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AUDIT OF
SELECTED DELAYED PROJECTS
USAID/DOMINICAN REPUBLIC

AUDIT REPORT NO. 1-521-86-10
MARCH 18, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 18, 1986

MEMORANDUM FOR: D/USAID/Dominican Republic, Henry H. Bassford

FROM : RIG/A/T, Coinage N. Gothard

Coinage N. Gothard

SUBJECT : Audit of Selected Delayed Projects -- USAID/Dominican Republic

This report presents the results of the audit of selected delayed projects. A limited scope program results and compliance audit was conducted to identify the reasons for project implementation delays, and to determine whether USAID/Dominican Republic's exchange rate practices were in compliance with AID guidance and the bilateral agreement governing AID assistance to the Dominican Republic.

The audit showed that projects were delayed for reasons both within and outside the Mission's control, and that the Mission's exchange rate practices were not in accordance with applicable guidance. The principal causes of implementation delays which lay within the Mission's control were project design weaknesses, a lack of procurement planning and assessments of procurement capability, weak implementation monitoring, and unrealistic implementation plans. The most important reasons for delays which the Mission could not unilaterally control were delays in obtaining ratification of AID loan agreements by the Congress of the Dominican Republic and in complying with other conditions precedent, and host country delays in disbursing counterpart funds. USAID/Dominican Republic's exchange rate practices did not comply with AID guidance or the bilateral agreement between the United States and the Dominican Republic. Until January 1985, the Mission used an official exchange rate instead of excercising its right to use a more favorable parallel rate. When the official exchange rate was eliminated in January 1985, the Mission began to use the new "unified" rate when exchanging dollars for pesos, but continued to use the old official rate to determine the equivalence of counterpart contributions to the amount of dollars specified in its project agreements.

The findings in this report concern overly complex, overly ambitious, or ill-conceived project designs; a lack of procurement plans and assessments of procurement capability; weak project monitoring; unrealistic or incomplete implementation plans; and exchange rate practices which did not comply with AID guidance or the bilateral agreement.

The recommendations are that the Mission (1) establish improved procedures for reviewing proposed project designs; (2) assess the procurement capability of responsible parties and provide assistance where necessary; (3) determine whether steps taken to use its staff more efficiently will permit adequate oversight over its projects, and if not, request either additional staff on a smaller program budget; (4) provide guidance to its staff on preparing and revising implementation plans; and (5) seek guidance from the AID General Counsel on what exchange rate should be used to compute counterpart contributions, amend a project agreement which did comply with AID guidance, and obtain the concurrence of the Bureau Assistant Administrator with the language used in another project agreement. Based on the Mission's determination that it will have the resources needed to adequately manage its portfolio, we are closing the third recommendation on the date this report is issued.

USAID/Dominican Republic generally agreed with the findings in the report, but believed that actions already taken would correct the problems identified, and therefore suggested that all the recommendations be deleted from the final report. The Mission also provided comments on factual statements made in finding no. 5, and in the background and progress statements on the Education Sector Loan and Energy Conservation and Resource Development projects included in Appendix 1. Our response is that while the Mission has made a promising start toward implementing the report recommendations, the actions completed thus far only permit us to close recommendation no. 3. Our responses to the Mission's comments on factual statements are included in the relevant sections of the report.

Please advise this office within thirty days of the actions planned or taken to implement the four open recommendations in this report.

EXECUTIVE SUMMARY

This audit covered nine USAID/Dominican Republic projects in various stages of implementation, with obligations of $62.9 million and accrued expenditures of $28.6 million. All of the projects had experienced significant implementation delays. Because of certain information that came to light in connection with this review, the audit also covered the Mission's exchange rate practices from September 1982 through September 1985. Readers might better appreciate the significance of the findings in the body of this report if they first review the basic information on each project presented in Exhibit 1, and the project background and progress statements in Appendix 1.

The Office of the Inspector General performed a limited scope program results and compliance audit. The audit objectives were to identify the reasons for project implementation delays and to determine whether the Mission's exchange rate practices were in accordance with AID guidance and the bilateral agreement governing AID assistance to the Dominican Republic.

The principal causes of implementation delays which lay within the Mission's control were project design weaknesses, a lack of procurement planning and assessments of procurement capability, weak implementation monitoring, and unrealistic implementation plans. The most important reasons for delays which the Mission could not unilaterally control were delays in obtaining ratification of AID loan agreements by the Congress of the Dominican Republic and in complying with other conditions precedent, and host country delays in disbursing counterpart funds.

USAID/Dominican Republic's exchange rate practices did not comply with AID guidance or the bilateral agreement between the United States and the Dominican Republic. Until January 1985, the Mission used an official exchange rate instead of excercising its right to use a more favorable parallel rate. When the official exchange rate was eliminated in January 1985, the Mission began to use the new "unified" rate when exchanging dollars for pesos, but continued to use the old official rate to determine the equivalence of counterpart contributions to the amount of dollars specified in its project agreements.

USAID/Dominican Republic had taken several actions to address the causes of the delays discussed in this report. The Mission had recently deobligated three projects because they were poorly designed or did not fit into its current strategy. It was also drafting a Mission Order to specify the roles of individuals and offices in project design teams. It was clear that present management placed a high priority on improving the quality of project designs. To address procurement delays, the Mission planned to develop a procurement planning and tracking system. To improve monitoring of its projects, the Mission had decided to work in fewer sectors, and within those sectors, to design only a few large but simple projects. It had also organized project implementation teams in an attempt to make more efficient use of its staff's time and streamline the document clearance process.

The findings in this report concern overly complex, overly ambitious, or ill-conceived project designs; a lack of procurement plans and assessments of procurement capability; weak project monitoring; unrealistic or incomplete implementation plans; and exchange rate practices which did not comply with AID guidance or the bilateral agreement.

The quality of a project's design is one of the most important factors which determine how it will progress toward achievement of its objectives. Several of USAID/Dominican Republic's projects were delayed because their designs were overly complex, overly ambitious, or ill-conceived. In general, these design weaknesses were caused by the inclusion of more activities than could readily be managed, by insufficient research or insufficient involvement of implementing agencies in the project design phase, or by simple miscalculation. We recommend that the Mission establish a procedure for reviewing proposed projects to ensure that past design weaknesses are not repeated. USAID/Dominican Republic maintained that adequate guidance on project design already existed, and that it had complied with this guidance since fiscal year 1985.

Procurement is one of the most important project activities, but also one of those most prone to delays. Sound management practice requires that those responsible for procurement be prepared to accomplish their responsibilities, and that project planning include procurement activities. Lengthy procurement delays occurred in several Mission projects because the responsible party was not adequately prepared to conduct procurements, because no procurement plan was prepared, or because the Mission was not involved closely enough in monitoring the procurement process. The procurement delays resulted in corresponding delays in accomplishing project objectives. We recommend that USAID/Dominican Republic require assessments of procurement capability and procurement plans, and use a procurement services agent to purchase equipment for the On-Farm Water Management project. The Mission agreed with this finding and recommendation, but believed that the recommendation was redundant.

Good project monitoring involves keeping abreast of project activities, anticipating and indentifying implementation problems and assisting in their timely resolution. Weak monitoring contributed to delays on at least four of USAID/Dominican Republic's projects. According to Mission officials, responsible project managers had other demands on their time which made it difficult to adequately monitor project implementation. We recommend that the Mission determine whether steps taken to use its staff more efficiently will permit adequate project oversight, and if not, request additional staff or a smaller program budget. Based on USAID/Dominican Republic's determination that it will have the resources necessary to manage its portfolio, we are closing this recommendation on the date this report is issued.

Sound management practice requires that project plans and schedules be realistic, and that critical actions such as procurement be included in the planning process. Several of the implementation plans for USAID/Dominican Republic's projects were clearly unrealistic or incomplete. The plans appeared to be based on best case assumptions instead of on a realistic appraisal of what could actually be accomplished. As a result, project managers lacked what could be a useful tool for detecting and correcting project delays before they became serious. We recommend that the Mission provide guidance to its staff on preparing and revising implementation plans. The Mission stated that it was institutionalizing a strengthened implementation planning process through new Mission Orders.

USAID/Dominican Republic's project agreements generally required that borrower/grantees provide counterpart contributions equivalent to a specific amount of U.S. dollars. Before January 23, 1985, the Mission used an official exchange rate instead of a more favorable parallel rate when exchanging dollars for pesos, and for determining the equivalence of counterpart contributions to the amount of U.S. dollars specified in its project agreements. This practice involved an opportunity cost to the U.S. Government of at least $12.2 million. Beginning on January 23, 1985, the Mission used a unified floating exchange rate for exchanging dollars for pesos but, with the support of the Regional Legal Advisor, continued to use the old official rate for determining the equivalence or counterpart contributions to the amount of U.S. dollars specified in project agreements. If the Mission used the current exchange rate instead, roughly an additional $2.7 million annually in local currency equivalent would be made available to accomplish project objectives. A related problem was that, in two cases, the Mission had modified the standard language for AID grant and loan agreements to denominate counterpart contribution requirements in pesos, without obtaining the required approval. We recommend that USAID/Dominican Republic, together with the Regional Legal Advisor, seek guidance on what exchange rate should be used to compute counterpart contributions, amend the agreement for the Rural Savings Mobilization project, and obtain the Bureau Assistant Administrator's concurrence with the language used in the Agribusiness Development project. We modified this recommendation in response to comments by the Mission and the Regional Legal Advisor.

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

The Dominican Republic is a nation of 6.5 million inhabitants, located on the Caribbean island of Hispaniola. Throughout the 1980s, the Dominican Republic has been experiencing a severe economic crisis caused, most immediately, by the doubling of world oil prices in 1979 and a drastic drop in sugar prices in 1981. In 1984, 36 percent of its export earnings were used to service its external debt.

On September 30, 1985, USAID/Dominican Republic's portfolio included 23 projects with obligations of $113.7 million 1/. Almost 57 percent of the fiscal year 1985 development assistance program was devoted to agriculture and rural development. The Mission's programs were managed by 20 U.S. direct hire, 31 foreign national direct hire, and 38 personal services contract staff.

Our review covered nine projects with obligations of $62.9 million and accrued expenditures of $28.6 million. The objectives of the projects were:

-- Education Sector Loan (517-0119) -- to provide a minimum of four years of improved basic education to all children in the target area, and implement an educational reform program for grades one through six.

-- Health Sector II (517-0120) -- to provide potable water and sanitation systems to rural residents, expand the Basic Health Services program, and upgrade rural clinics and hospitals.

-- Rural Development Management (517-0125) -- to develop a capability in the Superior Institute of Agriculture to provide in-service management training to public and private officials working in rural development.

-- Natural Resources Management (517-0126) -- to help develop an institutional framework for dealing with conservation problems, through institutional strengthening and field activities.

1/ This excludes terminating, centrally-funded, and continuing and special fund projects, but includes an $8 million rural education project which was deobligated in the first quarter of fiscal year 1986.

-- Human Resources Development (517-0127) -- to provide loans to students to attend vocational and technical schools, help strengthen the schools' programs, and to assist institutions which provide services to vocational and technical schools.

-- Energy Conservation and Resource Development (517-0144) -- to develop a national energy investment planning capability, initiate a program of industrial conservation; develop a capability to use small scale hydro turbines and wood fuels as energy sources, and provide management assistance to the Dominican Electricity Corporation.

-- On-Farm Water Management (517-0159) -- to strengthen the Government's capability to: (1) plan the development of water resources for irrigation, (2) plan and operate irrigation systems, (3) increase the productivity of irrigated lands, and (4) prevent and/or correct the deterioration of land under irrigation.

-- Radio Santa Maria II (517-0163) -- to improve the productivity and innovative capability of a private adult educational service.

-- Rural Savings Mobilization (517-0179) -- to improve the viability of rural financial institutions and expand the access of the rural population to financial services.

Basic information on each of these projects is presented in Exhibit 1, and a summary background and progress statement on each project is included in Appendix 1.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a limited scope program results and compliance audit of nine USAID/Dominican Republic projects and of the Mission's exchange rate practices. The audit scope was limited to determining the reasons for project implementation delays, and determining whether the Mission's exchange rate practices complied with AID guidance and the bilateral agreement between the United States and the Dominican Republic. The fieldwork was accomplished from October 24 through December 20, 1985.

The audit objectives were to (1) identify the reasons for project implementation delays, and (2) determine whether USAID/Dominican Republic's exchange rate practices complied with AID guidance and the bilateral agreement governing AID assistance to the Dominican Republic.

To accomplish the first objective, we selected a judgment sample of twelve projects for the initial survey. Based on a review of USAID/Dominican Republic's semi-annual progress report for October 1 through March 31, 1985, we selected ten projects which appeared to have experienced significant delays and two which did not. Included in the sample were both loan and grant projects of varying sizes, projects in various stages of implementation, and projects in each of the Mission's four project sectors. Three of the twelve projects surveyed were not included in the detailed review phase of the audit because key project personnel were not available for interview, because the project was scheduled for a full scope audit later in fiscal year 1986, or because the survey results indicated that further audit effort would not produce information which would assist Mission management in avoiding implementation delays in the future.

To identify reasons for implementation delays, we reviewed project papers, project agreements, implementation plans, project implementation and procurement letters, progress reports, evaluation and audit reports, correspondence, and other documentation related to project design and implementation. We also interviewed key personnel in USAID/Dominican Republic and in the implementing agencies, and confirmed their observations as appropriate with other officials or by reference to project documentation. The review included project activities from November 23, 1978 through September 30, 1985, although in certain cases activities through December 20, 1985 were also reviewed. The audit covered $28.6 million in AID accrued expenditures. Due to the limited scope of the audit, no tests of internal controls over specific expenditures were conducted. No reviews of supporting documentation for counterpart contributions were undertaken.

One of the projects reviewed had been audited previously by our office. The status of prior audit findings was not included in our review because all of the audit recommendations had been closed by July 1985.

To accomplish the second audit objective we met with USAID/Dominican Republic and Central Bank officials and reviewed Presidential decrees, Monetary Board resolutions, laws, constitutional provisions, legal opinions and summaries, and Statements of Transactions According to Appropriations, Funds and Receipt Accounts (GFO-1221 Reports).

We discussed our findings and conclusions at an exit conference with USAID/Dominican Republic management, and provided a draft report for their review and comment. Their comments were considered in preparing this final report.

The audit was conducted in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The audit disclosed that projects were delayed for reasons both within and outside USAID/Dominican Republic's control, and that the Mission's exchange rate practices were not in accordance with applicable guidance. The principal reasons for delays which were within the Mission's control were project design weaknesses, the absence of procurement plans and assessments of procurement capability, weak project monitoring, and unrealistic implementation plans. The most important reasons for delays which were outside the Mission's unilateral control were delays in complying with conditions precedent (particularly in obtaining Congressional ratification of loan agreements) and delays in disbursing counterpart funds. USAID/Dominican Republic's exchange rate practices did not comply with AID guidance or the bilateral agreement between the United States and the Dominican Republic. Until January 1985, the Mission used an official exchange rate instead of exercising its right to use a more favorable parallel exchange rate. When the official exchange rate was eliminated in January 1985, the Mission began to use the new "unified" rate when exchanging dollars for pesos, but continued to use the old official rate to determine the equivalence of counterpart contributions to the amount of dollars specified in its project agreements.

