional Agricultural Documentation and Information Center (CEDIA)	MNR

Coordination of Organizations. Coordination is obviously necessary between these units to establish an effective information system. CEDIA depends on Agricultural Rural Survey Department of DGEC for basic information. Likewise, the Extension Service of MNR depends on these and other units to provide information to it so its agents can disseminate information to the small farmer who should be the ultimate beneficiary. However, a Technical Secretariat to coordinate the efforts of three Ministries was never established. In fact, we were told that meetings were not held among the various Ministries. Communications were only by informal telephone calls. The 1980 evaluation concluded that as a result each institution was developing its activities independently of the others. We believe that the problem of coordination among the GOH organizations relates back to the basic program design which, in retrospect, was too ambitious. The attempt to meld the efforts now being performed by six different organizations which are under three different Ministries was commendable. However, in practice, the approach did not work and therefore continuation of this objective needs reexamination.

Counterpart Funds. The lack of counterpart funding was another problem within the three Ministries. For example, DGEC wanted to hire experienced surveyors in January 1982 to work on the project. It was unable to do so because of the lack of funds for salaries. The GOH budget for 1982 did not provide funds for per diem expenses for the Agricultural Rural Survey Department, thus rendering the unit immobile. Within the MNR, the Agricultural Statistics unit was to carry out an agricultural census in 1980 but this had to be postponed due to lack of funds.

#### Recommendation No. 6

When the program is reprogrammed, USAID/Honduras should reexamine and reduce the scope of the Information System component to more realizable levels and reprogram or deobligate any excess funds.

#### Marketing Research and Analysis System.

This activity was aimed at creating an analytical capability within the Honduran Agricultural Marketing Institute (IHMA) that would enable it to establish effective marketing policies which would benefit the small farmer. A Marketing Research and Analysis Department was to be created with IHMA. Its main function was the publication of analytical reports designed to help policy makers understand the structure and behavior of Honduran markets. The financial plan called for a total of \$1,061,000 of which AID's share was to be \$543,000. As of December 31, 1981, AID had spent a total of \$17,320 under this component, all for vehicles.

The primary AID input to this component is for technical assistance. Negotiations have been ongoing between IHMA and Kansas State University since November 1980. Finally, a contract between the two was agreed upon in January 1982. Under the terms of the contract, they will provide technical assistance to IHMA in the areas of grain marketing and research. The contract has a value of \$1,020,017 of which \$440,017 will be financed with Agricultural Sector II loan funds. Since the contract was just signed and the work just begun, no recommendations are made at this time.

#### Extension Service

Summary. After two and one-half years, the Extension Service component of the project has been ineffective. Efforts to date have been directed primarily at the purchase of vehicles, financing personal service contract employees, and payment of hardships and merit pay incentives. The planned improvements in the National Extension Service have not been implemented because (a) the GOH has not provided sufficient counterpart funds, (b) sufficient technical assistance has not been obtained, and (c) a detailed implementation plan was never prepared.

Model of Training Agency. A model training agency was to be established in each of the 7 agricultural regions of the country. Progress to date has been limited primarily to the initial planning stages in the regions of La Ceiba, Danli and Comayagua for two reasons: (a) lack of counterpart, and (b) the fact that the Project Paper never defined the idea. Furthermore, the implementation plan did not elaborate on how the training agency was to function within the region.

Voluntary Leaders Subprogram. Progress in carrying out a community based voluntary leader's subprogram has been slow. There are about 35 leaders recruited compared to the 900 leaders to be selected, recruited and trained. One of the reasons for the slow progress was that the implementation plan did not define the activities in sufficient detail to know who was to conduct the training programs and how they were to be presented. Furthermore, at Choluteca, we were told that they did not have the necessary manpower to effectively conduct the program.

Although we were told that technical assistance is needed in order to implement both the model training program and the community based voluntary leaders program, the GOH has been reluctant to obtain it. They would rather use the funds for vehicle and personnel costs.

As a result, technical assistance has been limited to that provided to the Comayagua Valley for a cucumber export project by the Standard Fruit Company of Honduras.

Plans to Increase Employees. According to the Loan Agreement, the Central Unit of the Extension Service was to be increased from 15 to 30 employees to ensure coverage of planning, coordination, supervision and technical support. The Unit currently only has 16 employees including four secretaries. Eleven are regular employees and five are contract employees.

Vehicles of the Extension Services. The Extension Services were to receive 289 vehicles under this program to carry-out its activities in seven regions of the country. Our review showed that the Extension Service had been without funds for gasoline for the past two months because all funds had been expended. Also, the maintenance of vehicles was almost at a stand still because spare parts were not available to repair the vehicles. During our visit to the southern region, (one of the seven), we found that only six vehicles were operable out of 31 listed for Extension Service.

According to the central office, time-consuming procedures had delayed the purchase of spare parts. Furthermore, we were told that the long delay in obtaining spare parts resulted in additional parts being required due to the loss or damage to disassembled parts over a period of several months.

Under this component, AID was financing additional vehicles at a time when there was no gas for the 6 operable vehicles and no spare parts to repair the 25 inoperable vehicles. In addition, AID was financing additional employees when funds were not available for gas and maintenance of vehicles which were necessary for them to perform their jobs.

Concluding Remarks. As in the case of several other components, it is necessary that this activity be redesigned and reprogrammed. In doing so, careful consideration should be given to ensuring that the component contains clearly definable goals and objectives along with a specific implementation plan for achieving them. If deemed necessary, the nature and type of technical assistance required should be spelled out and be made a requirement to receive AID funds.

In addition, before additional vehicles are provided, USAID/El Salvador needs to be sure that necessary counterpart funds be provided to finance essential Extension Service costs such as gas, per diem, salaries, etc.

Recommendation No. 7

In reprogramming the Project, USAID should ensure that the plans for the Extension Services include (a) clear and definable goals and objectives; and (b) a specific implementation plans for achieving them.

Recommendation No. 8

Before additional vehicles are purchased for Extension Services, USAID/Honduras should obtain from the GOH a firm written commitment that the necessary financial arrangements will be made so that per diem, gasoline, and the necessary spare parts are available for the program.

Cooperatives to Provide Integrated Agricultural Services

The activities related to cooperatives seemed to be headed in the right direction. But, its future was dependent on the availability of P.L. 480, Title I funds which were not being provided.

This component was designed to create eight sub-regional service cooperatives. Four of these cooperatives were to be oriented to the Agrarian Reform sub-sector and four to small independent farmers. The goal was to benefit 2,400 farmers in each category and to increase production by 20 percent over a 4-5 year period. The activity was also to develop a capacity in the Directorate of Cooperative Development (DIFOCOOP) to manage the cooperatives. This unit was to be created with special responsibility for the overall administration of the activity.

