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

HONDURAS

PROJECT PAPER

STRENGTHENING ACCOUNTABILITY SYSTEMS

BEST AVAILABLE DOCUMENT

AID/LAC/P-870

PROJECT NUMBER: 522-0381

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Agency for International Development PROJECT DATA SHEET				1. Transaction Code [A] A = Add C = Change D = Delete		Document Code 3			
2. Country/Entity HONDURAS				3. Project Number 522-0381					
4. Bureau/Office USAID/HONDURAS		[]		5. Project Title STRENGTHENING ACCOUNTABILITY SYSTEMS					
6. Project Assistance Completion Date (PACD) MM DD YY 09 30 96				7. Estimated Date of Obligation (Under "B" below, enter 1,2,3, or 4) A. Initial FY 9 3 B. Quarter(4) C. Final FY 9 6					
8. Costs \$000 or Equivalent \$ 1 =									
A. Funding Source		First FY 93			Life of Project				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. TOTAL		
AID Appropriated Total									
(Grant)									
(Loan)		288	170	458	1,970	530	2,500		
Other	1.								
U.S.	2.								
Host Country			504	504		1,428	1,428		
Other Donor(s)									
TOTALS		288	674	962	1,970	1,958	3,928		
9. Schedule of AID Funding (\$000)									
A. Appropriation	B. Primary Purpose	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) DP	69	G		0	-	458	-	2,500	-
(2)									
(3)									
(4)									
TOTALS					-	458	-	2,500	-
10. Secondary Technical Codes (maximum 8 codes of 3 positions each)							11. Secondary Purpose Code		
12. Special Concerns Codes (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									
13. Project Purpose (maximum 480 characters) To Strengthen Government of Honduras auditing capability and accountability.									
14. Schedule Evaluations MM YY MM YY Interim Final 0 8 9 6					15. Source/Origin of Goods and Services [x] 000 [] 941 [] Local [] Other (specify) _____				
16. Amendments/Nature of Change Proposed (This is page 1 of a ___ page PP Amendment)									
Approved by	Signature <i>Elena Brineman</i>				DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION				
	Title: Elena Brineman Acting Mission Director		Date Signed: 09/28/93						

PROJECT AUTHORIZATION

Name of Country: Honduras

Name of Project: Strengthening Accountability Systems

Number of Project: 522-0381

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Strengthening Accountability Systems Project for the Republic of Honduras ("the Cooperating Country") involving planned obligations of not to exceed Two Million Five Hundred Thousand United States Dollars (\$2,500,000) in Grant Funds, subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to help in financing foreign and local currency costs for the Project. The estimated Project Assistance Completion Date (PACD) is September 30, 1996.
2. The Project will strengthen the Government of Honduras (Grantee) auditing capability, and therefore accountability. A.I.D.'s Grantee counterpart institution is the Controller General of the Republic of Honduras (CGR), with whom Project activities will be undertaken. The Project will consist of four components. The first will be to increase the staff stability of the CGR. The second will be the upgrading of the CGR's basic audit capability. The third will be the development of an investigatory audit capability within the CGR. The final component will be the development of public awareness concerning knowledge of the cost of fraud, misuse and financial mismanagement of public resources and corruption, and of the CGR's role and efforts in identifying, investigating and documentating these problems.

Project funds will be used to finance technical assistance, training-related activities and commodities which will institutionally strengthen the Controller General. Project management and monitoring costs, periodic audits, and a final evaluation of the project will also be financed by funds authorized herein.

3. The Project Agreement, which may be negotiated and executed by the officer 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 covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

3.1 Source and Origin of Goods and Commodities, Nationality of Services

Commodities and services 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 to in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree to in writing, be financed only on flag vessels of the United States.

Non-U.S. procurement is authorized in accordance with Handbook 1, Sup. B, Chap. 18, up to an aggregate amount of \$1,075,000, or other amount as A.I.D. may agree in writing. Of this amount, an estimated \$725,000 will be for the procurement of Third Country National long-term advisors, and an estimated \$215,000 will be for local procurement of services for project management, secretarial support, studies, and audit costs. An estimated \$75,000 will be for third country observational tours. Two of the currently planned local or third country procurements, for long-term advisors, require a waiver under Handbook 1, Sup. B, Chap. 18. If during implementation of the project, additional local or third country procurement transactions are proposed that require a waiver under Handbook 1, Sup. B, Chap. 18, such a waiver will be obtained before proceeding with the procurement.

