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**AUDIT OF THE USAID/JAMAICA
AGRICULTURAL MARKETING DEVELOPMENT
PROJECT NO. 532-0060**

**Audit Report No. 1-532-86-23
July 11, 1986**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 11, 1986

MEMORANDUM

TO : D/USAID/Jamaica, William Joslin
FROM : RIG/A/T, *Coing, N. Gothard* Coing, N. Gothard, Jr.
SUBJECT: Audit of Agricultural Marketing Development,
USAID/Jamaica Project No. 532-0060

This report presents the results of audit of the Jamaica Agricultural Marketing Development Project. A program results audit was made to determine whether the project was achieving its intended results and to evaluate selected aspects relating to the efficiency of project operations, the adequacy of internal controls, and compliance with AID requirements.

The audit showed that, with only one year remaining in its authorized life, the Project would likely not achieve most of its objectives. The Project had been hindered by inadequate implementing agency staff levels, by deficiencies in project operations, and by non-compliance with certain terms in the project agreement.

Project implementation had been slower than anticipated, because of lower-than-expected Government of Jamaica financial support due to International Monetary Fund restrictions on public sector outlays. Reduced financial support had precluded fully staffing the Market and Credit Division, limited the Project's effectiveness in organizing many farmer/producer marketing organizations, hampered the construction of producer assembly and grading stations, stymied efforts to establish several wholesale produce market outlets, and resulted in USAID/Jamaica disbursing only about \$4.2 million (39 percent) of the funds obligated for the project. In addition, failure to properly plan construction and procurement activities resulted in the construction of an inefficient produce assembly and grading station and the acquisition of unnecessary equipment.

The report makes recommendations to determine the amount of funds that can be efficiently and effectively used during the remaining year of the project and to reprogram and/or deobligate the remaining amount, to dispose of excess Project equipment, and to prepare procurement plans for future purchases.

We discussed our findings and recommendations at an exit conference with you and cognizant members of your staff, and we submitted a draft report for your review and comment. Your comments and suggestions were, for the most part, included in the final report. The section of the draft report pertaining to the Mission's project portfolio "pipeline" has been deleted from this report and made into a separate report, Report No. 1-532-86-24. As such, your comments on that issue have also been attached to the other report.

Please advise this office within 30 days of the actions planned or taken to implement the two recommendations contained in this report.

EXECUTIVE SUMMARY

The Jamaica Agricultural Marketing Development Project was approved by AID in 1980 to increase farmers' and market intermediaries' incomes and reduce consumer food costs by increasing the volume of produce marketed. This volume increase was to be achieved through improved agricultural marketing practices and through an upgraded marketing system. Among other objectives, the revised two-phased project was to establish at least 15 producer marketing organizations (farmer cooperatives), construct 15 produce assembly and grading stations and create three produce wholesale distribution markets. Project financing originally consisted of a \$13.8 million AID loan, and planned Government of Jamaica counterpart funds of \$15.8 million. In 1985, USAID/Jamaica deobligated \$3.0 million in project loan funds. As of March 21, 1986, \$4.2 million of the remaining \$10.8 million in AID funds and \$5.1 million in host country contributions had been disbursed. The project completion dates for phase I and II were January 31, 1986 and March 31, 1987 respectively.

The audit was made to determine whether the Agricultural Marketing Project would achieve its intended results, and to evaluate selected aspects relating to the efficiency of project operations, the adequacy of internal controls and compliance with AID procedures. The audit covered AID project expenditures of \$4.2 million for the period December 1980 through March 1986.

The audit showed that, with only one year remaining in its authorized life, the Project would not likely achieve most of its objectives. The Project had been hindered by inadequate implementing agency staff levels, by deficiencies in project operations, and by non-compliance with certain terms in the Project agreement.

The Project has resulted in creating an Agricultural Marketing and Credit Division within Jamaica's Ministry of Agriculture, organizing some farmer/producer marketing groups, constructing several producer assembly and grading stations, and establishing a produce wholesale market outlet. However, these achievements were far less than what was originally planned, primarily because of lower than anticipated Government of Jamaica funding support. As a result, only about \$4.2 million, or about 39 percent of AID's \$10.8 million project obligations had been disbursed. We recommend that USAID/Jamaica determine the amount of Project funds which can be efficiently and effectively used during the remaining year of the Project and either reprogram and/or deobligate the remainder. USAID/Jamaica identified the amount that the project can efficiently and effectively use during the remaining project year and had taken steps to reprogram the remaining amount.

Project officials' failure to critically analyze construction and procurement activities proposed by consultant specialists resulted in the construction of an inefficient produce assembly and grading station and

the acquisition of unnecessary equipment. We recommend that the excess equipment be properly disposed of and that procurement plans be prepared before any additional project purchases are made. USAID/Jamaica agreed with the recommendation and has taken steps to dispose of the excess equipment.

Office of the Inspector General

**AUDIT OF THE USAID/JAMAICA
AGRICULTURAL MARKETING DEVELOPMENT PROJECT**

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	1
PART II RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Implementation Hindered by Reduced GOJ Funding Levels	4
2. Project Funds Were Used Inefficiently	8
B. Compliance and Internal Controls	14
1. Compliance	14
2. Internal Controls	14
C. Other Pertinent Matters	15
PART III - APPENDICES	
A. Mission Officials Comments	
B. List of Recommendations	
C. Report Distribution	

**AUDIT OF THE USAID/JAMAICA
AGRICULTURAL MARKETING DEVELOPMENT PROJECT**

PART I - INTRODUCTION

A. Background

In support of the Jamaican government's efforts to increase agriculture output, USAID/Jamaica approved and fully funded several major projects to help stimulate and revitalize agricultural production. One of these, the Agricultural Marketing Development Project, was approved in 1980. This project was intended to increase farmers and market intermediaries' incomes and reduce consumer food costs by increasing the volume of produce marketed. This volume increase was to be achieved through improved agricultural marketing practices and through an upgraded marketing system.