The Mission planned or had taken several actions to address the reasons for project delays discussed in this report. Management had deobligated three projects with inappropriate designs, and a Mission Order had been drafted which specified who should be involved in project design teams. The Mission also planned to develop a procurement planning and tracking system to lessen procurement delays. To improve implementation monitoring, the Mission had decided to work in fewer sectors with greater emphasis on involving the private sector in its projects, and within those sectors, to reduce the number and complexity of its projects. Finally, it had organized project implementation teams to make more efficient use of staff time.

The findings in this report concern overly complex, overly ambitious, or ill-conceived project designs; a lack of procurement plans and assessments of procurement capability; weak project monitoring; unrealistic or incomplete implementation plans; and exchange rate practices which did not comply with AID guidance or the bilateral agreement.

To correct these problems, we recommend that USAID/Dominican Republic review proposed projects to ensure that past design problems are not repeated, conduct assessments of procurement capability and prepare procurement plans, assess its monitoring responsibilities and capabilities and take appropriate action, provide guidance to its staff on preparing and revising implementation plans, and together with the Regional Legal Advisor, obtain a legal opinion on how counterpart contributions should be calculated in light of the de facto devaluation which occurred in January 1985.

A. Findings and Recommendations

1. Project Design Weaknesses Led to Delays

The quality of a project's design is one of the most important factors which determine how it will progress toward achievement of its objectives. Several of USAID/Dominican Republic's projects were delayed because their designs were overly complex, overly ambitious, or ill-conceived. In general, these design weaknesses were caused by the inclusion of more activities than could readily be managed, by insufficient research or insufficient involvement of implementing agencies in the project design phase, or by simple miscalculation.

Recommendation No. 1

We recommend that USAID/Dominican Republic issue a Mission Order requiring that proposed projects be reviewed to ensure that (i) the agencies which will participate in the project have been identified and assigned specific responsibilities, (ii) implementing agencies are capable of carrying out their assigned responsibilities, (iii) project activities are limited in scope and number to those that the Mission can manage efficiently, (iv) there is a demand for services provided through the project, and (v) the feasibility of untested approaches has been demonstrated through a pilot project or another appropriate means before attempting to implement them on a large scale.

Discussion

AID Handbook 3, Chapter 3 emphasizes the importance of good project design and points out that the quality of the design determines, in large measure, the speed and ease with which the project can be implemented and its ultimate success in achieving its objectives.

Several of USAID/Dominican Republic's projects experienced delays caused by design weaknesses. Among the weaknesses identified:

-- Agencies required to implement projects had not been specifically identified, or had not been assigned specific responsibilities.

-- Agencies chosen to implement projects could not carry out their responsibilities.

-- Projects included too many loosely-related activities.

-- There was little demand for loans offered in one project.

-- One project needed, but initially lacked, project-funded technical assistance.

-- One project included too many implementing agencies, and would have had a greater chance of success had it been designed as a pilot project.

Because implementing agencies were not specifically identified, or because their responsibilities were unclear, activities under the On-Farm Water Management and Energy Conservation and Resource Development projects were delayed. The institutional analysis for the On-Farm Water Management project identified several agencies which might participate in the project, but no specific agreements with those agencies were reached. Two and a half years after the project agreement was signed, the Mission was encouraging the National Hydraulic Resources Institute to negotiate agreements with other agencies to implement project activities. The Energy Conservation and Resource Development project was delayed initially because the management responsibilities of the four implementing agencies were not clear. This problem was compounded because overall coordination responsibility was assigned a relatively new agency, but the project design did not include assistance to the agency in management and administration.

The Education Sector Loan and Rural Savings Mobilization projects were delayed because agencies chosen to implement particular activities were later found to be unsuitable. Responsibility for the construction component of the Education Sector Loan was originally assigned to the Community Development Organization. It was unable to implement the component due to its heavy commitments to other projects, so construction responsibility was transferred to the Secretariat of State for Education, Fine Arts, and Worship one and a half years after the project agreement was signed. Eventually, under the Secretariat's stewardship, this component exceeded its objective by a large margin. Four credit unions identified to implement the Rural Savings Mobilization project were later replaced by other, better managed credit unions. This caused an eight month delay in initiating savings mobilization campaigns in the credit unions.

Both the Energy Conservation and Resource Development and Natural Resources Management projects included a large number of loosely related project activities. This contributed to delays because it was difficult for both USAID/Dominican Republic and the implementing agencies to closely monitor all the activities and respond to delays in a timely fashion.

There was very little demand for faculty training loans under the Human Resources Development project. Teachers in the target group could not afford to borrow enough money to fund a program of study in the United States. Almost four years after the project agreement was signed, the funding for this component was reprogrammed to other activities.

The lack of project-funded technical assistance to assist in day-to-day management of the water and sanitation component contributed to delays experienced under the Health Sector II project. The project initially relied on consultants to the centrally-funded Water and Sanitation for Health project, but, according to the Mission's Health Development Officer, this situation, in which a Mission funded project relied on technical assistance from a centrally funded project, proved to be unsatisfactory. As a result of delays experienced in the water and sanitation component, the project was extended twice, for a total of three years.

The Small Industry Development project was implemented by eighteen development banks and technical assistance centers, in addition to the Central Bank. A number of problems, including weak supervision of the technical assistance centers, a lack of interest on the part of the banks, and overly detailed reviews of loan applications by the Central Bank had restricted the number of loans made to small businesses. While 57 percent of the time allowed for project implementation had passed, only 157 of 1,000 loans planned (16 percent) had been disbursed. According to the project officer, the project would have proceeded more smoothly if it had begun as a pilot effort and then been expanded once the procedural problems had been resolved.

These design weaknesses existed for three reasons. In some cases, in an attempt to maximize the projects' impact, more activities or more implementing agencies were included than could readily be managed. In other cases, the baseline studies made, or the participation of implementing agencies during the project's design phase were not sufficient to identify who would implement certain activities, or how. Finally, as far as we could determine, some design weaknesses were the result of simple miscalculation.

Improving the quality of project designs is a high priority of USAID/Dominican Republic's present management. The Mission should address the causes for design deficiencies discussed in this finding in a Mission Order, to ensure that past mistakes are not repeated.

Management Comments

During the audit, USAID/Dominican Republic officials agreed that several of the Mission's projects suffered from design weaknesses, but maintained that actions initiated in 1985 would ensure that these problems would not recur. They pointed out that three projects had recently been deobligated because they were poorly designed or did not fit into the Mission's current strategy. In addition, the Mission Director told us that he closely reviewed project designs throughout their development from the concept to the project paper.

In its comments on the draft report, the Mission noted that requirements are discussed at length in AID Handbook 3, and further noted that AID's payment verification guidance requires a detailed implementation and financing methods table and if appropriate, an assessment of host country contracting capability in every new project paper. The Mission stated that it had been complying with these requirements since fiscal year 1985, and that it was in the process of issuing a Mission Order with appropriate references to Handbook 3 and the payment verification guidance. Therefore, the Mission requested that recommendation no. 1 be deleted from the final report.

Office of Inspector General Comments

The Mission's actions reflect the priority that present management has placed on developing quality project designs. We agree that AID Handbook 3, in particular, already includes lengthy guidance on project design. However, we have observed that some individuals involved in project design are apparently not familiar with relevant guidance. The recommendation is directed toward institutionalizing the lessons learned from past experience in the Dominican Republic, and strengthening the design process under current and future Mission management. This recommendation can be closed when a Mission Order addressing the causes for design weaknesses identified in this finding and recommendation has been issued.

2. Procurement Delays Could Have Been Avoided

Procurement is one of the most important project activities, and one of the most prone to delays. Sound management practice requires that those responsible for procurement be prepared to accomplish their responsibilities, and that project planning include procurement activities. Lengthy procurement delays occurred on several Mission projects because the responsible party was not adequately prepared to conduct procurements, because no procurement plan was prepared, or because the Mission was not involved closely enough in monitoring the procurement process. The procurement delays resulted in corresponding delays in accomplishing project objectives.

Recommendation No. 2

We recommend that USAID/Dominican Republic:

a. issue a Mission Order mandating that (i) the procurement capability of responsible parties (the Mission and/or implementing agencies) be evaluated and assistance provided where necessary, and (ii) detailed procurement plans be prepared as appropriate; and

b. use a procurement services agent to accomplish the required procurements in the specific case of the On-Farm Water Management project.

Discussion

Sound management practice requires that parties assigned procurement responsibilities be capable of carrying out those responsibilities effectively, and that project planning include required procurement actions. At least since September 30, 1982, AID Handbook 3, Chapters 3 and 9, has included these requirements.

The significant procurement delays disclosed by the audit occured because either the implementing agency or the Mission was not well prepared to accomplish the procurement, or a procurement plan was not prepared.

Vehicle and farm equipment purchases for the On-Farm Water Management project will be delayed by at least one year, limiting the technical assistance team's effectiveness in starting field activities. The Mission had planned to use a procurement services agent to make these purchases, but acquiesced in the implementing agency's demands and gave it responsibility for the purchases. As expected, the agency was unable to satisfactorily carry out this responsibility, and the equipment will not arrive until July 1986 at the earliest. A factor which contributed to the delays, in our opinion, was the lack of a procurement plan required by AID Handbook 3. As a result, seven advisors had been in country for seven months without equipment they needed to do their jobs effectively. The Project Officer estimated that as many as forty separate contracts remained to be awarded. Suppliers for vehicles had been identified, but the Mission had not approved the contracts.

Specifications for the farm equipment had been drafted, but the Invitation for Bids had not been published. Various small items also needed to be purchased.

Serious delays were encountered in procuring equipment for the Natural Resources Management project because no procurement plan was prepared and because neither the Mission nor the implementing agency were well prepared to accomplish the purchases. The project required equipment to establish twelve water quality stations, but no stations were operating by December 1985. This procurement was highly technical, and in many cases the Mission did not order critical parts. In addition, the purchase of aerial photography equipment was delayed because the waiver of source and origin requirements was not requested in a timely fashion, and because the host government agency was unable to successfully solicit bids for the equipment.

Procurement delays occurred on the Energy Conservation and Resources Development project because of the National Energy Policy Commission's (COENER's) inexperience in conducting procurements in accordance with AID requirements and because COENER's procurement capability was not evaluated during the project design. As a result, a vehicle procurement which COENER was to perform eventually had to be done by AID. According to COENER's General Coordinator, this resulted in a delay of six months and an additional cost for renting vehicles in the interim. Technical assistance contracts were delayed because of COENER's inexperience. COENER's General Coordinator stated that USAID/Dominican Republic assistance had been minimal. However, Mission officials stated that they had actively participated in drafting the requests for technical proposals and advertising the procurements, and had approved the evaluation criteria and other documents. Two additional technical assistance contracts were delayed because the selection of the contractors was made without the Mission's involvement and it took more than one and one-half years for the Mission to retroactively review and approve the informal selection procedures used, and for COENER to sign the final contracts.

Procurement of equipment for vocational and technical schools participating in the Human Resources Development project will be delayed by more than two years because no procurement plan was developed during the project design and because the schools had not complied with the prerequisites for commodity subloans. Before the subloans could be approved, the schools had to establish advisory committees and institutional development plans. In some cases, the schools did not know how to accomplish these actions and the Educational Credit Foundation did not hire a consultant to assist them until February 1985. According to the original implementation plan, the equipment procurements were to be completed by December 1983, but the equipment was not expected to arrive until April 1986.

Equipment procurement on the Radio Santa Maria II project will be delayed up to three years by the lack of any kind of procurement plan. According to the current project officer, the original project officer was depending on the radio station manager to provide information needed to purchase the radio station equipment, but that person unfortunately died. Subsequently, a radio engineer was contracted to develop a list of required equipment. Various small items were to have been purchased by March 1983, but were not expected to arrive in country until April 1986. Transmission equipment scheduled to arrive in September 1985 was not expected to be delivered until February 1986.

Weak Mission monitoring contributed to a delay in purchasing latrines for the Health Sector II project. The implementing agency had depleted its stock of latrines by August 1984, but had not initiated the procurement of several thousand additional latrines needed to completed the project. Because the Mission's monitoring system did not detect this fact, latrine installation practically came to a halt for one and a half years while a new contract was awarded and start-up problems were resolved.

To summarize, controllable procurement delays occurred on several of the Mission's projects because the responsible party was not adequately prepared to accomplish the procurements, because no procurement plan was prepared, or because the Mission did not closely monitor the status of procurement actions. When we completed our review, the Mission was planning to develop a procurement planning and tracking system. This system should include assessments of the responsible parties' procurement capability, and detailed procurement plans for projects which include procurement. The Mission should also use a procurement services agent to accomplish the remaining procurement actions for the On-Farm Water Management project.

Management Comments

USAID/Dominican Republic agreed with this finding and recommendation, but believed that part "a" was already included in recommendation nos. 1 and 4 and noted that it was in the process of implementing part "b". Therefore, it requested that this recommendation be excluded from the final report.

Office of Inspector General Comments

The actions called for in part "a" of this recommendation and those prescribed in recommendation nos. 1 and 4 are similar, but not identical. This recommendation can be closed when a Mission Order containing appropriate language is issued, and when a contract with a procurement services agent for the On-Farm Water Management project has been signed.

3. Closer Project Monitoring Was Needed

Good project monitoring involves keeping abreast of project activities, anticipating and identifying implementation problems, and assisting in their timely resolution. Weak monitoring contributed to delays on at least four of USAID/Dominican Republic's projects. According to Mission officials, responsible staff had other demands on their time which made it difficult to adequately monitor project implementation.

Recommendation No. 3

We recommend that USAID/Dominican Republic determine whether steps taken to use its existing staff more efficiently will permit sufficient oversight over its projects, or if not, include in its next Annual Budget Submission a request for additional direct hire staff, hire more personal services contractors, or reduce the Mission's program budget to balance its monitoring responsibilities and capabilities.

Discussion

AID Handbook 3, Chapter 11 assigns primary responsibility for project monitoring to project officers. It states that through good monitoring, AID personnel can keep abreast of projects and help borrower/grantee officials anticipate physical and procedural bottlenecks. When problems are identified which the borrower/grantee is unable to quickly resolve by itself, efforts must be made to help resolve those problems whenever possible.

Monitoring weaknesses existed on the Energy Conservation and Resource Development, Health Sector II, Small Industry Development, and Natural Resources Management projects, causing or exacerbating delays in achieving project activities.

The project officer for the Energy Conservation and Resources Development project told us that, due to other demands on his time, he was not able to monitor the project closely enough and could not always respond to problems and delays in a timely fashion. In our opinion, this exacerbated delays caused by design weaknesses, a lack of procurement planning, and the fact that the responsible agency's procurement capability was not evaluated.