The activity was revised in October 1980 at the request of the Ministry of National Resource (MNR). This resulted in a reduction in the number of "model" regional cooperatives to be created from eight to four and the adoption of a policy that membership in these cooperatives would be open to all farmers in a given geographic region, irrespective of whether the farmer was a land reform recipient, or whether he was affiliated to any specific farmer

organization. In May 1981, USAID/Honduras contracted with Agricultural Cooperative Development International to provide the technical assistance in the creation of the first two "model" regional cooperatives.

The newly created "model" cooperatives will be used for training and demonstration purposes among the similar organizations now in existence throughout the country. Simultaneously with the promotion of these "model" organizations, DIFOCOOP will provide technical assistance and training to the existent regional cooperatives in an attempt to introduce more business-like practices in their transaction and service programs. At the time of our audit, 26 participants were being trained to organize this special unit within DIFOCOOP. Out of the 26 participants, 21 were to be chosen at the completion of training to work in this special unit.

After a slow start, the cooperative activity appeared to be headed in the right direction. Its future, however, was dependent upon the availability of counterpart funds. Since DIFOCOOP was absorbing a severe budget cut, no direct counterpart funds were available for this activity. For this reason, the Mission proposed, and the MNR agreed, that approval should be obtained to use P.L. 480, Title I funds for counterpart. However, the Ministry of Finance had not agreed to this arrangement at the time of our review.

Without P.L. 480, Title I funds, the objectives and goals of this activity will not be achieved. Accordingly, it is imperative that necessary arrangements be made to use these funds in order for the activity to have any chance of success.

#### Recommendation No. 9

Prior to further AID funding, USAID/Honduras should obtain a written commitment from the GOH to make available the necessary P.L. 480, TITLE I funds for this component.

#### National Agricultural Development Bank (BANADESA)

The National Agricultural Development Bank (BANADESA) has had a history of deteriorating loan portfolio. The financial plan earmarked a total of \$11.6 million to help regionalize and strengthen the field operations of BANADESA, it was felt that this would reduce credit delinquency. Our review showed that no regional offices have been staffed or have become operational, and that new positions had not been filled. The results were that loan delinquency continued to rise and BANADESA continued to have liquidity problems and urgent needs for additional funds.

BANADESA was created in 1950 and charged with two broad responsibilities: (a) to serve as an agricultural bank, and (b) to serve as a development bank to carry out certain development functions in the agricultural sector. As of December 31, 1980, the assets of BANADESA amounted to L198.3 million or

about \$99.1 million. At that time, its reserve for bad debts amounted to about \$27.2 million. In effect, the bank has had a history of deterioration in their loan portfolio since its creation.

The basic purpose of this activity was to permit the Bank to introduce measures which would both reduce its level of delinquent debt and permit it to be more agile and innovative in providing credit to small farmers. This was going to be accomplished by creating five regional offices. A total of 24 new positions were to be created to staff the regional office. Each office would have an Agency Supervision Unit and a Development and Promotion Unit. The Agency Supervision Unit was to provide administrative and technical guidance to the local agencies to improve portfolios. The Development and Promotion Unit was to concentrate on the promotional, budgetary and cash flow implication of the region's existing and planned portfolio growth in accordance with priorities established for the region's overall agricultural development.

A second element of this activity to strengthen the Bank's credit operation was to increase the number of credit specialists in eight agencies from 32 to 48 (an increase of 16).

Our review disclosed that none of the regional offices which were to be created were staffed and operational. Only one regional director had been appointed and the bank had been unable to fill the new positions created under the Project because of the revenue losses experienced by the bank.

The revenue losses of the Bank is a major problem. In 1970, the number of delinquent loans was 9,313 and the delinquent amount was L.22.6 million. By 1980 however, the numbers had grown to 26,443 delinquent loans totalling L.84.6 million. In effect, the loan delinquency had risen from 33.6 percent in 1970 to 50.2 percent in 1980. Delinquent loans are therefore high, growing, and aging.

The delinquent loans classified by the bank are those where all installments have become due and unpaid. In effect, delinquent payments on a series of long-term loan installments are not included as delinquent in BANADESA statistics until after the last installment has fallen due and remain unpaid. This means that the delinquency rate is even higher than reported in that none of the ongoing and growing delinquencies associated with long-term loans are being recorded as delinquent.

The high loan delinquency, in turn, contribute to significant cumulative losses on the part of BANADESA. For instance, for the nine-month period ending December 31, 1980, the bank incurred a loss of L.7.1 million and for the year ended December 31, 1981, the loss was L.9.0 million. The bank had a cumulative deficit of L.50.0 million. The operational costs of the bank have been rising even though the number of borrowers have been declining from the highs of 1974-1975.

A substantial number of clients are deliberately ignoring their obligations. BANADESA officials have not undertaken any serious analysis to determine the cause of the delinquencies. The immediate result is a problem of liquidity causing a need for additional funds to loan during the next planting season.

BANADESA has established a task force at the central level to concentrate efforts on the problem of the delinquent debt. We were told that they are considering a plan to turn over certain of the loans to legal firms for collection.

Loan recovery issues were studied by Coopers and Lybrand in 1979 and Mendieta Fortin Lagos and Associates in 1980. The Ohio State University Research Team reviewed the delinquency question in 1981. They found, among other things, that there was a need to develop unusually careful evaluation and monitoring procedures for very large loans; that there was an apparent deficient delinquency and default procedures and either no faith or no interest in using the courts to prosecute delinquent clients, and that the bank's accounting and statistical gathering network should be reorganized to produce quick, consistent monthly or quarterly reports on recent delinquency by appropriate classifications with more accurate definition of delinquency.

The Ohio State Team report noted that BANADESA officials have not made a serious analysis of the causes of the delinquencies. Only through outside consultants have delinquency data been compiled, so that an understanding of the association with other variables or client characteristics can be determined.

The latest annual audited financial report as of December 31, 1980, prepared by Mendieta and Associates, represented by Arthur Young & Company, contained 72 recommendations for improvement in the system of internal controls, and accounting procedures to protect the assets of the bank. The bank has implemented some of these recommendations, but others still need to be implemented.

After two-and-a-half years, this activity shows that little progress has been made to date. Without a firm commitment on the part of BANADESA to fill the positions, the objectives and goals of reducing levels of delinquent debts of the bank will not be achieved. Unless such a commitment is obtained we believe USAID/Honduras should terminate all funding under this component of the loan and reprogram the remaining funds.

#### Recommendation No. 10

USAID/Honduras should (a) obtain a firm commitment from BANADESA to fill the positions necessary to achieve the objectives and goals of this component of the loan; or (b) if no firm commitment is obtained, terminate all further funding and reprogram or deobligate the remaining funds.

## Zonal Infrastructure Packages

This activity was a pilot effort designed to introduce, at the local level, a concept of implementing integrated agricultural infrastructure packages that would have communal benefit. The loan contemplated 16 packages; each package involved irrigation, road building, grain storage, and other related activities. Although procedures to select and process projects were established, not one project was selected for implementation. The reasons were a lack of interest by the GOH and poor management within the MNR.