The Project had two phases. The purpose of phase I was to establish a Marketing and Credit Division within the Ministry of Agriculture with responsibility for providing a variety of agricultural marketing technical services such as: (1) preparing and distributing information, (2) conducting agriculture research, and (3) establishing different grades and standards of produce quality. The original purpose of phase II was to establish at least 25 producer marketing organizations (farmer cooperatives), construct 25 produce assembly and grading stations and create four produce wholesale distribution markets. As a result of recommendations contained in a 1983 project evaluation report, the phase II objectives were reduced to organizing at least 15 farm cooperatives, constructing 15 producer assembly and grading stations, and creating three wholesale distribution markets.

Project financing originally consisted of a \$13.8 million AID loan, and planned Government of Jamaica counterpart funds of \$15.8 million. In 1985, USAID/Jamaica deobligated \$3.0 million in project loan funds. As of March 21, 1986, \$4.2 million of the remaining \$10.8 million in AID funds and \$5.1 million in host country contributions had been disbursed. The project completion dates for phase I and II were January 31, 1986 and March 31, 1987 respectively.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Tegucigalpa, Honduras selected the Jamaica Agricultural Marketing Development Project for a program results review because of its high funding level and delays in its implementation. It was reviewed during the period January 1986 through March 1986. The audit covered AID expenditures of \$4.2 million from December 1980 through March 1986.

The audit objectives were to:

-- determine whether the project was achieving its intended results; and

-- evaluate selected aspects relating to the efficiency of Project operations, the adequacy of internal controls, and compliance with AID requirements.

To accomplish these objectives, project files and financial records were reviewed, and responsible officials were interviewed at both USAID/Jamaica and the Government of Jamaica implementing agency, the Ministry of Agriculture. Four project sites were also visited in order to inspect equipment and facilities, and to assess overall Project results. The revised project goals and objectives established after the project's 1983 evaluation report were used as a basis for measuring project accomplishments. The audit was made in accordance with generally accepted government auditing standards.

**AUDIT OF THE USAID/JAMAICA
AGRICULTURAL MARKETING DEVELOPMENT PROJECT**

PART II - RESULTS OF AUDIT

The Office of the Regional Inspector General for Audit, Tegucigalpa, Honduras conducted a program results audit of the Agricultural Marketing Development Project. The audit showed that, with only one year remaining in its authorized life, the Project would not likely achieve most of its objectives. The Project had been hindered by inadequate implementing agency staff levels, by deficiencies in project operations, and by non-compliance with certain terms in the Project agreement.

The Project created a Marketing and Credit Division within the Ministry of Agriculture to provide technical assistance services to the agriculture sector and to support project activities, organized a number of farmer cooperatives, constructed several produce assembly and grading stations, and established a produce wholesale market outlet.

Project implementation had been slower than anticipated, however, because of lower-than-expected Government of Jamaica financial support due to International Monetary Fund restrictions on public sector outlays. Reduced financial support had precluded fully staffing the Market and Credit Division, limited the project's effectiveness in organizing many farmer/producer marketing organizations, hampered the construction of producer assembly and grading stations, stymied efforts to establish several wholesale produce market outlets, and resulted in USAID/Jamaica disbursing only about \$4.2 million (39 percent) of the funds obligated for the project.

In addition, failure to properly plan construction and procurement activities resulted in the construction of an inefficient produce assembly and grading station and the acquisition of unnecessary equipment.

Although USAID/Jamaica was in the process of addressing many of these issues, corrective actions had not yet been completed by the end of the audit. The report recommends that project funding needs for the remaining year of project life be identified in order to reprogram and/or deobligate project obligations in excess of project needs, and that excess equipment be properly disposed.

A. Findings and Recommendations

1. Implementation Hindered by Reduced GOJ Funding Levels

The Agricultural Marketing Development Project would not likely achieve most of its objectives. With less than one year remaining before completion in March 1987, the Project had only accomplished the (1) establishment of a partially staffed Marketing and Credit Division within the Ministry of Agriculture, (2) organization of 13 of the 15 planned producer marketing organizations, (3) construction of one of the 15 planned assembly and grading stations, and (4) establishment of one of three produce wholesale markets.

The Project's low level of achievement was primarily due to the implementing agency's inability to fund project activities at original planned levels. This was due to a Government of Jamaica (GOJ) austerity program undertaken at the behest of the International Monetary Fund.

This austerity program has precluded the Ministry of Agriculture from filling the planned positions in its Agricultural Marketing Development Division and from adequately funding planned phase II construction activities. In addition, it has limited USAID/Jamaica to disbursement of only 39 percent of the project's adjusted \$10.8 million obligations. USAID/Jamaica officials planned to reprogram the remaining funds in other agricultural marketing related activities; however, by the end of the audit USAID/Jamaica had not yet provided adequate support justifying the continued use or the reprogramming of these funds.

Recommendation No. 1

We recommend that USAID/Jamaica:

- a. determine the amount of funds that can be efficiently and effectively used during the remaining year of the project; and
- b. reprogram and/or deobligate, based on current feasibility studies or other in-depth evaluations, those funds determined not to be required during the project's remaining year.

Discussion

The Project had not achieved most of its objectives. For example, under phase I the Project was to establish a permanent and fully staffed Marketing and Credit Division within the Ministry of Agriculture to provide technical services and to supervise project activities. Of the 103 planned Division positions only 68, or 66 percent, were filled, and neither the Marketing and Credit Division nor its staff have been permanently incorporated into the GOJ's administrative establishment and civil service. Under phase II, the revised project objectives included

organizing at least 15 farmer/producer marketing organizations, 1/ constructing 15 produce assembly and grading stations, and creating three wholesale distribution markets. By the end of the audit, thirteen farmer/producer marketing organizations had been organized, one producer assembly and grading station completed, and only one wholesale distribution market was in operation. USAID/Jamaica officials indicated that significant additional achievements in these Project components during the remainder of the Project was unlikely.

Furthermore, the Project's overall impact on increasing farmer's and market intermediaries' incomes and reducing consumer food costs could not be determined because these Project goals had not been evaluated. It appears, however, that the impact will be negligible at best because of the Project's limited achievements.

