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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

LAC/CEN REGIONAL

PROJECT PAPER

FINANCIAL MANAGEMENT IMPROVEMENT

AID/LAC/DR/P- 429

Project Number: 598-0685  
597-0037

UNCLASSIFIED

**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
**PROJECT DATA SHEET**

1. TRANSACTION CODE:  A = Add,  C = Change,  D = Delete  
Amendment Number: \_\_\_\_\_ DOCUMENT CODE: 3

COUNTRY/ENTITY: Latin America and Central America Regional  
4. BUREAU/OFFICE: Latin America and the Caribbean  
5. PROJECT NUMBER: 598-0685 and 597-0037  
5. PROJECT TITLE (maximum 40 characters): Financial Management Improvement

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 11 03 11 91  
7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4)  
A. Initial FY: 88 B. Quarter: 4 C. Final FY: 91

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY 88			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	705		705	4,129		4,129
(Grant)	( 705 )	( )	( 705 )	( 4,129 )	( )	( 4,129 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
<b>TOTALS</b>	705		705	4,129		4,129

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO. PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) HR	873					705		4,129	
(2)									
(3)									
(4)									
<b>TOTALS</b>						705		4,129	

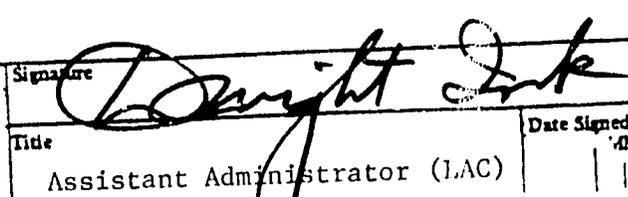
10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 720 660 840  
11. SECONDARY PURPOSE CODE: \_\_\_\_\_  
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each):  
A. Code: \_\_\_\_\_ B. Amount: \_\_\_\_\_  
13. PROJECT PURPOSE (maximum 180 characters):

To improve financial management in Latin America and the Caribbean.

14. SCHEDULED EVALUATIONS: Interim MM YY 03 91 Final MM YY 11 91  
15. SOURCE/ORIGIN OF GOODS AND SERVICES:  009  941  Local  Other (Specify) \_\_\_\_\_

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment)

Methods of implementation and financing are in accordance with Payment Verification Policy Implementation Guidance.

17. APPROVED BY:   
Title: Assistant Administrator (IAC)  
Date Signed: MM DD YY \_\_\_\_\_  
18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY \_\_\_\_\_

Project Authorization

Name of Country:	LAC Regional CA Regional
Name of Project:	LAC Financial Management Improvement
Numbers of Project:	598-0685 (LAC Regional) 597-0037 (CA Regional)

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the LAC Financial Management Improvement Project for the Latin America and the Caribbean region involving planned obligations of not to exceed Four Million One Hundred and Twenty-nine United States Dollars (\$4,129,000) in grant funds ("Grant") over a three and one-half (3 1/2) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local currency costs for the project. The planned life-of-project is 37 months from the date of initial obligation.

2. The project ("Project") consists of assistance to countries in the LAC and CA regions to assess the constraints to improving financial management, identify solutions and implement sub-activities in Latin America.

3. The Project Agreement(s), which may be negotiated and executed by the office to whom such authority is delegated in accordance with A.I.D. Regulations and Delegations of Authority, shall be subject to the following essential terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services  
(Grant)

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the

suppliers of commodities or services financed under the Grant shall have the United States as their place of origin, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

b. Waiver

Pursuant to Handbook 1, Supplement B, Section 5B4 (c)(1) and Section 5D10 (c), I hereby approve a source, origin and nationality blanket waiver from A.I.D. Geographic Code 000 to the countries included in A.I.D. geographic Code 941 to permit the procurement of commodities and services up to \$4,129,000.

*Clairmont Ink*  
Assistant Administrator  
Latin America and the Caribbean  
Aug 12, 1988  
Date

Clearances:

LAC/DR/CEN:DBoyd	Draft	Date	_____
LAC/DR:JEvans	Draft	Date	_____
LAC/CONT:GByllesby	Draft	Date	_____
GC/LAC:GDavidson	Draft	Date	_____
LAC/DP:Wheeler	<i>WJW</i>	Date	<i>7/25/88</i>
LAC/DR:TBrown	<i>TB</i>	Date	<i>7/26/88</i>
	<i>Aug</i>		<i>7/28/88</i>

LAC/DR/CEN:RWhelden:pb:6/8/88:X75263:#00290

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON DC 20523

AUG 10 1988

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Terrence J. Brown

SUBJECT: LAC Regional Financial Management Improvement Project  
(598-0658/597-0037)

Action Requested: Your approval is required to authorize a grant of \$4,129,000 in development assistance funds from the Education and Human Resources appropriation account for the LAC Regional Financial Management Improvement Project.

Discussion: The project's purpose is to improve financial management in Latin America and the Caribbean. This project will be carried out on two concurrent tracks. The first consists of country-specific and regional sub-activities. The second will be the development of a longer-term strategy and action agenda for systematically improving financial management in the region. The project will achieve the following major outputs:

- Country specific sub-activities: Three to five activities, to test the effectiveness of various modes of assistance designed and implemented (\$1,349,000).
- Regional Sub-Activities to increase awareness and capabilities of public sector financial managers: three symposiums, three functioning task forces, and nine training sessions (\$1,302,000).
- Strategy Development: Ongoing baseline data collection in five countries; five country assessments carried out and results being used by host-countries evaluations of recent or ongoing financial management activities carried out in ten countries; LAC strategy for improving financial management is approved, and funding is provided to implement it; and ten potential activities for financing by HCs (using host-country-owned local currency or other resources) and donors have been identified (\$1,479,000).

The project takes the position that a strategy can be developed for a given country based on analysis and implementation of smaller activities which will have a continual incremental benefit to improving overall financial management in the

country. Such an overall strategy must be based on (1) an assessment of the state of financial management in the country (including level of commitment to improving financial management), (2) an assessment of constraints to improving financial management, and (3) a knowledge of what types of activities or approaches have had, or are likely to have the best results in achieving lasting improvements in financial management systems.

The project will take advantage of the increasing importance being placed on improving financial management by A.I.D., other donors, HC's, and, in particular, the LAC Bureau. The project will proceed to fund targets of opportunity created by reactions to this regional project, and the general increased importance attached to financial management. The difference between the proposed and prior ad hoc interventions is that the proposed activities will be closely monitored with a view toward testing and modifying approaches directed toward long-term financial management improvements. Modifications will be made based upon information from assessment and evaluation activities gathered and analyzed during the life of the project.

Waiver: The Project Authorization includes a source, origin and nationality waiver to permit the procurement of commodities and services from A.I.D. Geographic Code 941 countries.

A.I.D. policy as stated in Handbook I, Supplement B is that the United States (Geographic Code 000) be the authorized source for grant projects except those to the relatively least developed countries (RLDCs). Section 5B4 and 5D10 of Chapter 5 authorize waivers of source, origin and nationality, to allow procurement from Code 941 countries (the United States and Certain Less Developed Countries) under certain prescribed circumstances.

The project design provides for a central contractor to implement activities under the strategy development component and the regional sub-activities. Implementation of country-specific activities are not the direct responsibility of the contractor and will be obligated separately. This design anticipates that much of the work can and should be done utilizing local professionals and has incorporated the involvement of local professionals in almost every element of the project. This is because local firms know the in-country work environment and can readily provide many of the requisite skills. It is anticipated that the central contractor will draw on these skills to carry out many of its activities. These same skills will be essential to the successful implementation of the specific country activities as well.

The involvement of local professional firms is also important because the project will not only be developing professionally sound long-range strategies and methodologies, but also will have to create or strengthen the stature of the financial management profession in the countries of the region.

Authority: HB 1, Supp B, Section 5D10 (a)(1)(d) provides that the nationality of privately owned commercial suppliers may be waived if procurement of locally available services would best promote the objectives of the foreign assistance program. Section 5B4 (a)(6) provides the same criteria for local procurement of commodities.

HB 1, Supp B, Section 5B4 (c)(1) and Section 5D10 (c) provide you the authority to issue a blanket waiver of source, origin and nationality to apply to an entire project if the total value of the procurements affected by the waiver is estimated not to exceed \$5.0 million. The total value of procurements under this project will not be greater than \$4.129 million. Therefore, you have the authority to issue this waiver given that the use of local professional firms are intrinsic to the project and critical to its success.

The LAC Development Assistance Executive Committee (DAEC) reviewed and approved the project on June 17, 1988. The following is a summary of the DAEC's decisions.

-- Project Management: A.I.D./W project management responsibilities will reside with the LAC/Controller's office. Project backstopping will be provided by the LAC Office of Development Resources. After considerable discussion on the sub-activity approval process, it was decided that all proposed sub-activities will be reviewed by the Project Committee. An Action Memorandum will be prepared and cleared by the relevant LAC Bureau offices, and the Director of the Office of Development Resources or his designee will have approval authority for each sub-activity.

-- Contracting: In conformity with Agency policy, it was determined that the TA work should be provided by an 8(a) firm with the provision that sub-contracting with larger firms with established international networks is to be encouraged. The contract will specify, in detail, the administrative authority of each party under the contract.

-- Coordination: The project design incorporated the recommendations of LAC Missions to ensure there would be no duplication of efforts between this project and financial management improvement components of bilateral projects.

-- Project Phasing: Subsequent to the project's design and DAEC approval, you expressed concern that the project should focus adequately on activities which would assure credibility of protection of funds, and that there be strong emphasis on actions which would be of direct benefit to the countries involved.

The project will be implemented in two phases. Phase I will include country and regional sub-activities of a short-term nature which will provide concrete and direct assistance for improving financial management. A major criterion for selection of these sub-activities will be the expected impact upon improving funds control. This initial phase will also include an evaluation of "lessons learned" from this or other projects. At the end of this phase, which is expected to require some 24 months of implementation, A.I.D. and the participating missions will decide on continuation of the project and the appropriate balance between follow-on direct impact projects and strategy development, which would be undertaken in Phase II. Total estimated financing for Phase I would be \$2,805,000. Of this amount, fully 82 percent would be devoted to sub-activities and the contracted assistance necessary to support their implementation (the technical assistance contract would be limited to approximately \$1,408,000 for this phase).

The Statement of Work which will be provided to prospective contractors has been revised to reflect the aforementioned phasing.

Notification of Congress: A Congressional Notification for the project went forward on July 13, 1988 and expired on July 27, 1988.

Recommendation: That you approve the project by signing the attached Project Data Sheet and the Project Authorization which includes a source, origin and nationality waiver from A.I.D. geographic code 000 to code 941.

Attachments:

1. Project Authorization
2. Project Data Sheet

LAC Regional  
Financial Management Improvement Project  
(598-0658)  
(597-0037)

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## I. Summary and Recommendations

The lack of public sector financial management capabilities in Latin America and the Caribbean (LAC) causes poor accountability of scarce resources and can lead to misallocation or diversion of these resources. Some host-country public officials have neither the qualifications nor the training to act as professional managers. Regional and local organizations of auditors and other financial management professionals are weak and ineffectual. There is currently no systematic body of knowledge for overcoming the obstacles to effective financial management in the LAC region. Moreover, the present pool of information about financial management is not based on rigorously researched data but impressions and problem specific experiences.

A.I.D. and other development agencies have recognized weak financial management systems as a constraint to effective and efficient utilization of resources and have, to varying degrees, instituted projects or programs to address the problem. However, these activities have not been based on a long-term and systematic approach towards resolving the problem, but rather have tended to insure proper accountability of donor funds within specific projects or activities. This project, in addition to significant direct activities aimed at immediate improvement in financial management of selected countries, will develop and test such an approach, which can then be used by A.I.D., host-countries (HCs), and other donors in follow-on activities.

The primary concern or reason to address HC financial management problems is the effective and efficient utilization of scarce financial resources. Improved financial management will, of course, allow HCs to more efficiently and effectively utilize their scarce resources and the resources of donors in carrying out developmental programs. In addition, over the long-term, the HC will be able to carry out all its programs and operations more efficiently.

This project paper proposes a three year \$4.129 million grant project to be funded from the LAC and CA Regional Education and Human Resources (LEHR) account. Its goal is to increase the ability of Latin American governments to more efficiently utilize and evaluate their scarce monetary resources. The purpose of this project is to improve financial management in Latin America and the Caribbean. The project supports the implementation of: (1) country specific and regional sub-project activities and (2) activities required to develop a long-term LAC strategy for addressing the problem of the lack of public sector financial management capabilities. Of the

total project costs it is expected that approximately \$2,878,000 will be obligated via a centrally managed core contract. The rest of the funds will be obligated separately either for country specific activities (\$889,000), evaluation and auditing (\$200,000), or contingency (\$161,265). The LAC Bureau has authorized and obligated an additional \$495,000 with the Government of Honduras to implement a quick starting and discrete pilot activity to improve the capacity of the Supreme Audit Institution of that country.

Recommendation:

The Project Development Committee has reviewed the following project paper (PP) and finds it to be technically, financially, administratively, and economically sound. The Project Development Committee recommends that this regional project be approved and authorized by the Assistant Administrator (LAC).

II. Background

A. Overview of LAC Financial management

The lack of public sector financial management capabilities in Latin America and the Caribbean (LAC) causes poor accountability of scarce resources and leads to uninformed policy choices by LAC government leaders. Within the LAC region, present public sector financial management practices offer little reward for superlative performance, and fail to provide adequate levels of accountability for management of public funds. Some officials charged with fiscal administration have neither the qualifications nor the training to act as professional managers. Regional and local organizations of auditors and other financial management professionals, which could be instrumental in identifying and resolving common problems, often do not have the resources, the mandate nor the will to enhance the status of the profession across national boundaries. There is currently no body of knowledge which has been developed into a coherent and systematic technique for overcoming the obstacles to effective financial management in the LAC region. Moreover, the present pool of information about financial management is not based on rigorously researched data but impressions and problem specific experiences, therefore undermining the importance of government financial accountability.

Continuing constraints to adequate financial management in developing countries which are addressed in this project include:

unreliable, incomplete and outdated financial information;

a lack of generally accepted accounting principles within the public sector;

low professional status for financial managers.

This short list indicates that serious deficiencies exist. An additional constraint, that of low salary levels and patronage in the public sector, cuts across many sectors, including financial management. This is not a constraint which this project alone can resolve.

## B. Conceptual Framework

As noted above, overall weaknesses in Host Country (HC) financial management are acknowledged as being prevalent throughout the developing world. This project's analytical base is not premised on new original research to redetermine the validity of the premise that developing countries financial management systems are generally weak. There appears to be little need to perform such research, or to duplicate that which has already been done in identifying the problem. A.I.D. and other development agencies such as IMF, IBRD, CIDA, etc. have recognized this constraint to effective and efficient utilization of resources and have, to varying degrees, instituted projects or programs to address the problem. What has been lacking has been any attempt to address the problems of HC financial management by accepting the long-term, upwards of ten years, nature of the solution and approaching it through systematic problem identification and analysis and developing a rational long-term methodology or strategy. This project will develop and test such an approach which can then be used by A.I.D., HCs, and other donors and will carry out significant direct activities aimed at immediate improvement in financial management of selected countries.

The Technical Analysis in Annex 1 reviews in detail the findings of (A) the General Accounting Office (GAO) reports, (B) A.I.D. Inspector General (IG) audit reports, (C) a report on Improving Host Country Financial Management prepared by Price Waterhouse (PW), and (D) responses from A.I.D. field Missions to the concept paper and PID for this project. A short summary of some major conclusions follows.

### 1. GAO Findings

The 1984 GAO Report, "Financial Management Problems in Developing Countries Reduce the Impact of Assistance" cites World Bank reports which indicate the inability of HCs to establish and maintain accounting records in accordance with

sound accounting principles, and that financial control and reporting of financial information is insufficient for sound financial management and execution or development of HC policies and strategies. Of particular note is the GAO Report's finding that A.I.D. has not established a systematic long-term approach to improving financial management capabilities. It states that A.I.D.'s approach has either been to include financial management as part of an overall public administration or institution building activity, or to include financial management activities as a limited component of regular development projects. Neither approach adequately addresses the broader country wide issue.

The GAO recommended that A.I.D. establish a long-term program for financial management assistance. As part of that recommendation the report suggested that the program should

"begin with a complete documentation of financial management training and technical assistance provided by A.I.D. and other donors and the identification of developing countries not yet receiving adequate assistance . . ."

This project will address, for the LAC Bureau, the recommendation for a careful systematic approach to assessing needs and constraints, identifying a long-term strategy for improving financial management, and establishing a limited data base to be used for evaluative purposes. At the same time the project will expand direct interventions in response to specific mission or country interest. Such direct interventions, while sometimes targeted at a particular problem, will be designed to have the greatest effect on overall HC financial management.

## 2. A.I.D. Inspector General Reports

A.I.D. Inspector General Audit reports have also consistently identified weaknesses in financial management of HC implementing organizations. The following table summarizes the Inspector General's December 31, 1987 world-wide Deficiency Tracking Report, which identifies those deficiencies directly related to HC financial management which were included only in reports issued in 1987.

<u>Deficiency</u>	<u>Frequency</u>
Accounting and Controls Inadequate	3
Accounting for Funds Inadequate	3
Accounting for Vehicles and/or Commodities Lacks Adequate Controls	1
Audit Provisions Not Implemented	1
Evaluation of Projects Not Being Made	1
Financial Contributions and/or Support Not Being Fulfilled	2
Interest Income Not Reported to A.I.D.	1
Policies and Procedures Need Improvement or Not Implemented as Required	<u>2</u>
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IG audit reports for the most part are directed at the project or program level. Thus, most of the deficiencies identified in their reporting system will reflect situations in project implementing organizations as they relate to A.I.D. projects. They may or may not indicate across the board deficiencies throughout the organization or HC systems. However, based on GAO reports and other findings, deficiencies most likely are endemic to the country financial management system as a whole.

As indicated in the GAO reports mentioned above, most of A.I.D.'s activities in trying to improve financial management have been done as part of other regular development projects. Such activities are frequently generated as a result of institutional or administrative reviews of the implementing organization at the time of project design which have identified weakness in the financial management systems. From continuing recurrence of financial management deficiencies identified by the IG, mostly in project related audits, one can infer that such attempts to improve financial management in this manner have been only partially successful, even at the project level. It follows, therefore, that it would be rare that such activities would have any long-term replication or spread effect within the HC as a whole.

This project will identify the most successful direct activities and provide guidance as to how such interventions can best be designed to improve replicability and sustainability.

### 3. Price Waterhouse Report

In 1987 A.I.D. commissioned Price Waterhouse to carry out a global study and prepare a "Report on Improving Host Country Financial Management". The report confirmed the findings and general recommendations of the CMO reports, A.I.D./IG reports, evaluations, and discussions with other donors. Many of the recommendations are directed at Agency level actions necessary

to raise the issue and importance of improving HC financial management to a higher level both operationally and structurally within the Agency. The report falls short in developing a strategy to be followed by A.I.D. for improving HC financial management. The lack of adequate data in A.I.D. on the subject of HC financial management precluded the development of such a strategy. The report does lay out a two-phase approach to developing a strategy.