The basic elements of this activity are: (1) identifying projects; (2) determining if they qualify; (3) selection of the projects to be implemented; (4) feasibility and engineering studies; and (5) actual construction. Guidelines for site selection were established in the loan agreement. These included areas with a minimum of 200 families and a minimum potential of 500 hectares. Roads selected for construction were to be no longer than 25 kilometers. The loan agreement also called for a maximum of \$375,000 per project. Because different GOH agencies were to have implementation responsibility, a commingled fund in the Central Bank was to be established with contributions made on a basis of 60 percent GOH to 40 percent AID.

As of December 31, 1981, the commingled fund at the Central Bank had never been established and only \$13,054 had been disbursed under this activity. This was for an environmental impact study to establish the environmental criteria for the activity. It was required by the DAEC review of the Agricultural Sector II Program. After 2-1/2 years, the major accomplishments are that (a) the administrative procedures have been established for processing the projects and, (b) the selection criteria has been definitized.

The lack of progress for this component has been poor personnel turnover and management within the Sector Planning Group of the MNR which has overall responsibility for implementation of this activity. For instance, the Project Manager within Sector Planning was replaced as well as the Director of Sector Planning. Furthermore, we were told that the GOH has not attached much importance to the Zonal Infrastructure component of the Loan. This is evident from the very little counterpart funding that is now projected for this component. The original financial plan budgeted \$3.5 million in counterpart for construction. The GOH is now unwilling to provide any counterpart for construction. The AID Project Manager estimates that total GOH counterpart, mostly for technical personnel, will be about \$7,500 in calendar year 1982.

The current status of this activity is that the Sector Planning Group of the MNR is awaiting approval of a request made to AID for \$9,000 for travel expenses to visit the various projects identified in order to determine if they qualify and obtain additional information to be used in the selection process. The Project Manager of Sector Planning estimates that it will take approximately two months to make these visits and make initial selections.

Mission officials told us that the National Agrarian Institute has prepared six projects which meet the criteria for selection and funding under this activity. They seem acceptable to AID. Although Sector Planning has been somewhat reluctant to proceed with these projects until all of the identified projects have been evaluated, they have now agreed to do so. Supposedly, these projects could be initiated in a short time frame and counterpart would be forthcoming in the form of in-kind contribution.

In view of the time already elapsed under the project with no real progress to date and the fact that the GOH is not committed to this component, it is imperative that action be taken immediately to select and implement qualified projects or terminate this component of the loan.

#### Recommendation No. 11

USAID/Honduras should: (a) establish a realistic time frame for the initial selection, approval and completion of the engineering studies on projects to be constructed; and (b) require firm counterpart commitments from the implementing institutions; or (c) terminate this component of the loan if (a) and (b) cannot be implemented.

#### Small Farmer Consumption Improvement

A total of \$448,000 was earmarked under this activity to help improve the diet and real income of 24,000 small farmer families through the distribution of fruit tree seedlings and vegetable seeds to be sold at subsidized prices. In the first year of operation, the goal was to provide assistance to 4,500 families; we were told that the program actually reached 2,867 families in the Camaguaya area. Our review showed that controls over collections and disposition of funds can be improved. Also, reporting requirements were not being met and collections had not been adequately accounted for.

The Loan Agreement required that reports on collections and disposition of funds be submitted through the Ministry. In the actual implementation of the activity, a central unit within the MNR was responsible for supervising and coordinating the activity using Regional Extension Services personnel. However, we noted that no reports on the purchase or sale of tree seedlings and seeds had been prepared as required. We were told by a GOH official that this was due to a lack of communication between the head of the project in Tegucigalpa and the person contracted to manage the project in the field. According to this official, the distribution of seedlings and seeds through Extension Service was being done with little supervision and on an ad hoc basis through field promoters. Furthermore, it had not been possible to get INA to participate with the agrarian reform group farmers because of changes in personnel. This reduced the number of farmers that could benefit from the program.

In addition, we noted that there was no accurate accounting of funds collected from the sale. As of February 15, 1982, the bank statement showed revenues totaling \$4,091.07. It was not possible to estimate the amount of funds that should have been collected because seedlings and seeds were not sold in complete packets. Another official told us that in many instances, the distributor knew the recipients and allowed them to defer payment because they didn't have the funds to pay for the items received. Without a report on purchase and sale of seedlings and of collections and sales on credit, it is impossible to determine or even estimate the amount of funds that should have been collected.

In order to insure accurate accounting of the purchase, sale and distribution of seedlings and seeds, we believe that written administrative procedures and adequate internal contracts should be established.

#### Recommendation No. 12

USAID/Honduras should obtain from the GOH established written procedures to ensure (a) accurate reporting of purchases and sales of seedlings and seeds, and (b) a more formal system for the distribution of seeds.

#### Recommendation No. 13

USAID/Honduras should assist the GOH to establish and begin to implement procedures which ensure adequate accounting and control over collection and disposition of funds received from the sale of seedlings and seeds.

### Participant Training

The participant training activity (\$6.2 million) provides for approximately 300 employees to benefit from long-term academic and short-term courses. Training was to be provided in various agricultural sciences, planning and development, business administration and social sciences. A new committee with authority over participant training was to be set up with representation from each of the 11 institutions benefiting from the program. The technical Secretariat of the Scholarship Committee was to carry out periodic supply and demand studies in order to ensure that training programs are adequate for the primary needs of the sector.

There were two areas where improvements are needed: (a) a supply/demand study should be updated so the planning for long-term training is more realistic; and (b) the GOH needs to make a firmer commitment to finance transportation costs related to short-term training.

Long-Term Training. As of December 31, 1981, only 71 of the 149 planned long-term participants for 1980-81 had departed for training. An additional

27 departed in January and February of 1982. Some approved participants delayed their departure because of the elections and the possible effect on their position with the Government.

Long-term training was being provided in various agricultural sciences, business administration and social sciences. All 11 institutions were benefiting from the training. All of the 11 institutions were represented on the new scholarship committee.

However, a supply/demand study was carried out as part of the Agricultural Sector Assessment in August 1979. However, the scholarship committee had not carried out any supply/demand studies since that time and their assurance that the training programs are adequate for the primary needs of the sector. According to the Project Paper, "... periodic supply/demand studies are to be undertaken by the technical secretariat, with contracted assistance to help ensure that training programs remain relevant to the priority needs of the sector. Such studies may indicate a need for revising the training programs funded under Sector Program II. Flexibility in this regard is considered both necessary and important to the continued relevancy to the needs of such training ...".