The Project had not achieved its planned objectives because of inadequate project management, difficulties in establishing farmer marketing organizations and lower than anticipated Government of Jamaica funding support. The USAID/Jamaica Director stated that the project was poorly designed, too complex, and overly optimistic. Furthermore, USAID/Jamaica's Chief of the Office of Agriculture and Rural Development stated that historically agricultural cooperatives have been difficult to organize because of the diversity of the farming community.

Government of Jamaica Budgetary Constraints - Adequate Government of Jamaica funding support had been a serious problem with this Project, as well as, with other AID projects. Since 1981, GOJ has been working with the International Monetary Fund (IMF) in an effort to improve Jamaica's economy. As a condition to continued IMF support, the GOJ has, among other things, agreed to limit public sector outlays. This has resulted in fewer revenues being available for government agencies' operations and for project activities such as the Agricultural Marketing Development Project.

An analysis of the GOJ implementing agency's budget for fiscal years 1984 through 1986 showed a continuous decline in GOJ Project financial support. Actual Project support levels were \$2.1 million short of targeted levels for the 36-month period ending March 1986.

1/ The Project agreement did not specify the number of farmer/producer marketing organizations to be formed under the Project. However, since each assembly and grading station was to be managed by one of these groups, it may be concluded that their planned number was at least equal to the number of proposed assembly and grading stations.

TOTAL PROJECT FUNDS
TARGETED VERSUS ACTUAL PROJECT BUDGET SUPPORT

<u>GOJ Fiscal Year</u>	<u>Targeted Levels</u>	<u>Amounts Allocated</u>	<u>Amount of Shortfalls</u>
1984	\$2,148,606	\$1,090,909	\$1,057,697
1985	1,739,338	1,172,727	566,611
1986	1,416,545	962,000	454,545
Totals	\$5,304,489 *****	\$3,225,636 *****	\$ 2,078,853 *****

Reduced financial support had resulted in reduced staff levels within the Marketing and Credit Division, and has limited the Division's outputs and funds available for construction activities under the Project's phase II. As of December 31, 1985 only about \$5.1 million, or 32 percent, of the GOJ's planned \$15.8 million Project support had been contributed to the Project. Similarly, only \$4.2 million, or about 39 percent, of AID's revised obligations had been disbursed.

USAID/Jamaica became fully aware of the Project's slow progress in a 1983 evaluation report. Based on recommendations in this report, USAID/Jamaica and GOJ scaled down the Project's objectives. In 1985, under the leadership of an interim USAID/Jamaica Director, action was initiated to deobligate \$3 million in project funds. This action was subsequently completed under the present Mission Director.

During the audit, USAID/Jamaica officials indicated that even the Project's objectives as revised in 1985 would not be achieved during the remainder of the project. They consequently proposed that the GOJ make a clear decision as to which subprojects it would fund as part of its 1986-1987 budget; failure to provide funding would be interpreted by USAID as a decision to delete the item. Among the list of continuing and/or possible elements which USAID felt were reasonable options were the following:

Proposed Budget

Wholesale Distribution Market	\$ 636,363
Meat Certification Program ^{a/}	250,909
Abattoir	954,545
Dairy Cooperative Equipment	109,090
Construction of four Assembly/Grading Stations	154,545
Vehicles	109,090
Training	<u>36,363</u>
TOTAL	\$2,250,905 *****

^{a/} Proposed additional project component.

USAID/Jamaica's Mission Director indicated that he would determine AID's final level of financial support for these seven areas based on GOJ funding support levels for each item.

USAID/Jamaica submitted, as part of its comments to the report, copies of formal studies supporting the need for the meat certification program, the abattoir (slaughterhouse), and the dairy cooperative equipment. Although not formally identified in the proposed budget, USAID/Jamaica was contemplating using AID project funds in excess of these component needs to improve rural roads. Studies to support the need for these expenditures were not available. Funding decisions should be based on bonafide needs: if no such need can be demonstrated, funds should either be shifted to other pending projects or deobligated.

Management Comments

USAID/Jamaica shared the reports concern about the effects of the GOJ budget constraints on the Project implementation. USAID/Jamaica has requested the GOJ to identify its Project related priorities as part of its fiscal year 1986 budget submission and to confirm that prioritization with secure budget commitments.

USAID/Jamaica has determined that US\$3.15 million can be efficiently and effectively used on reprogrammed activities consistent with the Project goals during the remaining year. This amount includes US\$2.25 million for GOJ budget project activities and US\$900,000 for direct AID contract activities. The remaining US\$3.0 million was determined available for reprogramming for rural roads rehabilitation. USAID/Jamaica stated that to the extent that the final GOJ budget contains less than US\$2.25 for activities from the list, that additional amount will be added to the reprogram amount. USAID/Jamaica stated that reprogrammed project activities were supported by studies and provided, as part of its comments, copies of several of them. The Mission stated it would forward a copy of the rural roads project paper upon its completion. The Mission requested that the recommendations be closed based on its efforts to identify and reprogram unnecessary project funds.

Inspector General Comments

Part "a" of recommendation No. 1 was closed with the issuance of this report based on USAID/Jamaica's efforts in identifying the amount of funds that could be efficiently and effectively used during the remaining year of the project. Part "b" of recommendation No. 1 can be closed upon receipt of an approved rural roads project agreement documenting the project's capacity to efficiently and effectively use the remaining reprogrammed funds.

2. Project Funds Were Used Inefficiently

Project funds were used for constructing project facilities and procuring equipment in excess of Project needs. This occurred because USAID/Jamaica and the Ministry of Agriculture Project officials did not properly identify facility and Project equipment needs before executing their acquisitions and efficiently execute commodity procurements in accordance with AID regulations and prudent business practices. As a result, about \$116,000 of Project funds were expended for unproductive purposes. In addition, certain equipment procured in excess of project needs was not properly stored.

Recommendation No. 2

We recommend that USAID/Jamaica:

- a. dispose of excess Project equipment through sale or donation, but in the interim ensure that excess property is properly secured and stored;
- b. prepare proper procurement plans which are fully supported prior to the purchase of any additional commodities under the Project; and
- c. issue a Mission order reiterating the procurement planning requirements in AID Handbook 11 and requiring project managers to (i) become actively involved in assessing host country procurement capabilities and plans, and (ii) encourage host country procurement agents to use the Federal Supply Schedule Catalog.