Recommendations which are pertinent to this project are:

Phase A. "A.I.D. needs a short preparatory period, not to exceed one year, for collecting and analyzing relevant data, assessing needs and initiating the policy/program adjustments essential to plan and implement an Agency strategy and action plan for improving LDC financial management...."

Phase B. This phase would encompass the preparation of the Long-Term Strategy and Action Plan and would include further organizational changes, training, and expanding multilateral cooperation in carrying out programs of improving LDC financial management.

While the one year time frame for carrying out Phase A, some of the organizational changes, and some of the alternative development strategies proposed in the report, are unrealistic, the basic concept of the necessity for test activities, needs assessments, and data collection is valid and forms the nucleus of this project.

#### 4. LAC Mission Responses to Project Concept Paper and PID

As part of the project design process all LAC Missions were provided with the project Concept Paper and the approved PiD. Summaries of the responses to both documents are contained in Attachments D and E.

Responses have been analyzed and incorporated into the preparation of Project Paper where appropriate. While responses vary in areas of need or concentration, they support the conclusions reflected in other documents that host-country financial management capabilities are in general, weak and need to be improved. Ten of twelve respondents stated they were interested in participating, only one said "no." All eleven of the missions answering to the question of HC possible interest, responded positively. It appears that interest in improving financial management is receiving more attention and acceptance from both donors and HCs as well.

This survey of A.I.D. missions in Latin America identified a need for host government technical assistance in auditing, revenue control, data-base management and internal control systems. Missions also reported that technical assistance was needed in designing and implemented integrated financial management systems for treasury accounting, budget control and auditing. A number of responses called attention to the constant turnover of personnel, the general inexperience of most staff and the lack of consistent standards for financial management personnel to follow.

A common denominator in the responses to this survey was the need for the improvement of financial management systems and practices. A.I.D. missions were in general agreement that there is a need to carry out country assessments in order to acquire systematic information which could be used as baseline data to determine priority interventions and against which to judge the impact of reforms. Specifically, missions were interested in reforms which would focus on structural, technical and personnel requirements and which could be used to generate demand for, recognition of, and acceptance of financial management reforms.

### C. Rationale

Both the GAO report and the PW report cited above indicate that the primary concern or reason to address HC financial management problems is so that scarce development resources will be effectively and efficiently utilized. However, the problem is broader than development resources. Improved financial management will, of course, allow HCs to more efficiently and effectively utilize scarce public sector resources and the resources of donors in carrying out developmental programs. In addition, over the long-term, the HC will be able to carry out all its programs and operations more efficiently. Thus, while intermediate direct beneficiaries will be the HC staff and managers who will be better trained, better equipped, and able to perform their responsibilities in a more professional and informed manner, the long-term beneficiaries will be the people of the country through improved delivery of goods and services at lower cost and either reduced total tax burden, or increased level of benefits for their tax dollars.

The private sector will also be affected. Improved efficiency in government operations will increase confidence of the private sector in the appropriateness and rationality of government policies and programs. Improved tax administration and demand for accurate financial reporting from the private sector will both increase revenue and improve statistical information on which the government must base policies. In

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addition, in areas where the private sector is basing decisions on inaccurate or inadequate financial or economic information, overall improvements in operational efficiencies may result as a consequence of general improvement in the level of financial management in the country.

Not all of these results will occur in any given country. In addition, the extent of benefits will vary considerably. Major changes will only be realized over the very long-term, ten to twenty years. However, a carefully designed and implemented strategy will yield immediate short-term results which reasonably can be expected to generate its own demand for continued improvement in financial management.

Another important reason for improving HC financial management is A.I.D.'s desire and requirements for improved accountability over U.S. Government funds and HC owned counterpart local currencies over which A.I.D. has joint programming responsibility. A.I.D.'s accountability, as a result of decreasing staff and budget, has become more and more inextricably linked and directly dependent upon the financial management and accountability capabilities of the implementing HC. As A.I.D. staffing has decreased, the ability to monitor in detail the expenditure of A.I.D. resources by HC implementing organizations has suffered.

The solution has been the increased use of specific financial management elements included in projects as a response to weak financial management in the HC implementing organization. Alternatively A.I.D. has used the services of local professional accounting firms to either provide the needed oversight and reporting or to assist the organization in improving its financial management systems. A.I.D.'s payment verification policy, which is designed to periodically review and approve implementing organization's financial management systems and procedures, is a useful tool in identifying weaknesses and applying solutions as mentioned above. However, none of the above solutions address the long-term problem of HC financial management. A systematic long-term approach to improving HC financial management appears to be the only real solution.

### III. Project Description

#### A. Logical Framework Narrative

The goal of this project is to increase the ability of Latin American governments to more efficiently utilize and evaluate their scarce monetary resources.

The purpose is to improve financial management in Latin America

and the Caribbean. Achievement of the project purpose at the end of the project will be indicated by:

- Use of the financial management assessment reports by key government ministries to develop projects to strengthen financial management institutions and systems, through training and other means.
- Increased financial commitments by governments in the region to improving financial management systems and practices and to the training of financial managers, auditors and accountants.
- Improved accuracy and timeliness in financial reporting.

The project will support activities to achieve the following major outputs:

- Country specific sub-activities: Three activities, to test the effectiveness of various interventions designed and implemented.
- Regional Sub-Activities to increase awareness and capabilities of public sector financial managers: three symposiums, three functioning task forces, and nine training sessions.
- Strategy Development: Ongoing baseline data collection in five countries; five-country assessments carried out and results being used by host-countries evaluations of recent or ongoing financial management activities carried out in ten countries; LAC strategy for improving financial management is approved, and funding is provided to implement it; and ten potential activities for financing by HCs and donors have been identified.

The magnitude of the problem necessitates questioning whether this or any other single project can resolve it. This project does not purport to solve the problem in even one country. Instead, the project takes the position that a long-range strategy can be developed based on the use of smaller activities which will result in an incremental benefit. In short, it is expected that this project will be a catalyst for a number of follow-on bilateral and regional activities.

#### B. Project Components

This project will be carried out on two concurrent tracks. The first consists of country-specific and regional

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sub-activities. The second will be the development of a long-term strategy for systematically improving financial management. A central contractor will implement activities under the strategy development component and the regional sub-activities. Implementation of country-specific activities are not the direct responsibility of the contractor and will be obligated separately.

1. Implementation of Sub-Activities

a. Country Specific Sub-activities

The project will encourage country specific activities which address a particular aspect of improving financial management in a country. Financing is provided under this project to implement three such discrete activities outside of the core contract. It is expected that ten additional potential activities will be identified for HC and donor consideration. Since commitment of HC officials is perhaps the most critical element of any strategy, targets of opportunity should be capitalized on even before a long-term strategy has been developed.

Activities funded under this project will be closely monitored by project staff and will be considered pilot projects, used to test the effectiveness of different interventions in the long-term approach to improving financial management. Obviously the short-term nature of this project will inhibit the evaluation aspect.

In response to both the Concept Paper for this project and the PID, Missions submitted expressions of interest in both participating in the project and in having specific activities included under the project. Possible project activities have been identified in Honduras, Costa Rica, Jamaica, Dominican Republic, and Colombia. A discussion of these can be found in the Technical Annex. All sub-activities of this nature will have to be documented and reviewed by the project committee before being approved for implementation.

Two specific countries have been identified in which to initiate sub-project activities. These are Costa Rica and Colombia. This is in addition to the Honduras activity which is already moving ahead on its own. The selection of these two countries is based on Mission responses to the PID for this project. The responses from both countries indicate interest by the HC and the Mission in participating in the project and having specific activities started in their country.

The Controller General of the Government of Costa Rica (GOCR) has proposed a broad based project to establish specialized units in his office operations for:

- EDP auditing
- Public sector financial management training school
- Public works auditing
- operational audits, including program results, and economy and efficiency auditing

The Costa Rica Mission has proposed that the last item be considered for inclusion in this project since it also includes a diagnosis and study phase leading to recommendations for the financial management training school. The proposal includes requirements for TA, training, and a small amount of equipment. The total budget is estimated to be \$508,000 with one third being covered by the GOCR in local currency, leaving approximately \$338,000 for funding out of the project.

In Colombia, the Mission, and the Government of Colombia (GOC) have requested a country assessment. Implementation of recommendations from the assessment will be funded and carried out by the GOC. It is anticipated that some short-term TA from the principal contractor will be provided to the GOC in design of follow on activities. Funding for such TA has been included in the budget.

Other country specific activities will be identified and designed as part of the scope of work for the principal contractor. Funding to implement those activities is not included in the contract and will be obligated separately. Implementation will depend on selected contracting modes and the wishes of the particular Mission.

Criteria for selection of sub-activities will include:

- impact on assuring control of use-of-funds,
- expressed HC interest and commitment,
- level of HC financial participation,
- the likely benefit of the activity to developing methodologies and long-term strategies, ("lessons learned" potential),
- possibility of replicability within HC, and
- relationship to other financial management activities ongoing in country.

The Dominican Republic had proposed an activity to assist a small unit of the government develop financial management procedures for the monitoring of local currency uses. Total estimated cost of the activity is \$100 thousand. This type of activity is not considered appropriate for funding under this project, given the above criteria. The principal reasons are that it is a relatively small and unique activity focused on an operation which is somewhat outside the mainstream of

government operations. It does not, therefore, appear to present an opportunity to test the effectiveness of interventions in relation to overall government financial management.

b. Regional

All regional sub-project activities will be designed and carried out by the principal contractor. In addition to U.S. staff, the contractor will utilize local professional staff to the extent possible. Selection of the contractor will take into consideration the ability to identify and link up with qualified local professional firms. A description of these activities follows and is included in more detail in the Technical Analysis (Annex A.1). These activities include:

- Regional symposium
- Fifteen sub-regional seminars for three financial management task forces
- Regional seminars/training for senior level HC personnel
- TA to missions and HCs to design, evaluate, or redesign country specific financial management improvement projects which are not part of this project

(1) Symposiums

Three symposiums are planned as an initial action under the project. These symposiums would be held for each sub-region (i.e., Central America, South America, and the Caribbean) and would include approximately twenty five participants, five representatives from each LAC region country from government entities such as finance, planning, budget, controller and/or audit, and possibly a line ministry. Each symposium would be for two days and the purposes would be to:

- generate increased interest in improving HC financial management,
- outline the purposes of this project and how each country can benefit or participate,
- identify task force members (discussed below) for each country (confirmation most likely would have to be received later), and
- gain any insights from HC senior personnel regarding the improvement of HC financial management.

(2) Sub-regional Financial Management Task Forces

The project proposes to establish three sub-regional task forces. Five meetings of two days each for each sub-region are planned. Each country in the group would have two or three members in the task force. Since this is a regional project, it presents an opportunity for increasing the cross fertilization of financial management ideas between countries. Also, since not all countries will participate to the same degree in project activities, it provides an interactive dissemination mechanism for project progress and results. The purposes of such a group would be to:

- keep the subject of financial management improvement in the forefront with senior HC officials,
- provide an opportunity to exchange ideas on financial management,
- provide HC officials with a continual update of the findings, results, and progress being made under the project,
- provide an informal mechanism for discussion of financial management practices and standards in each sub-region.
- provide the contractor an opportunity to further test ideas and approaches in a non-country specific environment.

(3) Regional Seminars/Training of Senior Level HC Personnel

Since success of any attempts to improve HC financial management will ultimately depend on the ability of senior level managers to utilize sound financial management information, training of senior level officers is provided for. Courses will be held on a sub-regional basis for approximately 25 participants. Courses will be for three days at a time and approximately nine will be held during the life of the project.

Courses will cover topics in effectiveness and efficiency auditing, developing accounting and auditing standards, financial analysis techniques, utilization of financial information in decision making, methods of monitoring and controlling activity costs, budgeting, financial reporting, etc. General management courses and personnel administration would also be appropriate areas as they relate to financial administration and the development and maintenance of career

financial staff. Topics are illustrative and may vary with the region. It is also anticipated that the focus will shift later in the project as information flows in from the assessments and evaluations.

The principal contractor should conduct the courses in principally an interactive mode, with lectures kept to the minimum. The contractor should have the capability and experience to utilize relevant actual experiences from the region and/or other developing countries. The use of artificial case studies can be useful but should not be the principal teaching tool. The contractor in its proposal will be asked to suggest a specific approach, and the responses will be evaluated partially on this area.

(4) Technical Assistance to Missions and Host Countries

Both full time and short-term consultants under this project will assist missions or HCs in designing up to four financial management activities. This assistance will be provided under the central contract and will consist of up to twenty three and a half person months of U.S. technical assistance, from either short-term intermittent staff or utilizing full time project staff, and up to twelve and a half person months of local professional services. Some of these activities may be encompassed within this project. Others will be mission and country responses to increased emphasis on improving HC financial management. The benefits gained by involving the technical advisors under this project will be:

- increased emphasis on sustainability even in activities which are elements of traditionally focused projects,
- establishment of regionally consistent baseline information to measure progress,
- inclusion of such activities in the overall assessment of lessons learned for developing effective long-term strategy methodologies,
- continuity and consistency of application of approaches to improving HC financial management, and
- putting into action the Assistant Administrator's recent request to focus on improving financial management and audit.

2. Development of a Long-Term Strategy and Identification of Specific Interventions

All activities under this heading, as described in the Technical Analysis, are also to be carried out by the principal contractor using the resources of local professional firms to supplement off-shore technical assistance. These activities will include:

- development of baseline data on the status of financial management in ten selected countries and the development of a methodology for periodic updating of the information.
- performance of 4-5 country assessments to determine the constraints to improving financial management.
- identification and evaluation of recent and ongoing financial management activities so as to determine their success in achieving long-term broad based benefits in HC financial management improvement.
- development of long-term strategies for HCs assessed and for the LAC Bureau, directed at improving HC financial management capabilities.
- identification and design of specific activities to be funded by donors or HCs outside of this project, either country specific or regional in nature.

The contractor will carry out his responsibilities using full time contractor staff, intermittent short-term advisors, and the services of staff from local professional firms. The local firms will be used principally in four areas:

- Collection of baseline information, field work will be done almost completely by local professionals.
- Participation in country assessments, approximately 75 percent of staff requirements will be from local professionals
- Short-term TA in design of follow on activities and assistance to missions or HCs in evaluating existing financial management activities
- Short-term sub-regional training courses for senior officials

The development of a long-term strategy will be an evolving process throughout the project. The strategy developed will not be a specific step by step procedure to be applied indiscriminately to every country. Rather the long-term strategy will be two things, a methodology which can be applied to any given country to arrive at a systematic long-range plan

for improving financial management, and also a long range strategy to be used by the PAC Bureau to systematically and rationally approach the problems of improving HC financial management. The latter will also include the identification of specific suggestions for immediate activities of either a regional, sub-regional, or country specific nature. The steps involved are discussed in the following sections.

Actual country selection for either base line data collection or country specific assessments and strategy will take into consideration the following factors which are listed in relative level of importance:

- Host-country interest and apparent commitment to carry out whatever recommendations are forthcoming over both the long- and short-term.
- At least one assessment should be done for each of the three different types of financial management government structures in the region. Baseline countries should also represent a cross section.
- There are no other major financial management interventions taking place in a country selected for an assessment. For example, since experts tend to disagree, it would probably be counter productive to do an assessment in Jamaica where they are already embarked on a major program. However, Jamaica would be a good candidate for baseline collection because results of current interventions could be measured in a relatively short time.
- Because of the potential importance local currency programming can play in instituting financial management activities, at least two of the assessment countries should have local currency generations available.
- Relative political stability so that there is an expectation that commitments made now will be long lasting.

Based on a review of these factors in relation to the countries, and the responses received from the Missions, Colombia, Costa Rica, and Dominican Republic have been selected for country assessments. The project officer, and the project committee will approve final selection of other countries.

a. Base Line Data Collection and Methodology

The development of a methodology or system for collection of baseline data will be the task of the professional staff of the consultant to both develop a methodology for collection of data

and analyzing and evaluating the data. The project will finance the collection of baseline data collection in ten countries. Baseline assessments will be made in all of the countries (four or five) in which a needs/constraints assessment will be made. In addition, it is estimated that five other baseline collections will be carried out by the contractor. Countries will be selected by the contractor and approved by A.I.D.

Indicators may include but not be limited to:

- Availability of statistical data base for performance analysis.
- Capacity for evaluation and research for performance analysis.
- Principal basis for internal financial management.
- Adequacy of management information systems.
- Timeliness of monthly and quarterly reports.
- Numbers and qualifications of financial staff.

b. Country Assessments

Specific country assessments will be carried out in four or five countries using local professionals as appropriate for most of the work. Preliminary indications are that the following countries will be included: Colombia; Costa Rica; Dominican Republic; and Bolivia. Final selection of countries will be made by the A.I.D. project officer and the contractor in consultation with the relevant countries and the project committee. The carrying out of the country assessment will serve to:

- identify specific constraints to improving financial management, including general management or personnel constraints affecting financial management,
- establish a long-term country specific strategy for addressing the constraints,
- identify possible immediate activities which can be carried out by the HC or donors, and
- provide a means of testing and refining the assessment methodology developed and used by the contractor.

Training at various levels, accounting principals and standards, cultural and political factors, accounting and

budgeting systems, automation, human resource development, role of audit, and legal constraints are just a few of the areas which will be looked at during the assessment.

The exact technique to be utilized by the contractor is not predetermined. The RFP for selection of the contractor will require the respondent to outline an approach to both country assessments and baseline data collection. This requirement will provide the selection committee with a basis for determining the respondent's professional understanding of the problems and issues to be encountered in a project as critical to long-term development as this.

c. Evaluation of Recent and Ongoing Financial Management Activities

An observation made in both the GAO and PW reports is the lack of an informational data base of activities directed at improving financial management, either directly or as part of another project. The issue is one of lessons learned. As part of the development of long-range strategies, either country specific or for the LAC region, there is a need to evaluate what has been done and what will or won't work.

Due to financial and time constraints, the project will take a limited look at projects in the ten countries where baseline information will be collected, as opposed to covering the entire region. However, such limited coverage should provide sufficient information on which to make informed judgments.

Procedurally, the contractor will obtain information on the nature of inputs, expected outputs, purposes, etc., of all dollar and local currency projects within a country which are either ongoing or have terminated in the last three years. Project documentation and evaluations will be reviewed to determine the extent of emphasis placed on replicability and sustainability of efforts to improve financial management. The focus of attention should be on what effect the project is having or has had at the macro level of financial management. A project which successfully trains staff, installs accounting controls and systems, and successfully attains the objective of accounting for an immunization project's funds may or may not have any long-term financial management benefits.