Without these studies, there was no assurance that the priority needs of the sector were being served. For example, the Project Paper estimated an end-of-project status of 300 forest (B.S. level) graduates resulting from an estimated increase in the CURLA faculty of 17 Forestry majors being trained under the participant training program. To date, 14 have been approved for training and 9 have started training. However, the question has been raised on whether Honduras can absorb the 300 forest graduates that would be educated by the faculty of the University of Forestry. According to the Office of Environment and Technology, there is a very limited infrastructure in Forestry to absorb this number of graduates. Therefore, there was no justification for an increase of 17 in the Forestry faculty.

We believe that if the supply/demand studies were to be updated, a much better projection of Honduras Agriculture Sector needs could be determined.

#### Recommendation No. 14

USAID/Honduras should obtain from the technical Secretariat the updated supply/demand studies required by the Loan Agreement and Project Paper.

Short-Term Training. Short-term participant training was not being effectively implemented because the Scholarship Committee had not agreed to finance the transportation costs for the participants. Financing of transportation costs was to be the GOH contribution to the training. As a result, little training had taken place and the program has not benefited from this type of training. Only 11 participants had attended short-term courses.

The eleven institutions on the Scholarship Committee also had not agreed on the institutions or the area where the training should be provided. We believe that if the Scholarship Committee cannot fund the transportation costs and agree to the needs of the institutions that the funds allocated to short-term training be reprogrammed.

#### Recommendation No. 15

USAID/Honduras should reprogram the short-term participant training if the transportation costs cannot be financed by the GOH and agreement reached as to the needs of the institutions.

#### In-Service Training Activity

This activity operates at two levels: institutional and sectorwide. At the sectorwide level, an In-Service Coordinating Commission with a technical secretariat was to be established. This Commission, composed of the principal training officer of the sector agencies and its secretariat, including training specialists, was to provide technical support to the individual institutions. Work was also to be continued on systematizing induction procedures, standardizing methodology for determining training needs and designing training actions, developing mechanisms for control, supervision and evaluation of training.

At the sectorwide level, we found that the In-Service Coordinating Commission with a technical secretariat had been established. The staff of the Secretariat consists of the president of the Commission who is also the assistant to the Director of the Program for Human Resources and a psychologist contracted from the university. It is planned that required technical assistance will be obtained from within the ten institutions participating in the program.

We noted that the Secretariat has initiated work on systematizing orientation procedures, and held seminars to assist the institutions in identifying training needs and developing mechanisms for control, supervision and evaluation of training.

At the institution level, five individual institutions, using essentially their present methodologies and procedures, were to provide about 965 courses for approximately 20,000 participants. Because of the lack of counterpart funds, this plan was revised to 481 courses for 9,500 participants. In 1981, 56 courses were held for 1390 participants. The plan for 1982 provided for 193 courses; however, this was reprogrammed to 122 courses for a total cost of \$224,436, of which AID's portion of the financing is 49.9 percent.

Currently, the program is being planned on a year-to-year basis, based on the needs and conditions of the institutions. This is necessary until

changes in management personnel take place as a result of the elections, thereby lending some stability to the program to plan for future years.

Because the reprogramming actions have already been taken, we are not making a recommendation.

#### Development of the Atlantic Coast Regional University Center (CURLA)

Although this activity had initial problems with counterpart funds and procurement, it appears to have turned the corner and is headed in the right direction. New management has taken over the activity. A revised construction plan has been developed as well as a new financial plan. Construction has been completed on one classroom building. Designs have been completed on five of the buildings to be constructed and one design is in process. Procurement needs have been identified and a large portion of these needs are currently being bid although it has taken over two years to get this far. This problem is discussed in a subsequent section of this report dealing with procurement.

The Loan Agreement provided for the construction or remodeling of approximately 22 buildings for the library, classrooms, laboratories, cafeteria, auditorium and administrative and professors' offices. It also included library and laboratory equipment, plus a small number of vehicles. There was also a provision for installation of an irrigation system for 150 hectares.

The original goal of construction of 22 buildings has been revised downward to 15. However, with minor exceptions, the original objectives will be met in that some departments are being combined into one building, thereby reducing the total number of buildings required. In order to expedite construction, CURLA Administration is going to handle the solicitation of bids for actual construction. Library and equipment needs have been identified and approved. The vehicles have been received. The provision for installation of an irrigation system for 150 hectares has been reduced to 40 hectares. Construction costs have been reduced by altering the original construction plans of building multi-story buildings and substituting one-story buildings with the same square footage but over greater land space since CURLA has an abundant amount of acreage available.

Because of the current economic situation in Honduras, the GOH is providing no direct counterpart to CURLA for this activity although the original plan called for approximately \$3.7 million. Accordingly, a revised financial plan for construction was recently prepared. The total cost of construction was revised downward from the original plan of \$5.2 to \$3.15 million. Under the revised plan, AID would contribute \$1.9 million and the University would provide \$1.25 million. This appears to be a realistic plan; however, at this time, the University is only committed to providing \$.5 million with an unofficial commitment for the remainder. This lack of a firm commitment is because under Honduran Law, 6 percent of Government revenues less international obligations is to go for university development. It is up to the

University of Honduras to allocate these revenues. Since CURLA is only part of the total University system in Honduras, it is dependent on the allocation that is provided within the system.

In order to avoid future problems with regard to funding which may delay project implementation further, it is our opinion that a firm commitment on funding be obtained from the University that funds will be available for construction needs.

Recommendation No. 16

USAID/Honduras should obtain from CURLA a firm written commitment on the remainder of the funding prior to AID committing further funds.

Commodity Procurement

A total of \$25 million (grant and loan) in AID funds were authorized for this project. Of this amount, \$5.3 million has been budgeted for equipment, materials and vehicles. As of December 31, 1981, a total of \$748,530 had been committed and \$526,699 had been disbursed. Accordingly, after over two-and one-half years of project life, only 10 percent of the amount budgeted for commodities had been disbursed.

Our analysis of commodity procurement disclosed that (1) an excessive amount of time is spent in procuring project commodities and (2) controls over procurement of commodities are inadequate. These problems are discussed in the following paragraphs.

Time Spent In Procuring Project Commodities. An excessive amount of time is being spent in procuring project commodities. As a result, project implementation has been delayed. This has resulted primarily because too much time has been spent in preparing, revising, and approving Invitations for Bid (IFB).

We selected Public Bid No. 6-80 to evaluate and analyze the procurement process. This bid was for vehicles and typewriters. A detailed breakdown of the cost of contracts awarded is as follows:

<u>Contractor</u>	<u>Type of of Commodity</u>	<u>Quantity</u>	<u>Contract Amount</u>
Yude Canahuati	Ford Broncos & pick-up	26	\$230,420
Walter Brothers	C-J5 jeeps	28	224,000
Yude Canahuati	Ford minibuses	2	21,000
Central Automotriz	Ford minibus	1	9,280
Ultramotor	Yamaha motorcycle	17	18,700
Central Automotriz	Ford buses	2	59,000
Distribuidora Istmania	Typewriters	13	<u>12,047</u>
	<b>Total</b>		<b>\$574,447</b> *****

Our analysis of the above procurement actions showed that it took between 16 and 24 months from the time the request was first made to the time that the commodities were delivered. In some cases, it was much longer. For instance, as of February 28, 1982, two buses valued at \$59,000 had still not been received after 26 months since the process started.