On the Health Sector II project, installation of latrines practically came to a halt for one and a half years because the implementing agency did not order the construction of additional latrines needed to complete the project, and the Mission's monitoring system did not detect this problem. An audit disclosed that in mid-1984, the implementing agency had only forty latrines on hand, while 9,198 were needed to complete this project activity. The delay was experienced while a new contract was awarded and start-up problems were resolved.

According to the project officer for the Small Industry Development project, the Mission did not closely monitor the project for almost two and a half years. He said that his predecessor had only a secretary to assist him, and initially did not think that the project would require close monitoring. In fact, procedural bottlenecks caused significant delays in making loans to small businesses. As of September 30, 1985, 60 percent of the time allowed for project implementation had passed, while only 16 percent of the planned number of loans had been disbursed. Closer monitoring likely could have mitigated the procedural problems and accelerated the rate of loan disbursement.

Weak monitoring also exacerbated delays which occurred on the Natural Resources Management project. These delays were principally caused by ineffective coordination between the implementing agencies, the absence of procurement planning, and delays in meeting conditions precedent. According to the project officer, the original project officer had to divide his time among several simultaneous commitments.

Mission officials acknowledged that, with its present staff, project officers were frequently able to deal only with emergencies. The Mission was trying to reduce its future monitoring responsibilities by working in fewer sectors, and within these sectors, designing only a few large but simple projects. The Mission had also organized project implementation teams which met regularly, in an effort to make more efficient use of its staff's time and streamline the document clearance process. The Mission should determine whether these steps will provide adequate oversight over its projects. If they will not, it should request additional staff or a smaller program budget, until its monitoring responsibilities are within its capabilities.

Management Comments

USAID/Dominican Republic stated that the draft report did not make clear that its personal services contract staff had increased substantially from 1982 to 1985. It further stated that it had implemented three management improvements, in addition to those mentioned above: deobligation of projects outside its area of focus, more detailed long-term implementation planning, and formal monitoring of short-term action lists for every project. According to the Mission, these management improvements, increases in personal services contract staff, and the increased flexibility provided by trust funds ensure that it will have the resources necessary to manage its portfolio. The Mission saw no need for recommendation no. 3, and suggested that it be deleted from the final report.

Office of Inspector General Comments

The Mission was invited, in commenting on the draft report, to show how its staffing had changed and would change from fiscal year 1985 to fiscal year 1987, but it did not do so. (The Mission's fiscal year 1987 congressional presentation submission showed a 1.5 workyear increase in U.S. direct hire staff, while its Action Plan showed that the personal services contract staff would be reduced by one, from 1986 to 1987.)

Nonetheless, we are closing this recommendation on the date this report is issued, based on the Mission's determination that it will have the necessary resources to manage its portfolio. We reiterate, though, that monitoring weaknesses caused by inadequate staffing was a problem repeatedly raised by Mission management and staff, and we urge that the adequacy of resources devoted to implementation monitoring be a continuing serious concern of USAID/Dominican Republic's management.

4. Implementation Planning Needed Strengthening

Sound management practice requires that project plans and schedules be realistic, and that critical actions such as procurement be included in the planning process. Several of the implementation plans for USAID/Dominican Republic's projects were clearly unrealistic or incomplete. The plans appeared to be based on best case assumptions instead of on a realistic appraisal of what could actually be accomplished. As a result, project managers lacked what could be a useful tool for detecting and correcting projects delays before they became serious.

Recommendation No. 4

We recommend that USAID/Dominican Republic issue a Mission Order requiring that all implementation plans be reviewed and that unrealistic or incomplete plans be revised.

Discussion

Project implementation plans must be based on realistic assumptions if they are to serve as useful management tools. They should also include actions critical to the project's success, such as procurement. Procurement plans have been required by AID Handbook 3 at least since September 30, 1982.

At least three of the Mission's projects (On-Farm Water Management, Natural Resources Management, and Health Sector II) had implementation plans which in retrospect were clearly unrealistic. Activities under these projects had fallen as much as three years behind the original planned dates. The plans appeared to be based on best case assumptions (and in some cases on assumptions which even in the best case would be unrealistic), instead of on a realistic appraisal of what could be accomplished in a given period of time. This tended to negate the plans' usefulness and encourage staff to regard planning as a formal requirement with little practical value.

At least four projects (On-Farm Water Management, Energy Conservation and Resource Development, Human Resources Development, and Radio Santa Maria II) lacked procurement plans, and all had experienced significant procurement delays. Three of the projects began before September 30, 1982 when, according to Mission officials, preparation of procurement plans became a formal requirement. The design for the fourth project, On-Farm Water Management, anticipated that the technical assistance team would prepare a procurement plan. However, neither the technical assistance team nor the agency responsible for making the purchases had prepared such a plan. The project officer maintained that a procurement plan would not have been of any assistance, but we believe that such a plan could have pointed out slippages and permitted corrective actions earlier on.

More realistic and useful implementation plans, including procurement plans, could help Mission staff and management detect and correct project delays before they become serious. The Mission should emphasize that implementation plans should be based on realistic assumptions, and require that unrealistic plans be revised. In recommendation no.2 of this report we recommend that the Mission require procurement plans for those projects which include procurement.

Management Comments

USAID/Dominican Republic stated that sector implementation teams had been instructed to incorporate short-term action checklists into longer-term, detailed implementation plans. In some cases, this would require developing an implementation plan where none existed before, and in other cases it would require revision of existing but outdated plans. It further stated that the process was well underway and being institutionalized in the new Mission Orders. The Mission therefore suggested that recommendation no. 4 be omitted from the final report.

Office of Inspector General Comments

We are pleased to learn of the corrective actions initiated by Mission management. When the Mission Orders which institutionalize the process of reviewing and, where appropriate, revising implementation plans have been issued, this recommendation can be closed.

5. Clarification Needed Regarding the Effect of Unified Exchange Rate on Counterpart Contributions

USAID/Dominican Republic's project agreements generally required that borrower/grantees provide counterpart contributions equivalent to a specific amount of U.S. dollars. Before January 23, 1985, the Mission used an official exchange rate instead of a more favorable parallel rate when exchanging dollars for pesos, and for determining the equivalence of counterpart contributions to the amount of U.S. dollars specified in its project agreements. This practice involved an opportunity cost to the U.S. Government of at least $12.2 million. Beginning on January 23, 1985, the Mission used a unified floating exchange rate for exchanging dollars for pesos but, with the support of the Regional Legal Advisor, continued to use the old official rate for determining the equivalence of counterpart contributions to the amount of U.S dollars specified in project agreements. If the Mission had used the current exchange rate instead, roughly an additional $2.7 million annually in local currency equivalent would be made available to accomplish project objectives. A related problem was that, in two cases, the Mission had modified the standard language for AID loan grant and loan agreements to denominate counterpart contribution requirements in pesos, without obtaining the required approval.

Recommendation No. 5

We recommend that USAID/Dominican Republic:

a) in conjunction with the Regional Legal Advisor, obtain a formal legal opinion from the office of the AID General Counsel on what exchange rate should be used to determine the equivalence of counterpart contributions to the amount of U.S. dollars stated in its project agreements,

b) take whatever action is required to implement that legal opinion,

c) amend the project agreement for the Rural Savings Mobilization project, and

d) obtain the Bureau Assistant Administrator's concurrence with the language of the Agribusiness Promotion project agreement.

Discussion

USAID/Dominican Republic's grant and loan agreements require (with two exceptions discussed below) that the borrower/grantee provide resources equivalent to a specific amount of U.S. dollars.

Until January 23, 1985, the Mission used an official exchange rate of RD$1 to $1 instead of a parallel rate which governed the commercial banking system for exchanging dollars for pesos, and for determining the equivalence of counterpart contributions to the amount of U.S. dollars specified in its project agreements. (This practice led to an opportunity cost of at least $12.2 million: see Appendix 2.) Beginning on that date, the Mission used a unified floating exchange rate when changing dollars for pesos, but continued to use the old RD$1 to $1 rate for determining the equivalence of counterpart contributions to U.S. dollars.

A February 22, 1985 memorandum from the Regional Legal Advisor supported this practice (see Appendix 3). The Advisor first points out that Section 110 of the Foreign Assistance Act requires the host country to provide 25 percent of project costs, and further provides that such costs may be borne on an "in-kind" basis. He argues that the domestic valuation of in-kind costs such as land, equipment, or personnel bear little relationship to U.S. dollar exchange rates, and that therefore maintenance of value considerations are inapplicable once the host country commitment is formalized in a project agreement. He further argues that when maintenance of value considerations are to be applied, the project agreements so state. For example, the project agreements state that when AID funds are introduced into the Dominican Republic, the U.S. dollars must be converted into local currency at the highest rate which, at the time the conversion is made, is not unlawful in the Dominican Republic. He also asserts that it would be impossibly burdensome to constantly recalculate host country contributions when those contributions lose value against the U.S. dollar. Finally, the Advisor notes that AID's interests are protected by a project agreement provision which states that the borrower/grantee will provide all funds in addition to the AID assistance and all other resources required to carry out the project effectively and in a timely manner.

We take exception to the argument put forth in that memorandum. In our opinion, the fact that counterpart contributions in AID project agreements are stated in U.S. dollars rather than in units of local currency implies that the value of counterpart contributions should be maintained after a de facto devaluation such as the one which occurred in the Dominican Republic in January 1985. We also disagree with the assertion that calculating the equivalence of counterpart contributions to U.S. dollars in a floating exchange rate environment would be unduly burdensome. If periodic reports on counterpart contributions were provided to the Mission, the Mission could simply calculate the dollar value of those contributions using the average exchange rate for the period, and advise the borrower/grantee of the balance remaining to be contributed.

If the Mission used the current exchange rate instead of the old official rate to compute counterpart contributions, roughly an additional $2.7 annually in local currency equivalent would be made available to accomplish project objectives. Also, contributions to the Energy Conservation and Resource Development project (and possibly other projects as well) will not reach 25 percent of total project costs as required by Section 110 of the Foreign Assistance Act of 1961 unless the Mission changes its policy and requires additional peso contributions.

A related problem was that, on two occasions , the Mission modified the standard language for AID grant and loan agreements to denominate counterpart contributions in Dominican pesos without obtaining the required approval. According to the Mission Project Development Officer, the standard language for agreements in AID Handbook 3 was only intended as guidance, and the Mission was not required to seek approval in order to make modifications. However, section 6E.3 of Handbook 3 indicates that the approval of the Bureau Assistant Administrator is required to modify the language dealing with counterpart contributions.

In one of the two cases, the grant agreement for the Rural Savings Mobilization project was modified by an August 21, 1985 amendment to denominate the counterpart contributions in pesos. Using the exchange rate for August 1985, the planned contributions amounted to 32 percent of the total project costs. This, in our opinion, unnecessarily exposed the Mission to an exchange rate risk. According to the project officer, the contributions were denominated in pesos because it was simpler to manage and budget the contributions in pesos.

In the other case, the August 23, 1985 loan agreement for the Agribusiness Promotion project denominated the counterpart contributions in pesos. According to the Mission's Trade Development Officer, the Government requested, and the Mission agreed, to change the proposed counterpart contribution requirement from $30 million to RD$ 91 million. The Government believed that it would be easier to secure Congressional ratification of the agreement if the counterpart contributions were stated in pesos. In this case we believe that the exchange rate risk may be acceptable since the required counterpart contributions amounted to 64 percent of the total project cost, using the exchange rate of RD$3 to $1 which existed in August 1985.

In conclusion, USAID/Dominican Republic's policy for determining the equivalence of counterpart contributions, while convenient both for the Mission and for its borrower/grantees, resulted in a substantial opportunity cost. It may also lead to situations in which borrower/grantees do not contribute 25 percent of total project costs. The Mission should request a formal legal opinion from AID's General Counsel on how it should calculate the equivalence of counterpart contributions. It should also amend the project agreement for the Rural Savings Mobilization project to require counterpart contributions equal to a specific amount of U.S. dollars, and obtain the Bureau Assistant Administrator's approval of the language used in the agreement for the Agribusiness Development project.

Management Comments

With respect to parts "a" and "b" of recommendation no. 5, the Mission stated that it had received an authoritative legal opinion from the Regional Legal Advisor, and that it did not consider it appropriate to go around or above its designated legal authority. With respect to part "c" of the recommendation, it stated that an amendment to the Rural Savings Mobilization project agreement was in process. It maintained that amending the Agribusiness Promotion project agreement would not be advisible, due to the time involved in obtaining ratification of the agreement by the Congress of the Dominican Republic. The Mission believed that this recommendation should be omitted from the final report. The Mission also claimed that a statement by its Project Development Officer (namely, that the standard language for project agreements in AID Handbook 3 was only intended as guidance, and that the Mission was not required to seek approval in order to make modifications) was taken out of context.

The Regional Legal Advisor stood behind his legal opinion, and stated that neither the language of the project agreements reviewed nor available materials on interpretation of the borrower/grantee resources section of AID project agreements support the auditors' expansive viewpoint. He also suggested alternative language for the recommendation.

Office of Inspector General Comments

We have modified the language of the recommendation to call on USAID/Dominican Republic and the Regional Legal Advisor to jointly seek an opinion on this matter form the office of the AID General Counsel.

We agree with the Mission that it would be unwise at this point to attempt to amend the agreement for the Agribusiness Promotion project, and have modified the recommendation to require only the Bureau Assistant Administrator's concurrence with the present language.

In response to the Legal Advisor's comments, we reiterate that the Foreign Assistance Act requires borrower/grantees to contribute at least 25 percent of the total project cost, and we are unable to understand how anything less (even "all resources required to carry out the project") could be considered to comply with the Act.

Finally, the Project Development Officer's statement was not taken out of context. The statement was made when an auditor asked whether the Mission had sought the approval of any office in AID/Washington before modifying the standard language for AID project agreements.

B. Compliance and Internal Control

1. Compliance

The audit disclosed three compliance exceptions. First, no procurement plan for the On-Farm Water Management project was prepared, although such a plan was required by AID Handbook 3 (Finding 2). Second, USAID/Dominican Republic modified the standard language for AID loan and grant agreements to state the amount of counterpart contributions in Dominican pesos instead of U.S. dollars, without seeking the approval of the Assistant Administrator as required by AID Handbook 3 (Finding 5). Finally, the Mission used an official exchange rate instead of a more favorable parallel rate for more than two years, contravening guidance in AID Handbook 3 and the bilateral agreement governing AID assistance to the Dominican Republic (Finding 5 and Appendix 2). Other than the conditions cited, tested items were in compliance with applicable laws and regulations. Nothing came to our attention that would indicate that untested items were not in compliance.

2. Internal Control

We noted four internal control exceptions. First, procurement responsibilities were assigned to parties who were not well prepared to carry out those responsibilities (Finding 2). Second, procurement plans were not prepared for four projects with significant procurement requirements, leading or contributing to procurement delays (Finding 2). Third, four projects were not closely monitored for at least part of their life, causing or exacerbating delays in implementing project activities (Finding 3). Finally, at least three projects lacked realistic implementation plans which could have served as a basis for initiating corrective actions in a timely fashion (Finding 4).