Discussion

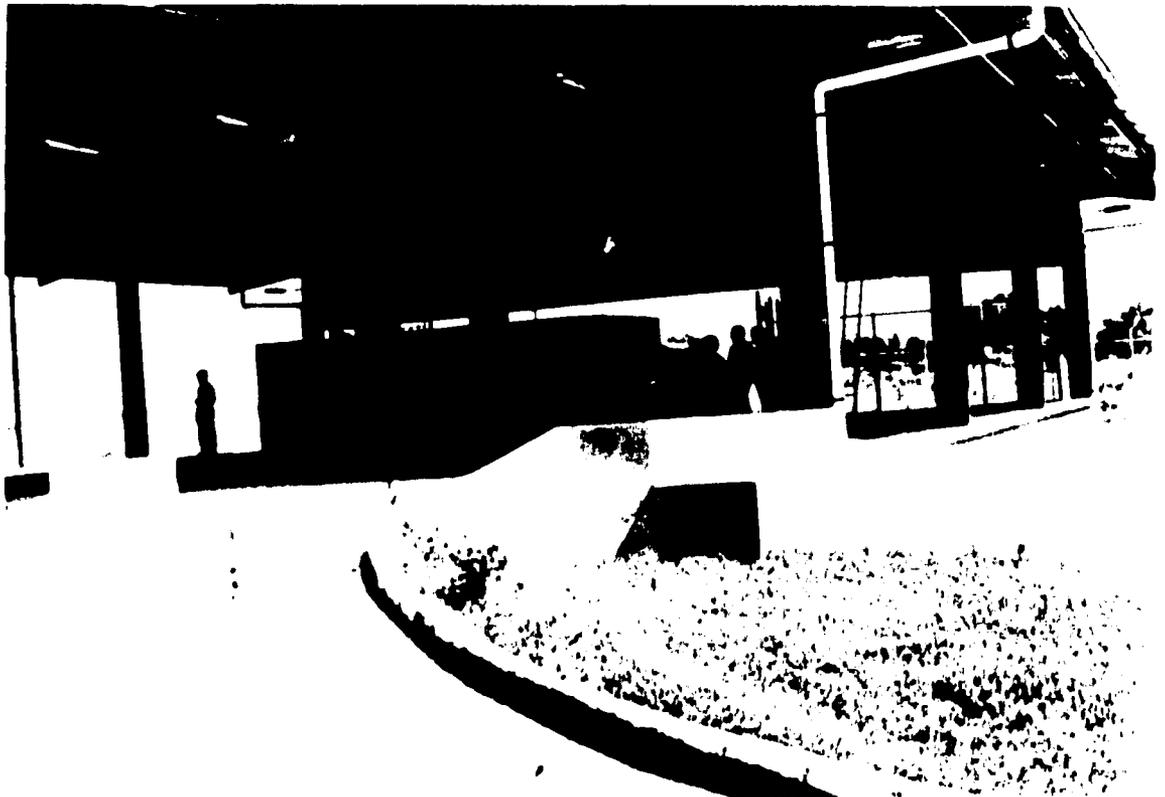
Contrary to the provisions in the loan agreement, USAID/Jamaica and GOJ Project officials did not ensure that the farmer/producer marketing organizations were formally established and organized prior to committing Project funds for construction activities or the procurement of equipment. As a result, input on construction and equipment needs was not obtained from the most important project participants, the farmers who were to benefit from the project and resulted in an overbuilt assembly and grading station and the procurement of equipment in excess to project needs.

Overbuilt Assembly and Grading Station - USAID/Jamaica approved the construction of an assembly and grading station before establishing what was actually required by its planned user, the farmer/producer marketing organization.

A condition precedent to the Project's loan agreement provides that prior to any disbursement, or the issuance of any commitment documents under the Project Agreement for construction of each Assembly and Grading Station, the GOJ was required to furnish evidence that, among other things, a formally established farmer's group or producers' association had been constituted to operate the stations. The rationale behind the

condition was obviously to prevent the construction of stations that did not meet the needs of or could not be adequately maintained by the farming community it was to benefit. USAID/Jamaica stated that a formal farmer's group was established prior to the construction to the one Project funded assembly and grading station. Based on the outcome of this station, however, it was apparent that the farmer group had little input into its planning.

The adverse effects resulting from not having the farmer group participate in its planning was exemplified by the Bushy Park assembly and grading station. This station, referred to as a "white elephant" by the USAID/Jamaica Director, was over-designed and vastly exceeded the requirements of the farmer user group. Located on a five-acre parcel, the station has a cement driveway, a large elevated cement working area, excessive electrical lighting, and heavy metal beams for construction support. A spokesman for the farmer's group responsible for managing and operating the station stated that the facility was too sophisticated for his small farmer group and that it would be difficult for them to make the scheduled payments. The spokesman also stated that the GOJ had, fortunately, given the farmer group a one-year grace period in which to establish itself in the new facility.