The major delay in the procurement process related to the preparation and issuance of the IFB. The Coordination Unit, in conjunction with the GOH Office of Procurement (Proveduria) issued the first IFB on February 18, 1980. However, the IFB had numerous errors such as: (a) lack of AID approval, (b) incomplete specifications, and (c) unconsidered legal aspects. Therefore, the first IFB was cancelled. Subsequently, numerous meetings were held between USAID and the Coordination Unit to resolve various issues. In addition, the number and types of vehicles to be purchased were changed as well as the specifications. Both USAID and the Proveduria were responsible for the lengthy delays. Finally on October 10, 1980, some eight months later, the second IFB was advertised in the local newspaper but not in the U.S. newspapers. This delayed the bid opening another 17 days. Additional delays were caused by the issuance of four amendments to the bid proposal from the date of advertisement and bid opening. The bid was finally opened on December 15, 1980 and the contracts awarded on February 12, 1981.

In addition to Bid No. 6-80, we analyzed six other bids under this project. These were for books, furniture, office equipment and laboratory equipment. In some cases, procurement actions dated back to early 1980. For example, Bid No. 53-81 for laboratory equipment for CURLA was requested in early 1980. At the time of our review, the contracts for the laboratory equipment had still not been awarded. Again, the delays related to the preparation, revision and approval of the IFB. Based upon Mission records at the time of our review, we found evidence of actual purchase relating to only one of the six bids above (Bid No. 44-81).

The procurement delays and problems being experienced are not unique to this project. Numerous studies have been performed to provide assistance to USAID/Honduras in connection with procurement. Most of these studies identified problems similar to those being experienced on this project. The recommendations in these studies related primarily to changes that could be instituted with the Proveduria which would improve the procurement process. However, after a number of years, the same problems still exist.

In responding to our draft report, USAID/Honduras agreed with our analysis of problems with commodity procurement. Accordingly, they have recently decided to bring a full-time contract/procurement officer onto its staff, reduce new hotel government contracting to a minimum and to design a mission-wide project in development administration to deal with these types of problems. In addition, we were told that USAID/Honduras is in the process of contracting with two private procurement services agents to clear up the backlog of goods for both BANADESA and CURLA. Also, USAID is currently negotiating with the GOH to pass procurement responsibilities to a purchasing committee composed of AID, the Ministry of Housing and Public Credit and the MNR. In view of the actions being taken, we are not making a recommendation.

Control over Procurement of Commodities. The Mission did not maintain adequate control over the purchase, receipt and distribution of project commodities. As a result, it could not effectively and efficiently carry out its oversight responsibilities to insure satisfactory project implementation.

Implementation Letters Nos. 1 and 3, require that Quarterly Procurement Plans should be submitted for each activity in which major purchases of equipment are to be made under the program. The procurement plans were to show the action agents and the planned initiation and termination dates for the preparation of bidding documents, the preparation and receipt of offers, analysis of bids, contracting and delivery and installation of equipment. However, as discussed in a previous section of this report dealing with reporting requirements, UCFE was not submitting the Quarterly Procurement Plan, nor did it have the capability or information to do so.

The situation was even worse because there is no control over procurement of commodities which adequately shows what is to be purchased, what has been purchased, the receipt and use of commodities. The Coordination Unit has some copies of invoices and shipping documents but does not have all of them. Furthermore, they do not maintain property records.

Likewise, the Mission does not have a central control system whereby they know what is to be purchased, what has been purchased, received, distributed and utilized. The only information available is what each individual project officer may have which may or may not be complete.

#### Recommendation No. 17

USAID/Honduras should obtain from UCFE or its successor an agreement to establish an adequate procurement control system and periodically report to the Mission on the status of commodities.

#### Project Vehicles

Several institutions involving 9 of the 11 activities under the project are scheduled to receive vehicles. In accordance with the loan agreement financial plan, a total of 511 vehicles are to be purchased at a cost of \$3.3 million of which AID financing represents \$2.7 million. This represents about 10 percent of AID's authorized financing for the total project. At the time of our review, 74 vehicles had been received.

Our review disclosed problems with regard to (1) controls over the utilization of vehicles, (2) receipt and utilization of 28 CJ5 jeeps, and (3) marking of vehicles. These problems are discussed in the following paragraphs.

Controls over Utilization of Vehicles. Adequate controls had not been established by the GOH on the use of vehicles purchased with AID funds. As a result, there were possibilities of misuse of vehicles.

The Loan Agreement under Project Loan Standard Provisions, Annex II, Section B.5(b), states that the Borrower will maintain in accordance with accepted accounting principles, books and records adequate to show without limitation the receipt and use of goods and services, acquired under the Loan.

We selected two implementing agencies receiving vehicles under the project to review their procedures and records for control over utilization of vehicles. We visited Extension Service and Directorate of Cooperative Development (DIFOCOOP) and found that neither has adequate records to show the utilization of vehicles. At both institutions, the only records maintained on the use of the vehicles were the gasoline receipts. In the case of DIFOCOOP, they were calculating and reporting mileage on the basis of estimated miles per gallon of gas consumed. No records were available to show what the vehicles were used for, what trips were made and to where or who used the vehicles.

The Extension Service had received only four vehicles (3 pickups and 1 microbus). DIFOCOOP had received two Broncos. The two Broncos were assigned to the Director and Deputy Director of DIFOCOOP. We were told that DIFOCOOP had a total vehicle fleet of 43 vehicles but only 10 were in working condition. We observed the Deputy Director driving one of the Broncos on a Friday evening about 5:30 P.M. in Tegucigalpa. It would appear at least doubtful if he was using it for official purposes since their offices officially close at 4:00 P.M.

Since DIFOCOOP only had 10 vehicles in working order, it does not appear to be efficient use of the vehicles to have two of them being utilized full-time by the Director and Deputy Director.

#### Recommendation No. 18

USAID/Honduras should require the GOH and implementing agencies to maintain adequate records on the utilization of vehicles purchased with AID funds as stipulated in the Loan Agreement.

#### Recommendation No. 19

USAID/Honduras should require that the two vehicles assigned to DIFOCOOP be used for project purposes and not exclusively for the use of the Director and Deputy Director.

#### Receipt and Utilization of 28 CJ-5 Jeeps

Twenty-eight CJ-5 jeeps had not been officially accepted by the Government of Honduras although they arrived in the country almost three months ago. The reason was that 27 of the 28 jeeps did not meet the contract specifications requiring a roll bar to protect passengers in case of turnover.

The GOH was unwilling to officially accept delivery of the vehicles until the matter was resolved and the contractor provides the roll bars.