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

Basic Project Data 1/

Project Title	Loan/ Grant	Project No.	Start Date	Finish Date	Total Project Budget (000)	AID Obligations (000)	AID Accrued Expenditures (000)
Education Sector Loan	L	517-0119	12/28/78	12/28/84	$ 15,000	$ 7,500	$ 7,500
Health Sector II	L	517-0120	11/23/78	11/23/86	11,200	8,000	7,035
Rural Development Management	G	517-0125	06/30/81	12/31/85	4,656	1,100	955
Natural Resources Management	L/G	517-0126	08/28/81	07/31/87	21,200	11,000	4,725
Human Resources Development	L/G	517-0127	09/25/81	09/25/88	7,150	5,400	1,697
Energy Conservation and Resource Development	L/G	517-0144	04/22/82	04/22/87	23,822	16,532	5,516
On-Farm Water Management	L	517-0159	06/30/83	09/30/88	19,063	12,000	643
Radio Santa Maria II	G	517-0163	08/31/82	08/31/87	562	425	238
Rural Savings Mobilization	G	517-0179	08/19/83	12/31/86	1,397 2/	950	335
TOTAL					$ 104,050	$ 62,907	$ 28,644

Notes: 1. Financial information is as of September 30, 1985. All other information is as of December 20, 1985.

2. Counterpart contributions were stated in Dominican pesos. Total project budget is computed using the exchange rate of RD$3 to $1 which was in effect when the counterpart contributions were established.

PROJECT BACKGROUND AND PROGRESS STATEMENTS

Education Sector Loan (517-0119)

Background

The purpose of the Education Sector Loan project was to provide a minimum of four years of improved basic education to all children residing in the rural areas of the provinces of Peravia, Azua, San Cristobal and the rural areas of the National District and to implement an educational reform program for grades one through six for the same rural areas. The project included: (1) development of an educational statistical information system; (2) research and planning activities; (3) training for teachers, administrators, and technicians; (4) development of educational materials; (5) construction and equipping of 654 new classrooms; and (6) establishment of a school maintenance system in the target area.

The Project was administered by the Secretariat of State for Education, Fine Arts and Worship (SEEBAC).

The Loan Agreement was signed on December 29, 1978, and the planned project assistance completion date, as amended, was December 28, 1984. The project budget of $15 million included an A.I.D. loan for $7.5 million and counterpart contributions of $7.5 million.

Progress

The Education Sector Loan project did not fully achieve its intended objectives although its completion date was extended by two years. The project encountered many problems, especially during its first three years, which caused project officials to make changes in the administration of the construction component and to reprogram the non-construction components. Principal factors that delayed the project were: a weakness in the project design, procurement problems, slow disbursement of counterpart funds, and delays in meeting conditions precedent.

The following table compares the project's planned and actual accomplishments.

Planned	Actual
Implementation of an information system in the target area.	Partially accomplished (school inventory completed).

Establishment of an educational research system and financing for research on fundamental educational problems in the target area.	Research department established, but it was unlikely that resources necessary to implement effective research would be made available.
Funding to hire 232 classroom teachers (later amended to 276 teachers), 70 practical arts teachers, and 55 support personnel (later amended to 45 support personnel).	Objectives exceeded.
Development of teacher guides and provision of basic instructional materials and equipment.	Objective achieved, benefiting up to 778 schools.
Construction of 1,179 rooms, including classrooms, offices, library space, workshops, latrines, and multipurpose spaces; and 222 playgrounds. (Objectives later revised to 1,090 rooms and no playgrounds.)	Objective surpassed significantly: 1,685 rooms built.
Provision of school furniture and equipment.	Furniture and equipment provided.
Establishment of a school maintenance system.	Maintenance system established, but according to the project's former director, there was some doubt whether the maintenance program moved be continued.

Project design weaknesses and SEEBAC's inexperience led to initial delays in the construction component. The project design assigned construction responsibility to the Community Development Organization. Due to the Organization's heavy commitments to other projects, however, A.I.D. transferred this responsibility to SEEBAC's Building Division in August 1980. SEEBAC implemented the component using a different system than the one A.I.D. had agreed to, and disbursements were suspended while new implementation procedures were drafted. This component was also delayed by unanticipated problems in getting materials to the construction sites and other logistical problems. However, a Mission engineer involved in the project stated that the effect of the logistical problems was negligible. Despite the initial delays, the original goals of this component had been exceeded by a substantial margin by the end of 1982.

The statistical information and research and planning components were impeded by a lack of effective coordination and sufficient technical assistance. According to the last SEEBAC project director, the lack of coordination was due to the fact that his predecessor had been overly concerned with construction, to the detriment of the other components.

Host country delays in disbursing A.I.D. and counterpart funds to the project also caused delays. A.I.D. disbursements took up to three months to reach the implementing office, frequently requiring intervention by Mission personnel. Counterpart contributions were not disbursed in a timely manner because of Government austerity measures.

Finally, most of the conditions precedent were met about a year later than planned, due to staffing difficulties in SEEBAC. This caused corresponding delays in disbursements for research and planning, training, technical assistance, procurement, and personnel.

Mission Comments

USAID Dominican Republic stated that there was no data to suggest that the school maintenance system would not be continued, and noted that the draft report did not specify which conditions precedent were not met on time, or what effect this had on project implementation.

Office of Inspector General Comments

We have modified this section to make clear the source of information that the maintenance system might not be continued, and to be more specific concerning the delays in complying with conditions precedent.

Health Sector II Project (517-0120)

Background

The major activity of USAID/Dominican Republic's Health Sector Loan I project was the creation of the Basic Health Services program in the Secretariat of State for Public Health and Social Assistance (SESPAS). The program was intended to reduce mortality in infants and preschool children, and to reduce fertility in communities of 400-2,000 inhabitants where no other health services were available. Community level health workers (promoters) were selected by community health committees, and trained and supervised by SESPAS. The promoters were responsible for providing preventive and curative health care to 400 inhabitants, or approximately 67 families.

The Health Sector II project included three components:

-- expanding the Basic Health Services program, through training for additional promoters and supervisors, to 100 additional communities with an average population of 2,000 inhabitants;

-- providing training and equipment to upgrade 100 rural clinics and 20 hospitals; and

-- providing potable water, sewage disposal facilities, and health education to approximately 160,000 people living in 500 communities served by the Basic Health Services program.

The loan agreement, signed November 23, 1978, provided a project budget of $8 million in A.I.D. funds and $3.2 million in counterpart contributions, for a total of $11.2 million. AID accrued expenditures totalled $7,035,211 as of September 30, 1985. The project assistance completion date, as amended, was November 23, 1986.

Progress

The project assistance completion date had been extended twice, for a total of three years. The principal factors which contributed to delays in project implementation were: (1) faulty project design, (2) USAID/Dominican Republic's delay in reaching a decision on what pump should replace an unreliable pump used in the earlier years of the project, (3) weak Mission project monitoring, and (4) management weaknesses in SESPAS.

The project had not achieved its original objectives, as shown in the following comparison of original planned outputs and actual accomplishments, as of September 30, 1985:

Planned	Actual
Training for 350 health promoters (revised to 400 in loan agreement).	Trained 326 health promoters.
Training for 20 health supervisors.	Trained 6 health supervisors.
Training for 300,000 villagers.	Trained 200,000 villagers.
Construction of 2,250 community water systems, including gravity water systems, wells, and pumps.	Drilled 1,817 wells with water and 730 dry wells. Installed 1,432 pumps. Built 10 gravity water systems.
Construction of 22,500 latrines (revised to 26,500 in loan agreement).	Installed 11,216 latrines.

According to Mission officials, the project design was flawed in that it did not include funding for technical assistance, and because several of the originally planned outputs were overly ambitious. According to the Mission's Health Development Officer, the principal design defect was the lack of project-funded technical assistance to assist in the day-to-day implementation of the project, particularly of the water and sanitation component. Mission officials also stated that some planned outputs (e.g., the number of latrines to be built, and the number of promoters and supervisors to be trained) were excessive.

Vacillation in correcting the poor performance of a water pump used in the earlier years of the project delayed construction of community water systems. The original pump proved to be unreliable in the field: at any one time, 30 percent of the installed pumps were not working. The Mission's Health Development Officer attributed the pump's poor field performance to several factors. First, the manufacturing process required to produce the cast iron pumps was relatively difficult to master. Second, the manufacturer contracted to produce the pumps locally did not follow sound quality control measures. Finally, the installed pumps were not well maintained. A welded steel pump designed by the Georgia Institute of Technology was proposed as a replacement, but the Institute, technicians from the centrally-funded Water and Sanitation for Health project, and the Bureau of Science and Technology could not agree on whether or not the new pump should be used. The Mission did not want to make a decision until all the involved parties could agree on what should be done.

By late 1985, several actions had been taken to resolve the water pump problem. The Mission had adopted the new steel pump design, in response to an audit recommendation, and 190 of the new pumps had been delivered by October 1985. The Ministry of Health contracted with five manufacturers to produce the pumps, thus avoiding reliance on the performance of a single firm, and improved quality control procedures had been implemented. Finally, technical assistance by two Georgia Institute of Technology engineers was provided in the areas of pump construction, quality control and acceptance testing, installation, and maintenance.

Installation of latrines was delayed because SESPAS did not procure latrines in a timely manner, and because the Mission's monitoring system did not detect this problem. In August 1984, an audit disclosed that SESPAS had only 40 latrines on hand, while it needed 9,198 to complete the project's latrine installation activity. The SESPAS Project Coordinator explained that he had not ordered the construction of additional latrines because the Ministry of Health was planning to build 400,000 latrines with its own resources. This idea was later shelved. Because the Mission was not aware that SESPAS had not ordered additional latrines, installation virtually came to a halt for 18 months while a new contract was awarded and the contractor mastered the construction process.

The project's progress as a whole was delayed by weak management in SESPAS. According to USAID/Dominican Republic's Health Development Officer, the SESPAS Project Coordinator was rightly but, perhaps, overly concerned with controlling resources with the result that project implementation was impeded, and did not delegate responsibility effectively. He also said that it was difficult for SESPAS to foresee problems and correct them. The Mission had requested SESPAS to modify its progress reports, to make it more clear what had been accomplished and what remained to be done in each project activity.

Rural Development Management (517-0125)

Background

The Rural Development Management project was designed to develop a capability in the Superior Institute of Agriculture to provide in-service management training to public and private officials working in rural development. Planned project activities included constructing facilities, preparing case studies for instruction, and providing seminars, short-term training, and medium-term diploma programs. The implementing agency was the Superior Institute of Agriculture, which established a Center for Administration of Rural Development (CADR).

The grant agreement was signed on June 30, 1981, and the project assistance completion date, as amended, was December 31, 1985. The project budget included $1.1 million in AID funds and $3.6 million in counterpart contributions, for a total of $4.7 million. As of September 30, 1985, AID accrued expenditures totalled $954,814.

Progress

The project had exceeded its target for the number of participants in seminars, but had not reached its targets for short and medium-term training. The principal causes of delays were slow disbursement of counterpart funds and difficulties in recruiting a Senior Management Specialist.

Planned and actual accomplishments as of September 30, 1985 are compared in the following table:

Planned	Actual
460 seminar participants.	1,648 seminar participants.
480 short-term training participants.	252 short-term training participants.
80 medium-term diploma training participants.	No medium-term diploma training offered.
118 case studies and materials for for training modules developed.	151 case studies prepared.
Classroom, dormitory, cafeteria and office buildings completed.	Accomplished.

A lack of counterpart funds caused delays of one and one-half to two years in constructing the dormitory building, and in purchasing equipment for the dormitory, cafeteria, and offices. Because the dormitory building had not been completed, CADR had to restrict the size of its short-term training classes and had not begun to offer the medium-term diploma program. P.L. 480 Title I local currency generations were provided in 1985 to finish the building.

The senior management advisor did not begin work until January 1984, two and one-half years after the project began. It was difficult to recruit an individual fluent in Spanish with experience in management, agriculture, and the case study teaching method. The first two candidates selected declined to accept the position. The absence of the senior management advisor contributed to an initial delay in developing case studies, but later the goal for writing case studies was exceeded.

NATURAL RESOURCES MANAGEMENT PROJECT (517-0126)

Background

The Natural Resources Management project was designed to assist in building an institutional framework to deal with the Dominican Republic's natural resources conservation problem. The project included two components. The institutional strengthening component was comprised of three major activities: developing a natural resource planning capacity, implementing an environmental education program, and establishing an interagency administration program. The soil and water conservation component comprised of five field activities in two priority watersheds. These activities consisted of soil surveys and interpretation, farm conservation, subloans to farmers, watershed protection, and hillside farming systems research. The host government implementing agencies were the Subsecretariat for Natural Resources within the Secretariat of State for Agriculture, and the Agricultural Bank of the Dominican Republic.

The loan/grant agreement was signed on August 31, 1981 and the project assistance completion date, as amended, was July 31, 1987. The project budget included $11.0 million in AID funds ($10.5 million in loan and $500,000 in grant funds) and $10.2 million in counterpart funds. As of September 30, 1985, AID accrued expenditures totalled $4,725,184.

Progress

Progress in achieving project goals had been impeded by ineffective coordination between the implementing agencies, a delay in the Dominican Congress' ratification of the loan agreement and other conditions precedent, lack of counterpart funds contributions, procurement delays, weak AID monitoring, and an unrealistic implementation planning schedule. Due to these delays, the project will not accomplish its intended results within the prescribed time frame.

Major planned and actual accomplishments, as of September 30, 1985, are compared in the following table:

Planned	Actual
15 farming systems technology packages developed and disseminated to farmers.	Not done.
3,000 farm conservation plans developed.	1,000 plans developed.

2,000 farm plans being implemented through the credit/incentive program.	600 farm plans being implemented.
10,000 hectares receiving soil conservation treatments.	1,000 hectares receiving conservation treatments.

The disbursement of soil conservation loans to small farmers was delayed principally because of a lack of effective coordination between the Sub-Secretariat for Natural Resources and the Agriculture Bank. Officials in the Subsecretariat and USAID/Dominican Republic agreed that the Agriculture Bank's time-consuming loan review process was a major factor which slowed the disbursement of loans. The Subsecretariat project coordinator also told us that the Bank did not send reports to his office on the amount of loans disbursed, so they had to get this information from the Bank's branch offices to justify additional disbursements from AID.

On the other hand, the Assistant Manager of the Bank's Credit Operations Department told us that the Subsecretariat did not review the credit plans prepared by its promoters, and that frequently the Bank had to return the documents for additional information or solicit the information directly from the farmers. He also stated that there was no effective coordination between the Bank and the Subsecretariat. In June 1985, the Subsecretariat began to review the credit plans before sending them to the bank.