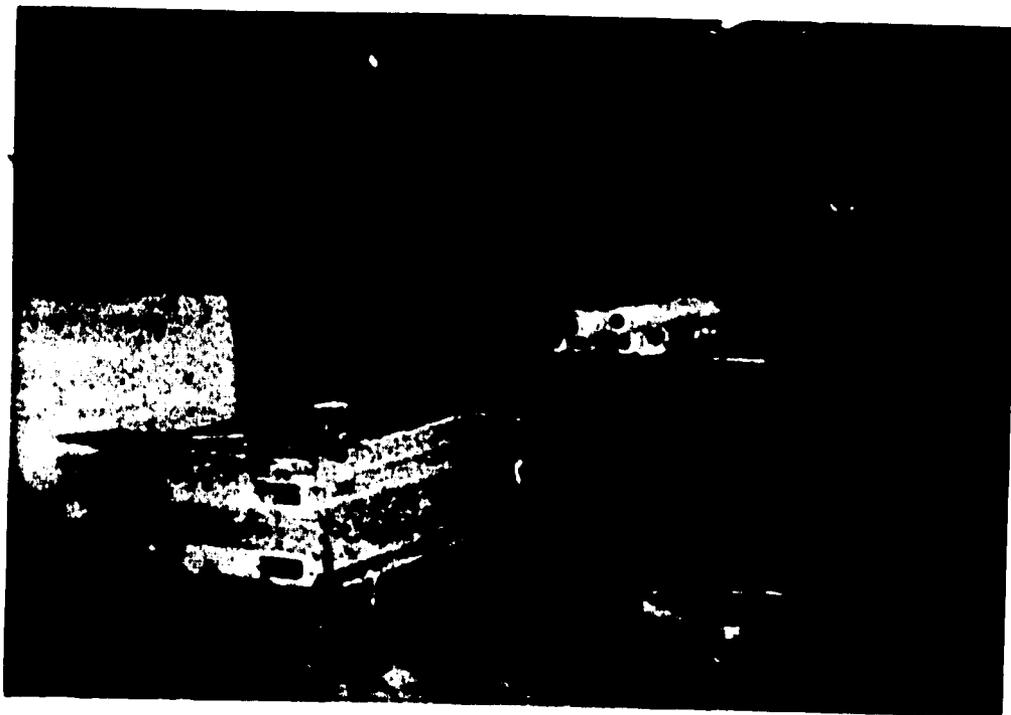
Bushy Park Assembly and Grading Station.

According to preliminary cost data for the Bushy Park station, the estimated cost was \$32.06 per square foot. In comparison, a more simply designed and more appropriate building for the farmer user group would have cost about \$20.00 per square foot, resulting in a savings of \$12.06 per square foot. Therefore, the building could have been built for \$96,300 instead of the estimated \$154,369. A procurement plan specifying the appropriate construction material needed, coupled with input from the farmer user group, would have resulted in a savings of \$58,069.

Equipment Acquired Prior to Established Need - Host country procurement actions totaling about \$1.4 million dollars were made by GOJ officials during the period July 1981 through September 1985. The majority of the purchases were for construction equipment and parts for the assembly and grading stations and at the wholesale distribution markets. According to AID Handbook 11 procurement regulations, realistic advance planning for project commodity requirements is essential for project success. Accordingly, the preparation of a procurement plan which specifies commodity requirements and their delivery dates is crucial to ensuring efficient project procurements. Additional benefits could also be achieved by grouping, when possible, project requirements in order to obtain lower volume prices. In this regard, the Federal Supply Schedule Catalog can assist procurement agents in obtaining volume purchase prices.

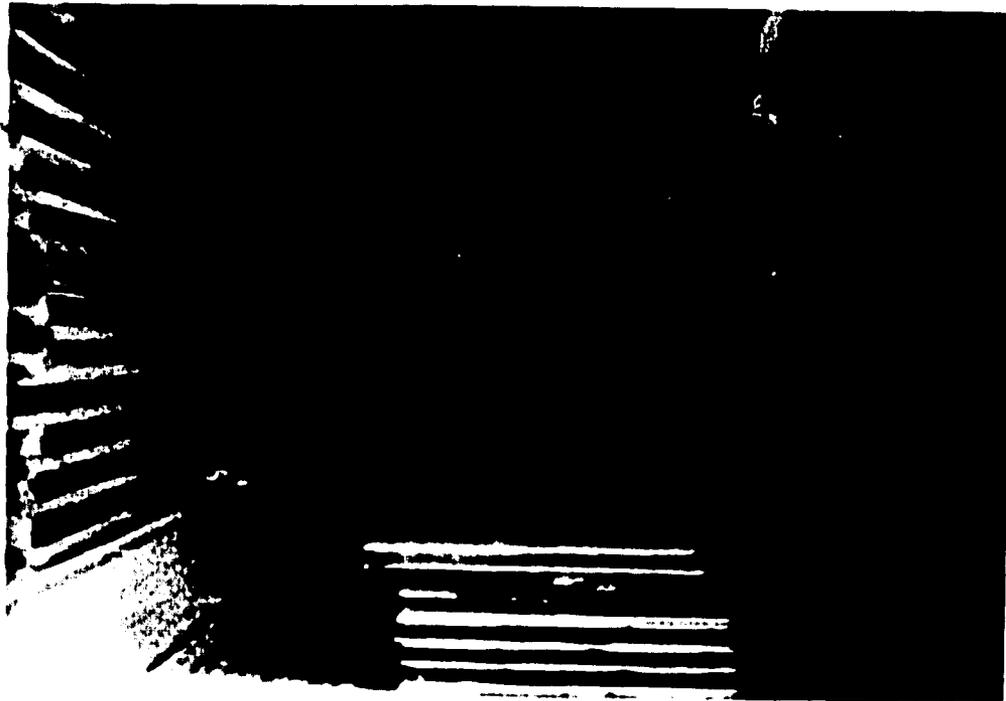
USAID/Jamaica approved a consultant specialist recommendation to acquire \$755,442 worth of assembly and grading station equipment before equipment requirements were established by the assembly and grading station user, the farmer/producer marketing organization. As a result, some purchased equipment was inappropriate for project needs.

During the field visits, excess Project equipment and parts, stored at various locations, were observed. For example, one red-pea conveyor sorter originally destined for an assembly and grading station was stored at the project's produce wholesale market. According to project officials, this piece of equipment valued at about \$58,276 had been idle for about two years with no known practical use for the item, with the possible exception of sorting peanuts.



Red-Pea Conveyor Sorter

At one of the proposed assembly and grading stations, cold storage equipment and parts valued at about \$57,453 were found stored in an existing building at the site. Some of this equipment appeared to be deteriorating due to inadequate storage practices. The AID project manager stated that the equipment was not needed at this site since a cold storage room already existed. The project manager estimated that the equipment and parts had been there for about two years.



Excess Cold Storage Equipment

Volume Purchase Opportunities - The absence of a procurement plan prevented the consolidation of project commodities for acquisition purposes. Even with a plan, it is doubtful that GOJ project officials would have taken advantage of volume buying because of their limited knowledge of these opportunities. GOJ procurement personnel were not aware of Federal Supply Schedule Catalogs nor did they have current AID host country regulations. Furthermore, there was minimal input from AID officials regarding AID prescribed host country procurement practices. The amount which could have been saved had volume purchases been pursued was not readily discernable. However, any savings which could have been realized was lost due to AID project officials not properly communicating procurement policies and procedures to their host country counterparts.