Under bid 6-80, 28 CJ-5 jeeps were awarded to Walter Brothers, a local dealer. However, this firm transferred its awarded contract to another local dealer, because they could not get a guaranty of good compliance from the local bank as set forth in the bidding documents.

The vehicles arrived at the port of Cortes during November 1981 and GOH representatives from the Controller of Honduras, Proveeduría General and Ministry of Natural Resources inspected the vehicles on December 1, 1981. The inspection disclosed that 27 of the 28 jeeps did not have a protection roll bar for passengers which was specified in the bid document.

The original bid specified "Fiber glass top" for the jeeps which require a safety roll bar for passenger protection. However, "Addendum No. 4" changed the fiber glass top for "hard tops" which supposedly do not need the safety roll bar. In spite of this change in the specifications, the bidder agreed to provide the jeeps with the roll bar.

The eleventh clause of the contract to purchase 28 CJ-5 jeeps established that the contractor would furnish a performance bond or guarantee of 30 percent of the total contract price. This was to ensure that the contractor performs and fulfills all undertakings, covenants, terms, conditions and agreements of the contract until all the commodities have been delivered and the Proveeduría has issued a certificate of final delivery.

In responding to our draft audit report, USAID/Honduras indicated that the vehicles in question have now been distributed to the respective implementing agencies. In view of the action taken, we are not making a recommendation.

#### Marking of Vehicles

Appropriate publicity was not being given to the Project as a program being assisted by the United States. We observed that seven of the vehicles received under the project did not have the AID "Hand Clasp" emblem attached.

According to the loan agreement, the borrower was to give appropriate publicity to the Project as a program to which the United States of America was assisting. All Project vehicles and other large equipment items were to be marked with the AID "Hand Clasp" emblem.

This requirement is especially significant under this project where it is planned to purchase 511 vehicles with AID funds. To date, a total of 74 vehicles have been received. We observed 7 vehicles, none of which had a "Hand Clasp" emblem attached. On 2 of the vehicles it was obvious that the decal had been attached at one time but either peeled off or was taken off. We were told by Mission officials that this was one of the problems with using decals.

Recommendation No. 20

USAID/Honduras should require that the AID "Hand Clasp" emblem be appropriately and securely attached to the vehicles in lieu of using the decals and ensure that all vehicles purchased under the project with AID funds are appropriately marked.

Commitment of Funds for Personal Services and Technical Assistance Contracts

Our review of the budgetary process for commitment of funds for personal services and technical assistance contracts indicated that the amounts reflected in the Quarterly Financial Reports were not indicative of the true requirements of the individual activities. Reprogramming actions were not being taken in all cases when committed funds are no longer required. In addition, we noted that commitments for personal services contracts are not adjusted to the actual contract value after the contracts were signed.

A comparison of the commitments reflected in the December 31, 1981 Quarterly Financial Report for Personal Services and Technical Assistance with the actual contracts signed reflected the following:

	<u>Quarterly Financial Report</u>	<u>Contracts</u>	<u>Difference</u>
Human Resources			
In-Service Training	\$73,398	\$32,998	\$40,400
CURLA Improvement	271,125	208,527	62,598
Institutional Development			
Planning	1,215,234	626,501	588,733
Information System	105,525	41,167	64,358
Marketing Res.	444,000	444,000	-0-
Delivery Services			
Extension	478,301	405,396	72,905
BANADESA- (excl. 40,452 PASA)	517,015	480,433	36,582
Coordination Unit			
TA	<u>362,648</u>	<u>400,145</u>	<u>(37,497)</u>
Total	<u>\$3,467,246</u> =====	<u>\$2,639,167</u> =====	<u>\$828,079</u> =====

As noted above, a difference of \$828,079 existed between the amount committed and the amount contracted.

In an effort to determine whether the commitments reflected in the Quarterly Financial Report were valid, we selected the Planning Sub-System activity to analyze its requirements since the Project Manager for this activity was already in the process of making this determination. In collaboration with the Project Manager, we determined that the activities requirement were overstated by approximately \$84,000. Accordingly, we believe that similar situations exist with regard to other activities.

In a somewhat different analyses of commitments, we compared the amounts shown as commitments for specific individuals under personal services contracts against the actual contract amounts. The results of our comparison for the Coordination Unit showed that as of December 31, 1981, a total of \$302,403 had been committed but the actual contract amounts were \$400,145. This is possible if some of the contracts were terminated before the total amount of the contract was disbursed. However, the Coordination Unit should notify AID when this happens. Under the current system, there is no requirement for this to be done.

If the Quarterly Financial Report does not accurately reflect Project Activity Commitments, it is possible, especially later on in project implementation, that necessary reprogramming of funds will not take place in order to fully utilize all funds or avoid excessive disbursements.

In responding to our draft report, USAID/Honduras indicated that since our audit, they have been able to identify and decommit approximately \$3.0 million in unused budgeted monies. This was accomplished in collaboration with the Coordination Unit and other implementing agencies. In view of actions already taken, we are not making a recommendation.

### Program Monitoring

Staff members of USAID/Honduras have made earnest efforts to effectively monitor this complex program. However, the design and consequent implementation of this program was unusually complex and created very complicated challenges in the areas of implementation, coordination, and monitoring. In our opinion, these challenges have not been met and performed as effectively as they should have been. The complex design of the program served to make implementation and monitoring difficult.

The very number of GOH organizations involved in project implementation by itself serves to complicate implementation, coordination and monitoring. In redesigning the Agricultural Sector II Program, we believe that efforts should be made to simplify implementation by reducing the number of GOH organizations involved.

The failure of the Program Administration and Coordination Unit to provide accurate and timely reports, budgets, and to maintain effective financial control served to heighten the difficult monitoring task.

The complexity of the program required, in our opinion, an unusual large degree of monitoring efforts on the part of USAID/Honduras. Bound by a poorly designed program, we believe USAID/Honduras made an earnest effort to fulfill its monitoring responsibilities. Yet, there were areas noted where we believe improvements can be made:

(a) An excellent Evaluation Report was written by the Coordinating Unit covering 1980. This report present a very useful analysis of the problems of the different areas. Many good recommendations were made. We found no evidence to show that USAID/Honduras took action to consider the recommendations until October 1981. A Project Evaluation Summary had been drafted but had not been finalized;

(b) The loan agreement and implementation letters required a number of reports to be submitted by the Coordinating Unit to the Mission. USAID/Honduras was not sufficiently forceful, until February 1, 1982, in its efforts to obtain these required reports;

(c) The failure of the GOH to contribute the required counterpart funds has been evident for sometime. Yet, efforts to come to grips with this reality were slow in taking place;

(d) USAID/Honduras was not prompt in answering correspondence to the GOH. One GOH organization complained that procurement authorizations were not acted upon within a reasonable time. In fact, two Implementation Letters dated February 19 and 23 were not transmitted to the government for nearly two weeks;

(e) USAID/Honduras needs to regain control over funds committed and relate them with actual signed contracts.