Officials concerned with the project suggested a number of other reasons which could explain the slow pace of loan disbursements:

-- The Bank was applying the same requirements in making loans to poor hillside farmers as it would in making loans to any other applicant.

-- The Bank had no previous experience in making soil conservation loans, and was not involved in either the design of the project or the preparation of the credit plan.

-- Farmers had been reluctant to undertake the expense of a loan.

-- There were delays in transferring funds from the Bank's headquarters to its branch offices.

According to the project officer, the project was delayed about 20 months before certain conditions precedent were met. For example, conditions precedent 5.1 (a) and 5.1 (b) were not met until July 1982: ten months after the planned date. The delay was due to slow ratification of the loan agreement by the Dominican Congress. Conditions Precedent 5.3, 5.4, and 5.5, for disbursements under the institutional strengthening component, were not met until October 1982; nine months after the planned date. Additionally, Conditions Precedent 5.6 (a) and 5.6 (b) pertaining to disbursements for the soil and water activities in the Rio Ocoa watersheds were met in March 1983, fifteen months after the planned date. Meeting these conditions precedent was delayed mainly because the Dominican economy was experiencing a serious economic crisis at the time.

The shortage of counterpart funds was due to Government budget constraints. Counterpart funds have primarily come from P.L. 480 Title I and Economic Support Fund local currency generations. The Project Officer said that the lack of counterpart funds caused serious project delays because these funds were to pay for all field activities, including vehicle procurement, salaries, office equipment and computers, and some credit to small farmers and training. For example, the host government was responsible for the purchase of 39 vehicles, but only sixteen were purchased. The documentation indicating that the vehicles had been purchased was received by AID in February 1983. According to the project implementation plan, the first lot of vehicles was to have been procured in March 1982, eleven months earlier. The project officer also pointed out that at various times the government did not have money for gasoline and that at times some project technicians waited up to four months without being paid.

Serious delays in purchasing project equipment were encountered because neither the Mission nor the project office was well prepared to carry out its responsibilities. For example, procurement of equipment for twelve water quality stations was delayed, at least in part, because no procurement plan had been prepared. This highly technical equipment was difficult to procure because very precise specifications had to be prepared. In many cases, the Mission did not order critical parts. As a result, none of the twelve stations required were operating as of December 1985. A host government procurement of equipment needed for aerial photography was delayed because the waiver of source and origin requirements was not requested in a timely manner, and because the project office was unable to successfully accomplish the procurement. The office first tried to obtain the equipment from local suppliers, but found that it was unavailable or extremely expensive. It then issued a solicitation to American suppliers, but received incomplete bids. Finally, Michigan State University volunteered to prepare another solicitation.

Weak supervision and monitoring contributed to the project delays. According to the present project officer, the original project officer did not have the time to adequately monitor the project due to several simultaneous commitments.

A final problem was that the project's implementation plan was overly optimistic, and most project activities were accomplished well after the planned date. For example, the twenty year soil conservation strategy took three years longer than planned to complete, and the National Conservation Center was completed almost three years behind schedule. In our opinion, unrealistic implementation plans negate the value of the plans and may encourage project staff to regard planning as merely a formal requirement.

Human Resources Development (517-0127)

Background

The purpose of the Human Resources Development project was to expand vocational technical opportunities and help the poor to participate in vocational technical training programs. The project had three major components: 1) loans to students for vocational and technical training, 2) strengthening of vocational and technical schools, and 3) strengthening of institutions which provided services to vocational and technical schools. The project was implemented by the Educational Credit Foundation (FCE). The National Technical and Professional Training Foundation (INFOTEP) was planned to participate, but inexplicably withdraw from the project.

The loan/grant agreement was signed on September 25, 1981 and the planned project assistance completion date, as amended, was September 25, 1988. The project budget includes \$5.4 million in AID funds (\$4.25 million in loan and \$1.15 million in grant funds) and \$1.75 million in counterpart funds. As of September 30, 1985, AID accrued expenditures totalled \$1,697,362.

Progress

Delays which had impeded the project's progress included the lack of a commodity procurement plan, personnel problems within FCE, a project design weakness, FCE's slowness in hiring a consultant to assist institutions in establishing development plans, and INFOTEP's withdrawal from the project.

The following table compares planned and actual achievements as of September 30, 1985.

Planned	Actual
3000-4500 student loans (revised to 4,500-5000 loans).	2,330 student loans made.
40-80 faculty trained (revised to 40).	15 faculty selected for training.
10-15 schools strengthened.	13 institutions approved to receive commodities.
Purchase of computer and 18 person-months of training for FCE staff.	Computer purchased; 3 staff received training.

Labor demand study.	Not Accomplished.
9 person-months of training for INFOTEP staff.	INFOTEP withdraw from the project.

Procurement of equipment for vocational and technical schools will be delayed by more than two years because no procurement plan was developed during the project design, and because the schools had not complied with the prerequisites for commodity subloans. Before the subloans could be approved, the schools had to establish advisory committees and institutional development plans. In some cases, the schools did not know how to accomplish these activities, and FCE did not hire a consultant to assist them until February 1985. According to the original implementation plan, the equipment procurements were to be completed by December 1983, but the equipment was not expected to arrive until April 1986.

According to the Assistant Project Officer, no faculty training loans were made. It was unrealistic to expect teachers earning an average of RD$300-400 a month to be able to borrow a sufficient amount of money to fund a program of study in the United States. In July 1984, AID authorized the reprogramming of $400,000 from this component to commodity procurement.

Personnel problems within FCE delayed the project's progress at least a year. According to the Project's current director, his predecessor did not delegate responsibility, causing serious morale problems among personnel. The previous director left in May 1983.

Labor demand statistics, which were to have been developed by June 1983, had not been completed as of December 1985. INFOTEP was to have performed this activity, but withdrew from the project for reasons which neither the Project Officer nor FCE could explain. FCE subsequently volunteered to accomplish these tasks, but had not done so.

Energy Conservation and Resource Development (517-0144)

Background

The Energy Conservation and Resource Development project was designed to help reduce the dependence of the Dominican Republic on imported petroleum and to increase the availability of affordable energy to all income groups in the country. The overall purpose of the project was to develop the institutional capability necessary for achieving energy conservation and use of non-petroleum energy sources on a wide scale. Specifically, the purposes of the project components were to develop a comprehensive national energy investment planning capability, initiate a continuing program of industrial energy conservation, develop the institutional capacity to exploit small scale hydro turbines and wood fuels as alternative sources of energy, and upgrade the management and planning capabilities of the Dominican Electricity Corporation.

The National Energy Policy Commission (COENER) was responsible for overall project coordination. COENER was also responsible for implementing the national energy planning and the industrial energy conservation components, although the Central Bank managed a credit fund under the latter component. For the mini-hydro component, the Dominican Electricity Corporation, the National Hydraulic Resources Institute and COENER shared implementation responsibility. The wood fuel component was carried out by the Superior Agrarian Institute. The Dominican Electricity Corporation received technical assistance under a fifth component.

The project agreement was signed on April 22, 1982, and the planned project assistance completion date was April 22, 1987. The project budget included an A.I.D. loan for $11.8 million and an A.I.D. grant for $5.7 million for a total of $17.5 million. Including the planned counterpart contribution of $6.3 million, the total project budget was $23.8 million. As of September 30, 1985, A.I.D. accrued expenditures totalled $5,515,722.

Progress

While most of the activities had been completed under the wood fuel component, in our opinion, not all the project objectives will be accomplished by the planned project assistance completion date. Delays which had impeded the project's progress included project design weaknesses, weak host country contracting capability and a lack of procurement plans, non-availability of counterpart funds, delays in complying with conditions precedent, and weak AID monitoring.

The following table compares planned and actual accomplishments as of September 30, 1985:

Planned	Actual
Development of a national energy investment plan and an institutionalized planning capability in COENER.	Three studies leading to the energy investment plan published.
Fifty short energy audits and ten to twelve extended audits conducted by COENER.	35 short audits and eight extended audits completed.
Assistance to industries in developing energy conservation programs.	Seminars, workshops, and lectures presented.
Five pilot demonstration projects implemented.	Three projects approved; one being carried out.
Financing for 1,000 private sector short energy audits and 200 audits.	Financing provided for twenty short audits and eight extended audits.
$8 million industrial conservation credit fund established to encourage investment in energy conservation.	$490,504 provided to credit fund; four loans for RD$2.5 million 1/ approved.
Evaluation of potential mini-hydro-sites.	Original goals exceeded.
Three to four mini-hydro plants built.	None built.
Establishment of a nursery to produce 200,000 tree seedlings each year.	Accomplished.
Six small charcoal kilns and one large kiln built.	Four small kilns built.
Spacing and yield tests for different tree species accomplished.	Original goals exceeded.
Technical assistance provided to the Dominican Electricity Corporation.	Completed.

1/ At the time the audit was conducted, the peso-dollar exchange rate was fluctuating at around RD$3 to $1.

The project was delayed initially because the project design included too many dissimilar components, and the management responsibilities of the four implementing agencies were not made clear. Additionally, overall project coordination responsibility was assigned to COENER, a relatively new agency, but the design did not include technical assistance to COENER in management and administration.

The design of the mini-hydro component was deficient in that the time required to do site evaluations was underestimated, and the cost of the planned mini-hydro plants was underestimated. As a result, fewer site evaluations than planned had been carried out by the original completion date, although the original goal was eventually exceeded. Because the cost of the mini-hydro plants was substantially underestimated, only one plant instead of the three to four planned will be built.

Procurement delays occurred because COENER was not experienced in conducting procurements in accordance with AID requirements, because COENER's procurement capability was not evaluated during the project design, and because no procurement plan was prepared. As a result, vehicle procurement, which COENER was to perform, finally had to be accomplished by the Mission. According to COENER's General Coordinator, this resulted in a delay of six months and additional vehicle rental costs in the interim. Technical assistance contracts were delayed because of COENER's inexperience. COENER's General Coordinator stated that USAID/Dominican Republic assistance had been minimal. However, Mission officials stated that they had actively participated in drafting the requests for technical proposals and advertising the procurements, and had approved the evaluation criteria and other documents. Two additional technical assistance contracts were delayed because the contractors were selected without the Mission's involvement. It took one and a half years for the Mission to retroactively review and approve the informal procedures followed, and for COENER to sign the final contracts.

Slow disbursement of counterpart funds contributed to the slow pace of the project. According to COENER's General Accountant, disbursements initially took up to three months, but this had improved to about fifteen to twenty days. More recently, Economic Support Funds have been allocated to the project, but no disbursements had been received. According to Mission officials, the Central Bank had often held up disbursements of counterpart funds. In the past, this was done to conserve the Government's resources. More recently, the Bank held up disbursements to control the money supply and stabilize the peso-dollar exchange rate.

Delays in complying with conditions precedent contributed to delays in beginning some project activities. For example, as of December 11, 1985, one condition precedent to disbursement for mini-hydro commodities and equipment had still not been met 31 months after the initial terminal date for compliance. The Mission Project Monitor told us the Dominican

Electricity Corporation had not begun to try to satisfy this condition until they were ready to sign the construction contract for the mini-hydro plant. The condition precedent to disbursement for the industrial conservation credit fund was not met until 20 months after the initial terminal date for compliance.

Finally, the Project Officer told us that, due to his workload, he was not able to monitor the project closely enough, and was not always able to respond to problems and delays in a timely fashion.

Management Comments

The Mission stated that the status of the project was misrepresented by comparing accomplishments as of September 30, 1985 with life-of-project objectives. It also stated that the objective for energy audits had been changed, although it did not say what it had been changed to. The Mission denied that the design of the mini-hydrocomponent was deficient, and maintained that the project paper left open the number of sites to be developed. The Mission reiterated that it had closely supervised the National Energy Policy Comission's procurement actions. It also maintained that lengthy delays in meeting two conditions precedent had not adversely affected project implementation. Finally, the Mission noted that in addition to the project officer, two other employees monitored the project full-time.

Office of Inspector General Comments

The intent of the comparison between planned and actual accomplishments is not to suggest that the project should have achieved all of its objectives eighteen months before the project assistance completion date. Rather, the intent is to identify those areas where the project has proceeded rapidly (e.g., the wood fuels program) and those where relatively little has been accomplished (e.g., credit activities).

We do not agree that the number of mini-hydro sites was left unspecified in the project paper. In at least three different places (twice on page 67 and once on page 169), it states that three to four plants will be built. We found nothing in the Mission's comments or in the project paper itself which would lead us to conclude that the project's designers did not expect three to four sites to be developed.

The Mission's contention that it had closely supervised procurements undertaken by the National Energy Policy Commission was discussed in our draft report and is discussed in this final report.

The conditions precedent discussed in the report (for disbursements for mini-hydro commodities and equipment and for the industrial conservation credit fund) were met 31 and 20 months after the original terminal dates for compliance, respectively. A comparison of implementation plans with actual accomplishment dates shows that both credit and mini-hydro activities were delayed significantly -- the credit activities by a minimum of eighteen months. While other factors may have contributed to these delays, it is difficult to agree with the Mission that the delays in meeting conditions precedent had no impact on project implementation.

The auditors were aware that there were two full-time project monitors in addition to the project officer. We are simply reporting the project officer's perception that the project was delayed because, due to other demands on his time, he could not always respond to problems in a timely fashion.

On-Farm Water Management (517-0159)

Background

The On-Farm Water Management project was designed to develop human resources and institutions involved in irrigation, increasing the productivity of irrigated land, and thus increasing the income and standard of living of Dominican farmers. Planned project activities included: (1) establishment of Centers for Water Management in two pilot areas; (2) technical field studies and baseline data collection; (3) demonstration programs for land leveling and improved water management; (4) training programs; (5) formation of water user associations; and (6) a credit program for land leveling, crop production, and marketing. The project was implemented by the National Hydraulic Resources Institute (INDRHI), principally through the two Centers for Water Management.

The project loan agreement was signed on June 30, 1983, and the planned project assistance completion date was September 30, 1988. The project budget included $12 million in A.I.D. funds and $7.1 million in counterpart funds. As of September 30, 1985, A.I.D. accrued expenditures totalled $643,286.

Progress

Very little progress had been achieved due to a delay in the Dominican Congress' ratification of the loan agreement, procurement delays, a lack of counterpart funds and staff, cumbersome administrative procedures in INDRHI, poor project design, and weaknesses in implementation planning.

No major outputs had been produced, although some progress in implementing the project had been made. Most notably, the Centers for Water Management had been established, research activities had begun, 25 technicians had received field training, and actions to purchase vehicles and equipment were underway.

As with many of the Mission's other projects, the On-Farm Water Management project was delayed by the slow process of obtaining Congressional ratification of the loan agreement. Satisfaction of the conditions precedent to initial disbursement was delayed by the Congressional ratification requirement until April 16, 1984 -- six and a half months longer than the period envisaged in the loan agreement.

The procurement delays were caused by INDRHI's concern over what it considered the high cost of the technical assistance contract, and by the Mission's decision to give INDRHI responsibility for purchasing project equipment worth $2.7 million. Also, although the planned procurement activities were unusually complex and technically-oriented, no detailed procurement plan had been prepared.