From this exercise, which is a continuing one, will come information which can be used to develop or modify long-term country or LAC Bureau strategies.

d. Development of Long-term LAC Bureau Strategy

As soon as initial country assessments, baseline data collection, and initial evaluation of other activities has been completed, the contractor will develop for the LAC Bureau a Long-term Strategy for improving HC financial management. This strategy will remain flexible through the life of this project. Modifications will be made as more data and experience are gained. At the end of the project, a final recommended long-term strategy will be prepared for the LAC Bureau which can be used to identify and rank LAC Bureau financial management activities which can fit into the Bureau's Management By Objective (MBO) System. It is expected that this strategy would yield bilateral as well as regional activities.

The strategy should include as a minimum

- suggestions for interaction with other donors,
- specific steps for the Bureau to carry out on a regional, sub-regional, or country specific basis,
- several optional approaches based on different assumptions of resources available and policy directions,
- consideration of other donor and HC interventions,
- considerations of the use of HC owned local currencies available for joint programming, and
- methods for continual monitoring of all activities and periodic updating of this strategy.

The most important aspects of a successful strategy will be realism in expectations of goals and purposes, an acceptance of the limited resources available to A.I.D., other donors and the HC, and the realities of the priority which will be placed on this type of activity which must compete with other functional accounts for resources.

e. Identification/Design of Specific Activities

Throughout the life of this project A.I.D. and the contractor will be faced with a large number of potential activities. Donors, Missions, and HCs will all have ideas for projects. Once assessments and country baseline data have been collected, the contractor will start to analyze such possible activities and to present ideas of his/her own. Missions and/or host countries will need to evaluate these and other proposals to see what other sources of funding, if any, may be available from within the country or from other donors.

The contractor will design several activities in conjunction with the HC and/or Mission. These initial projects should be specifically responsive to testing approaches identified as workable in the assessments, and to the extent possible at the time from evaluations. It will be more important, however, to get projects underway as pilot activities than to wait for results of the evaluations, which will be done later in the project, before starting the activity.

In addition, throughout the life of the project the contractor will identify potential new activities. The intensity of design efforts will vary depending on the likelihood of early funding. These activities will be used by the HC in soliciting funding from A.I.D. or other donors, or can be carried out on their own.

#### IV. COST ESTIMATES AND SUMMARY FINANCIAL PLAN ANALYSIS

##### A. Cost Estimates

The table below (IV.1) provides a summary of total project costs by project elements or activity. The following table (IV.2) provides a summary of total project expenditures identified by fiscal year. Detailed tables which demonstrate the methodology used in calculating estimated costs are contained in Annex A.2, Financial Analysis.

The cost estimates were developed in the following manner. The majority of the costs will be incurred by the principal contractor. The exceptions being the implementation of country specific sub-activities, which may be carried out by either the principal contractor or another contractor. All regional sub-activities will be carried out by the principal contractor.

TABLE IV.1  
 SUMMARY COST ESTIMATE AND FINANCIAL PLAN  
 ( \$ 000 )

PURPOSE	A.I.D. \$
Sub-Project Activities -	
Country Specific	999
Regional	964
Long-Term Strategy Develop.	
Baseline Data Collection	9
Country Assessments	224
FM Activity Data Base	90
FM Activity Eval./Monitor.	374
Activity Identification	220
Detail Strategy Develop.	178
Home Office and	
Unallocated Costs	710
Evaluation and Auditing	200
Inflation and Contingency	161
	----
TOTAL	4129
	=====

Note: Inflation and contingency have been computed at 10 percent per year, excluding country specific activities.

TABLE IV.2  
 PROJECTION OF EXPENDITURES BY FISCAL YEAR  
 ( \$ 000 )

FISCAL YEAR	TOTAL
1989	1578
1990	1377
1991	1174
	----
TOTAL	4129
	=====

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Projection of Obligations by Fiscal Year  
(\$000)

		<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>LOP</u>
598-0658	EHR	600.0	1075.0	402.0	2077.0
597-0037	EHR	105.0	1000.0	947.0	2052.0
Planned Total		705.0	2075.0	1349.0	4129.0

Country specific activities can be broken down into three items at this time.

Costa Rica	\$389,000
Unidentified	\$500,000
Principal contractor support	<u>\$110,000</u>
	<u>\$999,000</u>

The principal contractor support line item included above represents technical assistance provided in design, evaluation, and monitoring of the sub-activities, not implementation.

All other elements of the project, plus the support to country specific sub-activities mentioned above, will be carried out by the principal contractor. Development of costs was done in the following manner. Any assumptions made are mentioned as well.

- Utilizing the detailed implementation plan, level of effort requirements were developed for each task, broken down by type of personnel required. Level of efforts were then converted into necessary full time employees, short-term U.S. consultants, and requirements for local professional staff.

- Number of trips and per diem (\$100/day) for contractor staff and HC participants were estimated.

- Contractor costs were calculated using a multiplier of 2.5 for U.S. staff and 1.5 for local professionals times estimated base pay. The result is estimated to include all contractor costs, such as overhead, fee, and general administrative costs.

B. General

As can be seen from Table IV.1 above a significant portion (48%) of project costs will be devoted to sub-activities which will have a direct benefit on participating HCs. The home office and unallocated costs are made up of the majority of the costs of (1) a full time secretary, (2) the majority of the costs of the project coordinator, and (3) the cost of full time staff not allocated to specific tasks. An allocation of this line item, plus evaluation, audit, inflation, and contingency, in proportion to other line item costs is shown below in Table IV.3.

This demonstrates that 64 percent of project costs are directed toward specific activities which will benefit countries. Country assessments could be considered as sub-activities. However, unless the country takes some action with the results of the assessment, no benefit results. Therefore, these costs have not been considered as a sub-activity. If these were so considered, the total sub-activities would represent 71 percent of total costs.

TABLE IV.3

ATTRIBUTION OF PROJECT COSTS ( \$000 )				
ELEMENTS	A.I.D. \$	Allo- cation	Total	%
-----				
Sub-Project Activities -				
Country Specific	999	350	1349	33%
Regional	964	338	1302	32%
TOTAL SUB-ACTIVITIES	1963	687	2650	64%
Long-Term Strategy Development				
Baseline Data Collection	9	3	12	0%
Country Assessments	224	78	302	7%
FM Activity Data Base	90	32	122	3%
FM Activity Eval./Monitoring	374	131	505	12%
Activity Identification	220	77	297	7%
Detail Strategy Development	178	62	240	6%
TOTAL STRATEGY DEVELOP.	1095	384	1479	36%
Home Office and Unalloc. Costs	710	-710	0	
Evaluation and Auditing	200	-200	0	
Inflation and Contingency	161	-161	0	
	-----			
TOTAL	4129	0	4129	100%
	=====			

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Project Costs By Element	Project Coord/Sec'y		Senior & S/T Consultant		US Technician		Local Seniors		Local Mid-level		Travel	
	Months	Amount	Months	Amount	Months	Amount	Months	Amount	Months	Amount		
<b>Sub-Project Activities</b>												
<b>Country Specific -</b>												
Direct Activities												
Costa Rica	389,000											
To Be Identified	500,000											
Principal Contractor support	116,163		4.50	66,788	2.00	25,000	1.50	7,875	5.50	16,500		
				0		0		0		0		
				0		0		0		0		
<b>Regional -</b>												
Symposiums	113,316		1.50	22,263		0	0.75	3,938		0	87,116	
Task Force	141,456		1.50	22,263	1.00	12,500		0		0	106,694	
Senior Training	365,423		5.00	74,200	1.00	12,500	3.00	15,750	6.00	18,000	265,965	
TA Support to Missions and HCs	322,259		13.00	192,942	4.00	50,000	2.00	10,500	5.50	16,500	2,318	
				0		0		0		0		
<b>Total Sub-Project Activities</b>	<b>1,968,618</b>	<b>0</b>	<b>0</b>	<b>25.50</b>	<b>378,463</b>	<b>8.00</b>	<b>100,000</b>	<b>7.25</b>	<b>38,063</b>	<b>17.00</b>	<b>51,000</b>	<b>512,093</b>
<b>Long-Term Strategy Development</b>												
Collect Baseline Information	9,188			0		0	0.75	3,938	1.75	5,250	0	
Country Assessments	224,406	0.50	5,200	4.00	59,367	3.50	43,750	5.00	26,250	22.25	66,750	23,001
FM Activity Data Base	89,413	4.00	41,667	1.00	14,842	1.00	12,500	1.00	5,250	3.00	9,000	6,155
FM Activity Evaluation/Monitoring	374,322	0.75	7,813	13.00	192,942	4.00	50,000	5.00	26,250	15.00	45,000	52,318
New Project Identification	219,757			8.50	126,154	2.50	31,250	2.00	10,500	6.00	18,000	33,853
Detail Strategy Development	178,431			8.00	116,733	1.00	12,500	2.00	10,500	3.00	9,000	27,698
				0	0	0	0	0	0	0	0	0
<b>Total Strategy Development</b>	<b>1,095,516</b>	<b>5.25</b>	<b>54,688</b>	<b>34.50</b>	<b>512,038</b>	<b>12.00</b>	<b>150,000</b>	<b>15.75</b>	<b>82,688</b>	<b>51.00</b>	<b>153,000</b>	<b>143,104</b>
Home Office and Unallocated Costs	703,735		361,563		252,300		50,000		0		0	39,864
Evaluation and Auditing	200,000											
Inflation and Contingency	161,265											
<b>TOTAL PROJECT COSTS</b>	<b>4,129,133</b>											
<b>SUMMARY</b>												
Country Specific Activities	889,000											
Principal Contractor Costs	2,878,868											
Evaluation and Auditing	200,000											
Inflation and Contingency	161,265											
<b>TOTAL PROJECT COSTS</b>	<b>4,129,133</b>											

TABLE IV.4

PRINCIPAL CONTRACTOR COSTS SUMMARY  
(Excludes Costa Rica sub-activity)

Description	Year One				Year Two		Year Three		Grand Total	
	Unit Price	Multiplier	Total U.P. (Col 2x3)	UNITS	Total (Col 4x5)	UNITS	Total (Col 4x9)			
<b>TECHNICAL ASSISTANCE - BURDENED COSTS</b>										
<b>US Firms</b>										
Project Coordinator	4,157	2.50	10,417	12	125,000	9	93,750	6	62,500	281,250
Senior Technician	5,937	2.50	14,842	12	178,100	12	178,100	12	178,100	534,300
Technician	5,000	2.50	12,500	12	150,000	12	150,000	8	80,000	300,000
Short Term Consultants	5,937	2.50	14,842	20	296,833	11	163,250	10	148,417	608,500
Secretary	1,500	2.50	3,750	12	45,000	12	45,000	12	45,000	135,000
TOTALS			56,358	68	794,933	56	630,106	48	434,017	1,859,056
<b>Local Professional Firm</b>										
Seniors	3,500	1.50	5,250	14	73,500	5	26,250	4	21,000	120,750
Mid-level	2,000	1.50	3,000	40	120,000	15	45,000	13	39,000	204,000
TOTALS			8,250	54	193,500	20	71,250	17	60,000	324,750
TOTAL U.S. AND LOCAL			64,608	122	988,433	76	701,356	57	494,017	2,183,806
<b>Travel and Per Diem</b>										
Senior Technician										
Trips			2,000	9	18,000	6	12,000	5	10,000	40,000
Days			100	200	20,000	88	8,800	74	7,400	36,200
Technician										
Trips			2,000	9	18,000	4	8,000	4	8,000	34,000
Days			100	200	20,000	60	6,000	60	6,000	32,000
Symposium										
Trips			700	75	52,500		0		0	52,500
Days			100	300	30,000		0		0	30,000
Steering Committee										
Trips			700	36	25,200	36	25,200	18	12,600	63,000
Days			100	144	14,400	144	14,400	72	7,200	36,000
Senior Training										
Trips			700	75	52,500	75	52,500	75	52,500	157,500
Days			100	300	30,000	300	30,000	300	30,000	90,000
Local Professional										
Trips			1,500	1	1,500	1	1,500	1	1,500	4,500
Days			100	15	1,620	15	1,620	15	1,620	4,860
Project Coordinator										
Trips			2,000	1	2,000	1	2,000	1	2,000	6,000
Days			100	15	1,500	15	1,500	15	1,500	4,500
Short Term Consultants										
Trips			1,000	11	11,000	7	7,000	5	5,000	23,000
Days			100	450	45,000	210	21,000	150	15,000	81,000
Total Travel and Per Diem					343,220		191,520		160,320	695,060
Grand Total					1,331,653		892,876		654,337	2,878,866

TABLE IV, 5

D. Methods of Implementation and Financing

With the exception of some limited amount of commodities which might be identified under sub-activities, this project consists of Technical Assistance to be provided by direct A.I.D. contracts. These contracts will be executed in A.I.D./W for the principal contractor, and either in A.I.D./W or the Missions for sub-activities.

Therefore the planned methods of implementation and financing are as follows:

Element/Input	Technical Assistance
Method of Implementation	Direct A.I.D. Contract
Method of Financing	Direct Pay/Reimbursement
Amount ( \$ 000 )	\$ 4,129

V. PROJECT ANALYSIS

A. Summary Technical Analysis

The technical analysis is contained in Annex A.1 to the project paper.

The analysis is structured in the following manner:

- Identification of the Problem
- Reasons for A.I.D. Concern
- Past Interventions
- Alternative Solutions
- Why a Regional Project
- Project Strategy

In the first section, the analysis discusses and cites a number of prior studies and reports which substantiate the conclusion that there is a prevalence of weak financial management systems in developing countries. It also concludes that there is a need for a systematic approach to developing a long-term strategy for donors and HCs to address the problem.

The reasons for A.I.D. concern are covered in the next section which examines and discusses the need for HCs to effectively and efficiently utilize their scarce resources as well as donors concerns over effective utilization of their funds. The analysis points out the increased reliability placed by A.I.D. on HC financial systems as A.I.D. staff is reduced. For this reason A.I.D.'s accountability often is inextricably linked to the level of performance of HC financial management.

The section on past interventions analyzes, to the extent possible, their relative success in improving overall financial management. The analysis concludes that, from the data available, it appears most activities failed to achieve a major impact on overall HC financial management. One caveat is that there is a lack of real information on most of these activities, since many of them were subordinate parts of other projects, and were often not evaluated in terms of their success in improving financial management at either the micro or macro levels. Past evaluations focused on achieving the overall project objectives, to which financial management activities may have contributed. Therefore, there is little "lessons learned" information available in the financial management area.

Alternative solutions to the one finally proposed are analyzed in the following section. A macro approach on a country by country basis, while an ideal solution, is impractical for a variety of reasons. Other approaches discussed are extensions of the types of activities which have been carried on in the past. The analysis concludes that the evidence to date indicates that these activities have not had a significant impact on overall improvement in HC financial management. However, the activities should continue and be closely observed and monitored. Results from this project will provide a means of improving the utility of such activities in addressing HC overall financial management problems.

The regional approach is appropriate since there is a need to determine constraints in individual countries, identify needs to address the constraints, evaluate past financial management activities in the region, and develop a strategy for both selected countries and the LAC Bureau. Adaptive methodologies, tested in a number of countries, leading to the development of sound long-term strategies can only be developed on a regional basis. The opportunity to examine past experiences throughout the region and test theories in a number of pilot type activities will provide for the development of more realistic and implementable approaches with broader applicability and adaptability. Naturally, a LAC Bureau strategy could not be developed without an analytical review of the financial management problems in the region as a whole.

The above analyses lead directly into the proposed strategy for this project. In summary, the technical analysis proposes the following:

- Initiation of a number of country specific sub-activities which will respond to current targets of opportunity while providing a basis for analyzing, evaluating, and testing the effectiveness of different interventions in addressing HC financial management. Emphasis will be on their relative success in replicability and sustainability.
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- Initiation of several regional activities for the same purpose. Activities would include symposiums, seminars, and training for senior level HC personnel. The establishment of a financial management task force with representatives from participating countries will provide a mechanism to exchange information on the progress under this and other projects. The principal contractor will also provide limited assistance to missions and HCs in designing and evaluating non-project funded financial management activities.

- The development of country specific and LAC Bureau long-term strategies utilizing the following process:

- Development of baseline information in 10 countries on the level of performance in the area of financial management.

- Conducting four or five specific country assessments to identify financial management constraints and needs to address the constraints.

- Evaluation of recently completed and ongoing financial management activities of A.I.D., HCs and other donors from a "lessons learned" perspective.

- Development of long-term strategies for countries assessed and the LAC Bureau.

- The preliminary identification of activities, consistent with the strategies, to be carried out by either A.I.D., the HCs themselves, or by other donors.

## B. Administration

### 1. Role of the LAC Controller's Office

A.I.D. Washington project management responsibilities will reside with LAC/Controller's Office (LAC/CONT). Technical support and project backstopping will be provided by one of the finance offices within LAC's Office of Development Resources (LAC/DR). A.I.D.'s Financial Management staff (FM) will participate in an advisory capacity on a project committee. It is expected that there will be only one major contractor for implementation of assessments, baseline data collection, evaluation of existing projects, and strategy development. However, the flexibility built into this project, and the close cooperation required between contractor, A.I.D./W, and the Missions will require careful and continuous monitoring.

Selection of countries, sub-project activities, and the utilization of short-term TA will all require LAC/CONT monitoring.

Sub-activities funded under this project will be implemented in one of three ways:

- Individual Missions may contract directly for any services or commodities required, or
- A.I.D./W may contract for such requirements.

Depending on the method used, the LAC/CONT will be involved in Mission coordination, preparation of SOWs and PIO/Ts PIO/Cs or PIO/Ps, selection and monitoring of contractors, and follow-up on commodity delivery or participant training.

## 2. A.I.D. Washington Roles

The LAC Bureau currently does not have one office charged with handling regional projects. It does, however, have the necessary expertise within the LAC/CONT and LAC/DR, in both the finance and technical divisions.

A project committee with representatives from those two offices, FM, and Contracts should provide regular guidance and backstopping to the LAC/CONT.

## 3. Management Responsibilities

Flexibility in management will be the key to successful implementation of this complex project. However, while avoiding rigidity in management approaches, it will be necessary to clearly delegate responsibilities for certain actions. Below is a suggested starting point which can be modified as circumstances dictate.

### a. Host-Country Capability

The question of HC capability in relationship to sub-activities will be addressed during the design of each sub-activity. Accountability or financial management concerns as they relate to project funds will primarily be the responsibility of the direct A.I.D. contractor.

### b. Specific Responsibilities

Listed below are the anticipated responsibilities to be assigned to the Project Committee, LAC/CONT and missions. An initial task of LAC/CONT will be to expand, clarify, and reduce to writing the specific responsibilities and operating procedures taking into consideration suggestions or modifications resulting from the PP approval process. These should then be approved by the Director of LAC/DR and the Director of LAC/CONT and transmitted by cable to the field.