3.2 Conditions Precedent to Disbursement

3.2.1 First Disbursement

Prior to the first disbursement of the Grant, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, other than for A.I.D. project management and technical assistance, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) Evidence that revised CGR enabling legislation (the CGR "Ley Orgánica") has been submitted to Congress requiring:

- that all final financial, operational and investigatory audit reports will be individually submitted to the Congress;
- that all final investigatory audit reports will be submitted to the Attorney General for possible prosecution; and
- that mechanisms will be established to encourage timely (within one year) closure of financial and operational audit recommendations. Such mechanisms may include sanctions such as fines, and/or withholding of National Budget allocations.

(b) The identification and placement of a CGR Project Liaison Officer under terms of reference approved by A.I.D. and the Grantee.

3.2.2 Disbursement for Automatic Data Processing (ADP) Equipment

Prior to any disbursement of funds under the Project, of the A.I.D. Grant or Grantee counterpart, for the purchase of ADP equipment or commodities (other than any such equipment that may be required in conjunction with USAID Project Management) or to the issuance by A.I.D. of documentation pursuant to which disbursement for such purchases will be made, an independent assessment of the ADP equipment needs of the CGR will be conducted to confirm the initial estimate of the ADP needs that underlies the illustrative budget set forth in the Project Agreement.

3.2.3 Fiscal Year 1995 Disbursement

Prior to any disbursement of the Grant after September 30, 1994, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, other than for A.I.D. project management, project monitoring and technical assistance, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., evidence that:

(a) The amendment of the CGR's "Ley Orgánica" has been approved by Congress and contains the provisions included in the legislation submitted to Congress as required as a condition precedent to first disbursement.

(b) The CGR has submitted to the Ministry of Finance and Public Credit an annual budget request for GOH Fiscal Year 1995 which contains financing for staff salaries assigned to the Investigatory Audit Department and the Public Awareness Unit, both created under the Project. The requested level of funding for these positions should not be less than fifty (50) percent of the total salary and benefits associated with the positions. The remaining compensation associated with the positions will be financed with ESF-generated, local currency counterpart contributions to the project.

3.2.4 Fiscal Year 1996 Disbursement

Prior to any disbursement of the Grant after September 30, 1995, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, other than for A.I.D. project management, and project monitoring and technical assistance, the Grantee will, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., evidence that:

(a) The CGR is financing, with GOH Fiscal Year 1995 budget resources, at least fifty (50) percent of the cost of salary and benefits for all the staff assigned to the Investigatory Audit Department and the Public Awareness Unit.

(b) The CGR has submitted to the Ministry of Finance and Public Credit an annual budget request for GOH Fiscal Year 1996 which contains financing for staff salaries assigned to the Investigatory Audit Department and the Public Awareness Unit. The requested level of funding for these positions should not be less than seventy five (75) percent of the total salary and benefits associated with the positions. The remaining compensation associated with the positions will be financed with ESF-generated local currency counterpart contributions to the project.

(c) The Congress has approved a Career Law for Auditors, and its implementing regulations, acceptable to A.I.D.

3.3 Covenants

The Grantee shall covenant that:

(a) Final audit reports will actually be submitted to Congress and, in the case of investigatory audits, the Attorney General.

(b) The CGR will submit to A.I.D., for its review and approval, a detailed implementation plan and budget, during the month of January of each year during the life of the project. This plan will include the major actions and specific targets necessary to achieve the Project Purpose and Outputs.

(c) The CGR will provide A.I.D. with quarterly technical progress reports on the implementation of the plan discussed in Covenant (b).



Elena Brineman
Acting Mission Director
USAID/Honduras

9/29/93
Date

STRENGTHENING ACCOUNTABILITY SYSTEMS (522-0381)