The signing of the technical assistance contract was delayed by INDRHI's concern over what it considered the high cost of the contract. Because the technical assistance contract was loan funded, INDRHI was heavily involved in the negotiations, and was given approval authority over the final contract terms. INDRHI's concern over salary levels and ancillary expenses, such as the cost of a stateside procurement services agent and support for the technical assistance team, delayed the signing of the contract for three to four months until December 1984. The team arrived in May 1985.

Procurement of project equipment and vehicles was delayed because procurement responsibility was assigned to INDRHI, even though USAID/Dominican Republic had recognized that INDRHI lacked contracting capability. During the technical assistance contract negotiations, INDRHI maintained that it could purchase project equipment at less expense than that provided in the contractor's proposal. USAID/Dominican Republic and the contractor acquiesced to INDRHI's demands, and so the final contract gave responsibility for procurement to INDRHI.

As had been foreseen in the project paper, INDRHI was not well-prepared to carry out these purchases. The vehicle and farm machinery purchases will be delayed by at least one year, limiting the technical assistance team's effectiveness in initiating field activities. The project officer estimated that this equipment would be delivered in July 1986, at the earliest. To operate at a minimal level, the team purchased certain pieces of vital equipment, to be paid for with funds from the technical assistance contract. Also, INDRHI had rented vehicles using the administrative budget line item.

The project paper contemplated that, due to the complex and technical nature of the procurement actions needed to support the project, the technical assistance team would prepare a detailed procurement plan. No such plan had been prepared by the technical assistance team or by INDRHI. The Project Officer maintained that such a plan was unnecessary, and pointed out that the vehicle procurement was well underway, and that the Invitation for Bids for the farm machinery had been drafted. In our opinion, a schedule of actions required to ensure that equipment arrived when needed would have been a useful tool to detect slippages early on, and to obviate the existing situation in which seven advisors had been in country for seven months without the equipment they needed to do their jobs effectively.

A lack of counterpart funding also limited field activities. The project had received two disbursements of P.L. 480 Title I counterpart funds. The first disbursement, made in October 1984, was not enough to sustain project activities until the second disbursement was received in September 1985. The second disbursement was delayed for three months by negotiations over the use of the funds for salaries.

A full complement of counterpart staff had not been assigned to the project. The project director spent a minority of his time working on the project, contributing to poor communications between INDRHI and the technical assistance team, and contributing to delays in accomplishing project activities. It was difficult to hire qualified staff, and existing staff were dissatisfied because, while INDRHI had requested and received Title I funds to pay higher salaries, it had not yet raised salaries to the new levels.

Cumbersome INDRHI operating procedures also impeded progress. For example, it took five months to establish revolving funds to pay the Center for Water Management's operating expenses and make initial deposits. As of October 1, 1985, the Centers still did not have access to the funds. Replenishment of the funds would also require several steps, including the signature of the Director of INDRHI. As another example, INDRHI fuel supplies often ran out, and no alternative source of supply was permitted. The project officer told us that by December 1985 the centers were using the revolving funds, and Center Directors had been given authority to purchase gasoline.

A weak project design contributed to the slow progress of the project as a whole. INDRHI was only minimally consulted, rather than fully incorporated in the design effort. As a result, in the initial stages of the project there was disagreement over what the project's objectives were. Also, while the project paper discussed a number of agencies which might participate in the project, it did not specify what roles those agencies would play. Their participation was needed because INDRHI's interest and expertise was in engineering, while the project activities were heavily oriented toward development of local water user organizations and dissemination of techniques for improving the productivity of irrigated lands.

A final problem was that successive implementation plans remained consistently overly optimistic. None of the project activities were accomplished when originally planned, and many project activities were delayed two years. The placement of participants in U.S. academic training had been delayed for three years. A revised implementation plan was prepared, but activities had fallen several months behind that schedule as well. In our opinion, unrealistic implementation plans encourage project staff to regard planning as a formal requirement with little real value.

The Mission was taking a number of steps to accelerate the project's progress. It planned to formalize the participation of other organizations in the project through written agreements with INDRHI, which would provide project funding to those organizations. It was also encouraging INDRHI to delegate more responsibility to the Centers for Water Management. Specifically, it hoped that the Centers would be given more responsibility for managing their operating funds, and that they would be allowed to negotiate interagency agreements at the local level. Finally, the Mission was attempting to persuade INDRHI to make use of an indefinite quantity procurement services contract to complete the delayed equipment purchases.

Radio Santa Maria II (517-0163)

Background

The Radio Santa Maria II project was designed to improve the productivity and innovative capability of Radio Santa Maria (RSM), a private adult education service. Project activities included: a) evaluation studies of the organization and its services, to determine how operations can be streamlined and services improved, b) long and short-term training to upgrade technicians' skills and expose them to different adult education models and approaches, and c) equipment procurement to improve the content, production quality and coverage of Radio Santa Maria.

The project grant agreement was signed on August 31, 1982, and the planned project assistance completion date, as amended, was August 31, 1986. The project budget included $425,000 in AID funds and $137,200 in counterpart funds. AID accrued expenditures totalled $238,385 as of September 30, 1985.

Progress

Progress was significantly impeded by the lack of a commodity procurement plan, the untimely death of a crucial manager of Radio Santa Maria, and the virtual disappearance of a Colombian educational radio service which was to participate in the exchange training program.

The following table compares planned and actual achievements, as of September 30, 1985:

Planned	Actual
Evaluation studies.	Completed.
Exchange training program (10 people for 3 weeks of training).	5 people trained.
Long-term training for 2 people.	None trained.
Equipment procurement (microcomputer, transmission equipment, and other items).	Computer purchased.

The equipment purchases were delayed by up to three years due to the lack of a procurement plan. The project officer explained that the original project officer was depending on the radio station manager to provide information needed to purchase the ratio station equipment, but that person unfortunately died. Subsequently, a radio engineer was contracted to prepare a list of equipment to be purchased. Various small items were to have been purchased by March 1983, but were not expected to arrive in country until April 1986. Transmission equipment was scheduled to arrive in September 1985, but was not to be delivered until February 1986.

Staff training was delayed when the Colombian radio station which was to provide the training ceased operations for reasons unknown to the project officer. The short term training program was delayed one to one and a half years due to the need to look for alternate training programs.

Rural Savings Mobilization Project (517-0179)

Background

The Rural Savings Mobilization project, which began on August 19, 1983, was originally designed as a pilot project to demonstrate the feasibility of mobilizing voluntary savings in four rural credit unions and four Agricultural Bank offices. These funds would then be lent to rural borrowers at interest rates adequate to cover the institution's operating expenses. The project showed that rural financial institutions could attract savings, even under adverse economic circumstances. On the other hand, it showed that savings mobilization was not as easy for the institutions as originally believed, particularly once it has been expanded beyond the pilot stage. In August 1985, USAID/Dominican Republic decided to redefine the project, add funding, and extend the project assistance completion date, to consolidate achievements to date.

As defined in the August 21, 1985 amendment to the grant agreement, the project's goal was to stimulate production and improve income distribution through innovative approaches to rural savings and credit. The sector subgoals were to improve the viability of rural financial institutions, and to expand the access of the rural poor to savings and credit services. Activities were planned in four areas:

-- assistance for savings mobilization campaigns by the Agricultural Bank and five credit unions (four of which were associated with the Dominican Federation of Savings and Credit, and Multiple Services Cooperatives, or FEDOCOOP),

-- establishment of a research capability in rural financial markets in key public and private institutions,

-- dissemination of research results and the project's accomplishments, and

-- provision of technical assistance and training to strengthen the Agricultural Bank and the participating credit unions.

The amendment extended the project assistance completion date to December 31, 1986. The project budget included $950,000 in AID grant funds and RD$1,342,000 in counterpart contributions (equivalent to $447,333 using the exchange rate for August 1985). As of September 30, 1985, AID accrued expenditures totalled $334,792.

Progress

While the project had accomplished a great deal, progress in the credit unions was slower than planned, because of delays in selecting credit unions to participate in the project and management weaknesses in FEDOCOOP and the credit unions themselves.

The following table compares planned and actual achievements, as of September 30, 1985:

Planned	Actual
31 Agricultural Bank branches and five credit unions providing deposit facilities.	29 Agricultural Bank branches and four credit unions providing deposit facilities.
$2.4 million in additional savings generated and lent with no more than a 10 percent default rate.	In Agricultural Bank branches, $1,935,290 in savings generated, and approximately 80 percent lent with no more than a 4 percent default rate. In credit unions, $441,100 in savings generated. Loans exceeded savings because the credit unions also have share deposits.
Adequate reserves (about 10% of additional savings) on hand to cover possible withdrawals.	The Agricultural Bank branches had 20 percent of the savings generated on hand. The credit unions shared a $33,333 reserve, which will be increased when a suitable umbrella organization of credit unions is identified.
At least four technicians in the credit unions trained, and an umbrella organization of credit unions identified to serve as a base for central technical support.	Three technicians trained. Since FEDOCOOP was bankrupt, no suitable umbrella organization had been identified.
At least one Dominican technician in each of the participating institutions monitoring and evaluating the performance of those institutions.	Divisions in the Agricultural Bank and the Central Bank were monitoring the project's results. The three technicians mentioned above were monitoring the performance of the credit unions.

26 studies and 3 monographs on Dominican financial markets completed and published.	57 studies, monographs, and notes completed; none published.
Five workshops for all project participants, and ten seminars concerning one subject or one institution.	Three workshops and four seminars held (as of April 1985).

While the project paper had tentatively identified specific credit unions to participate in the project, the project managers decided to select different credit unions based on a more detailed analysis by the technical assistance team. This selection process took four months, and the technical assistance team spent an additional four months convincing the chosen credit unions to participate in the project.

According to the project officer, the project's designers had recognized that FEDOCOOP was in poor financial condition, and had planned to work directly with the individual credit unions. For example, an attempt was made to place trained technicians in the credit unions themselves. However, project managers realized that the technicians' effectiveness would be enhanced by the opportunity to work closely together and exchange ideas, and FEDOCOOP became involved when they offered an office and administrative support for the technicians. Also, the organization's Director was extremely supportive of the project, at least in part because he saw it as a source of additional resources. The technical assistance team spent a great deal of time trying to work through FEDOCOOP, but because of its financial and administrative weaknesses, FEDOCOOP contributed little to achievement of the project's objectives. In November 1985, with FEDOCOOP bankrupt, the Mission was investigating whether other organizations, such as the Institute for Development of Cooperatives, the Agricultural Bank, or a private bank could serve as a base for central technical support.

The detailed analysis performed by the technical assistance team showed that management of the credit unions themselves was much weaker than had been believed. The credit unions did not begin accepting deposits until December 1985, because of the time required to implement administrative changes and interest rate reforms, and to develop uniform accounting procedures.

Discussion of USAID/Dominican Republic's Exchange Rate Practices before January 23, 1985

The bilateral agreement which governs AID assistance to the Dominican Republic provides that AID funds will be convertible to pesos at the highest exchange rate which is not unlawful. Notwithstanding this provision, USAID/Dominican Republic used an official rate of RD$1 to $1 until January 1985, instead of a parallel rate which had governed the commercial banking system since August 1982. While it was difficult to reconstruct why this practice was followed, we concluded that it resulted from faulty interpretation of the bilateral agreement and of the legal status of the parallel market, as well as from a desire to provide the Dominican Republic with needed foreign exchange. By using the official rate instead of excercising its right to use the parallel rate, USAID/Dominican Republic incurred an opportunity cost of at least $12.2 million over a two and a half year period.

The bilateral agreement between the United States and the Dominican Republic, signed January 11, 1962, states that:

> Funds used for purposes of furnishing assistance hereunder shall be convertible into currency of the Dominican Republic at the rate providing the largest number of units of such currency per U.S. dollar which, at the time conversion is made, is not unlawful in the Dominican Republic.

The intent of this provision is described in AID Handbook 3, Appendix 6B, which mandates that the same language be included in AID loan and grant agreements. It states that "The formulation of 'highest rate...which...is not unlawful' is used rather than 'highest legal rate' because the latter formulation in some countries may be equated with 'highest official rate.' The 'official rate,' in such country may be lower than, e.g. [a] prevailing and lawful business rate."

Notwithstanding the provisions of the bilateral agreement, from August 24, 1982 until January 23, 1985, USAID/Dominican Republic accepted an official exchange rate instead of a parallel rate specifically authorized by the Monetary Board of the Dominican Republic. It used the official rate both for exchanging dollars for pesos to pay local project costs and operating expenses, and for determining whether counterpart contributions were equivalent to the amount of dollars specified in its loan and grant agreements.

USAID/Dominican Republic may, in fact, have had the right to use the parallel market exchange rate instead of the official rate as early as July 1967. In an effort to encourage the repatriation of capital moved out of the country in response to political instability, a Presidential Decree dated July 10, 1967 stated that imports financed with foreign exchange not purchased from the Central Bank would be exempt from a system of quotas and prohibitions established earlier that year by the Monetary Board. This official recognition of the parallel market could be interpreted to mean that AID had the right to use the parallel exchange rate beginning July 10, 1967.

In any case, the legal status of the parallel market became clear on August 24, 1982, when the Monetary Board authorized commercial banks to buy and sell foreign currency at the free market rate. One could argue that since Article 1 of the Monetary Law (No. 1528) states that RD$1 equals $1, the parallel market was still unlawful. However, this provision of the law had been ignored for several years, and the same provision contravenes the unified floating exchange rate established by the Monetary Board on January 23, 1985. USAID/Dominican Republic has effectively recognized that the unified rate is not unlawful by changing dollars for pesos at that rate.

It was difficult to reconstruct why the Mission accepted the official RD$1 to $1 exchange rate. The Mission Legal Advisor told us that the parallel market was illegal, although it had operated openly. We disagree, on the basis that the Monetary Board had specifically authorized commercial banks to operate at the parallel rate. The Deputy Controller said that the Mission had used the official rate because it was permitted to change dollars for pesos only through the Central Bank, which until January 23, 1985 was only empowered to operate at the official rate. We would argue that the provisions of the bilateral agreement should have taken precedence, because as an international agreement, it superseded the jurisdiction and effect of local laws and regulations. Finally, a February 12, 1985 cable from the Mission to AID/W indicates that the official rate was used to obtain pesos for local project costs to provide the Government of the Dominican Republic with needed foreign exchange. This position cannot be defended, in our view, because providing the Government with foreign exchange was not among the purposes for which the projects were authorized.

If the Mission had exercised its right to use the authorized parallel rate from August 24, 1982 through January 22, 1985, it could have disbursed about $8.3 million less and obtained the same amount of local currency. At the same time, if it had used the parallel rate to determine the equivalence of counterpart contributions to the amount of dollars specified in its loan and grant agreements, approximately an additional RD$9.5 million (equivalent to $3.9 million) would have been made available to achieve project objectives. In total, the cost of using the official exchange rate amounted to at least $12.2 million.