(1) Project Committee

The project committee will have two principal responsibilities.

- The committee will provide general support and assistance to LAC/CONT. This will include assistance in preparation of project documentation as required, such as, PIOs, RFPs, implementation type letters, etc.
- The committee will reviewing all sub-activities proposed for approval by the Chief of LAC/DR.

(2) LAC/CONT

LAC/CONT will have day to day responsibility for monitoring the project. Such responsibility will include the following actions or activities:

- approval of contractor semi-annual implementation plans.
- approval of selection of countries for baseline data collection and assessments.
- approval of the use of short-term TA under the contract in support of Mission or HC specific requests.
- coordination of regional project activities and sub-project activities with bilateral missions.
- review of, and presentation to the project committee for approval, all proposed sub-project activities.
- establishing an agreed upon mechanism between A.I.D./W and missions on responsibilities for management/oversight of sub-project activities in country. Lacking agreement otherwise, LAC/CONT will retain responsibility.
- other general project monitoring activities including procurement, project officer's certification, monitoring of reports, and implementation tracking.

(3) Mission Responsibilities

The Mission will have the following responsibilities in relation to both sub-project activities in country and regional activities being carried out in the country.

- approval of travel of all contractors to the country.

- assist/advise, if desired, in the selection of participants in regional seminars or training
- approval of the carrying out of baseline collection, assessments, and evaluation activities in country, but not approval of scopes of work for the exercises.
- full responsibility for any activities which are implemented solely with HC local currency, even though they may be treated as pilot efforts to be monitored under this project. Any TA from this project would be arranged and coordinated with LAC/CONT.
- if desired the following responsibilities will be carried out by the Mission as well:
  - design of sub-activities for inclusion under this project authorization. Final approval for inclusion will rest with LAC/CONT.
  - full implementation responsibility for the sub-activity, including such things as Project Grant Agreements, contracting, procurement, and sub-project monitoring.

#### 4 Sub-Project Process

##### a. Identification

Sub-project activities which will be funded under this project will be identified by either the Mission or the principal contractor. It is assumed HC ideas will be channelled through the Mission.

If identified by the contractor, these should be discussed in general terms with the Mission and Mission concurrences acquired before entering into any detailed design efforts.

Once the principal contractor is on board, any Mission identified activities for project funding should be discussed with the contractor and not submitted directly to A.I.D./W.

##### b. Design and Approval Process

A mission may take the initiative in design of the activity but should utilize the technical assistance available under the funding for the principal contractor to assure that the design is consistent with objectives of the project.

Conversely, if the timing is convenient, (later in project life) the principal contractor can be called upon, with concurrence of LAC/CONT to carry out the design.

Design should not require the full analyses required in a normal PID or PP. A "mini PP" or some other document should suffice. Guidance should be developed by LAC/CONT and transmitted to all participating missions. One advantage of this regional project should be easy access to project funds for small activities. Involvement of the principal contractor will help in being able to streamline the process.

### c. Implementation

Selection of contractors to implement sub-activities will be carried out by normal contractor selection procedures.

Consideration was given to including all such activities under the principal contract. However, aside from contracting problems (inability to clearly define activities at the time the contract is awarded), such a procedure would take away from the Missions the opportunity to select their own contractor. In some cases a qualified local firm might be appropriate. However, any separate contracts should clearly indicate the regional nature of the activity and provide for input and monitoring by the principal contractor

### C. Economic Analysis

Accurate financial and management information is required to allocate government resources efficiently, to permit factual audits, and to monitor and evaluate projects and programs. GAO, World Bank, and A.I.D.'s Office of the Inspector General have concluded that insufficient financial management poses a severe constraint to efficient resource allocation and to accountability.

Given the nature of the proposed project, it is not possible to quantify the monetary benefits that will result from the project, and therefore it is not possible to estimate an internal rate of return; as the project "output" cannot be quantified in physical terms, it is not possible to estimate a least cost solution for a given level of output.

The Technical Analysis Annex details the different possible approaches that could be used to improve financial management in Latin America, and concludes that the proposed solution has the following advantages: a) its regional character can develop a methodology with universal applicability throughout

the region, thus reducing the costs of follow-up activities; b) the regional character will permit the development of a common monitoring methodology; and c) as it is not linked to the improvement of financial management for a particular project, it can have a systemic effect within the public sector.

The proposed project is designed to improve financial administration systems and capabilities which are prerequisites of sound economic decision-making and efficient public sector management. Improvements in financial management and public accounting and controls are central to the efficient utilization of Latin America's extremely scarce fiscal resources. Given the high-levels of public spending and the relatively inefficient public sector institutions in Latin America, expected improvements in public sector efficiency justify the expenditures envisaged under this project.

#### F. Financial Analysis

The nature of this project, with the exception of the specific country sub-activities, precludes the traditional types of financial analyses. Each sub-activity which is submitted for project committee approval will also contain a section on financial analysis. This should include any necessary review of implementing institutions capability to implement the activity.

The remainder of this project's activities will be carried out by contractors. While HC personnel will participate in training courses, symposiums, and seminars, no institutional capacity is required to participate, nor are their counterpart funds to administer or control, other than maintenance of regular salary payments during training courses.

When prepared missions will submit a proposal to LAC/CONT, LAC/CONT will prepare an action memorandum about the sub project for approval by the Director, LAC/DR. This action memorandum will contain a detailed description of the project, its purpose, expected outputs and inputs, including host-country owned LC. The action memorandum will also explain how the sub-activity will be obligated, implemented and evaluated. The Project Committee and GC/LAC will clear this memorandum prior to approval by the Director, LAC/DR.

A cost comparison of different approaches is difficult because the objectives of each approach, while addressing the overall problem of improving financial management, are decidedly different, and do not always have improving overall HC financial management as their objective.

The funding of a large number of country specific macro activities would appear to be exceedingly expensive. This type

of approach, even if funds were available, to address the problem in all countries, is likely to be significantly more expensive to the donors, since it is donor driven, and most costs will therefore be borne by them.

This project, on the other hand, starts a long-term process, based on the assumptions that

- long-term improvement in financial management must be HC driven from the top level, and

- that a continuing series of small activities, many funded and carried out by the HC, based on a professionally developed strategy, will provide the best mechanism to long term improvement of HC financial management.

The acceptance of this approach in this project, which will initiate the first steps in the process, appears to be the most economical methodology to be used in addressing HC financial management weaknesses. In terms of A.I.D. funding, it has the added advantage of developing professionally acceptable country strategies and identification of specific interventions under these strategies which will be more saleable to other donors.

## VI. IMPLEMENTATION PLAN

The project description section has explained the goals, purposes, and outputs expected from this project and has outlined the strategy the project will use for attaining them.

This section details the steps needed to execute the strategy and the responsibilities for carrying out those steps. At the end of this section is a time line chart which lists various implementing actions and shows the expected starting time and the period during which the implementing action will be carried out.

In addition, this section will identify issues resolved during the design of the project and highlight any issues which may need to be resolved during implementation of the project.

### A. Contractor Selection

#### 1. Single or Multiple Contractors?

This project's various discrete activities ideally should be implemented by a single contractor. The principal thrust of this project is to arrive at methodologies and strategies which will be effective in addressing financial management

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constraints in developing countries. However, a significant portion of the project funds will be used in direct sub-project activities. These activities provide a mechanism for testing and evaluating various methodologies as they relate to improving HC financial management at the macro level. The sub-activities are likely to have lower level purposes than improving HC overall financial management. Having such activities carried out by the principal contractor would allow better control, monitoring, and feedback and would likely lead to better overall methodologies and strategies.

Having said all of the above, the real world dictates that some flexibility be built into the project to implement country specific sub-projects. Missions are expected have a significant management role in sub-project implementation. Indications from some missions are that they are interested in working through this regional project, but they prefer to determine their own contractor and manage the activity.

Therefore, the ideal contracting format would allow for the selection of a contractor for all activities except unidentified country specific sub-activities while allowing easy, quick access to the contract for carrying out the sub-activities if desired.

## 2. Request for Proposal

A statement of work (SOW) for the principal contractor has been prepared in conjunction with this PP preparation. A copy of the SOW is included as an Annex. Included as part of the SOW are factors for evaluating the proposals from potential contractors.

One factor worth focusing on is the requirement that the contractor have the ability to work through and utilize the services of local professional firms. The project design anticipates that much of the work can and should be done utilizing local professionals. A review of the projected work force requirements (See Technical Analysis, Annex I) shows the heavy involvement of local professionals in almost every element of the project. The estimated percentage usage of U.S. vs local professional staff is summarized below.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
Home Office	20%	27%	32%	25%
U.S. TA	36%	46%	43%	40%
Local Professionals	44%	27%	25%	35%

The successful contractor should demonstrate an ability to operate in this mode. The actual relationship between the U.S. Contractor and the local professional is critical. A direct sub-contracting, head hunter approach would not likely be successful in the tight implementation time frame proposed for this project.

It is also important that the contract be carried out by highly respected professionals in the field of financial management. This project will not only be developing professionally sound long-range strategies and methodologies, but also will have to create or strengthen the proper attitude and commitment in high level government officials. These officials may or may not understand the broader aspects and utility of improved financial management. The stature and professionalism of the technicians and the contracting entities thus become extremely important in carrying out the project.

The projected start date for the contractor is October 1, 1988.

#### B. Contractor Implementation Plans

The contractor will be required to submit to A.I.D. for approval a semi-annual implementation plan. This plan will describe specific time frames for carrying out project activities and identify the resources needed. Because contractor activities are heavily front loaded with assessments, data collection, and sub-project identification, the contractor will provide a six month implementation plan within the first month of the contract.

During the first year it is anticipated that the contractor will collect all baseline data, complete up to five country assessments, and have established a data base of financial management activities in the ten countries. In addition, sub-project activities for funding under the project will have been designed and approved and implementation should be underway.

The remaining portion of the contract will be devoted to carrying out regional sub-project activities; evaluation, testing, and follow-up of the sub-project and non-project financial management activities; refinement of assessment and baseline collection methodologies; and the development and refinement of long-term strategies.

### VII. PROJECT MONITORING AND EVALUATION

#### A. A.I.D. Washington Responsibilities

The flexibility built into this project, and the close

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cooperation required between contractor, A.I.D./W, and the missions will require careful and continuous monitoring. As noted in a previous section, monitoring responsibilities will reside with the LAC Controller's Office (LAC/CONT). LAC/CONT's responsibilities include: approval of semi-annual implementation plans; country selection; approval of the use of short-term TA under the contract; coordination of activities with bilateral missions; presentation for approval of proposed sub-project activities; establishing a mechanism for management/oversight of sub-project activities in country; and other standard project monitoring activities, including procurement, project officer's certification, monitoring of reports, and implementation tracking. A project committee composed of officers from LAC/CONT and LAC/DR, FM, and Contracts will provide regular guidance and backstopping to the LAC/CONT. Approval by the Director of LAC/DR will be required for all country-specific sub-activities.

#### B. Mission Responsibilities

LAC missions will have a critical role in the design, implementation and monitoring of both sub-project activities in country and regional activities being carried out in the country. While this project cannot and should not attempt to spell out how individual missions will organize to carry out and monitor performance as it relates to the particular Mission, it is important that each Mission formally designate a unit within it to act as a point of control and coordination.

Participating missions will be responsible for monitoring contractor's performance in-country and for assuring that proposed activities comply with A.I.D.'s policies. Each Mission will be asked to report to LAC/CONT on activities in country, and will also be asked to participate in the evaluation of each year's Action Plan as it relates to that country. In addition, for activities which the missions implement under this project they will have full responsibility over such items as Project Grant Agreements, contracting, procurement, and sub-project monitoring.

#### C. Evaluation and Audit

This project consists of a series of direct interventions and assessments related to improving financial management capabilities of LAC governments. As such, evaluations are fully integrated into the structure of the project. It is expected that information flowing from the country assessments, the baseline data and the data base of financial management capabilities will provide the feedback needed to permit the elaboration of interventions for testing and for the design of the LAC Financial Management Strategy.

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The project contains sufficient funds to cover both evaluation and audit. While flexibility is contained in the budget, the estimated split is \$50 thousand for audit and \$150 thousand for evaluation. Evaluation of this activity is critical because of the testing or preliminary nature of the activity and the potential world-wide application of the approaches developed.

Schedule

Mid-Term Evaluation	March 1989
Final Evaluation	November 1991

The LAC Bureau will conduct at mid-point in this project's implementation a review of the project's management and its operations to determine the extent to which these have facilitated or impeded implementation of the planned set of activities. In the final months of this project there will be an evaluation of the project to evaluate its performance in relation to the end-of-project indicators. This evaluation will be used to determine: (a) the achievements of this project; (b) how to proceed with the recommendations to be incorporated in the strategy; (c) the feasibility of a regional approach vs. a series of bilateral projects or activities.

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## TECHNICAL ANALYSIS

### Identification of the Problem

Overall weaknesses in Host Country (HC) financial management are acknowledged as being prevalent throughout the developing world. This technical analysis is not based on any new original research to redetermine the validity of the premise that developing countries financial management systems are generally weak. There appears to be little need to perform such research, or to duplicate that which has already been done in identifying the problem. A.I.D. and other development agencies such as IMF, IBRD, CIDA, etc. have recognized this constraint to effective and efficient utilization of resources and have, to varying degrees, instituted projects or programs to address the problem. What has been lacking has been any attempt to address the problems of HC financial management by accepting the long term, upwards of ten years, nature of the solution and approaching it through systematic problem identification and analysis and developing a rational long term methodology or strategy of small interventions. This project, in addition to significant direct activities aimed at immediate improvement in financial management of selected countries, will develop and test such an approach, which can then be used by A.I.D., HCs, and other donors.

The rest of this section will review the findings of (A) the General Accounting Office (GAO) reports, (B) AID Inspector General (IG) audit reports, (C) a report on Improving Host Country Financial Management prepared by Price Waterhouse (PW), and (D) responses from A.I.D. field Missions to the concept paper and PID for this project.

### General Accounting Office (GAO) Reports

#### GAO 1979 Report, "Training and Related Efforts Needed to Improve Financial Management in the Third World"

This report focused principally on the shortage of trained financial management personnel as the major constraint to improving HC financial management. The Digest of the report states that

"The absence of effective financial management in developing countries is a major obstacle to the optimum use of resources, both internal and external, that are available to improve the standard of living in Third World countries. Effective financial management is essential because anything less dissipates available resources and thwarts development."

The report goes on to state that in many cases financial information is:

- incomplete,
- unreliable,
- untimely, and
- based on systems lacking an integrated approach.

The GAO accepted the need for A.I.D. and other donors to focus heavily on programs directed at the poor majority but concluded that the failure to address financial management improvements would result in continued ineffective and inefficient use of what scarce resources are available. Recommendations made were somewhat general but directed toward obtaining an increased focus on improving HC general management, but particularly financial management, in both A.I.D. programs and in other international donor organizations.

GAO 1984 Report, "Financial Management Problems  
in Developing Countries Reduce the Impact of  
Assistance

This report was prepared to determine how A.I.D. and other donors can better meet the financial management training and technical assistance needs of developing countries. The report is based on discussions with major donors as well as questionnaire responses from 30 developing country's national audit agencies. The report cites World Bank reports which indicate the inability of HCs to establish and maintain accounting records in accordance with sound accounting principles, and that financial control and reporting of financial information is insufficient for sound financial management and execution or development of HC policies and strategies.

Of particular note is the GAO report's finding that A.I.D. has not established a systematic long term approach to improving financial management capabilities. It states that A.I.D.'s approach has either been to include financial management as part of an overall public administration or institution

building activity, or to include financial management activities as a limited component of regular development projects. Neither approach adequately addresses the broader country wide issue.

The GAO recommended that A.I.D. establish a long-term program for financial management assistance. As part of that recommendation the report suggested that the program should

"begin with a complete documentation of financial management training and technical assistance provided by A.I.D. and other donors and the identification of developing countries not yet receiving adequate assistance . . . ."

In summary, this and the prior GAO report clearly identify both the need for broad, long-term well directed assistance in financial management to most developing countries and the accumulation of a data base of financial management activities world wide.

This project will address, for the LAC Bureau, the recommendation for a careful systematic approach to assessing needs and constraints, identifying a long term strategy for improving financial management, and establishing a limited data base to be used for evaluative purposes. At the same time the project will expand direct interventions in response to specific mission or country interest. Such direct interventions, while sometimes targeted at a particular problem, will be designed to have the greatest effect on overall HC financial management.

#### A.I.D. Inspector General Reports

A.I.D. Inspector General Audit reports have consistently identified weaknesses in financial management of HC implementing organizations. Major weaknesses identified by the IG reports on the Sahel were responsible for the establishment of the Sahel Regional Financial Management Project (SRFMP). In particular Audit Report Number 81-35, dtd Jan 29, 1981, was responsible for Congressional legislation requiring the A.I.D. Administrator, prior to disbursing funds to any Sahelian government, to "determine that the foreign government will maintain a system of accounts with respect to those funds which will provide adequate identification of and control over the receipt and expenditure of those funds".

The Inspector General issued a "Report on Summary Results of the Inspector General's Deficiency Tracking System as of

December 31, 1986". Part of this report summarizes deficiencies identified concerning HC management. Exhibit I is an extract from that report and was cited also in the Price Waterhouse report mentioned in the next section.

Exhibit II, below is a summary from the IG's 12/31/87 deficiency tracking report. The Exhibit identifies only those deficiencies directly related to HC financial management. Exhibit I covers the years 1981 through 1986. Exhibit II includes only reports issued in 1987.

### EXHIBIT II

<u>Deficiency</u>	<u>Frequency</u>
Accounting and Controls Inadequate	3
Accounting for Funds Inadequate	3
Accounting for Vehicles and/or Commodities	
Lacks Adequate Controls	1
Audit Provisions Not Implemented	1
Evaluation of Projects Not Being Made	1
Financial Contributions and/or Support	
Not Being Fulfilled	2
Interest Income Not Reported to A.I.D.	1
Policies and Procedures Need Improvement or	
Not Implemented as Required	2
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IG audit reports for the most part are directed at the project or program level. Thus most of the deficiencies identified in their reporting system will reflect situations in project implementing organizations as they relate to A.I.D. projects. They may or may not indicate across the board deficiencies throughout the organization or HC systems. However, based on GAO reports and the findings in the Price Waterhouse report, the deficiencies most likely are endemic to the country financial management system as a whole.

As indicated in the GAO reports mentioned above, most of A.I.D.'s activities in trying to improve financial management have been done as part of other regular development projects. Such activities are frequently generated as a result of institutional or administrative reviews of the implementing organization at the time of project design which have identified weakness in the financial management systems. From

continuing recurrence of financial management deficiencies identified by the IG, mostly in project related audits, one can conclude that such attempts to improve financial management in this manner have been largely unsuccessful, even at the project level. It follows, therefore, that it would be rare that such activities would have any long term replication or spread effect within the HC as a whole.