These problem areas are discussed individually in other parts of the report. For this reason, no recommendation has been included at this point.

USAID/INMURAS  
Agricultural Sector II Program  
Project No. 522-0150  
Activities, Purpose, Funds, and Organizations

Components	Amount (In \$ Millions)	Purpose	Participating Organizations
Human Resources Development: Participant Training Activity	\$ 6.2	To finance a scholarship program in agricultural sciences and, in addition, training in such support fields as Planning and Development Business Administration and the Social Sciences to build a stronger base for sound planning and effective delivery systems. The program provides for 235 academic programs and 64 short-term training courses.	Scholarship Committee of the MHR and Sector Institutions: CORFINO, CURIA, IIA, BANADESA, COMEFOR, COMAJIA, IITA, CONSULPLAN, DIFUCOOP, IICAFE, and INR.
In-Service Training Activity	\$ 0.6	This activity operates at two levels: Institutionally and sector-wide. At the institutional level, courses will be offered to reach 4,000 employees or almost half of the manpower of the institutions to assist in upgrading their skills in accordance with clearly defined needs at the sector-wide level, a Coordinating Commission with a technical secretariat will be established to the Institutions while working on systematizing induction procedures and institutionalizing in-service training mechanisms.	In-Service Training Committee of MHR and Sector Institutions: CORFINO, CURIA, IIA, BANADESA, COMEFOR, COMAJIA, IITA, DIFUCOOP, IICAFE, and INR.
Development of the Atlantic Coast Regional University Center (CURIA)	\$ 4.4	To finance the construction or remodeling of 22 buildings and to provide library and laboratory equipment and some vehicles. There is also a plan for installation of an irrigation system for 150 hectares.	CURIA
Institutional Development: Strengthening of the Planning Sub-System	\$ 3.5	To finance technical assistance and budgetary support to enable key Government planning institutions and offices to more effectively formulate policies, plans, and budgets on a more coordinated, sectoral basis.	CPA, COPLAN, CONSULPLAN, CARs, BANADESA, IIA, DPS, IICAFE, IITA, DIFUCOOP.
Development of An Information System	\$ 1.0	To finance technical and support cost to develop a more comprehensive National Agricultural Information System in order to optimize the availability and utilization of an agricultural information needed by various public and private sector users.	Directorate General of Statistics and Census (DGEC) and the Department of Agricultural Statistics, Agricultural Documentation and Information Center, and Consolidation and Dissemination Unit of the Extension Department. Terminals will be at IITA, DGEC, and CONSULPLAN.

USAID/HONDURAS  
Agricultural Sector II Program  
Project No. 522-0150  
Activities, Purpose, Funds, and Organizations

Component	Amount (In \$ Millions)	Purpose	Participating Organizations
Marketing Research & Analysis System	\$ 0.5	Technical assistance and additional manpower requirements will be funded to improve the analytical capability of the newly created National Marketing Institute. This will allow it to establish effective marketing policies, including those beneficial to small farmers.	Market Research and Analysis Department within MINA and Sector Analysis Department of the INMR.
System for Delivery Services: Improvement of the Extension Service	\$ 1.9	To finance vehicles, technical assistance and additional manpower to improve the Extension Service, both its quality and coverage. Model training agencies will be established in each region. Thirty-one field agencies will be improved by additional personnel, equipment and logistical support. Regional offices and the Control Unit will increase staff to improve its planning, coordinating, supervision and technical support functions. Approximately 900 voluntary leaders will be selected and trained to broaden the coverage of extension service.	Extension Service of the Ministry of Natural Resources.
Zonal Infrastructure	\$ 2.4	To provide the resources for constructing integrated packages of small farmer infrastructure at selected sites as an element in the area of planning. Three types of infrastructure are envisaged for each package: feeder roads not to exceed a length of 25 kms.; on-farm land improvement such as drainage, irrigation, terracing reforestation and small dams; and grain storage. In addition, off-farm storage and marketing facilities will be included under this activity.	Extension Service of the INMR.
Cooperatives to Provide Integrated Agricultural Services to Agrarian Reform Groups and Small Independent Farmers	\$ 2.4	To create 8 sub-regional service cooperatives benefiting 4,000 farmers and to demonstrate the viability of the service cooperative technique to increase farmers' income through the provision of technical assistance, supply of farming inputs, credit, storage facilities, farm planning and savings programs.	DIFOCOOP.
Regionalization and Strengthening of the Field Operations of the National Development Bank	\$ 1.0	To support the regionalization and strengthening of the field operations of the bank through establishing 5 regional bank offices and strengthening 13 agency offices which will permit the bank to introduce measures which will reduce its level of delinquent debt and facilitate agility and innovation in providing credit to small farmers.	BANADESA.

USAID/HONDURAS  
Agricultural Sector II Program  
Project No. 522-0150  
Activities, Purpose, Funds, and Organizations

<u>Components</u>	<u>Amount (In \$ Millions)</u>	<u>Purpose</u>	<u>Participating Organizations</u>
Small Farmer Consumption Improvement	\$ 0.4	To improve the diet and real income of approximately 24,000 small farm families by distributing improved genetic material throughout the country and establishing mechanisms for continued propagation and distribution.	Extension Service.
Program Administration & Coordination Unit	\$ 0.7	To provide budgetary support for the Coordination Unit of the MIRA which has been established to program, coordinate, monitor, and evaluate all sector programs financed with AID loans or grants in Honduras, including the Agriculture Sector II Program.	Sector Institutions.
	<u>\$25.0</u> -----		

USAID/HONDURAS  
AGRICULTURAL SECTOR II PROGRAM  
PROJECT NO. 552-150  
FINANCIAL PLAN

	In UUS\$ 000		
	<u>Total Cost</u>	<u>GOH Financing</u>	<u>AID Financing</u>
<u>Human Resources System</u>			
Participant Training	\$9,634	\$3,465	\$6,169
In-Service Training	3,483	2,852	631
CURLA	15,728	11,317	4,411
Sub-Totals	<u>\$28,845</u>	<u>\$17,634</u>	<u>\$11,211</u>
<u>Institutional Development System</u>			
Planning	16,187	12,684	3,503
Information System	5,295	4,249	1,046
Marketing System	1,061	518	543
Sub-Totals	<u>\$22,543</u>	<u>\$17,451</u>	<u>\$5,092</u>
<u>Delivery Systems and Related Inputs</u>			
Extension Service	24,536	\$22,657	\$1,879
Service Cooperatives	3,700	1,252	2,448
National Development Bank Regionalization	11,605	10,624	981
Zonal Infrastructure Packages	5,849	3,493	2,356
Small Farmer Consumption Improvement	448	81	367
Sub-Totals	<u>\$46,138</u>	<u>\$38,107</u>	<u>\$8,031</u>
Coordination Unit	1,333	667	666
Grand Totals	<u>\$98,859</u>	<u>\$73,859</u>	<u>\$25,000</u>