We are not making a recommendation concerning this matter because the Mission began using a unified floating exchange rate in January 1985. In recommendation no. 5 of this report, we recommend that the Mission obtain a formal legal opinion on what exchange rate should now be used to determine the equivalence of counterpart contributions to the amount of dollars specified in its project agreements.

February 22, 1985

Ted Carter, RLA

Project Local Currency Contribution by the Government of the Dominican Republic

Craig G. Buck, AD

The question has been raised concerning the nature and extent of the commitment of the Government of the Dominican Republic (GODR) to furnish their local currency contribution (resources) under existing project agreements (ProAgs) with A.I.D. Recent official adjustments in the U.S. Dollar to GODR Peso exchange rate have prompted the question.

I have reviewed a cross section of active, ProAgs1/ in particular, those ProAg sections dealing with host country contributions, in order to determine the specific project requirements. I am satisfied that the general principles and conclusions reached below are applicable to all A.I.D. projects currently being carried out in the Dominican Republic.

The key section in project loan agreements regarding the commitment of resources to the project by a cooperating country is Section 3.2 entitled "Borrower Resources for the Project".2/ In subsection (a) this calls for the Borrower "to provide or cause to be provided for the project all funds, in addition to the loan, and all other resources required to carry out the project effectively and in a

1/ On-Farm Water Management Project (517-0159)
Rural Roads Maintenance and Rehabilitation I & II (517-0177
517-0130)
Energy Conservation and Resource Development (517-0144)
Education Sector Loan (517-0172)
Agriculture Policy Analysis (517-0156)

2/ For Project Grant Agreements the prescribed language under AID Handbook 3 is exactly the same.

timely manner. In subsection (b) the Borrower agrees to provide resources for the project "not less than the equivalent of ________ United States Dollars (US$__________), including costs borne on an "in-kind" basis. This language conforms to AID Handbook 3 Project Agreement Formats.

The USAID/DR loan and grant agreements I have reviewed all contain the prescribed phraseology and all appear to denominate the resource contribution in terms of a U.S. Dollar equivalent.

In addition, each Project Agreement (loan and grant) generally contains an illustrative financial plan (summary budget) which sets forth the prescribed level of local currency contribution for the total project. The total resource contribution, in general, appears in the illustrative financial plan and is in accordance with Project Paper (PP) facesheets and PP funding projections for the particular project. In some instances the A.I.D. funding to a project is provided incrementally at which time the stated GODR project contribution of Section 3.2 is increased, pari passu, in accordance with the increased A.I.D. obligation.

The GODR project contributions come as a result of AID policy requirements which, in turn, in the case of DA - funded activities, are based on Section 110, "Cost Sharing and Funding Limits" of the Foreign Assistance Act of 1961, as amended.3/ For ESF funded projects, if the 25% requirement is applied at all, it is as the result of A.I.D. policy and not directly because of Section 110.

3/ Sec. 110. Cost-Sharing and Funding Limits. (a) No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 per centum of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an "in-kind" basis.37

(b) No grant assistance shall be disbursed by the United States Government under sections 103 through 106 of this Act for a project, for a period exceeding thirty-six consecutive months, without further justification satisfactory to the Congress and efforts being made to obtain sources of financing within that country and from other foreign countries and multilateral organizations.

It should be noted that Section 110 requires the country to provide at least 25 percent of the costs of the activity being funded by A.I.D. and further provides that such costs can be borne by such country on an "in-kind" basis". This language and this principle (1) is reflected in PPs in the sections calculating total project costs and the allocation of those costs and (2) appears in the actual Project Agreements. The program or project costs are calculated at the outset of the activity at that time. The ProAg's "in-kind" wording, derived from the statute, reflects the inclusion of diverse resource inputs by a host country in a form other than contribution of monetary units. The contribution can be land, equipment, personnel, etc., all of which are items whose domestic valuation bears little relationship to the U.S. Dollar exchange rates. The statutory anticipation of in-kind resource inputs in the host country furnished resources is indicative that maintenance-of-value considerations are inapplicable once the initial project calculations are made and the host country commitment is formalized in a ProAg. By the same token the A.I.D. Dollar contribution does not vary with the rise or diminution in foreign exchange rates. It is fixed. With one exception explained later, the resource input of the host country is fixed at the calculated initial total project requirements.

This concept is clearly embodied in, and carried into, A.I.D. project agreements. Section 3.2 contains no maintenance of value provision which would permit A.I.D. to take a stance that the host country is obliged to increase its resource contribution to the extent that its local currency loses value against the U.S. Dollar. Imposition of such a provision would impose the impossibly burdensome requirement on the parties of constantly recalculating, revaluing and reformulating resource inputs throughout the life of a Project. Neither the statute, A.I.D. policy or the ProAgs require such an exercise. When maintenance of value is to be applied, i.e., when A.I.D. furnished dollars are to be converted into local currency for purposes of carrying out the Project, the ProAgs clearly so state. For instance, Section 8.4 of the Loan Agreement provides that, when A.I.D. funds shall be introduced into the Dominican Republic, the Borrower must make the arrangements necessary to convert the U.S. dollar into currency of the Dominican Republic at the "highest rate of exchange which, at the time the conversion is made, is not unlawful in the Dominican Republic".

Section 8.4, or its equivalent in A.I.D grant agreements, does not apply to the provision of its own resources by the host country. It may be concluded that, if maintenance of value was a consideration regarding the input by a host country of its own resources Section 3.2 would be equally as explicit on the point as Section 8.4. It would be inappropriate for A.I.D., in view of the standard clauses, to make such a contention.

Returning to my earlier exception, this conclusion with regard to maintenance of value does not preclude the possibility of A.I.D.'s taking the position that a host country may, under appropriate circumstances, be required to augment its resource contribution over the amount stated in the ProAg. In the same Section 3.2, Project Agreements call for the Dominican Republic to provide all funds in addition to the A.I.D. assistance and all other resources required to carry out the Project effectively and in a timely manner. Emphasis supplied)

This policy is reinforced by Articles B.1 and B.2 of the ProAg Standard Provisions which call for the parties to consult on the progress of the Project and require the host country to carry out the activity with due diligence and efficiency. In short, A.I.D. has the responsibility and the right to assure that the resources necessary to carry out the project successfully are provided by the Government of the Dominican Republic. This is a vastly different proposition and one with much greater flexibility than the mechanical application of a maintenace of value standard.

The Mission, in carrying out its projects, has the responsibility to assure that the necessary host country resources are made available to complement the AID-furnished assistance. While the minimum host country resource input to carry out the project as originally foreseen at the PP stage should be insisted upon, A.I.D., as the case arises, pursuant to the terms of ProAgs, may always request the host country to provide reasonable additional resources necessary to carry out the Project. This, of course, can only come as the result of ad hoc project-by-project determinations.

Drafted by: RLA:TCarter:myr:2-20-85

RIG

ACTION: AID-2 INFO: AMB DCM ECON CML SA/7

APPENDIX 4
Page 1 of 7

VZCZCTG0498
PP RUEHTG
DE RUEHDG #2599/01 0621439
ZNR UUUUU ZZH
R 031423Z MAR 86 ZDK CTG HWN 0002S
FM AMEMBASSY SANTO DOMINGO
TO RUEHTG/AMEMBASSY TEGUCIGALPA 0764
INFO RUEHWN/AMEMBASSY BRIDGETOWN 1193
BT
UNCLAS SECTION 01 OF 03 SANTO DOMINGO 02599

04-MAR-86 TOR: 15:3?
CN: 16325
CHRG: AID
DIST: AID

AIDAC

TEGUCIGALPA FOR RIG; BRIDGETOWN FOR CARTER, RLA

E.O. 12356: N/A

SUBJECT: DRAFT AUDIT REPORT - SELECTED DELAYED PROJECTS

REF: (A) TEGUCIGALPA 1589 (B) BRIDGETOWN 1093

1. THIS CABLE PRESENTS USAID'S COMMENTS ON SUBJECT DRAFT REPORT. THE FOLLOWING COMMENTS ARE PRESENTED IN THE SAME ORDER AS THE RECOMMENDATIONS IN THE REPORT.

2. RECOMMENDATION NO. 1: AS THE DRAFT REPORT ITSELF POINTS OUT AND AS DISCUSSED IN THE EXIT CONFERENCE, THE REQUIREMENTS FOR ADEQUATE PROJECT DESIGN ARE ALREADY WELL-COVERED IN HB 3. IN ADDITION, THE PAYMENT VERIFICATION POLICY GUIDANCE, ISSUED IN DECEMBER 1983, REQUIRES A DETAILED IMPLEMENTATION AND FINANCING METHODS TABLE AND, IF APPROPRIATE, AN ASSESSMENT OF HOST COUNTRY CONTRACTING IN EVERY NEW PROJECT PAPER. USAID HAS BEEN FOLLOWING THESE GUIDELINES IN ALL NEW PROJECT DESIGN ACTIVITIES SINCE FY 85. USAID IS NOW IN THE PROCESS OF ISSUING A NEW MISSION ORDER WITH APPROPRIATE REFERENCES TO HB 3 AND PAYMENT VERIFICATION POLICY GUIDANCE WHICH WILL BE POUCHED TO YOU SHORTLY. THEREFORE USAID REQUESTS THAT THIS RECOMMENDATION BE DELETED FROM THE FINAL AUDIT REPORT.

3. RECOMMENDATION NO. 2: WHILE USAID AGREES WITH THE FINDING AND RECOMMENDATION, IT WAS UNDERSTOOD FROM THE EXIT CONFERENCE THAT THIS RECOMMENDATION WOULD BE DROPPED FROM THE FINAL DRAFT REPORT BECAUSE IT WAS REDUNDANT. PART A (I) OF THIS RECOMMENDATION IS COVERED IN RECOMMENDATION NUMBER ONE. PART A (II) IS INCLUDED IN RECOMMENDATION NUMBER FOUR. WE HAVE ALREADY RECEIVED GODR CONCURRENCE AND A PIO/C IS IN PROCESS FOR THE ON-FARM WATER MANAGEMENT PROJECT. THEREFORE, USAID REQUESTS THAT THIS RECOMMENDATION BE EXCLUDED FROM THE FINAL AUDIT REPORT.

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4. RECOMMENDATION NO. 3: USAID CERTAINLY RECOGNIZES THE DIFFICULTY OF ACQUIRING AND MAINTAINING THE CRITICAL HUMAN RESOURCES NECESSARY TO MANAGE AN EVER GROWING

PROJECT PORTFOLIO. WHILE IT IS ALWAYS DIFFICULT TO DETERMINE EXACTLY WHEN A GIVEN QUANTITY OF HUMAN RESOURCES IS SUFFICIENT FOR A GIVEN PORTFOLIO, WE BELIEVE THAT USAID HAS ALREADY TAKEN APPROPRIATE STEPS TO ENHANCE ITS MANAGEMENT CAPABILITY AND TO MAKE THE BEST POSSIBLE USE OF ITS EXISTING STAFF. SOME OF THESE MEASURES ARE APPROPRIATELY POINTED OUT IN THE DRAFT REPORT BUT, WHAT IS NOT CLEAR IN THE DRAFT IS THAT, WHILE DIRECT HIRE STAFF HAS REMAINED RELATIVELY STATIC, US PSC STAFF HAS INCREASED FROM ONE TO SIX AND FSN PSC STAFF HAS INCREASED FROM ZERO TO TWENTY-SEVEN FROM 1982 TO 1985. IN ADDITION, USAID/DR HAS IMPLEMENTED SIGNIFICANT MANAGEMENT IMPROVEMENTS INCLUDING: ACTIVATION OF IMPLEMENTATION TEAMS; CONCENTRATION ON FEWER AND LESS COMPLEX PROJECTS; DEOBLIGATION OF PROJECTS OUTSIDE OUR AREA OF FOCUS; MORE DETAILED LONG-TERM IMPLEMENTATION PLANNING; AND FORMAL MONITORING OF SHORT-TERM ACTION LISTS FOR EVERY PROJECT. THESE MANAGEMENT IMPROVEMENTS, INCREASES IN PSC STAFFING AND THE INCREASED FLEXIBILITY PROVIDED BY TRUST FUNDS ENSURE THAT WE WILL HAVE THE RESOURCES NECESSARY TO MANAGE OUR PORTFOLIO WITHOUT EITHER REQUESTING ADDITIONAL DIRECT HIRE STAFF (WHICH WOULD BE DIFFICULT FOR AID/W TO PROVIDE) OR REDUCING THE ASSISTANCE SO BADLY NEEDED BY THE DOMINICAN REPUBLIC. THEREFORE, WE SEE NO REASON FOR THIS RECOMMENDATION AND SUGGEST THAT IT BE OMITTED FROM THE FINAL AUDIT REPORT.

5. RECOMMENDATION NO. 4: AS YOU ARE AWARE, THE RECENTLY FORMED SECTOR IMPLEMENTATION TEAMS HAVE ALREADY BEEN INSTRUCTED TO INCORPORATE THEIR SHORT-TERM ACTION LISTS INTO LONGER-TERM, DETAILED IMPLEMENTATION PLANS. IN SOME CASES THIS WILL INVOLVE THE CREATION OF AN IMPLEMENTATION PLAN WHERE NONE EXISTED BEFORE. IN OTHER CASES IT WILL REQUIRE MODIFICATION AND REVISION OF EXISTING BUT OUTDATED PLANS. IN EITHER CASE THE PROCESS IS ALREADY WELL UNDERWAY AND BEING INSTITUTIONALIZED IN THE NEW MISSION ORDERS. AFTER THE IMPLEMENTATION TEAMS HAVE HAD A LITTLE MORE EXPERIENCE WITH THE PROCESS, AND DIFFERENT IDEAS HAVE BEEN TRIED, THE MISSION PLANS TO STANDARDIZE THE METHODOLOGY BY WHICH SHORT-TERM ACTION LISTS FEED INTO AND SUPPORT MID-TERM TO LONG-TERM IMPLEMENTATION PLANS WHICH, IN TURN, FEED INTO THE MONITORING OF LONG-RANGE OUTPUT ORIENTED GOALS AND

OBJECTIVES. IT IS ANTICIPATED THAT THIS STANDARDIZED METHODOLOGY, ONCE DEFINED, WILL ALSO BE INSTITUTIONALIZED THROUGH AN AMENDMENT TO THE MISSION ORDERS. IN VIEW OF THE FACT THAT APPROPRIATE ACTIONS HAVE ALREADY BEEN TAKEN BY USAID, WE SUGGEST THIS RECOMMENDATION BE OMITTED FROM THE FINAL AUDIT REPORT.