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ACRONYMS

AGO	Attorney General's Office
ADP	Automatic Data Processing
AID	Agency for International Development
AIDAR	AID Acquisition Regulations
AID/W	Agency for International Development/Washington
CGR	Controller General of the Republic of Honduras
CP	Conditions Precedent
ESF	Economic Support Fund
FAR	Federal Acquisition Regulations
FSNPSC	Foreign Service National Personal Services Contractor
GAGAS	Generally Accepted Government Auditing Standards
GOH	Government of Honduras
IQC	Indefinite Quantity Contract
LAC	Latin America and Caribbean (Bureau of AID/W)
LOP	Life of Project
MFCP	Ministry of Finance and Public Credit
OPI	Office of Public Integrity
PACD	Project Assistance Completion Date
PIO	Project Implementation Order
PROAG	Project Agreement
PSC	Personal Services Contract
RAP	Recipient Audit Program
RFP	Request for Proposals
RIG	AID Regional Inspector General
SAS	Strengthening Accountability Systems
SDI	Strengthening Democratic Institutions
USAID	United States Agency for International Development Mission to Honduras
USDH	United States Direct Hire
FY	Fiscal Year

I. SUMMARY

The Strengthening Accountability Systems Project (the Project) is designed to strengthen and expand the audit capabilities of the Office of the Controller General of the Republic (CGR) during a period of three years. The Project finances technical assistance and training to address three areas: (1) strengthen the CGR's financial audit capabilities and develop operational and specialized audit capabilities; (2) create a new investigatory audit capability within the CGR; and (3) initiate a public awareness campaign to address the problems of financial mismanagement and corruption. The Project will also finance technical assistance to design and implement a gender sensitive personnel program, supported by a Career Law, that will increase staff stability within the CGR. A.I.D. funds will be obligated through a bilateral Project Grant Agreement with the Ministry of Finance and Public Credit (MFPC) and the CGR.

The Project will consist of four components. The first will be the increase in staff stability of the CGR. Increasing staff stability within the CGR is vital because otherwise improvements in human resources resulting from the Project and other CGR efforts would be lost due to staff turnover. The second will be the upgrading of the CGR's basic audit capability. This effort will include both financial and operational audits, the latter being a new capability. The third component will be the development of an investigatory audit capability within the CGR. This will be an important new function within the CGR, which will improve its audit efforts in uncovering corruption and fraud cases. The fourth will be the development of public awareness. This effort will increase the public's knowledge of the cost of fraud, misuse and mismanagement of public resources, and corruption, and, of the CGR's role and efforts in identifying, investigating, and documenting these problems.

The estimated cost of the Project is \$3,928,000. A.I.D. will finance \$2,500,000 and the GOH will contribute \$1,428,000. A portion of the GOH's contribution will consist of the local currency equivalent of \$1,000,000 programmed from ESF generations. In addition, the local currency equivalent of not less than the \$428,000 for CGR staff salary increases and salaries of additional staff required for the project will be counted as GOH contribution to the Project.

II. BACKGROUND, PROBLEM AND PROJECT RATIONALE

A. Background

Accountability and integrity in government are two of the key elements of creating more responsive democratic institutions. Citizens must have confidence that their government is using its resources effectively and efficiently, and that official corruption, when it occurs, will both be discovered and prosecuted.

In Honduras, three institutions are primarily responsible for looking after accountability and integrity in the public sector—the CGR, the Office of Public Integrity (OPI), and the Attorney General's Office (AGO). The CGR is by far the largest and most far reaching of the three institutions. It is the supreme audit entity responsible for auditing government programs and contracts. The OPI is responsible for monitoring and assuring the integrity of public officials.

Its primary role is to review the financial statements of public officials and of GOH contracts. The AGO is the legal representative of the State. Its primary roles are to assure that actions taken by government agencies are in accordance with legal requirements and to prosecute acts of public sector fraud and corruption.

In theory, these three institutions work together to ensure the accountability of government officials and projects. In practice, linkages between the three organizations are weak. Neither the OPI nor the AGO have the capacity to carry out their mandated functions in an effective manner. The CGR is larger, with greater financial resources, but suffers from high turnover in audit staff due to low salaries and poor job security. Its audit capacity has been improved as a result of earlier A.I.D. funded technical assistance. For example, the CGR has adopted "Generally Accepted Government Auditing Standards" and developed training programs resulting in a higher skill level among its staff. However, according to the Office of AID's Regional Inspector General (RIG), the CGR is deficient in the areas of quality control of audits, audit supervision, and reporting techniques (See Annex I.1 - Institutional Analysis). Furthermore, many of the cases the CGR refers to the AGO go unprosecuted because of significant weaknesses in its investigation of public fraud, involving improper gathering of evidence and violations of legal technicalities.

Revised and improved CGR enabling legislation (the "Ley Orgánica") will soon be submitted to Congress for approval. The amendment addresses several key deficiencies, such as by granting the CGR the explicit mandate to investigate possible cases of fraud and corruption.