Management Comments

USAID/Jamaica took exception with the report's finding that the Mission and the GOJ did not comply with the Project's loan agreement requirement that farm cooperatives be formally established before committing Project funds to construction activities. USAID/Jamaica stated that only one assembly and grading station was constructed with Project funds and that

it was constructed after the formal establishment of a farmers group to operate the station. USAID/Jamaica, however, agreed with the report's recommendation that excess Project financed equipment be disposed of through sale or donation. The Mission stated that a potential buyer had been identified for one of the coldrooms and one red-pea conveyor, and that the remaining coldrooms would be installed at the Norman Manley International Airport and at the existing assembly and grading station.

USAID/Jamaica agreed that procurement plans were needed and stated that a procurement plan for the time remaining in the Project had been prepared by the implementing agency. However, the plan did not include a schedule for the delivery of the indicated commodities and facilities and therefore, it had to be revised. The Mission informed the implementing agency that future project procurements will require the assistance of a procurement services agency. The Mission also agreed that a Mission order was needed to reiterate the importance of procurement planning requirements and has issued such an order.

Inspector General Comments

The report was revised based on information provided by the Mission. Because of the substantial action taken by the Mission, parts "b" and "c" of the recommendation were closed upon issuance of the report. Part "a" of the recommendation will be closed upon receipt of information confirming the sale or final disposition of the one coldroom and red-pea conveyors.

B. Compliance and Internal Controls

Compliance

The audit disclosed five compliance exceptions:

- Special Covenant 6.1(H) to the project loan agreement required that the Market and Credit Division become a permanent part of the Ministry of Agriculture within three years of the signing of the project agreement (1980). USAID/Jamaica had not enforced compliance with this covenant. (See Finding 1).
- Special Covenant 6.1 to the project loan agreement required an evaluation of progress towards attainment of project objectives, identification and evaluation of implementation problem areas, assessment of how such information could be used to overcome such problems and evaluation of the overall development impact of the project. USAID/Jamaica had not complied with this covenant. (See following section).
- Special Covenant 6.2(b) required the Jamaican Government to provide adequate budget allocations for project implementation in a timely manner consistent with implementation schedules developed by the Agricultural Marketing and Credit Division. The Jamaican Government was not providing sufficient budgetary resources (see Finding 1).
- Condition Precedent 5.5 required that prior to any disbursement, or the issuance of any commitment documents under the Project Agreement for the construction of each Assembly and Grading Station, the Jamaican Government was required to furnish evidence that, among other things, a formally established farmers group or producers association had been constituted to operate the stations. USAID/Jamaica did not comply with this condition precedent (see Finding 2).
- AID Handbook 11 requires that a procurement plan be prepared for the acquisition of project commodities. USAID/Jamaica had not prepared any procurement plans (see Finding 2).

Other than the conditions cited, tested items were in compliance with applicable laws and regulations and nothing came to our attention that would indicate that untested items were not in compliance.

Internal Controls

Both USAID/Jamaica and the Ministry of Agriculture appeared to have adequate internal controls over the receipt and disbursement of project funds.

C. Other Pertinent Matters

The audit noted that project officials had not strictly adhered to the Project's loan agreement evaluation requirements. For example, Annex 1 to the Project agreement required that annual project evaluations be made. If this requirement was adhered to, Project officials could have detected and corrected many of the Project's implementation problems much sooner. USAID/Jamaica should ensure that evaluation requirements in all of its projects are complied with. In turn, this would better ensure that project objectives are achieved and that project funds are not being wasted.



M E M O R A N D U M

June 16, 1986

TO: GIG/A/T:Coinage Gothard
FROM: DIRECTOR:WRJoslin *W. Joslin*
SUBJ: Draft Audit of USAID/Jamaica Agricultural Marketing
Development Project No. 532-0060

Enclosed for your review and action is the Mission's response to the subject draft audit report. Per our telephone conversation on Wednesday, June 3, also enclosed is a copy of your draft report with my hand written comments.

Enclosures: as stated

Inspector General Comments

Annexed information referred to in the Mission's comments was considered in finalizing the report; however, it has not been included herewith.

Also, subsequent to the receipt of the Mission's comments, one section of the report pertaining to the Mission's project "pipeline" was deleted from this report and made into a separate report. Therefore, comments pertaining to this issue and its recommendation (originally No. 3), have been deleted and have been attached to the new report, Report No. 1-532-86-24.

USAID/Jamaica
Response to the Regional Inspector General Draft Report on
Agricultural Marketing Development Project
No. 532-0060

The following comments have been prepared in response to the draft audit report's findings and recommendations pertaining to the Agricultural Marketing Development Project.

The report contains three recommendations which address Project implementation progress, the efficient use of Project funding and USAID's pipeline. The report also contains a section dealing with USAID's compliance with the Project Agreement and Handbook 11.

Recommendation No. 1

"We recommend that USAID/Jamaica:

- a. Determine the amount of funds that can be efficiently and effectively used during the remaining year of Project 532-0060; and,
- b. Deobligate and/or reprogram, based on current feasibility studies or other in-depth evaluations, those funds determined not to be required during the Project's remaining year."

A. Discussion

The discussion accompanying the report's first recommendation described in some detail the lack of progress relative to the Project's stated goals of establishing within the Ministry of Agriculture (MOA) a fully staffed Marketing and Credit Division (MACD), constructing fifteen Assembly and Grading Stations (AGSs), and establishing three (3) Sub-Wholesale Distribution Markets (SWDMs).

B. Mission Response

The audit report noted that under Project auspices only six Producer Marketing Organizations (PMOs) had been organized, two AGSs completed, and only one SWDM was in operation. The report should have stated that thirteen PMOs have been organized, one AGS constructed, and one SWDM equipped as a result of the Project.