This project will identify the most successful direct activities and provide guidance as to how such interventions can best be designed to improve replicability and sustainability.

Price Waterhouse "Report on Improving Host Country Financial Management"

In 1987 A.I.D. commissioned Price Waterhouse to carry out a study and prepare a "Report on Improving Host Country Financial Management". The scope of work for the study called for the development of an A.I.D. strategy for improvement of LDC HC financial management as it relates to A.I.D. projects. The study was constrained by inability to travel overseas and the lack of any A.I.D. data base relating to donor assistance for HC financial management improvement. In spite of these constraints, the study is a comprehensive review which

- analyses the problems of inadequate financial management,
- reviews past and current approaches toward HC management,
- examines current A.I.D. management perceptions, policies and organizational constraints to addressing improved financial management, and
- presents a series of findings and recommendations for developing an A.I.D. strategy in the area of HC financial management.

The report confirmed the findings and general recommendations of the GAO reports based on Price Waterhouse experiences overseas, A.I.D./IG reports, evaluations, and discussions with other donors. Price Waterhouse supported the GAO recommendation that A.I.D. award a higher program priority to improving HC financial management.

Many of the recommendations are directed at Agency level actions necessary to raise the issue and importance of improving HC financial management to a higher level both operationally and structurally within the Agency. However, the report falls short in developing a strategy to be followed by A.I.D. for improving HC financial management. The lack of adequate data in A.I.D. on the subject of HC financial

management precluded the development of such a strategy. The report does lay out a two-phase approach to developing a strategy.

For a full description of their recommendations see pages I-20 through I-25 of Attachment A. Recommendations which are pertinent to this project are:

#### Phase A

"AID needs a short preparatory period, not to exceed one year, for collecting and analyzing relevant data, assessing needs and initiating the policy/program adjustments essential to plan and implement an Agency strategy and action plan for improving LDC financial management. During this period, an AID financial management database will be developed, worldwide needs will be assessed, policies and priorities will be formulated and, most important, pilot financial management improvement projects will be implemented in selected LDCs to test and refine alternative programming options. By the end of Phase A, AID will be in a more suitable position to prepare a strategy and action plan to improve LDC financial management".

#### Specific actions...

- Define the appropriate information requirements and undertake a field survey of USAIDs and other bilateral and multilateral donors in LDCs to gather data on financial management assistance needs and activities for an AID Strategy and Action Plan in this area".

Other specific actions under Phase A are directed toward policy and organizational changes necessary within A.I.D. and are beyond the scope of this project, but address such things as:

- Establish an A.I.D. Policy on improving HC financial management.
- Prepare and issue worldwide accounting and reporting standards and guidance to USAIDs in assisting in HC compliance.
- Make the necessary organizational arrangements to establish responsibility and leadership for improving HC financial management.

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Phase B would encompass the preparation of the Long-Term Strategy and Action Plan based on the results of Phase A. Specific actions recommended also include further organizational changes, training, and expanding multilateral cooperation in carrying out programs of improving LDC financial management.

While the one year time frame for carrying out Phase A, some of the organizational changes, and some of the alternative development strategies proposed in the report, are unrealistic, the basic concept of the necessity for test activities, needs assessments, and data collection is valid and forms the nucleus of this project.

#### Mission Responses to Project Concept Paper and PID

As part of the project design process all LAC Missions were provided with the project Concept Paper and the approved PID.

Responses have been analyzed and incorporated into the preparation of Project Paper where appropriate. While responses vary significantly, in areas of need or concentration, they do generally support the conclusions reflected in other documents of the need to improve overall financial management. In general there was support for the project. Ten of twelve respondents stated they were interested in participating, only one said "no". All eleven of the Missions answering to the question of HC possible interest, responded positively. It appears that interest in improving financial management is receiving more attention and acceptance from both donors and HCs as well.

#### Reasons for AID Concern

##### Effective Utilization of Resources

Both the GAO report and the PW report cited above indicate that the primary concern or reason to address HC financial management problems is the effective and efficient utilization of scarce development resources. However, the problem is a little broader than development resources. Improved financial management will, of course, allow HCs to more efficiently and effectively utilize their scarce resources and the resources of donors in carrying out developmental programs. In addition, over the long term, the HC will be able to carry out all its programs and operations more efficiently. Thus, while intermediate direct beneficiaries will be the HC staff and

managers who will be better trained, better equipped, and able to perform their responsibilities in a more professional and informed manner, the long term beneficiaries will be the people of the country through improved delivery of goods and services at lower cost and either reduced total tax burden, or increased level of benefits for their tax dollars.

The private sector will also be affected. Improved efficiency in government operations will increase confidence of the private sector in the appropriateness and rationality of government policies and programs. Improved tax administration and demand for accurate financial reporting from the private sector will both increase revenue and improve statistical information on which the government must base policies. In addition, in areas where the private sector is basing decisions on inaccurate or inadequate financial or economic information, overall improvements in operational efficiencies may result as a consequence of general improvement in the level of financial management in the country.

Not all of these results will occur in any given country. In addition, the extent of benefits will vary considerably. Major changes will only be realized over the very long term, ten to twenty years. However, a carefully designed and implemented strategy, will yield immediate short term results which reasonably can be expected to generate its own demand for continued improvement in financial management.

#### A.I.D. Accountability

Another important reason for improving HC financial management is A.I.D.'s desire and requirements for improved accountability over U.S. Government funds. A.I.D.'s accountability, as a result of decreasing staff and budget, has become more and more inextricably linked and directly dependent upon the financial management and accountability capabilities of the implementing HC. As A.I.D. staff have decreased, the ability to monitor in detail the expenditure of A.I.D. resources by HC implementing organizations has suffered.

The solution has been the increased use of specific project related financial management elements included in projects as a response to weak financial management in the HC implementing organization. Alternatively A.I.D. has used the services of local professional accounting firms to either provide the needed oversight and reporting or to assist the organization in improving its financial management systems.

A.I.D.'s payment verification policy, which is designed to periodically review and approve implementing organization's financial management systems and procedures, is a useful tool in identifying weaknesses and applying solutions as mentioned above. However, experience to date does not yet allow A.I.D. to place considerable confidence in this procedure.

None of the above solutions address the long term problem of HC financial management and in many cases, based on the incidence of deficiencies reported by the IG, may not even solve the immediate problem of project accountability.

A systematic long term approach to improving HC financial management appears to be the only real solution.

### Local Currency Accountability

The increased availabilities of HC owned counterpart local currencies, which A.I.D. has joint programming responsibility over, has gained the attention of Congress. Current guidance imposes stricter requirements on Missions in the monitoring and tracking of the uses of such local currency.

Joint programming of HC owned local currency can be a useful means of channelling resources into areas of special concern to A.I.D. and other donors. It is an excellent means of assuring needed counterpart for donor projects. Perhaps, most importantly, it can serve as a means of carrying out actions in response to various policy concerns, including utilizing the funds for local currency costs of improving financial management.

Unfortunately, in response to concerns of increased management, and/or a lack of confidence in HC financial management systems, many Missions are considering opting out of joint programming at the project specific level. Such a reaction, however, avoids addressing the basic financial management problems of the country and throws away opportunities for policy dialogue and planning of HC development programs.

A long term program to improve financial management will not create an immediate solution to the issue of monitoring HC local currency. However, the requirement for local currency monitoring is another reason that A.I.D. needs to place increased emphasis on the problems of improving financial management both from a short term and long term perspective.

### Past Interventions

A.I.D. has addressed the problems of financial management in HC institutions in a variety of ways over the years. This section will discuss briefly four of these interventions:

- Public Administration Programs
- Indirect Project Related Activities
- Direct Financial Management Activities
- Payment Verification Procedures

It is important to note that none of these activities were directed toward solving the HC's financial management problems at the macro, or government wide level. If not project related, they addressed issues in a particular HC organization, and with the exception of the public administration programs, were directed toward issues of accountability for A.I.D. funds. There has been no attempt to analyze objectively the constraints to improved financial management in a given country, or to assess the effectiveness of A.I.D.'s, other donor, or HC attempts to improve financial management, or the effect of such activities on overall HC financial management.

This project will do all of these things in selected countries and provide a methodology and strategy for carrying them out throughout the region.

#### Public Administration Programs

The Price Waterhouse report reviewed both A.I.D.'s past experience with public administration activities, and examined existing A.I.D. perceptions about public administration activities. Section III of their report covers the topic more fully.

PW found that evaluations of public administration activities over the years revealed mixed results. While successes occurred in some countries in transferring administrative skills, the desired results of increased economic growth and development did not necessarily follow. Public administration, as being applied in A.I.D. projects tended to divorce "management" from policy formulation and development. Financial management was only one aspect of public administration addressed in these projects. Therefore a more focused approach to improving financial management was not present, and obviously problems continue to exist in this area.

Near the end of the 1960s A.I.D. shifted into improving management in selected development areas, and by 1973 had focused on the delivery of benefits to poor majorities in areas

such as agriculture services, health and nutrition, population, and education and human resources.

PW found a general reluctance within the Agency to move toward direct financial management projects since they were felt to be a resurrection of the old public administration projects. There was also the belief that A.I.D.'s success in such projects had been less than satisfactory. The failure of a multi-regional financial management project (discussed in a later section) to get off the ground in response to the 1979 GAO report, has added to the disenchantment with financial management or public administration type activities.

### Project Related Activities

Financial management and accountability of A.I.D. resources has been of increasing concern for many years. The requirement for institutional and administrative analyses in the design of projects has identified weaknesses in financial accountability in many HC implementing institutions. The solution has been to either:

- have A.I.D. implement the project,
- require extensive oversight and documentation review of the HC institution, or
- provide technical assistance, training, or increased staff to raise the accountability level of the HC.

Under certain circumstances, disregarding any potential institutional development, it may be more economical and efficient to have A.I.D. implement the project through contractors. The time and cost necessary to bring a HC organization up to an acceptable level of financial control and accountability can often make such an approach seem logical at the Project Paper (PP) stage.

The option of requiring extensive oversight by A.I.D. is a reversal of the current trend toward relying more heavily on HC reports with only periodic test checking of the files and records in support of the reports. However, reliance on such reports requires assurance that the Mission can and will provide the necessary follow-up either using its own staff or that of local accounting firms.

Only the last approach provides hope of institutionalizing financial management in the implementing organization, or of having any broader long-term replicability in the HC government as a whole. However, as reported earlier, success has been

limited. This approach is termed an "indirect" or "enclave" approach by PW since the purpose of the project is not directed at improving financial management, and the benefits generally have not spread beyond the organization being helped, and have frequently not been sustained even within the organization.

Depending on the individual circumstances, any of the above approaches is an appropriate response by the Mission when there are concerns over HC financial management capability in the implementing organization.

This project should not discourage such activities. Rather it hopes to shift emphasis away from the indirect approach as being the sole solution to HC financial management problems. The project will help to design such indirect interventions in a manner to maximize to the extent possible the potential multiplier, institutionalization, or replicability effects of the activity.

#### Direct Financial Management Activities

##### Sahel Regional Financial Management Project

With the exception of the Sahel Regional Financial Management Project (SRFMP), there have been few projects designed to emphasize improved financial management in a broad context within the HC. Even this project in Phase I was directed principally at attaining necessary certification of accounting systems directly related to A.I.D. activities.

Phase II of the SRFMP has continued the program of support to accounting for A.I.D. projects, but has further expanded into attempting to institutionalize the gains of Phase I and to develop accounting professionalism in the HC and private sector as well.

However, the project, in institutionalizing the financial management practices, is principally addressing the organizations it has worked with in the past who deal with A.I.D. projects. No overall assessment of specific macro needs of a given country have been carried out. The presence of the contractors in country on a full time basis, coupled with the positive effect of activities so far, have generated targets of opportunity in both the public and private sector which may provide long-term benefits. The project is one which bears close observation to learn what is and what is not working in terms of improving HC financial management at a government wide level. The approach is quite different from the one proposed here. Much will be learned from a careful comparison of experiences.

Phillipines Financial Management Project

The Phillipines is embarking on a major effort to raise the level of financial management in that country. The program which is a \$12 million 5 year project will address financial management problems in four line ministries and two central ministries.

The success of this project should also be closely monitored to provide information useful to maintaining a workable long-term strategy for improving HC financial management.

S&T Multi-regional Financial Management Project

This project, which was in response to the 1979 GAO report, never got off the ground. The PW report discusses the project in more detail in Section III, page 12. The same report quotes from the 1984 GAO report as follows:

"We found that the lack of success in developing this multi-regional approach represented, at this point in time, a lack of overall Agency focus and understanding of the issues on a country-specific basis. For example, internal AID discussions of opportunities for assistance in the financial management area indicated:

- A recognition that financial management problems were both pervasive and entrenched in much of the developing world. Therefore, their solution would require patient, well-targeted, and carefully conceived efforts by a variety of institutions over an extended period of time. The proposed project did not satisfy this criteria.
  
- A lack of agreement as to what role AID should play in the area. Concern was expressed that (1) AID efforts in the past had sometimes resulted in failure, but the causes of failure had not been analyzed from a "lessons learned" perspective, (2) there was little or no knowledge of activities being sponsored by other donors, and (3) it was not clear whether the Agency should stress academic-level training of high-level host government officials or in-country, on-the-job training of project management staff. These issues were not satisfactorily addressed in the proposed project design."

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The utilization in this project of pilot activities, country assessments, and evaluations of current and past activities by A.I.D. and other donors will respond to the issues raised above.

### Payment Verification

A.I.D.'s Payment Verification Policy can not really be considered a real intervention directed at improving HC financial management. However, as part of the procedures required under the Policy, the adequacy of the financial management systems and controls of HC implementing institutions is periodically reviewed. Where weaknesses are identified, recommendations for improvement will be made, and in extreme cases, project activities may be halted until corrections are made.

Thus, the activities currently being carried out in response to the Payment Verification Policy and the activities planned under this project will be mutually supportive and complementary. In fact, in the selected countries, the principal contractor should draw upon the findings of organizational reviews for both country assessments and evaluation of ongoing activities.

### Alternative Solutions

#### Macro Approach to Improving Host Country Financial Management

Obviously, the ideal solution would be to make the argument that with limited development resources from A.I.D., international donors, and the HC itself, the most practical long range solution to development is to first establish effective and efficient utilization of these scarce resources. Before continuing to waste additional resources, we should address the need to improve financial management on a macro basis in HC governments. In fact the PW report alludes to such an approach.

However, such an approach, even if it were to receive support, is simplistic. It fails to take into consideration the following factors:

- Existing projects, despite possible inefficiencies, continue to attain stated objectives in economic stabilization, growth, and the spread of benefits of growth. It would be foolish to stop such progress just because it may not be being executed in the most effective and efficient manner.

- The amount of resources and the time required to make a significant difference in a single country make it almost impossible to carry out such macro approaches in a significant number of countries, unless large amounts of funds and resources are diverted from existing or planned programs.

- Culturally and legally, many countries are not yet ready nor would they support such a macro approach to improved financial management. In countries where graft and corruption go hand in hand with political office, where politicians have significant private sector holdings which they do not want examined closely, or where political instability results in a short term perspective by in place officials, there is likely to be little interest or will to commit to a long term program to improve financial management.

This does not mean that this macro approach should be rejected out of hand. Where a government commitment exists, and resources are available, such an approach is still the ideal solution. In response to the PID, the Mission in Columbia reports that the Government of Columbia is very interested in using the professional team proposed in this project to conduct an assessment of its needs and constraints in the financial management area. The Government of Columbia has indicated that it is prepared to carry out a proposed program using its own resources. This project will benefit immensely from both the opportunity to do such an assessment and the subsequent monitoring of the progress during execution by the Government of Columbia.

### Continue Project Related Interventions

#### More of the Same

The relatively poor success in terms of replicability and sustainability of the project by project or enclave approach has been mentioned above. Such interventions are frequently confined to a specific line ministry or sub-ministerial office, or parastatal.

However, in spite of having a poor record as the overall solution to improving HC financial management, this approach has contributed significantly to A.I.D.'s accountability by increasing its confidence level in specific project level accounting and reporting. Such activities are usually included as elements within traditional functional account projects.

It should be emphasized that this project does not recommend the elimination of such approaches. It will be years before HC governments as a whole will receive passing grades in their overall financial management and accountability. In the meantime, such project by project approaches remain a valid and required means of allowing A.I.D. to rely on implementing office capabilities.

The project by project approach, however, should not be viewed as "The Solution" to improving HC financial management. The findings of the 1984 GAO report bear this out. A.I.D. cannot, therefore, merely continue to emphasize this convenient approach and maintain that they are being responsive to the constraints identified by GAO, PW and others.

#### Increased Emphasis on Multiplier Effect in HC

An outgrowth of this project should be the ability to analyze the effectiveness of such interventions regarding their macro effect and replicability on the HC as a whole. The results of such analysis along with TA under this project, can provide new techniques or methodologies which can be used by these project related activities to enhance the activities ability to have a more lasting or macro effect, while not losing sight of its original purpose, project level accountability.

#### Training

One possible solution would be to mandate a series on regional or country specific training activities such as:

- training of senior officials,
- training of accountants and/or auditors,
- Support to local or regional training institutions.

Some have argued that training is the solution to the problem. Certainly a lack of trained professional accountants and auditors is accepted as a significant constraint to improving HC financial management in almost every country. The 1979 GAO report emphasized the need for training.

Without the knowledge of how to use and apply financial information at the senior levels of government no significant changes can take place. The drive and demand for improved financial information in a HC will be most effective and rapid if it comes from the top. The contract project manager for the World Bank Administrative Reform Program in Jamaica attributes the success and continuation of that project to the direct support and interest of the Foreign Minister.

Certainly local or regional training institutions capable of turning out a continual supply of trained professionals will be required to maintain a high level of financial management in any country.

A project solely directed toward training would probably have some long term benefits to improving HC financial management. Training will play a significant role in this project, but not the only role. A decision to focus solely on training returns to the criticism cited by GAO of the S&T project, lack of knowledge of what is needed both in training, and in addressing other constraints. This project will first identify needs, HC commitment, and evaluate past successes before deciding on the proper intervention to include in a long-term strategy.

#### Other

The strengthening of local and regional professional organizations and assistance in establishing Generally Accepted Auditing Standards (GAAS) and Generally Accepted Accounting Principles (GAAP) have also received favorable response from many experts as being the "first step" or "best way" to solve the financial management problems of HCs.

The answer is the same. Such actions may be appropriate in a given country depending on various factors. However, there continues to be a lack of knowledge about what works and what the constraints are in a given country to improving HC financial management.

#### New LAC Initiatives

As this project paper was being prepared, a cable was sent to all LAC Missions by the Assistant Administrator for LAC. This cable (Attachment B) emphasized the need to strengthen both HC and private sector management, with special emphasis on auditing and financial management capabilities.