B. Problem and Project Rationale

The overall problem the Project will address is weak public accountability associated with the loss of public resources as a result of poor management and corruption. Improved public accountability goes hand-in-hand with the strengthening of democratic institutions. The problem has two facets. First, there exist varying degrees of political will and political resistance among GOH officials to address corruption issues. Second, limited audit capability decreases both the GOH's ability to improve financial management through implementation of audit recommendations and its ability to discover and prosecute corruption.

The first facet of the problem is beyond the immediate scope of the Project. There will always be "some" political will and "some" political resistance to anti-corruption issues. Political support within the GOH to address the problem of corruption has been growing. Several key political leaders, including the President and leading candidates for the Presidency in the upcoming elections, have all come out publicly against corruption. The project, by improving the ability to prosecute cases of public corruption, may strengthen – or force – the political will to do so.

The Project will address the second facet of the problem -- the lack of CGR capacity to audit and investigate inefficient and/or illicit use of government funds. Cases of misuse of public funds and corruption are increasingly being made public, but the GOH is seldom able to respond

effectively even if it wants to because of lack of evidence. The result is increasing distrust of the government among its citizens, which in turn undermines democracy. A stronger and more efficient CGR will help promote transparency and accountability of GOH institutions and individuals and, over time, public perceptions of democratic institutions.

III. PROJECT DESCRIPTION

A. Project Goal, Purpose, and Outputs

The Goal of the SAS Project is more responsive selected democratic institutions and processes, with greater citizen participation. The Project Purpose is to strengthen GOH auditing capability and accountability. A stronger and more responsive CGR, which demonstrates its effectiveness to the public and promotes transparency of government and accountability of government officials will improve the public's perception of government. In the long-term, this will contribute to greater public participation in the democratic process.

The achievement of the Project's purpose, i.e. the end-of-project status, will be demonstrated by: 1) CGR audits being conducted in accordance with Generally Accepted Government Auditing Standards; 2) Audited GOH institutions have taken corrective actions recommended in CGR audit reports; and, 3) CGR investigatory audit cases involving fraud and corruption being successfully prosecuted.

The following outputs will be achieved through the project:

- Improved retention of qualified auditors
- Improved CGR audit capability
- Investigatory audit capacity established in the CGR
- Increased public awareness of the costs associated with misuse of public resources, and of the role of the CGR in GOH efforts to control fraud and corruption.

B. Project Components

1. Increase Staff Stability

This component will improve retention of qualified auditors as measured by at least a fifty (50) per cent decrease in turnover rate among CGR supervisory auditors relative to previous years.

Early in the Project, local short-term technical assistance funded by the GOH counterpart contribution will be procured by the CGR to assist in the design and implementation of a

program to review and update its personnel system. This will include the development of a detailed staffing pattern and a review of the CGR's current personnel capabilities, position qualifications, and job descriptions. This work will be conducted in a gender sensitive manner. Such local short-term technical assistance will also help the CGR develop and draft a Career Law for Auditors and its concomitant regulations. This law will define a career path structure which will allow CGR staff to advance in their professional career, provide job security at least similar to that provided by the GOH Civil Service Law in the executive branch of the government, and address the same of professional salaries. The Career Law, which must be approved by the legislature, will be introduced by the CGR into Congress in CY 1995. Its enactment, along with its implementing regulations (*Reglamentos*) will be a condition precedent to disbursement for certain project-funded commodities after September 30, 1995.

The CGR will have primary responsibility for this Project component. The local short-term technical assistance will be financed with GOH local currency counterpart funds and contracted by the CGR. A.I.D. will review the proposed Career Law to assure that it is satisfactory in form and substance to the Mission.

2. Improved CGR Audit Capability

This component will improve the CGR's capability to perform financial and operational audits. This improvement will be measured by: (1) at least a one hundred (100) percent increase in the number of timely and professionally completed audit reports, including those conducted under the A.I.D. Recipient Audit Program, submitted to the audited institutions for corrective action; and, (2) the issuance of an unqualified RIG certification of the CGR's capability to perform audits under the Recipient Audit Program.