6. RECOMMENDATION NO. 5: WITH RESPECT TO PART A) AND B) OF THIS RECOMMENDATION, USAID SOUGHT APPROPRIATE LEGAL ADVICE WHEN THE PROBLEM AROSE, RECEIVED AN AUTHORITATIVE DECISION AND PROMPTLY IMPLEMENTED THAT DECISION. UNTIL ADVISED OTHERWISE ON THIS LEGAL MATTER, USAID INTENDS TO ABIDE BY THE LEGAL ADVICE ALREADY OBTAINED. USAID DOES NOT CONSIDER IT APPROPRIATE TO GO AROUND OR ABOVE ITS DESIGNATED LEGAL AUTHORITY, THE RLA. THIS PART OF RECOMMENDATION NO. 5, THEN, SHOULD BE OMITTED FROM THE FINAL AUDIT REPORT OR DIRECTED FOR GC NOT USAID ACTION.

7. WITH RESPECT TO PART C) OF RECOMMENDATION NUMBER 5, PLEASE BE ADVISED THAT AN AMENDMENT TO RURAL SAVINGS MOBILIZATION PROJECT AGREEMENT IS ALREADY BEING PROCESSED. AMENDING THE AGRIBUSINESS PROJECT AGREEMENT, HOWEVER, IS A MUCH MORE DIFFICULT MATTERX. USAID DOES NOT BELIEVE IT WOULD BE PRUDENT TO REQUIRE THE GREEMENT TO BE AMENDED TO CORRECT THE DISCREPANCY IN QUESTION BECAUSE OF THE TIME INVOLVED IN OBTAINING DOMINICAN REPUBLIC CONGRESSIONAL RATIFICATION (THE ORIGINAL AGREEMENT WAS IN CONGRESS OVER 6 MONTHSC). TO DELAY IMPLEMENTATION AGAIN COULD BE EXTREMELY DETRIMENTAL TO ACHIEVEMENT OF THE PROJECT'S GOALS AND OBJECTIVES. FURTHERMORE, WE BELIEVE, AS IS INDICATED ON PAGE THIRTY-THREE OF THE DRAFT REPORT, THAT THE EXCHANGE RATE RISK IS ACCEPTABLE. FOR YOUR INFORMATION, AS OF FEB. 23, APPROXIMATELY RD$29.0 MILLION OF THE GODR COUNTERPART HAS ALREADY BEEN COMMITTEDSOR DISBURSED FOR SUBLOANS. THIS IS EQUIVALENT TO ABOUT $10.0 MILLION AT THE CURRENT EXCHANGE RATE OR WELL IN EXCESS OF THE 25 PERCENT STATUTORY RXEUIREMENT. IN ADDITION, GODR HAS COMMITTED ITSELF TO PUT IN ANOTHER RD$60.0 MILLION. THIS PART OF RECOMMENDATION NO. 5, THEN, SHOULD ALSO BE OMITTED FROM THE FINAL AUDIT REPORT DUE TO ACTIONS ALREADY TAKEN BY USAID/DR.

8. WITH RESPECT TO SPECIFIC FACTUAL STATEMENTS USAID PROVIDES THE FOLLOWING COMMENTS:

- A. PAGE 32 -- STATEMENT ATTRIBUTED TO PROJECT DEVELOPMENT OFFICER (PDO) WAS TAKEN OUT OF CONTEXT AND THE FINAL TWO SENTENCES OF THE FIRST PARAGRAPH SHOULD BE ELIMINATED. THE PDO'S STATEMENT WAS MADE IN THE CONTEXT OF DISCUSSING THAT HB 3 PROVIDES GUIDANCE FOR THE CONTENT OF PROJECT PAPERS AND NOT REPEAT NOT GUIDANCE FOR THE STANDARD LANGUAGE REQUIRED IN AGREEMENTS. SEE PREFACE OF HB 3, SECTION ENTITLED QUOTE AIM OF THE HANDBOOK END QUOTE.

- B. PAGE 41 -- SCHOOL MAINTENANCE SYSTEM WAS ESTABLISHED. THERE ARE NO DATA TO SUGGEST THAT IT WON'T

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BE CONTINUED.

- C. PAGE 42 -- REGARDING STATEMENT IN APPENDIX THAT CONDITIONS PRECEDENT WERE NOT MET AS PLANNED, THE DRAFT IS NOT CLEAR ABOUT WHICH ONES AND THE EFFECT THAT THESE HAD ON PROJECT IMPLEMENTATION, IF ANY.

- D PAGE 65 -- STATUS OF PROJECT IS MISREPRESENTED BY COMPARING ACHIEVEMENT AT SEPT 30, 1985 TO OBJECTIVES PLANNED FOR OVER EIGHTEEN MONTHS LATER. USAID BELIEVES THAT OBJECTIVES WILL BE MET OR EXCEEDED BY PACD OF APRIL 22, 1987.

- E. PAGE 65 -- OBJECTIVE FOR SECOND ITEM, ENERGY AUDITS, HAS BEEN CHANGED, AS THESE ARE NOW BEING CONDUCTED BY PRIVATE SECTOR INDIVIDUALS, TRAINED THROUGH CORNER EFFORTS. THIS CHANGE IN THRUST HAS SLOWED ACHIEVEMENT OF OBJECTIVES SOMEWHAT, BUT HAS ALSO RESULTED IN ENHANCED PRIVATE SECTOR CAPACITY AND EXPANDED PRIVATE SECTOR PARTICIPATION -- IMPORTANT OBJECTIVES IN THEMSELVES FOR AID.

- F. PAGE 67 -- DESIGN OF MINI-HYDRO COMPONENT (PARA. 2) WAS NOT DEFICIENT. RATHER PP WAS OPEN-ENDED AS TO

APPENDIX 4
Page 5 of 7

NUMBER OF SITES THAT WOULD BE CONSTRUCTED. PP SPECIFICALLY STATES THAT DETERMINATION OF MINI-HYDRO IZE AND OTHER SITE SPECIFIC VARIABLES WAS TO BE DETERMINED DURING PROJECT IMPLEMENTATION BY THE TA BASED ON DATA COLLECTED DURING THE SITE EVALUATION PHASE. IT WAS SO DESIGNED TO TAKE INTO ACCOUNT THE UNKNOWNS RELATED TO THE LOCATION AND SIZE OF FACILITY. THEREFORE, THE DECISION TO BUILD ONE SITE WAS NOT BASED ON A MISCALCULATION OF COSTS RATHER IT WAS A MANAGEMENT AND TECHNICAL DECISION. IT WAS DETERMINED THAT ONE LARGER SCALE MINI-HYDRO FACILITY WOULD BE MOST SOCIALLY AND ECONOMICALLY FEASIBLE. THIS IS NOT TO SAY THAT COST WAS NOT A FACTOR. FINAL COST ESTIMATES FOR THE MINI-HYDRO CONSTRUCTION DID TAKE INTO CONSIDERATION THE INFLATION OF LOCAL CONSTRUCTION COSTS.

- G. PAGE 67 -- USAID CONTINUOUSLY SUPERVISED AND MONITORED CORNER'S PROCUREMENT ACTIONS; FOR EXAMPLE, USAID ASSISTED CORNER IN PREPARING RFTPS, NOTICES FOR CBD, AND HIRING OF TECHNICAL ASSISTANCE (FROM HARZA) TO ASSIST WITE EVALUATION OF PROPOSALS.

- E. PAGE 69 -- CPS ARE OF TWO TYPES: THOSE THAT MUST BE MET BEFORE THE FIRST DISBURSEMENT OF FUNDS AND HAVE A SPECIFIC DEADLINE, USUALLY 90 DAYS FROM SIGNING OF THE AGREEMENT; AND THOSE THAT ARE RELATED TO SPECIFIC PROJECT COMPONENTS, WHICH NORMALLY HAVE NO TIME LIMIT AS LONG AS THEY ARE SATISFIED BEFORE FUNDS ARE RELEASED FOR THE COMPONENT BUT WITHIN THE PACD. THE COMMENTS ON CPS THAT WERE NOT MET FOR 31 MONTHS FOR MINI-HYDRO OR 20 MONTHS FOR INDUSTRIAL CONSERVATION CREDITS FALL IN THE LATTER CATEGORY. THE POINT MADE BY AUDIT IS THAT FAILURE TO MEET CPS CAUSED DELAYS IN PROJECT IMPLEMENTATION. THIS IS NOT THE CASE. THE CP FOR MINI-HYDRO WAS DIVIDED INTO THREE PARTS: (1) A DETAILED IMPLEMENTATION PLAN; (2) AN INTERAGENCY AGREEMENT; AND (3) A LEGAL ARRANGEMENT BETWEEN CDE AND THE COMMUNITY WHERE THE MINI-HYDRO FACILITY WAS TO BE CONSTRUCTED. PARTS 1 AND 2 OF THE CPS WERE MET WITHIN PERIODS PRESCRIBED (IMPLEMENTATION LETTER NO. 1-E EXTENDED TERMINAL DATE); PART 3 WAS IMPOSSIBLE TO MEET WITHIN THE PRESCRIBED PERIOD SINCE IT COULD NOT BE MET UNTIL SUCH TIME AS SITE SELECTION HAD TAKEN PLACE AND DESIGN WORK HAD BEEN COMPLETED ONCE THIS OCCURRED, THE CP WAS MET. THUS, IT DID NOT HAMPER IMPLEMENTATION IN ANY WAY. IN REGARDS TO THE CP FOR INDUSTRIAL CONSERVATION CREDIT, IT WAS NOT TECHNICALLY MET UNTIL JAN. 1985 BY I.I. NO. 11. THIS 21 MONTH DELAY WAS CAUSED, LARGELY, BY CHANGES REQUESTED BY THE USAID IN THE REGULATIONS OF THE CREDIT FUND. AGAIN PROJECT IMPLEMENTATION WAS NOT HAMPERED OR SLOWED IN ANY WAY BY THIS ACTION. THE CREDIT PROGRAM IS ESTABLISHED AND OVER RD$3 MILLION IN CREDIT HAS BEEN APPROVED WITH ANOTHER RD$10.0 MILLION CURRENTLY IN PROCESS AND EXPECTED TO BE APPROVED BY JULY 30. THUS, USAID EXPECTS TO MEET TARGETS BEFORE PACD.

- H. PAGE 69 -- IN ADDITION TO THE PROJECT OFFICER,/ USAID HAS A CONTRACT COORDINATOR THAT WORKS FULL TIME ON

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ENERGY PROJECT IMPLEMENTATION (4 COMPONENTS); AND THE MINI-HYDRO COMPONENT HAS A FULL TIME MONITOR. THEREFORE, THE PROJECT OFFICER DOES NOT NEED NOR IS HE XPECTED TO SPEND FULL TIME ON THIS PROJECT. KILDAY
BT
#2559

NNNN

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ACTION: RIG-3 INFO: AMB DCM/5

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CN: 11821
CHRG: AID
DIST: RIG

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ZNR UUUUU ZZH
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FM AMEMBASSY BRIDGETOWN
TO RUEHTG/AMEMBASSY TEGUCIGALPA IMMEDIATE 0274
INFO RUEHDG/AMEMBASSY SANTO DOMINGO 1372
BT
UNCLAS BRIDGETOWN 01093

AIDAC

FOR: RIG/A/T; CONIACE GOTHARD

E.O. 12356: N/A
SUBJECT: RIG JAN. 31, 1986 LETTER TO RLA CARTER; DRAFT REPORT ON AUDIT OF SELECTED DELAYED PROJECTS - USAID/DR

1. RLA CARTER APPRECIATES OPPORTUNITY TO COMMENT ON SUBJECT DRAFT RIG SURVEY REPORT RECOMMENDATION NO. 5. RLA STANDS BEHIND LEGAL OPINION OF FEB. 22, 1985 RENDERED AT USAID/DR. IF RIG WISHES TO TAKE POSITION STATED IN DRAFT RECOMMENDATION 5, OF COURSE, IT MAY DO SO. RLA MAINTAINS OPINION THAT NEITHER SPECIFIC LANGUAGE OF PROJECT AGREEMENT(S) REVIEWED NOR AVAILABLE MATERIALS ON INTERPRETATION OF BORROWER/GRANTEE RESOURCES SECTION OF A.I.D. PROJECT AGREEMENTS SUPPORTS EXPANSIVE RIG VIEW POINT. RLA WISHES TO EMPHASIZE THAT CONCLUSION OF FEB. 22 MEMO, INCLUDING IMPACT OF PROVISIONS REQUIRING B/G TO FURNISH ALL RESOURCES NECESSARY TO CARRY OUT THE PROJECT, IS FULLY ADEQUATE TO PROTECT A.I.D. INTERESTS IN CARRYING OUT PROJECTS IN ACCORDANCE WITH SPECIFIC DESIGNS OF PROJECT PAPERS AND THE CORRESPONDING PROJECT AGREEMENTS.

2. WITH REGARD TO SPECIFIC RECOMMENDATION FOR USAID/DR ACTION ON P. 33 OF DRAFT SURVEY REPORT, RLA WOULD SUGGEST FOLLOWING APPROACH AS MORE APPROPRIATE IF RIG DETERMINES TO INCLUDE RECOMMENDATION IN FINAL REPORT: QUOTE USAID/DR, IN CONCERT WITH RLA, SHOULD REQUEST AID/W GC (GC/LAC) TO CONFER WITH AID/W IG OFFICE CONCERNING POINTS RAISED IN THIS RECOMMENDATION END QUOTE. COMMENT: SINCE IG NOW HAS SUPPORTING LEGAL STAFF, AND, SINCE VIEWPOINT EXPRESSED IN SURVEY REPORT RECOMMENDATION APPEARS TO CONCERN WHAT IS ESSENTIALLY A LEGAL INTERPRETATION ALREADY FORMALLY GIVEN BY RLA, RLA IS OF OPINION THAT THE RESPECTIVE AID/W STAFFS CAN BEST CONSIDER THE RECOMMENDATION. I REQUEST THAT THIS CABLE BE C INCLUDED AS AN ANNEX IN YOUR FINAL REPORT.
ANDERSON
BT

UNCLASSIFIED BRIDGETOWN 001093

LIST OF REPORT RECOMMENDATIONS

	Page
Recommendation No. 1	5

We recommend that USAID/Dominican Republic issue a Mission Order requiring that proposed projects be reviewed to ensure that (i) the agencies which will participate in the project have been identified and assigned specific responsibilities, (ii) implementing agencies are capable of carrying out their assigned responsibilities, (iii) project activities are limited in scope and number to those that the Mission can manage efficiently, (iv) there is a demand for services provided through the project, and (v) the feasibility of untested approaches has been demonstrated through a pilot project or another appropriate means before attempting to implement them on a large scale.

Recommendation No. 2	9

We recommend that USAID/Dominican Republic:

a. issue a Mission Order mandating that (i) the procurement capability of responsible parties (the Mission and/or implementing agencies) be evaluated and assistance provided where necessary, and (ii) detailed procurement plans be prepared as appropriate; and

b. use a procurement services agent to accomplish the required procurements in the specific case of the On-Farm Water Management project.

Recommendation No. 3	12

We recommend that USAID/Dominican Republic determine whether steps taken to use its existing staff more efficiently will permit sufficient oversight over its projects, or if not, include in its next Annual Budget Submission a request for additional direct hire staff, hire more personal services contractors, or reduce the Mission's program budget to balance its monitoring responsibilities and capabilities.

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