The cable requests all Missions to address audit and financial management capabilities in their Action Plans, or if Action Plans have already been submitted, in a separate cable response. Missions are to identify how they are planning improve HC capabilities in these areas. While Missions are encouraged to increase the use of dollar funding for this purpose, they are also to identify how local currencies can be used to strengthen HC audit and financial management capabilities.

### Why a Regional Project?

Given the emphasis being placed by the AA/LAC on improving financial management at the bilateral level, why is a regional project needed?

To summarize the points made in the sections above:

- Ad hoc project related interventions have not worked in addressing overall HC financial management capability for principally three reasons.
  - They were not designed based on addressing overall HC constraints, but rather constraints within a particular implementing institution.
  - Their principal objectives were accountability of project funds, not HC funds, and may have been set up apart from regular institutional systems.
  - Replicability, sustainability, or spread were not major concerns in setting up the activity.
- Some large interventions directed at overall HC constraints to improved financial management, by A.I.D. or other donors have been unsuccessful, also for three reasons.
  - Projects have been developed without careful analysis of the constraints and development of a realistic long range strategy.
  - The quality of TA has been poor and inconsistent due to a lack of understanding or application of GAAS and GAAP.
  - There has been a lack of will or lack of understanding of the usefulness of sound financial management at the senior or top levels of the government.
- The lack of a sound data base on financial management activities of both a direct and indirect nature carried out by donors or HCs has prevented a critical analysis of the success or failure of these activities in relation to overall HC financial management improvement.
- No standard methodology exists for evaluating the level or quality of financial management in a given country.

- No standard methodology exists for assessing the constraints to improving HC financial management.
- The GAO and PW reports recommend the establishment of a data base, implementation of pilot activities, evaluation of activities, assessment of needs, and establishment of a long term strategy.

In addition to a means of responding to the issues above, there are at least three things which are critical to the success of any specific country project:

- Knowledge of the benefits of and the ability to use financial management at upper echelons.
- The will and ability to implement a long term strategy.
- A professionally developed strategy based on an accepted methodology and analysis of constraints.

The regional project will have the following distinct advantages which are responsive to issues and concerns identified in this analysis and by other professionals working in the area.

- It can develop an assessment methodology which will have been tested in several countries and have universal applicability throughout the region.
- It can develop a standard methodology for establishing baseline measurements of the quality of HC financial management performance and enable measurement of progress and success of interventions. The testing of this methodology in several countries can not be done by a bilateral project.
- It can implement pilot interventions controlled and monitored as to success in attacking macro financial management problems and will have the ability to evaluate interventions not directly funded by this project in a number of different countries.
- It can accumulate needed information for establishing a data base on financial management activities in a significant number of countries.
- It can develop long term strategies which can easily be modified to fit individual country situations, and which can be implemented over a long time by limited interventions.
- It can provide a resource of experienced professionals

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available to missions and/or HCs to assist in design, evaluation, and redesign of bilateral or HC activities to assure that sustainability and replicability issues are adequately addressed.

### Project Strategy

Solving the problem of weak financial management in HC governments is a long-term multi-faceted problem. This project does not purport to solve the problem in even one country. Because of the long-term and high cost interventions required, it is unlikely that many donors will institute such a macro approach in any given country.

This project takes the position that a long range strategy can be developed for a given country based on the use of smaller activities which will have a continual incremental benefit to improving overall financial management in the country. Such a long range strategy must be based on (1) an assessment of the state of financial management in the country (including level of commitment to improving financial management), (2) an assessment of constraints to improving financial management, and (3) a knowledge of what types of interventions or approaches have had, or are likely to have the best results in achieving lasting effects on the financial management systems.

Until now projects dealing with financial management have not taken a systematic approach to the problem. They have been either short term interventions addressing a specific problem without a long term strategy, or if long term interventions, the lack of information on lessons learned has precluded the development of a more informed strategic approach.

This project will take advantage of the increasing importance being placed on improving financial management by A.I.D., other donors, HCs, and in particular the LAC Bureau. The project will proceed to fund targets of opportunity created by reactions to this regional project, and the general increased importance attached to financial management. The difference between these and prior ad hoc interventions is that these activities will be closely monitored with a view toward testing and modifying approaches directed toward long-term financial management improvement. Necessary modifications will be made based upon information from assessment and evaluation activities gathered and analyzed during the life of the project. They will not all be true "pilot" projects since some project ideas will have been generated and developed before

real analytical data is available. However, the project provides the opportunity to respond quickly to these opportunities while using them to enhance the data available to develop strategic methodologies.

The other activities under the project will lead toward the development of methodologies which can be applied throughout the region and could have applicability worldwide. First would be a methodology for assessing the current performance of a country in the area of financial management. Second would be the development of a constraints or needs assessment methodology through actual assessments in 4-5 countries. Third, the development of a methodology for establishing a long-term realistic strategy to improving financial management in developing countries. Finally, a long-term strategy for the LAC Bureau will be developed based on the results of the project activities.

All methodologies will be applied and tested in selected countries. Long-term strategies will be developed for the 4-5 countries assessed. Obviously the success of any individual long-term strategy can not be measured within this project life. However, the project will develop a means of periodically measuring progress as such programs are implemented.

The details of this approach are discussed below.

### Implementation of Sub-activities

#### Country Specific Sub-activities

As stated above, country specific activities, whether indirect project related activities, or activities addressed solely at a particular aspect of improving financial management in a country, should be encouraged. Since commitment of HC officials is perhaps the most critical element of any strategy, targets of opportunity should be capitalized on even before a long term strategy has been developed. Activities funded under the aegis of this project will have the added benefit of involvement of project advisors in implementation, and with the possible exception of Honduras, in the design of the activity. These activities since they will be so closely monitored by project staff will be considered pilot projects, used to test the effectiveness of different interventions in the long term approach to improving financial management. Obviously the short term nature of this project will inhibit the evaluation aspect.

In response to both the concept paper for this project and the PID, Missions submitted expressions of interest in both participating in the project and in having specific activities included under the project.

Possible project activities have been identified in Honduras, Costa Rica, Jamaica, Dominican Republic, and Colombia.

With the exception of Costa Rica, none of the activities have been analyzed sufficiently to include them specifically in the project. All sub-activities of this nature will have to be well documented and reviewed and approved by the project committee before approval for implementation.

Criteria for selection of sub-activities will include:

- expressed HC interest and commitment,
- level of HC financial participation,
- the likely benefit of the activity to developing methodologies and long term strategies, ("lessons learned" potential),
- possibility of replicability within HC, and
- relationship to other financial management activities ongoing in country.

#### Honduras

At this point in time only the Honduras project has clearly been defined as a sub-activity under this project. It has, in fact, been obligated separately. Attachment C is a copy of the project description which identifies the assistance being provided to the Controller General of the Republic. This activity will cost approximately \$500 thousand of appropriated funds, and the Government of Honduras will contribute an additional \$500 thousand in local currency equivalent.

#### Costa Rica

This activity is still being discussed with the Government of Costa Rica (GOCR). The initial expectation of a small intervention in the neighborhood of \$500 thousand was superceded by a more ambitious proposal from the GOCR which would be beyond the capacity of this project. The Mission is in the process of discussing and focussing the project for possible inclusion in the project. It is anticipated that project technicians will be actively involved in both design and implementation of this activity. Since the GOCR will fund 1/3 of the costs through local currency contributions, the anticipated cost to the project is \$389 thousand

### Dominican Republic

The Dominican Republic had proposed an activity to assist a small unit of the government develop financial management procedures for the monitoring of local currency uses. Total estimated cost of the activity is \$100 thousand. This activity will not be included for funding under this project. The principal reasons are that it is a relatively small activity focused on an operation which is somewhat outside the mainstream of government operations. It does not, therefore, appear to present an opportunity to test the effectiveness of interventions in relation to overall government financial management.

At this point it appears that the Mission will proceed using their own funds. However, in spite of the reasons for excluding the activity from this project, this intervention will be carefully monitored by project advisors.

### Colombia

Colombia has requested assistance in assessing constraints and needs to improve financial management. The government has indicated that they will be willing to carry out programs utilizing their own funds. Given their interest and willingness to carry out programs on their own, they have been preliminarily selected to be an early recipient of an assessment and the development of a long term strategy. It is anticipated that in spite of their willingness to carry out their own programs, a sub-activity providing limited TA under this project would be an appropriate use of funds and would encourage the use of the Colombian project as one of this project's pilot activities for monitoring purposes.

### Jamaica

The Mission in Jamaica, in response to the PID, identified two activities for possible funding under the project.

The first is in conjunction with a World Bank's and the GOJ's comprehensive Administrative Reform Program. The Bank has indicated an interest in having A.I.D. cofinance broad scale training of financial services staff. The component would provide basic and advanced teacher training and curriculum development for such training modules as budgeting, accounting, auditing, and financial analysis. A preliminary estimate of the costs is \$550 thousand.

The second possibility is in the area of debt management at the Bank of Jamaica. Needs include software, hardware and technical assistance. No cost figures have yet been provided.

Either of these activities would provide an opportunity to test specific interventions. The most attractive would be the establishment of in house training capabilities in financial management. However, additional information would be needed before a decision could be made on either possible activity

### Regional

#### Symposiums

Three symposiums are planned as an initial action under the project. These symposiums would be sub-regional and would include approximately five representatives from each LAC region country. Selection of the representatives would be agreed to by the contractor and the Mission. It is anticipated that representatives would be included from agencies such as finance, planning, budget, controller and/or audit, and possibly a line ministry. In addition, international or regional professional accounting, auditing, or financial management associations will be invited to send observers. The project will not provide funds for these observers. Each symposium would be for two days and the purposes would be to:

- generate increased interest in improving HC financial management,
- outline the purposes of this project and how each country can benefit or participate,
- identify task force members (discussed below) for each country (confirmation most likely would have to be received later), and
- gain any insights from HC senior personnel regarding the improvement of HC financial management.

#### Sub-regional Financial Management Task Forces

The project proposes to establish three sub-regional task forces. Each country in the group would have two or three members in the task force. (Professional organizations would be encouraged to send observers to the meeting at their own expense.) Since this is a regional project, it presents an

opportunity for increasing the cross fertilization of financial management ideas between countries. Also, since not all countries will participate to the same degree in project activities, it provides an interactive dissemination mechanism for project progress and results. Five meetings of two days each for each sub-region are planned. The purposes of such a group would be to:

- keep the subject of financial management improvement in the forefront with senior HC officials,
- provide an opportunity to exchange ideas on financial management,
- provide HC officials with a continual update of the findings, results, and progress being made under the project,
- provide an informal mechanism for discussion of financial management practices and standards in each sub-region.
- provide the contractor an opportunity to further test ideas and approaches in a non-country specific environment.

#### Regional Seminars/Training of Senior Level HC Personnel

Since success of any attempts to improve HC financial management will ultimately depend on the ability of senior level managers to utilize sound financial management information, training of senior level officers, in both line and staff positions, will be considered early on as an acceptable and appropriate regional activity. (The training of mid-level and lower-level staff, because of the larger numbers of personnel involved, is most appropriately addressed at the country specific level. Thus, such training activities would be identified as a result of the country assessments and strategy.) Courses will be held on a sub-regional basis for approximately 25 participants. Courses will be for three days at a time and approximately 9 will be held during the life of the project.

Emphasis will be on such topics as effectiveness and efficiency auditing, developing accounting and auditing standards, financial analysis techniques, utilization of financial information in decision making, methods of monitoring and controlling activity costs, budgeting, and financial reporting. General management courses and personnel

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administration would also be appropriate areas as they relate to financial administration and the development and maintenance of career financial staff. Topics are only illustrative and may vary with the region. It is also anticipated that the focus will shift later in the project as information flows in from the assessments and evaluations.

The principal contractor will conduct the courses in principally an interactive mode, with lectures kept to the minimum. The contractor should have the capability and experience to utilize relevant actual experiences from the region and/or other developing countries. The use of artificial case studies can be useful but should not be the principal teaching tool. A mix of 1/3 lecture, 1/3 actual case material and 1/3 illustrative case studies would be a good mix for this level group. The contractor in his proposal will be asked to suggest a specific approach, and the responses will be evaluated partially on this area.

#### Technical Assistance to Missions and Host Countries

Both full time and short term consultants under this project will spend part of their time assisting missions or HCs in designing financial management activities. Some of these activities may be encompassed within this project. Others will be mission responses to increased emphasis on improving HC financial management. The benefits gained by involving the advisors under this project will be:

- increased emphasis on sustainability even in activities which are elements of traditionally focused projects,
- establishment of regionally consistent baseline information to measure progress,
- inclusion of such activities in the overall assessment of lessons learned for developing effective long-term strategy methodologies,
- continuity and consistency of application of approaches to improving HC financial management, and
- putting into action the Assistant Administrator's recent request to focus on improving financial management and audit.

Develop a Long Term Strategy and Identification of Specific Interventions

The development of a long term strategy will be an evolving process throughout the project. The strategy developed will not be a specific step by step procedure to be applied indiscriminately to every country. Rather the long term strategy will be two things, a methodology which can be applied to any given country to arrive at a systematic long range plan for improving financial management, and also a long range strategy to be used by the LAC Bureau to systematically and rationally approach the problems of improving HC financial management. The latter will also include the identification of specific suggestions for immediate activities of either a regional, sub-regional, or country specific nature. The steps involved are discussed in the following sections.

Actual country selection for either base line data collection or country specific assessments and strategy will take into consideration the following factors which are listed in relative level of importance:

- Host country interest and apparent commitment to carry out whatever recommendations are forthcoming over both the long and short term.
- At least one assessment should be done for each of the three different types of financial management government structures in the region. Baseline countries should also represent a cross section.
- There are no other major financial management interventions taking place in a country selected for an assessment. For example, since experts tend to disagree, it would probably be counter productive to do an assessment in Jamaica where they are already embarked on a major program. However, Jamaica would be a good candidate for baseline collection because results of current interventions could be measured in a relatively short time.
- Because of the potential importance local currency programming can play in instituting financial management activities, at least two of the assessment countries should have local currency generations available.
- Relative political stability so that there is an expectation that commitments made now will be long lasting.

Based on a review of these factors in relation to the countries, and the responses received from the Missions,

Colombia, Costa Rica, and Dominican Republic have been selected for country assessments. The project officer, and the project committee will approve final selection of other countries.

#### Base Line Data Collection and Methodology

This technical analysis does not presume to dictate a methodology or system for collection of baseline data. In fact it should be the task of the professional staff of the consultant to both develop a methodology for collection of data and analyzing and evaluating the data.

A critical premise of this project is that small incremental activities, which are appropriately focused, can have, over the long term, a beneficial effect on overall improvement in financial management. Therefore it is critical that a methodology using objective, verifiable criteria be developed to measure the relative levels of performance of a countries financial management system. The same methodology can subsequently be used to measure progress.

A number of indicators have been used by different groups to measure such performance. These are outlined here to indicate that acceptable measurement techniques do exist. Some indicators will be more subjective than others. It is up to the contractor to develop and test an appropriate system.

The Trade and Economic Development Associates, Ltd. in measuring the performance of the government of Jamaica used such indicators as:

- Availability of statistical data base for performance analysis.
- Capacity for evaluation and research for performance analysis.
- Principal basis for internal financial management.
- Adequacy of management information systems.
- Timeliness of monthly and quarterly reports.
- Numbers and qualifications of financial staff.

In addition, they sent questionnaires to 140 financial personnel asking for their own evaluation of skills required for their job versus their own evaluation of their skill levels. Exhibit III shows the format used for the questionnaire.

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In a draft paper to be issued by the International Labour Organization, R. G. A. Boland and J. B. Wallace propose the use of a "staging" technique to provide objective indicators to measure the effectiveness of an accounting system.

The system uses a matrix which grades the quality of such things as data base, data quality control, timeliness of data recording, and timeliness of annual financial reporting. Each criterion is graded on a scale from excellent to very limited. In addition, such factors as staffing (quality, quantity, experience and stability), as well as environmental factors (legal, economic, political, social, and cultural) are also rated. An extract of this matrix is included as Exhibit IV.

The above examples serve to establish that comparative measures of performance can be established and measured. It should be clear that such measures are not a basis for developing a strategy for improving the level of financial management. The purpose of such information is to provide a yardstick against which to periodically measure performance.

Baseline assessments will be made in all of the countries (four or five) in which a needs/constraints assessment will be made. In addition, it is estimated that five additional baseline collections will be carried out by the contractor. Countries will be selected by the contractor and approved by A.I.D.

#### Perform Country Assessments

Specific country assessments will be carried out in four or five countries. The carrying out of the country assessment will serve to:

- identify specific constraints to improving financial management, including general management or personnel constraints affecting financial management,
- establish a long-term country specific strategy for addressing the constraints,
- identify possible immediate activities which can be carried out by the HC or donors, and
- provide a means of testing and refining the assessment methodology developed and used by the contractor.

Training at various levels, accounting principals and standards, cultural and political factors, accounting and

budgeting systems, automation, human resource development, role of audit, and legal constraints are just a few of the areas which will need to be looked at during the assessment.

Here also, the exact technique to be utilized by the contractor is not predetermined. It is recommended that the RFP for selection of the contractor require the respondent to outline an approach to both country assessments and baseline data collection. Such a requirement would provide the selection committee with a basis for determining the respondent's professional understanding of the problems and issues to be encountered in a project as critical to long term development as this.

The contractor must keep in mind that actual interventions are likely to be small and possibly intermittent. Proposed activities should therefore be ones which will have a visible impact, be sustainable, and will generate increased support for continuing the program of improving financial management. The long term strategy proposed should also take into consideration these factors. The level of commitment will sometimes dictate whether some of the less popular but necessary actions can be carried out. Momentum, once started must be maintained.

The testing benefits of these assessments should not be overlooked. It is for this reason that assessments are scheduled early in the project and not spread throughout the LOP. This approach will allow the contractor to observe during the project the success, acceptability of the assessment, and its recommendations, as well as to monitor progress on any interventions. Modifications can then be made to the assessment methodology as necessary.

#### Evaluation of recent and Ongoing Financial Management Activities

An observation made by both the GAO and PW is the lack of an informational data base of activities directed at improving financial management, either directly or as part of another project. The issue is one of lessons learned. As part of the development of long range strategies, either country specific or for the LAC region, there is a need to evaluate what has been done and what will or won't work.

Due to financial and time constraints, the project will take a limited look at projects in all countries where baseline information will be collected, as opposed to covering the entire region. However, such limited coverage should provide sufficient information on which to make informed judgments.

Procedurally, the contractor will obtain information on the nature of inputs, expected outputs, purposes, etc., of all projects within a country which are either ongoing or have terminated in the last three years. Project documentation and evaluations will be reviewed to determine the extent of emphasis placed on replicability and sustainability. The focus of attention should be on what effect the project is having or has had at the macro level of financial management. A project which successfully trains staff, installs accounting controls and systems, and successfully attains the objective of accounting for an immunization project's funds may or may not have any long term financial management benefits.