USAID shares the report's concern about the effects of the GOJ's budget constraints on Project implementation. This long-standing concern provided the impetus for the reprogramming exercise discussed in the draft report. Further information is provided here. To secure firm budget allocations for the Project, USAID requested the GOJ to identify its Project related priorities as part of its fiscal year 1986 budget submission (GOJ fiscal year commences April 1) and then confirm that prioritization with secure budget commitments. Those budget decisions at the highest levels of the GOJ, are the basis of USAID's reprogramming efforts for the Agricultural Marketing Development Project.

The reprogramming followed a management review of the Project conducted in late CY 1985 that documented factors constraining timely Project execution. The review identified a set of activities consistent with the Project goal of improving the Jamaican agricultural marketing system and also with the GOJ's structural adjustment program. The estimated cost of that set of project activities which would be within the GOJ budget is US\$2,250,000. Project funds would also be used for activities not in the GOJ budget because they are subject to a direct AID contract. These include Project related technical assistance and funding for a fruit fly trapping program and a citrus canker survey (two PL 480 Self Help Measures recommended by USDA that were incorporated into the reprogrammed Project because of their potential to insure the continued access of Jamaican agricultural produce to United States markets). The total estimated cost of these activities is US\$900,000, which with the activities included within the GOJ budget raises the funding requirements for the remainder of the Project to US\$3,150,000. This figure became the maximum needed for these activities, so that the remaining \$3,000,000 (approximately) was determined to be available for reprogramming. To the extent that the final GOJ budget contains less than US\$2,250,000 for activities from the list that additional amount will be added to the reprogrammed amount; we are now close to getting a final GOJ decision on that issue.

The identified activities all meet project objectives, and have the added benefit of being relatively free standing; that is, each has independent utility even if other parts of the project do not proceed or succeed. Obviously the benefit is greater if they do, but the viability of the activity is not dependent on them.

Meanwhile, we included as part of our 1986-87 Action Plan the reprogramming of the excess funds for a new rural roads component to the project. As specified in the Action Plan and approved by the Bureau, we are preparing a Project Paper (PP) Supplement for that new activity. This document will obviously meet Handbook requirements including full justification for the activity. That PP Supplement is very near completion, and will be pouched to RIG/A later this month.

As part of its discussion of the Project's failure to achieve its objectives, the report cites the example of the failure to "establish a permanent and fully staffed MACD within Ministry of Agriculture to provide technical services and supervise Project activities." The MACD has been established, of course, but neither it nor its staff have been permanently incorporated into the GOJ's administrative establishment and Civil Service. This obviously has serious implications for institutionalized support of agriculture market development once USAID support for the process terminates. Complicating matters, however, are the GOJ's efforts to limit increases in its operating budget by reducing the size of its Civil Service through redundancies. While this difficult situation has restricted the prospects of attaining Project objectives, USAID cannot insist on predetermined employment levels as an indicator of successful Project implementation. The MACD has staffed its program at a rate of 68 percent of those levels deemed appropriate at the time of Project design, but this is not a public sector employment project, and we have to allow the GOJ to respond to economic realities.

Indeed, at the macro level, both the IMF and AID (AID/W and USAID) on policy grounds have strongly urged the GOJ to reduce the size of its government. One can argue that it is precisely the well-intentional donor projects like this one which have created the GOJ "bloated bureaucracy" criticized in recent years by donors. It is noteworthy that in July 1985, efforts by the GOJ to reduce its number of employees were a specific condition of a USAID/GOJ ESF agreement. Implicit in the project reprogramming we have done is the need to select activities which minimize the need for GOJ recurrent support costs; in short, the covenant was well intentioned but with hindsight was as inappropriate as some other aspects of the project.

The report is quite correct in its statement that it is USAID's intent to execute a reduced list of activities in the year remaining in the Project and finance a rural roads rehabilitation activity with the differential between the amount committed to the Project and the amount required to finance the reprogrammed activities. However, the report errs in its statement that no formal studies have been prepared to support the activities included in the reprogramming exercise. The identified activities are the construction of a commercial abattoir, the establishment of a meat export certification program, and the purchase of milk collection and cooling equipment for two dairy cooperatives.

Project Amendment No. 2 reduced to three the number of SWDMs to be built with Project funding. One of the listed SWDMs was an abattoir managed by a private farmer owned limited liability company under a lease-purchase arrangement with the Ministry of Agriculture. The construction of a commercial abattoir with Project funding was justified on the basis of an identified need for a sanitary facility in Jamaica to butcher livestock for small and large scale producers. Indeed, totally separate from project objectives there are independent sanitary and health reasons for replacing the existing Kingston abattoir, which could be one consequence of establishing the new one under this project.

The Amendment No. 2 contains criteria for site selection including patterns of product flow, availability of utilities and public services, location with respect to sources such as supply and retail markets, adequacy of road network; and ease of access to main roads, etc. It is these criteria that are specified in the Project Agreement Amendment as critical factors to guide USAID's approval of the proposed commercial abattoir.

The procurement of milk collection and cooling equipment represents two of the 25 original AGS activities contemplated in the original Project Loan Agreement. USAID has received, reviewed, and commented upon or approved studies submitted to justify the expenditure of Project funds on their development. Copies of those documents are attached to this report as Annexes A and B. Two feasibility studies were submitted with respect to the proposed milk collection and cooling stations in St. Elizabeth. They comprise one activity in terms of Project development and are treated as such here.

The meat certification program has been the subject of studies and a specific proposal assembled as Annex C.

In the case of the rural roads rehabilitation activity, as discussed earlier, the Mission is preparing a PP Supplement which has a level of analysis fully consistent with the audit's reference to a "feasibility study or indepth evaluation." The PP Supplement will be forwarded when it is completed later this month.

In summary, USAID has, as indicated here and documented in the attached reports, determined the amount of funds that can be efficiently and effectively utilized during the time remaining in the Project and is reprogramming the excess for appropriate purposes.

C. Conclusion

USAID/Jamaica requests that Recommendations 1a and 2b be closed upon issuance of the report based on actions taken to determine the amount of funds that can be efficiently and effectively disbursed during the remaining year of the Project and its reprogramming exercise which considers, among other things, feasibility studies supporting proposed activities. This on-going process is not totally complete, but is far enough along to warrant closure.