Under this initiative, one long-term Audit Specialist will be provided to work closely with the CGR to develop a detailed plan of action to achieve the required reforms based on the Controller General's own improvement plan. Short-term technical assistance and training will also be provided under the Project. Through this effort, the CGR will improve its current audit policies, procedures, and standards to assure efficiency and effectiveness. The Audit Specialist will address the CGR's problems and deficiencies in quality control; audit supervision; elaboration of workplans, workpapers, and audit reports; audit staffing decision making; and follow-up of audit recommendations. In addition, the Audit Specialist will assist the CGR to develop specific plans to improve systematically selected audit areas and create new specialized areas. These plans will include a determination of staffing, short-term technical assistance and training requirements.

The services of the long-term Audit Specialist will be provided through a direct A.I.D. non-Personal Services Contract. Short-term technical assistance and training, including observational tours, will be provided through a U.S. institutional contractor. Commodities related to this component will be financed using both A.I.D. and GOH counterpart funding.

3. Development of An Investigatory Audit Capability

This component will develop an investigatory audit capacity within the CGR as measured by the completion of at least twenty (20) investigatory audits capable of forming the basis for successful prosecution and submission to Congress, the AGO, or other appropriate GOH body.

To accomplish this objective, one long-term Investigatory Audit Specialist will be provided to the CGR to establish a new specialized department responsible for the investigation of allegations of corruption. This effort, which will also involve short-term TA and training will require the development of evidentiary procedures consistent with Honduran law.

The services of the long-term Investigatory Audit Specialist will be provided through a direct A.I.D. non-Personal Services Contract. Short-term technical assistance and training, will be provided through the aforementioned U.S. institutional contractor. Commodities (furniture, equipment, and supplies) required for this department will be procured by the CGR with GOH local currency counterpart funds, and by the Mission using A.I.D. Grant funding. By the final year of the Project, at least 75 per cent of Investigatory Audit Department staff salaries will be financed out of the GOH National Budget.

4. Development of Public Awareness

This component will complement all other project efforts by increasing public involvement in the fight against corruption. This will be measured by the receipt of at least forty (40) allegations of government fraud and corruption judged to merit investigation by the CGR and possible prosecution.

The Investigatory Audit Specialist provided for the development of the Investigatory Audit Department will also assist the CGR to establish a Public Awareness Unit. With additional short-term TA identified by the Specialist and provided through the institutional contract the Unit will develop and implement a gender sensitive public awareness campaign. This campaign will be carried out through seminars with key GOH officials, issuance of press releases, and distribution of posters and publications among the general public and different target groups including judges, prosecutors, municipal leaders, and public employees.

GOH local currency counterpart funds will be used by the CGR to procure commodities required for the Unit, including furniture, audio-visual equipment, and supplies. Following the completion of the Project, Unit staff salaries will be entirely financed out of the GOH National Budget.

IV. RELATIONSHIP TO A.I.D. AND COUNTRY PROGRAMS

The A.I.D. Democracy Initiative focuses Agency experience, skills, and resources to help promote and consolidate democracy as the legitimate organizing principle for political systems throughout the world. The initiative recognizes that the legitimacy of democratic regimes depends on their being perceived by their citizens as responsive, accountable, and honest. A.I.D./Honduras has

adopted "more responsive selected democratic institutions and processes" as one of the five strategic objectives of its program. This project supports both LAC and Mission objectives by strengthening the GOH's accountability and transparency through improved auditing to fight corruption. It will address the Mission's Program Output No. 5.6 ---Strengthened GOH Audit Capability and Public Accountability.

The Project's public awareness campaign will include seminars for the general public and for specific groups such as judges, "fiscales", and municipal leaders. The Project will coordinate public awareness seminars with the Mission's Strengthening Democratic Institutions (SDI) and Municipal Development projects. The Project expects to use the Judicial Career Law Regulations and the Congressional Career Law and Regulations developed under the SDI Project as models for a similar effort to reform the CGR's personnel structure.

The Honduran President's creation of a "Comisión Fiscal Interventora" is an example of the GOH political interest in addressing the problem of corruption. It was created to investigate and verify that GOH administrative actions are consistent with GOH laws and regulations, especially those that relate to the use of public funds and control over GOH property. This commission is to maintain ongoing communication with the CGR, OPI and AGO.

The CGR and the MFPC are very supportive of the SAS Project. The Controller General has developed a plan to improve the audit function within the CGR, much of which is incorporated into the Project. The MFPC, CGR, RIG and the Mission are very near an agreement whereby the CGR will audit (under the Recipient Audit Program) GOH projects financed by A.I.D.