If necessary, the contractor will perform its own evaluation of such activities to determine the utility of the approach in effecting overall financial management improvement. In addition, ongoing activities should be monitored throughout the life of the project and progress against baseline benchmarks measured. Where possible and appropriate, the contractor will work with Mission or HC staff to modify these activities in order to enhance the likelihood of success in overall financial management improvement.

From this exercise, which is a continuing one, will come information which can be used to develop or modify long term country or LAC Bureau strategies.

#### Development of Long-term LAC Bureau Strategy

As soon as initial country assessments, baseline data collection, and initial evaluation of other activities has been completed, the contractor will develop a LAC Bureau Long-term Strategy for improving HC financial management. This strategy will remain flexible through the life of this project. Modifications will be made as more data and experience are gained. At the end of the project, a final recommended long-term strategy will be prepared for the LAC Bureau.

The strategy should include as a minimum

- suggestions for interaction with other donors,
- specific steps for the Bureau to carry out on a regional, sub-regional, or country specific basis,
- several optional approaches based on different assumptions of resources available and policy directions,
- consideration of other donor and HC interventions,

- considerations of the use of HC owned local currencies available for joint programming, and
- methods for continual monitoring of all activities and periodic updating of this strategy.

The most important aspects of a successful strategy will be realism in expectations of goals and purposes, an acceptance of the limited resources available to A.I.D., other donors and the HC, and the realities of the priority which will be placed on this type of activity which must compete with other functional accounts for resources.

#### Identification/Design of Specific Activities

Throughout the life of this project the contractor will be faced with a large number of potential activities. Donors, Missions, and HCs will all have ideas or pet projects. Once assessments and country baseline data have been collected, the contractor will start to analyze such possible activities and to present ideas of his/her own. Funding will be provided for a limited number of these activities within the project but not within the basic contract.

The contractor will design several activities in conjunction with the HC and/or Mission for presentation to the project officer. These initial projects should be specifically responsive to testing approaches identified as workable in the assessments, and to the extent possible at the time from evaluations. It will be more important, however, to get projects underway as pilot activities than to wait for results of the evaluations, which will be done later in the project, before starting the activity.

In addition, throughout the life of the project the contractor will identify potential new activities. The intensity of design efforts will vary depending on the likelihood of early funding. These activities will be used by the HC in soliciting funding from A.I.D. or other donors, or can be carried out on their own. To the extent any of these activities start up during the life of this project, the contractor will monitor and evaluate results to the extent possible.

## FINANCIAL ANALYSIS

The nature of this project, with the exception of the specific country sub-activities, precludes the traditional types of financial analyses. Each sub-activity which is submitted for project committee approval will also contain a section on financial analysis. This should include any necessary review of implementing institutions capability to implement the activity.

The remainder of this project's activities will be carried out by contractors. While HC personnel will participate in training courses, symposiums, and seminars, no institutional capacity is required to participate, nor are their counterpart funds to administer or control, other than maintenance of regular salary payments during training courses.

This section will confine itself to reviewing possible alternative approaches to accomplishing the project purposes.

### Alternative Solutions

Section IV of the Technical Analysis discusses other possible alternatives to solving the problem of weak HC financial management. Possible alternatives include:

- A country by country macro approach, through massive input of resources.
  
- A continuation of ad hoc, indirect project related activities.
  
- Training of HC staff at various levels.
  
- Encourage adaption of GAAP and GAAS through support to professional organizations.

The technical and practical reasons for the selection of the proposed approach, as opposed to any of the above, are covered in the Technical Analysis.

A cost comparison of the different approaches is difficult because the objectives of each approach, while addressing the overall problem of improving financial management, are decidedly different, and do not always have improving overall HC financial management as their objective.

The funding of a large number of country specific macro activities would appear to be exceedingly expensive. The Philippines project is estimated to cost \$9 million in A.I.D.

funding over five years. A longer time will be needed to expand the activity to all HC offices. This type of approach, even if funds were available, to address the problem in all countries, is likely to be significantly more expensive to the donors, since it is donor driven, and most costs will therefore be born by them.

This project, on the other hand, starts a long term process, based on the assumptions that

- long term improvement in financial management must be HC driven from the top level, and
- that a continuing series of small activities, many funded and carried out by the HC, based on a professionally developed strategy, will provide the best mechanism to long term improvement of HC financial management.

The acceptance of this approach in this project, which will initiate the first steps in the process, appears to be the most economical methodology to be used in addressing HC financial management weaknesses. In terms of A.I.D. funding, it has the added advantage of developing professionally acceptable country strategies and identification of specific interventions under these strategies which will be more saleable to other donors.

The other alternatives proposed above do not really address the overall problem, and thus, attempts at financial comparisons are inappropriate. On a year by year, or country by country basis, the resources devoted to them will be less than in this project, but the long term benefits will be difficult to measure because of the lack of appropriate acceptable methodologies. Past experience implies that there will be little long-term benefit from such approaches without the evaluation and analysis methodologies which this project will provide.

#### Method of Implementation

The project has been constructed in such a manner as to use the most cost efficient approach to attaining project purposes. The project proposes utilizing 91 person months of local professional services vs. 164 of U.S. based professionals. The local professional costs are estimated to be \$325 thousand. The utilization of all U.S. staff to carry out the same activities would add an estimated \$919 thousand to the project costs for salaries and an estimated \$175 thousand in travel expenses. This excludes any additional home office support staff required.

The alternative of using more local staff, or contracting separately for activities in each country, might save a significant amount of funds. However, the purposes of the project, which is related to regional applicability of methodologies, the comparing of results from different countries using the same approach, and the development of an acceptable regional strategy, would likely be lost or be based on inappropriate data.

#### Evaluation and Audit

The project contains sufficient funds to cover both evaluation and audit. While flexibility is contained in the budget, the estimated split is \$50 thousand for audit and \$150 thousand for evaluation. Evaluation of this activity is critical because of the testing or preliminary nature of the activity and the potential world-wide application of the approaches developed.

## ADMINISTRATIVE ANALYSIS

### Role of the LAC Controller's Office

It is recommended that the LAC Controller's Office (LAC/CONT) be the office responsible for this project. There will be only one contractor for implementation of assessments, baseline data collection, evaluation of existing projects, and strategy development. However, the flexibility built into this project, and the close cooperation required between contractor, A.I.D./W, and the Missions will require careful and continuous monitoring.

Selection of countries, sub-project activities, and the utilization of short term TA will all require LAC/CONT monitoring and approval. LAC/CONT will be involved in mission coordination, preparation of SOWs and PIO/Ts PIO/Cs or PIO/Ps, selection and monitoring of contractors, and follow-up on commodity delivery or participant training.

The LAC Bureau has no one office or officer charged with handling regional projects. However, the necessary expertise exists within the LAC/CONT and LAC/DR, in both the finance division and in the technical offices. In addition, a project committee with representatives from those two offices, FM, and Contracts will provide regular guidance and backstopping.

### Host Country Capability

The question of HC capability in relationship to sub-activities will be addressed during the design of each activity. Accountability or financial management concerns as they relate to project funds should not be a concern since it is anticipated that activities will be carried out by direct A.I.D. contractors.

### Specific Responsibilities

Listed below are the anticipated responsibilities to be assigned to the Project Committee, the LAC/CONT, and Missions. An initial task of the LAC/CONT will be to expand, clarify, and reduce to writing the specific responsibilities and operating procedures taking into consideration suggestions or modifications resulting from the PP approval process. These should then be approved by the Director of LAC/DR and the Director of LAC/CONT and transmitted by cable to the field.

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Project Committee

The project committee will have two principal responsibilities.

- The committee will provide general support and assistance to the LAC/CONT as requested by the LAC/CONT. This will include assistance in preparation of project documentation as required, such as, PIOs, RFPs, Implementation type letters, etc.
- The committee will be the reviewing body for all sub-activities. Sub-activities will nbe presented to the Director of LAC/DR for approval.

The LAC Controller's Office (LAC/CONT)

The LAC/CONT will have day to day responsibility for monitoring the project. Such responsibility will include the following actions or activities:

- approval of contractor annual implementation plans.
- approval of selection of countries for baseline data collection and assessments.
- approval of the use of short term TA under the contract in support of mission or HC specific requests.
- coordination of regional project activities and sub-project activities with bilateral missions.
- review of, and presentation to the project committee for approval, all proposed sub-project activities.
- establishing an agreed upon mechanism between A.I.D./W and the Mission on responsibilities for management/oversight of sub-project activities in country. Lacking agreement otherwise, the A.I.D./W LAC/CONT will retain responsibility.
- other general project monitoring activities including procurement, LAC/CONTs certification, monitoring of reports, and implementation tracking.

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Mission Responsibilities

The Mission will have the following responsibilities in relation to both sub-project activities in country and regional activities being carried out in the country.

- approval of travel of all contractors to the country.
- assist/advise, if desired, in the selection of participants in regional seminars or training
- approval of the carrying out of baseline collection, assessments, and evaluation activities in country, but not approval of scopes of work for the exercises.
- full responsibility for any activities which are implemented solely with HC local currency, even though they may be treated as pilot efforts to be monitored under this project. Any TA from this project would be arranged and coordinated with the A.I.D./W project manager.
- if desired the following responsibilities will be carried out by the mission as well:
  - design of sub-activities for inclusion under this project authorization. Final approval for inclusion will rest with the LAC/CONT.
  - full implementation responsibility for the sub-activity, including such things as Project Grant Agreements, contracting, procurement, and sub-project monitoring.

Sub-Project Process

Identification

Sub-project activities which will be funded under this project will be identified by either the Mission or the principal contractor. It is assumed HC ideas will be channelled through the Mission.

If identified by the contractor, he/she should discuss the proposal in general terms with the Mission before entering into any detailed design efforts.

Once the principal contractor is on board, any Mission identified activities for project funding should be discussed with the contractor and not submitted directly to A.I.D./W.

Design of Activity

The Mission may take the initiative in design of the activity but should utilize the technical assistance available under the funding for the principal contractor to assure that the design is consistent with objectives of the project. Conversely, if the timing is convenient, (later in project life) the principal contractor can be called upon, with concurrence of the LAC/CONT, to carry out the design.

Design should not require the full analyses required in a normal PID or PP. A "mini PP" or some other document should suffice. Guidance should be developed by the LAC/CONT and transmitted to all participating missions. One advantage of this regional project should be easy access to project funds for small activities. Therefore the design and approval process needs to be kept as simple as possible. Involvement of the principal contractor will help in being able to streamline the process.

Implementation

Selection of contractors to implement sub-activities will be carried out by normal contractor selection procedures. The principal contractor under the project will be free to compete for such contracts.

Consideration was given to including all such activities under the principal contract. However, aside from contracting problems (inability to clearly define activities at the time the contract is awarded), such a procedure would take away from the Missions the opportunity to select their own contractor. In some cases a qualified local firm might be appropriate. However, any separate contracts should clearly indicate the regional nature of the activity and provide for input and monitoring by the principal contractor

## STATEMENT OF WORK

### A. Background

In response to increasing concerns by the General Accounting Office (GAO), Congress, A.I.D., and other donors concerning the prevalence of weak financial management systems in developing countries, A.I.D.'s Bureau of Latin America and the Caribbean (LAC) has embarked on a project to establish a long-term strategy to address these concerns.

The purpose of the project, as stated in the Project Paper, is to improve financial management in Latin America. The project design accepts the findings of the GAO and others that a long-term strategy approach must be taken if improvements are to be made in host-country (HC) financial management, and that control of funds be an overriding priority. To be effective, this strategy development must be based upon:

- an assessment of needs and constraints,
- an accurate data base of financial management activities carried out in the past, or currently being carried out,
- an evaluation of the successes and failures of the above activities in improving overall HC financial management, and
- the carrying out and evaluation of selective test activities.

The above elements are required for developing a strategy for a specific country or, in this case, for the LAC Bureau as well.

The project is also based on two other assumptions:

- that existing and new activities should continue while the strategies are being developed, and
- a strategy made up of a series of relatively small interventions, can over the long run have a favorable impact on HC financial management.

Attached to this Statement of Work (SOW) is a brief summary of the project from the project paper. It provides necessary additional detail to be read by prospective bidders.

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## B. Project Elements and Estimated Level of Effort

Estimates of a level of effort to implement these activities are shown below. Potential bidders should recognize that these are provided to assist in the preparation of the proposal. Requirements and resource levels are presented as one way in which the project could be implemented. It is recognized that the wide range of needs and activities will require a substantial degree of flexibility. The successful applicant may adjust these estimates in line with its approach to undertaking the principal tasks described in the RFP.

The contract work will be divided into two phases as indicated in the work force analysis of the Statement of Work. Following the country and regional activities and the financial management evaluation segment of the Strategy Development Component, A.I.D. and participating missions and countries will review progress and decide whether the program will continue and determine activities to be undertaken.

### 1. Estimated Work Force Requirements

Senior U.S. Financial Management, Evaluation and Training Professionals	65.25 months
U.S. Technical Advisors	20.00 months
Local Senior Consultants	23.00 months
Local Mid-Level Technicians	71.00 months

The work force analysis on page 3 estimates how technical assistance and project coordination could be phased. It also shows how the project intends to maximize the use of local staff to provide much of the in-country technical training, assistance and work related to strategy development.

The contractor will provide a Project Coordinator for the life of the contract. The Project Coordinator will be the primary liaison between the contractor, AID/W and the various AID missions in Latin America. This person will also be expected to lead the strategy development effort. This position is key to the successful implementation of the contract and to the maintenance of good relations with AID missions and host country institutions.

WORK FORCE ANALYSIS  
Estimated Level of Effort by Type of Personnel  
(Person-Months)

<u>Component/Activity</u>	<u>Type of Personnel</u>				<u>Total</u>
	<u>U.S. Technicians Senior</u>	<u>Consultants</u>	<u>Local Seniors</u>	<u>Mid-level</u>	
<u>Phase I</u>					
Sub-Proj. Activities					
Country Spec. Sup.	4.5	2.0	1.5	5.5	
<u>Regional</u>					
Symposiums	1.5		0.75		
Task Force	1.5	1.0			
Training	5.0	1.0	3.0	6.0	
TA Support	13.0	4.0	2.0	5.5	
<u>Long-Term Strategy Development</u>					
FM Eval/Monitoring	<u>13.75</u>	<u>4.0</u>	<u>5.0</u>	<u>15.0</u>	
Sub Total	39.25	12.0	12.25	32.0	95.5
<u>Phase II</u>					
Baseline Development and Collection			0.75	1.75	
FM Data-Base	5.0	1.0	1.0	3.0	
Country Assessments (5)	4.5	3.5	5.0	25.25	
New Project Identification	8.5	2.5	2.0	6.0	
Strategy Development	<u>8.0</u>	<u>1.0</u>	<u>2.0</u>	<u>3.0</u>	
Sub Total	26.0	8.0	10.75	39.0	83.75
Total	65.25	20.0	23.0	71.0	179.25

2. The management and technical responsibilities of the Project Coordinator include:

- Plan technical assistance, training and logistical arrangements;
- Coordinate and manage technical assistance and strategy development;
- Supervise local firms and as necessary local personnel which are implementing project activities;
- Provide technical assistance in financial management, utilization of financial information, accounting, budgeting and auditing as appropriate;
- Monitor project progress; and
- Communicate on a regular basis with the A.I.D. project manager and AID missions.

3. The contractor will be expected to carry out the following project activities which will be described in more detail in a following section:

a. Sub-Project Activities

Sub-Project Activities are both regional and country specific. Implementation of country specific activities will not be a part of this contract. The contractor will, however, provide assistance in design, evaluation, and monitoring of these activities.

Regional activities will be carried out by the contractor and consist of:

- Symposiums
- Task Force Meetings
- Seminars and Training
- Technical Assistance to Missions and HCs

Principal criteria for selection of sub-activities will be:

- impact on assuring control of use-of-funds,
- expressed HC interest and commitment,
- level of HC financial participation,
- the likely benefit of the activity to developing methodologies and long-term strategies, ("lessons learned" potential),
- possibility of replicability within HC, and
- relationship to other financial management activities ongoing in country.

b. Strategy Development

The contractor will develop 4 or 5 country specific long-term strategies for improving HC financial management, and one long-term strategy for the LAC Bureau to be used in addressing the problem of improving HC financial management from a regional perspective. The steps involved in arriving at these strategies are as follows:

- Collect baseline information on the level of financial management in 10 countries.
- Conduct needs/constraints analysis in 4 to 5 countries.
- Develop data base on financial management activities in 10 countries.
- Evaluate successes/failures of other financial management activities
- Identify potential activities of both a regional and country specific nature.
- Prepare country specific long-term strategies for the countries assessed.
- Prepare long-term LAC Bureau strategy.

4. Personnel Requirements: The contractor will be expected to provide long- and short-term personnel with the following types of capabilities and expertise. This list is not inclusive but rather, representative of the kinds of skills required.

a. Project Coordinator

The position requires an experienced manager who has successfully planned and implemented long- and short-term projects, programs and activities to improve public sector financial management capabilities. This individual should have a demonstrated ability to work with counterparts and to identify and manage personnel.

b. Accountants and Auditors

Personnel proposed to work in these areas must be experienced in public sector effectiveness and efficiency auditing, design and implementation of accounting and auditing procedures and systems, internal control, supervision analysis and cost-control techniques, financial reporting, etc.

c. Financial Analyst

These positions require qualified individuals experienced in various analytical techniques, zero based and program budgeting, the utilization of financial information in decision-making, debt management, etc.

d. Public Sector Management Consultants

These specialists should be qualified in human resource development, automation, policy analyses, etc.

e. Conference and Seminar Leaders

f. Trainers

Curriculum development specialist, on-the-job trainers, organizational development experts, etc.

C. Specific Contractor Tasks

The contractor will be required to carry out the following tasks.

1. Sub-Project Activities

a. Symposiums

The contractor will hold three sub-regional introductory symposiums, one each in Central America, South America, and the Caribbean. Each symposium will be for two days and will be attended by approximately 25 participants each. The contractor will be responsible for selecting participants with the concurrence or advice of the individual country Missions. The purpose of the symposium is to introduce the project to top level government officials in order to gain their support and participation.

b. Task Force Meetings

The contractor will hold 15 two-day sub-regional Task Force meetings during the life of project (LOP). The purpose of the Task Force is to provide an interactive information exchange program with representatives of all countries in the region. Countries will name 2 or 3 members of the Task Force to meet approximately every nine months. The first meetings will take place in December 1988.

c. Senior Level Training

The contractor will conduct 9 three-day sub-regional training sessions for approximately 25 participants each. Participants will be upper or senior level HC officials. Training will be conducted in areas such as effectiveness and efficiency auditing, use and development of auditing and accounting standards, financial analysis techniques, utilization of financial information in decision making, general management

and personnel as they relate to financial management, methods of monitoring and controlling activity costs, budgeting, and financial reporting. Actual selection of courses will be recommended by the contractor and approved by the project officer. Courses should use a combination of lectures and case models, Latin American real cases should be used to the extent possible.

d. Technical Assistance Support to Missions and Host-Countries

The contractor will be expected to provide both Missions and HCs with technical assistance in the design or evaluation of country specific financial management activities. Concurrence of the project officer will be required for these activities. The contractor should plan to provide up to 23.5 person months of U.S. technical assistance, from either short term intermittent staff or utilizing full time project staff, and up to 12.5 person months of local professional services. This level of effort will include design and evaluation of specific activities which will be funded under the project, but not under this proposal.