Recommendation No. 2

"We recommend that USAID/Jamaica:

- a. dispose of excess project equipment through sale or donation, but in the interim ensure that excess property is properly secured and stored;
- b. prepare procurement plans before any additional commodities are purchased under the project;
- c. issue a Mission Order reiterating the procurement planning requirements in AID Handbook 11 and requiring project managers to:
 - become actively involved in assessing host country procurement capabilities and plans;
 - encourage host country procurement agents to use the Federal Supply Schedule Catalog."

A. Discussion

The audit report noted what it described as the inefficient use of Project funds on the construction of facilities and procurement of equipment in excess of Project needs. This, according to the report, resulted from the failure of USAID/Jamaica and the Ministry of Agriculture to properly identify Project related facility and commodity requirements before executing procurements in accordance with prudent business practices and AID regulations.

B. Mission Response

Many of the inefficiencies described in the report have been addressed by USAID. It was USAID's concern about excessive equipment procurement and construction that led to the incorporation of a detailed set of conditions precedent to disbursement of Project funds for these activities into Amendatory Agreement No. 2. While there is ample blame for the excessive procurements that have accompanied this Project, the audit report unfortunately did not document the role of an equipment specialist contracted under the Project's technical assistance component specifically to assist with the preparation of equipment specifications and actual procurement of Project financed vegetable packing lines and related processing equipment. It is apparent to all that the advisor's counsel was flawed. Other individuals, some within USAID, at the time attempted to develop a reasonable procurement schedule more in keeping with the needs of the Project beneficiaries, but their advice was not heeded.

The discussion above in no way detracts from the fact that the implementing entities employed neither prudent business practices nor procedures consistent with AID procurement regulations with the result that the packing lines procured with Project funding were far in excess of the PMOs requirements. The situation was salvaged to a large degree by the installation of most of the equipment in the Project SWDM established at the Agriculture Marketing Corporation's facility in Kingston where it has been effectively employed during the past two years processing winter vegetables for export.

The report is confusing in its discussion of a Project Agreement condition precedent requiring the constitution of a formally established farmers' group prior to the issuance of commitment documents financing the construction of AGSs. The report states, "documentation showed that this condition had not been complied with for any of the six (6) stations already built or under construction. The responsible farmer groups for these stations were not formally established until nine (9) months after the first equipment was ordered". The fact is only one AGS, the St. Catherine's Vegetable Producers Association or the Bushy Park facility mentioned in the report, has been constructed with Project funding. Another facility was constructed at Southfield, St. Elizabeth by the Ministry using non-Project funding when USAID declined to concur with its construction resulting from the determination that the proposed construction site lacked access to public utilities. While construction of the Bushy Park facility was indeed initiated after the packing lines were ordered, it was done in compliance with the condition precedent calling for the formal establishment of a farmers' group or producers' association to operate the station. For this reason, USAID takes exception to the point raised in the discussion accompanying recommendation No. 2 that USAID and the GOJ failed to comply with the Project Loan Agreement's requirement that PMOs be formally established before committing Project funds to construction activities.

The above observations notwithstanding, USAID concurs with the audit report's second recommendation. With respect to Recommendation 2.a that excess Project financed equipment be disposed of through sale or donation, USAID and the MOA have identified a potential buyer for one of the coldrooms currently in storage and negotiations are proceeding to complete the transaction. (See Irving-O'Hare correspondence dated 6/02/86 and USAID concurrence transmitted under Project Implementation Letter No. 61 attached as Annexes D and E, respectively.) Another coldroom will be installed at a cold storage facility to be constructed at the Norman Manley International Airport with financing provided by the IBRD's Export Crops Project. The three-sided or "half-unit" is to be installed at the St. Catherine Vegetable Producers' Association (Bushy Park) AGS. (See Irving-O'Hare note of 6/16/86 attached as Annex F.)

The potential buyer for the coldroom has also expressed an interest in purchasing one of the red pea lines mentioned in the audit report. USAID has encouraged GOJ to pursue this vigorously. Meanwhile, the storage site of the second red pea line has been inspected and found to be acceptable until that too can be disposed.

In keeping with Recommendation 2.b, USAID has requested and received a procurement plan from the MACD for the time remaining in the Project. Unfortunately, the plan submitted is deficient in the amount of specifics provided and its failure to include a schedule for the delivery of the indicated commodities and facilities. Revisions are underway. USAID has informed the MACD that future Procurements financed by the Project will be undertaken with the benefit of expert counsel in the preparation of technical specifications and the assistance of a procurement services agency with the actual execution of the approved transactions. (See O'Hare-Irving correspondence 6/12/86 attached as Annex G.)

USAID has issued a Mission Order or Standard Operating Procedure (SOP) reiterating the procurement planning requirements of AID Handbook 11 and requiring Project managers to become actively involved in the assessment of host country procurement capability and planning. These represent rudimentary project management skills which have been reinforced through the issuance of this Mission Order. The SOP is attached as Annex H. In keeping with the intent of the report's second recommendation, USAID has transmitted a current copy of Handbook 11 to the MOA's Procurement Officer. Furthermore, USAID will incorporate the use of Federal Supply Schedule Catalog into its procurement planning Mission wide, as appropriate.

C. Conclusion

Based on activities undertaken by USAID/Jamaica, we request that recommendation-No. 2 be closed upon issuance of the final audit report.

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LIST OF REPORT RECOMMENDATIONS

Recommendation No. 1

We recommend that USAID/Jamaica:

- a. determine the amount of funds that can be efficiently and effectively used during the remaining year of the project; and
- b. reprogram and/or deobligate, based on current feasibility studies or other in-depth evaluations, those funds determined not to be required during the project's remaining year.

Recommendation No. 2

We recommend that USAID/Jamaica:

- a. dispose of excess Project equipment through sale or donation, but in the interim ensure that excess property is properly secured and stored;
- b. prepare proper procurement plans which are fully supported prior to the purchase of any additional commodities under the Project; and
- c. issue a Mission order reiterating the procurement planning requirements in AID Handbook 11 and requiring project managers to (i) become actively involved in assessing host country procurement capabilities and plans, and (ii) encourage host country procurement agents to use the Federal Supply Schedule Catalog.