USAID/HONDURAS  
Agriculture Sector II Program  
Loan No. 522-T-034  
Financial Report as of December 31, 1981

	<u>Obligations</u>	<u>Expenditures</u>	<u>Pipeline</u>
Human Resources:			
Participant Training	\$3,738,719	\$1,643,525	\$2,095,194
In-Service Training	251,852	94,820	157,032
CIJRLA Improvement	590,919	492,002	98,917
Unearmarked	<u>373,510</u>	<u>-0-</u>	<u>373,510</u>
	\$4,955,000	\$2,230,347	\$2,724,653
Institutional Development:			
Planning	\$1,520,975	\$699,158	\$821,817
Information Subsystem	297,358	91,785	205,573
Marketing Analysis	462,320	17,320	445,000
Unearmarked	<u>2,811,347</u>	<u>-0-</u>	<u>2,811,347</u>
	\$5,092,000	\$808,263	\$4,283,737
Delivery Services:			
Extension Service	\$812,701	\$363,099	\$449,602
Infrastructure	40,452	13,054	27,398
Cooperative Services	97,200	73,450	23,750
BANADESA Regionalization	782,225	381,022	401,203
Unearmarked	<u>3,554,422</u>	<u>-0-</u>	<u>3,554,422</u>
	\$5,287,000	\$830,625	\$4,456,375
Coordination Unit:			
Coordination	\$383,837	\$276,881	\$106,956
Unearmarked	<u>282,163</u>	<u>-0-</u>	<u>282,163</u>
	\$666,000	\$276,881	\$389,119
Advance	<u>\$-0-</u>	<u>\$250,000</u>	<u>\$(250,000)</u>
Total Loan	<u>\$16,000,000</u> .....	<u>\$4,396,116</u> .....	<u>\$11,603,884</u> .....

USAID/HONDURAS  
Agriculture Sector II Program  
Grant Project No. 522-0150  
Financial Report as of December 31, 1981

	<u>Obligations</u>	<u>Expenditures</u>	<u>Pipeline</u>
<u>Human Resources:</u>			
In-Service Training	\$30,275	\$30,199	\$76
CURLA Improvement	45,000	39,593	5,407
Unearmarked	<u>42,418</u>	<u>-0-</u>	<u>42,418</u>
	\$117,693	\$69,792	\$47,901
Cooperative Services	\$859,866	\$263,428	\$596,438
Consumption Service	10,500	6,130	4,370
Unearmarked	<u>155,806</u>	<u>-0-</u>	<u>155,806</u>
	\$1,026,172	\$269,558	\$756,614
	<u>\$856,135</u>	<u>\$-0-</u>	<u>\$856,135</u>
Total Grant	<u>\$2,000,000</u> *****	<u>\$339,350</u> *****	<u>\$1,660,650</u> *****

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Honduras should (a) cease financing activities which have not and do not show promise of concrete results and positive program achievement; (b) reexamine, scale down and redesign the objectives and activities of this program; and c) deobligate any excess funds (page 6).

Recommendation No. 2

When the Project is reprogrammed, USAID/Honduras should include a new financial plan using realistic GOH counterpart contributions related directly to project activities (page 10).

Recommendation No. 3

After reprogramming, USAID/Honduras should obtain evidence that the GOH has established a system for adequately controlling and accounting of for the use of counterpart funds (page 10).

Recommendation No. 4

When the program is reprogrammed, USAID/Honduras should address and clearly define for the Coordinating Unit component, the questions related to expected outputs, legality, responsibilities, administrative, financial, budgetary, and reporting problems, and personnel needs (page 15).

Recommendation No. 5

When the program is reprogrammed, USAID/Honduras should reevaluate the Planning System Component and reprogram funds into other appropriate activities if necessary (page 18).

Recommendation No. 6

When the program is reprogrammed, USAID/Honduras should examine and reduce the scope of Information System component to more realizable levels and reprogram or deobligate any excess funds (page 19).

Recommendation No. 7

In reprogramming the Project, USAID/Honduras should ensure that the plans for the Extension Services include (a) clear and definable goals and objectives; and (b) a specific implementation plans for achieving them (page 21).

Recommendation No. 8

Before additional vehicles are purchased for Extension Services, USAID/Honduras should obtain from the GOH a firm written commitment that the necessary financial arrangements will be made so that per diem, gasoline, and the necessary spare parts are available for the program (page 21).

Recommendation No. 9

Prior to further AID funding USAID/Honduras should obtain a written commitment from the the GOH to make available the necessary P.L. 480, TITLE I funds for this component (page 22).

Recommendation No. 10

USAID/Honduras should (a) obtain a firm commitment from BANADESA to fill the positions necessary to achieve the objectives and goals of this component of the loan; or (b) if no firm commitment is obtained, terminate all further funding and reprogram or deobligate the remaining funds (page 24).

Recommendation No. 11

USAID/Honduras should: (a) establish a realistic time frame for the initial selection, approval and completion of the engineering studies on projects to be constructed; and (b) require firm counterpart commitments from the implementing institutions; or (c) terminate this component of the loan if (a) and (b) cannot be implemented (page 26).

Recommendation No. 12

USAID/Honduras should obtain from the GOH established written procedures to ensure (a) accurate reporting of purchases and sales of seedlings and seeds, and (b) a more formal system for the distribution of seeds (page 27 ).

Recommendation No. 13

USAID/Honduras should assist the GOH to establish and begin to implement procedures which ensure adequate accounting and control over collection and disposition of funds received from the sale of seedlings and seeds (page 27).

Recommendation No. 14

USAID/Honduras should obtain from the technical Secretariat the updated supply/demand studies required by the Loan Agreement and Project Paper (page 28).

Recommendation No. 15

USAID/Honduras should reprogram the short-term participant training if the transportation costs cannot be financed by the GOH and agreement reached as to the needs of the institutions (page 29).

Recommendation No. 16

USAID/Honduras obtain from CURLA a firm written commitment on the remainder of the funding prior to AID committing further funds (page 31).

Recommendation No. 17

USAID/Honduras should obtain from UCFE or its successor an agreement to establish an adequate procurement control system and periodically report to the Mission on the status of commodities (page 33).

Recommendation No. 18

USAID/Honduras should require the GOH and implementing agencies to maintain adequate records on the utilization of vehicles purchased with AID funds as stipulated in the Loan Agreement (page 34).

Recommendation No. 19

USAID/Honduras should require that the two vehicles assigned to DIFOCOOP be used for project purposes and not exclusively for the use of the Director and Deputy Director (page 34).

Recommendation No. 20

USAID/Honduras should require that the AID "Hand Clasp" emblem be appropriately and securely attached to the vehicles in lieu of using the decals and ensure that all vehicles purchased under the project with AID funds are appropriately marked (page 36).

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