2. Strategy Development

a. Baseline Information on Financial Management Performance

The contractor is to develop a methodology for quickly evaluating the financial management performance of HCs. The purpose of collecting the baseline information is to have a benchmark against which to measure progress. The methodology must be simple and easy to utilize so that countries themselves can measure their own progress in the future and compare with past results. The methodology will be presented to the project officer for approval.

The contractor and the project officer will identify 10 countries in which to collect baseline data using the above methodology. The actual data collection will be carried out by local professional staff.

b. Conduct Country Assessments

The contractor will develop a methodology for identifying the constraints to improving HC financial management, identifying the needs to overcome the constraints, and development of a long-term strategy for the country. The methodology must be able to be used throughout the region with minor country specific modifications. This is to assure that others can use

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the same methodology in other countries and obtain comparable results. The methodology will be approved by the project officer.

The contractor and project officer will select the countries to be assessed. Preliminary indications are that the following countries will be included, Colombia, Costa Rica, Dominican Republic, and Bolivia.

The contractor will carry out 4 or 5 country assessments using local professionals for most of the work. The contractor will prepare a report containing results of the assessment, including identification of constraints and needs, preliminary identification of possible activities to initiate early on, and a long-term strategy for the country.

The long-term strategy can be delayed until the contractor has conducted several assessments and has had a chance to evaluate some other financial management activities. In any case, strategies should be modified during the life of the project as additional evaluative data is gathered.

#### . Financial Management Data Base

In the ten countries selected for baseline data collection, the contractor will collect information on all financial management activities being carried out by A.I.D., other donors or the HC itself, either as direct financial management activities or as part of other projects. The data base will contain sufficient information to identify activity cost, beneficiaries, purpose, types of activities, funding type and source, baseline information available, evaluation information, and indicators of success or failure.

The manner in which the data base is kept and the type of information collected must keep in mind the objective of measuring activity performance in relation to overall HC financial management, not necessarily attainment of the individual activity goal or purpose.

Before proceeding the contractor will present the methodology to the project officer for approval.

#### d. Evaluation of Other FM Activities

The contractor will develop a methodology, to be approved by the project officer, to selectively evaluate the activities identified in the data base. The purpose is to provide information as to lessons learned in the area of financial management which can be used as an additional tool in developing more informed long-term strategies.

The contractor will carry out evaluations in accordance with the approved methodology. This will be an ongoing activity and for this reason requires a periodic review of developed long-term country specific or LAC Bureau strategies based on more current information.

e. Identification of Potential Activities

Throughout the life of the project the contractor will be responsible for identifying and writing up potential financial management activities of either a country specific or regional nature. This will not require a full design effort. The extent of effort will be similar to an A.I.D. concept paper.

Activities which the contractor believes should be immediately funded under this project will receive priority attention. Information on other activities can be provided directly to the Missions, HCs, or the project officer as the contractor deems appropriate. No extensive design work is contemplated under the contract except as mentioned in section III A 4. above.

f. Prepare LAC Bureau Strategy

As soon as possible, but in no case later than 18 months after contract start up, the contractor will provide a preliminary LAC Bureau Strategy for improving HC financial management throughout the region. The strategy will take into consideration existing activities, other donor resources and interest, the relative importance placed on financial management by HCs, A.I.D., and other donors, and of course, the results of the contractors analyses. The keynote in this as well as the country specific strategies is realism, not idealism.

The contractor will revise the LAC strategy at least every six months and will present a final strategy document at the end of the contract period.

C. Reports

The contractor will be required to present the following reports in addition to any submissions identified above not included herein.

- A semi-annual implementation plan will be presented for project officer concurrence within one month of start up, and each 6 months thereafter at the contract anniversary date.

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- A quarterly report outlining accomplishments to date as measured against targeted performance, major problems, and recommended changes in performance targets. The report will include a financial summary in a format to be determined by the project officer.

- An annual report which will expand on the normal quarterly format, provide a self evaluation of project progress toward accomplishment of project objectives, purpose, and goals, and recommend any restructuring of the general project format.

D. Deliverables

The contractor will provide to A.I.D. the following documents:

- Three final sub-project designs
- A final revised methodology for measuring HC financial management performance.
- A final revised methodology for conducting HC needs/constraints analysis and the development of long-term country strategies.
- A final revised methodology for maintaining and expanding the data base on financial management activities.
- A final revised methodology for evaluating the success of different interventions in improving overall HC financial management.
- A final revised LAC Bureau Strategy for improving HC financial management.

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## EVALUATION CRITERIA

Considerable weight will be given to the cost proposals. The following factors will be used in evaluating the technical merit of responses to the RFP.

All staff proposed for work in Spanish speaking countries must have at least the equivalent of 3+ on the FSI Spanish language scale.

### Professional Quality of Proposed Staff (40 points)

In order to generate the necessary support for improving HC financial management at senior levels, proposed staff must have the highest professional standing, should have prior overseas work dealing at senior levels, and have experience in public sector financial management in developing countries. The resume of the contractor's proposed project coordinator should be included in the response. Other proposed long-term U.S. personnel should be included as well.

The contractor must have the ability to provide short term assistance in a variety of fields as identified above. Possible short term candidates available to the contractor in the above fields should be included in the response.

### Experience with Local Professional Firms (20 points)

The successful candidate must be able to describe its experience in supervising the work of non-U.S. firms in developing countries and demonstrate how the successful candidate would locate and approach the management of such firms. The proposed relationship between the contractor and the local professional firms should be described.

The successful implementation of the project within the tightly scheduled implementation plan will depend to a large degree on the working relationship with the local professional firms and their professional competence. Critical aspects of the relationship will be flexibility, adaptability, and the exercise of control over the staff and product of the local firm. An ad hoc or head hunter type approach would delay the implementation of the project if new contractual arrangements had to be made for each activity.

Understanding of the Problem and Recommended Approaches  
(40 points)

The most important factor in the technical evaluation of the proposal will be the evaluation of the candidate's understanding of the project purpose and the problem being addressed by the project. There are a number of elements which will only be successful if undertaken in a highly professional manner by a contractor who understands the nature of the problem, the nature of the HC environment in which the contractor must work, and the interdependent relationships involved between Missions, HCs, and A.I.D./W.

The proposal should describe how the contractor proposes to undertake the four principal tasks leading to long-term strategy development.

- Baseline Methodology and Data Collection
- HC Assessment Methodology and Implementation
- Establishment of Financial Management Data Base
- Methodology for Evaluation of Financial Management Activities

The proposal should not develop the methodologies. Rather it should outline the proposed procedures and resources the contractor would use to accomplish the tasks. The description should be in sufficient detail to allow the reader to evaluate the following:

- Does the contractor demonstrate a professional understanding of the problem?
- Does the contractor propose a professional solution?
- Is the solution workable within the constraints of the project, the region, and the HC environment?
- Does the contractor demonstrate a knowledge of the problems of carrying out this activity in a developing country/region?

LAC FINANCIAL MANAGEMENT  
IMPROVEMENT  
(578-0685 and 597-0037)

FROM FY 66-71  
TOTAL \$4,157,000  
DATE PREPARED JUNE 14, 1968

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: To increase the ability of Latin American governments to more efficiently utilize and evaluate their scarce monetary resource	11. Increased number of inefficiently run programs. 12. Monitoring of donor financed projects in accordance with donor standards.	11. Operational audits, project evaluations 12. Host country and donor organization records, reports.	11. Changes at policy level are supported by USAID, IAC and other donors, with financial resources.
Purpose: To improve financial management in Latin America and the Caribbean	11. Host countries beginning to implement recommendations. 12. Host country officials utilizing modern financial management techniques and methods to allocate and control resources. 13. AID implementing the long-term strategy for the IAC region. 14. Decrease in the number of "deficiencies" reported by the RIG. 15. Accuracy and timeliness of HO financial reporting increased by 40%	11. End-of-project evaluation 12. RIG reports 13. IAC regional and/or bilateral projects 14. Host country financial management reports	11. Capacity of HOs to make necessary changes. 12. Willingness of HOs to collaborate with other countries in the region to identify and make financial management a priority.

Annex B. 1

LAC FINANCIAL MANAGEMENT  
IMPROVEMENT  
4898-0685 and 597-0007

FROM FY 88-91  
TOTAL \$4,280,000  
DATE PREPARED JUNE 14, 1988

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
OUTPUTS			
1. Three country specific sub-activities 2. Three regional symposia 3. Three sub-regional task forces functioning 4. Nine regional seminars/training sessions. 5. The resulting in designing of four activities. 6. Base line data collected in five countries. 7. Five country financial management assessments carried out and results being used by the HC. 8. Evaluation of recent or on-going financial management activities in 10 countries. 9. LAC Bureau strategy is developed and used to set long-term agenda. 10. Identification of 10 potential activities for further development and funding.	11. Sub-projects implemented in three countries. 12. Symposia carried out. 13. Task Forces providing input to HCs and project ion priorities. 14. 225 participants working and using knowledge/skills assigned. 15. Four activities implemented. 16. Baseline data used to prepare LAC strategy. 17. Financial management assessment reports distributed to key government ministries and used as a basis to develop projects to strengthen financial management institutions and systems. 18. Reports incorporated into LAC financial management data base. 19. LAC bilateral and/or regional projects in development. 110. Most countries considering funding these project.	Project evaluations IADB documentation Contractors' reports Semi-Annual Reports	11. H.C. have capacity to initiate changes. 12. Project can help create a demand for financial management improvements and greater stature for the profession.

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LAD FINANCIAL MANAGEMENT  
IMPROVEMENT  
(596-0665 and 597-0007)

FROM # 33-91  
TOTAL \$4,169,000  
DATE PREPARED JUNE 14, 1988

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
INPUTS	(\$000)		
Country Specific Activities	Sub-Project Activities	1. LAD/USAID records	1. Funds available on
Technical Assistance	Country Specific 999	2. Contractor records	a timely basis.
Training	Regional 564	3. HC records	
Evaluation and Auditing			
	-----		
	1963		
	Long-Term Strategy Development:		
	Baseline Data 9		
	Country Assessment 224		
	FM Data Base 90		
	FM Eval/Monitor 334		
	Activity Develop. 220		
	Detail Strategy Dev. 178		
	-----		
	1075		
	House Office 710		
	Evaluation & Auditing 200		
	Initiation &		
	Contingency 161		
	-----		
	4,127		

## A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into three parts: 5C(1) - Country Checklist; 5C(2) - Project Checklist; and 5C(3) - Standard Item Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of the country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the country checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the checklist is updated periodically. The checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Project Checklist focuses on statutory items that directly concern the project. Although the project checklist should be reviewed and completed in the field, information should be requested from Washington whenever necessary. A completed project checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that may bear on project design are identified early.

The Standard Item Checklist is intended as a working tool, rather than for inclusion in a project paper. It provides condensed coverage, in checklist form, of statutory matters routinely covered in the project agreement (e.g., 50/50 shipping). Items from this list should be noted in the PP or added to the project checklist when they warrant special treatment or concern.

The country and project checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961, as amended ("FAA"), the International Security and Development Cooperation Act of 1981 ("ISDCA of 1981"), the International Security and Development Cooperation Act of 1985 ("ISDCA of 1985"), the Special Foreign Assistance Act of 1986, the Anti-Drug Abuse Act of 1986 ("Drug Act"), the FY 1988 Foreign Assistance Appropriations Act (enacted in the FY 1988 Continuing Resolution ("FY 1988 Continuing Resolution")), and the Foreign Relations Authorization Act for FY 1988 and FY 1989 (the "State Authorization").

These Checklists do not list every statutory provision that might be relevant, but are intended to provide a convenient reference for provisions of relatively great importance or general applicability.

Space has been provided at the right of the Checklist questions for responses and notes.

Extra copies of the appendix may be requisitioned from M/SER/IRM/PE for use in project development and drafting.

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## 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. N/A  
 Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?
  
2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without N/A

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

N/A

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? N/A
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? N/A
6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? N/A
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? N/A
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? N/A

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A
10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? N/A
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? N/A

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) N/A
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? N/A
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? N/A
16. ISACA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? N/A
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? N/A
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) N/A

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? N/A
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) N/A
21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? N/A
22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? N/A
23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? N/A

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

## 5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

- |  |                                  |
|--|----------------------------------|
| 1. <u>FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A.</u> If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified? | Will be presented in an FY 88 CN |
| 2. <u>FAA Sec. 611(a)(1).</u> Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?          | a)Yes<br>b)Yes                   |
| 3. <u>FAA Sec. 611(a)(2).</u> If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?             | N/A                              |

4. FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A
5. FAA Sec. 611(c). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. This is a Latin America and the Caribbean regional project which will encourage the sharing of financial management experience among HG participants.
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. This project will result in more efficient financial management of governments' monies in Latin America and the Caribbean region.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). N/A
9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Host countries will contribute to the extent possible.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? N/A
11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A
12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No
13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? a) No  
b) No  
c) No  
d) No

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A
15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A
16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A
17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A
18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A
19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers? N/A
- b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and a) Indirectly the project, by increasing governments' financial management efficiency, will enable them to extend resources more effectively to the poor.  
b) N/A  
c) The project will

insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

engender a high level of financial responsibility and control by the governments themselves.  
 d) Implementation plans will ensure that women will receive full participation in opportunities in all project activities.  
 e) Project elements encourage countries to share financial management techniques whenever possible.

- |   |   |
|---|---|
| <p>c. <u>FAA Secs. 103, 103A, 104, 105, 106, 120-21.</u> Does the project fit the criteria for the source of funds (functional account) being used?</p>   | <p>Yes</p>  |
| <p>d. <u>FAA Sec. 107.</u> Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?</p>  | <p>N/A</p>  |
| <p>e. <u>FAA Secs. 110, 124(d).</u> Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?</p>   | <p>Required programming, to the extent practicable, will be provided by the cooperating countries with contributions of 25% or more of costs associated with specific country activities.</p>   |
| <p>f. <u>FAA Sec. 128(b).</u> If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?</p> | <p>The project will contribute to the long-term standard of living of the poor majority as governments become more efficient managers of their financial resources, thereby stretching the services which favorably impact on this group.</p> |

- g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. This regional project responds to participants needs, fortifying the HG institutions' financial management capacities which will enhance the participating countries' self-reliance.
- h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? No
- Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No
- Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No
- i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization? No
- If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? N/A

- j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
- k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? None
- l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared N/A

or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

- m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

- n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? a) No  
b) No
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? a) No  
b) No  
c) No  
d) No
- p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in N/A

accordance with the policies contained in section 102 of the FAA; (c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

Project Authorization

Name of Country: LAC Regional  
CA Regional

Name of Project: LAC Financial Management  
Improvement

Numbers of Project: 598-0685 (LAC Regional)  
597-0037 (CA Regional)

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the LAC Financial Management Improvement Project for the Latin America and the Caribbean region involving planned obligations of not to exceed Four Million One Hundred and Twenty-nine United States Dollars (\$4,129,000) in grant funds ("Grant") over a three and one-half (3 1/2) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local currency costs for the project. The planned life-of-project is 37 months from the date of initial obligation.

2. The project ("Project") consists of assistance to countries in the LAC region to assess the constraints to improving financial management, identify solutions and implement sub-activities in Latin America.

3. The Project Agreement(s), which may be negotiated and executed by the office to whom such authority is delegated in accordance with A.I.D. Regulations and Delegations of Authority, shall be subject to the following essential terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Service (Grant)

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the

suppliers of commodities or services financed under the Grant shall have the United States as their place of origin, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

b. Waiver

I hereby approve a source, origin and nationality waiver from A.I.D. Geographic Code 000 to the countries included in A.I.D. geographic Code 941 to permit the procurement of commodities and services.

\_\_\_\_\_  
Assistant Administrator  
Latin America and the Caribbean

\_\_\_\_\_  
Date

Clearances:

LAC/DR/CEN:DBoyd	_____	Date	_____
LAC/DR:JEvans	_____	Date	_____
LAC/DR:TBrown	_____	Date	_____
LAC/DP:Wheeler	_____	Date	_____
GC/LAC:GDavidson	_____	Date	_____
DAA/LAC:MButler	_____	Date	_____

LAC/DR/CEN:RWhelden:pb:6/8/88:X75263:#0029o

LAC-IEE-88-1

ENVIRONMENTAL THRESHOLD DECISION

Project Location : LAC Regional  
Project Title : Regional Financial Management Improvement  
Project Number : 598-0658  
Funding : \$3.125 Million  
Life of Project : 2 years, 6 months  
IEE Prepared by : Melissa Stephens  
LAC/DR  
Recommended Threshold Decision : Categorical Exclusion  
Bureau Threshold Decision : Concur with Recommendation  
Comments : None  
Copy to : Terrence J. Brown, Director  
Office of Development Resources  
Copy to : Melissa Stephens, LAC/DR  
Copy to : Richard Whelden, LAC/DR  
Copy to : IEE File

James S. Hester Date JUN 14 1988

James S. Hester  
Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

MEMORANDUM

TO: LAC/DR/EST, James S. Hester  
Through: LAC/DR, Terrence <sup>CB</sup> J. Brown  
From: LAC/DR, Melissa A. Stephens <sup>MS</sup> {  
SUBJECT: Environmental Determination for Latin America  
Regional: Regional Financial Management Improvement  
Project (598-0658)

Project Description: The purpose of this project is to develop and improve public sector financial management capabilities in Latin America and the Caribbean (LAC), specifically in areas that strengthen the development process. The project would conduct needs assessments to identify constraints to effective and financial management in countries in the region and would implement the recommendations of these assessments. Activities which would promote improved financial management would include training, review and updating of standards and norms within LAC countries, seminars and conferences to increase awareness of the benefits of financial management, and support to regional professional organizations.

Statement of Categorical Exclusion: It is the opinion of the project manager that this project does not require further environmental analysis because its activities fall within the class of actions subject to a categorical exclusion, as described in Section 216.2, paragraph (c)(2)(i) and (c)(2)(iii) of 22 CFR 216. This section states that "Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment", and "Analyses, studies, academic or research workshops and meetings" are types of activities generally excluded from further environmental review.

Recommendation: That you approve the threshold decision of a categorical exclusion for this project given that the activities to be funded are needs assessments, training activities and technical assistance which will not directly affect the environment and which are included in the classes of actions not subject to the full A.I.D. environmental assessment procedures.