V. SUMMARY COST ESTIMATE AND FINANCIAL PLAN

The overall project budget is \$3,928,000 of which \$2,500,000 will be provided by A.I.D.. The GOH counterpart contribution consists of the equivalent of \$1,000,000 in ESF generated local currency, plus the equivalent of approximately \$428,000 in GOH National Funds. Specific amounts by both A.I.D. and GOH project element are presented on the following page.

SUMMARY COST ESTIMATE
(\$000 or Lempira equivalent)

PROJECT ELEMENTS	A.I.D.	GOH (Cash)	GOH (In-Kind)	TOTAL
Long Term Advisors	725			725
Institutional Contract	990			990
Short-term Technical Assistance/Training	50	130		180
Project Staff Salaries		144	144	288
Staff Salary Increases			284	284
Commodities and Equipment	320	579		899
Project Management	150	75		225
Evaluation/Monitoring	125			125
Audits	60			60
Contingency	80	72		152
TOTAL PROJECT (\$)	2,500	1,000	428	3,928

The lempira value of the GOH contribution will be calculated at the highest exchange rate not unlawful in Honduras on the date the Project Grant Agreement is signed. This lempira amount will remain fixed for the Life of Project (LOP).

VI. CONDITIONS PRECEDENT AND COVENANTS

In addition to the standard Conditions Precedent related to the provision of specimen signatures of designated GOH representatives and of a legal opinion verifying the validity of the Project Grant Agreement, the Agreement will contain the following project specific Conditions Precedent and Covenants:

A. Conditions Precedent (CP) :

CP To First Disbursement

1. Evidence that a revised CGR "Ley Orgánica", containing the following provisions,

has been submitted to Congress:

- all final financial, operational and investigatory audit reports will be individually submitted to the Congress;
 - all final investigatory audit reports will be submitted to the Attorney General for review and possible prosecution; and,
 - that mechanisms will be established to encourage timely (within one year) closure of final financial and operational audit recommendations. Such mechanisms may include sanctions such as fines, and/or withholding of National Budget allocations.
2. The identification and placement of a CGR Project Liaison Office under terms of reference approved by A.I.D. and the Grantee.

CP to Disbursement for Automatic Data Processing (ADP) Equipment or Commodities:

The completion of an independent assessment of the CGR's ADP needs which will include a recommendation on the type and amount of ADP equipment required.

CP to FY 1995 Disbursements

1. Evidence that the CGR's "Ley Orgánica", containing the three provisions of the No. A.1., above, has been approved by Congress.
2. Evidence that the CGR has submitted an annual budget request to the MFPC for GOH FY 1995, which contains funds for 50% of the staff salary cost of the Investigatory Audit Department and the Public Awareness Unit.

CP to FY 1996 Disbursements

1. Evidence that the CGR is financing 50% of the staff salaries of the Investigatory Audit Department and the Public Awareness Unit with GOH National funds.
2. Evidence that the CGR has submitted an annual budget request to the MFPC for GOH FY 1996, which contains funds for 75% of the staff salary cost of the Investigatory Audit Department and the Public Awareness Unit.
3. Evidence that the Congress has approved a Career Law for Auditors, and its implementing regulations, acceptable to A.I.D..

B. Covenants:

1. The Grantee will make every effort to ensure that counterpart funds are made available in a timely and satisfactory manner.
2. Final Audit reports will actually be submitted to Congress, and in the case of investigatory audit reports, the Attorney General.
3. The CGR will submit to A.I.D., for its review and approval, a detailed implementation plan and budget, during the month of January of each year during the life of the Project. This plan will include the major actions and specific targets necessary to achieve the Project Purpose and Outputs.
4. The CGR will provide A.I.D. with quarterly technical progress reports, prepared in mutually agreed upon format, on the implementation of the plan discussed in the above Covenant No. 3.

VII. IMPLEMENTATION ARRANGEMENTS

A. Obligating Instruments

The Project will be obligated through a Handbook 3 bilateral Project Grant Agreement with the GOH. The counterpart agencies will be the MFPC and the CGR. The CGR will be designated in the Agreement as the Project's implementing agency. A.I.D. will obligate authorized funds in an incremental manner over the LOP, subject to the availability of funds.

B. Implementing Agencies and Their Responsibilities

A.I.D.: The Municipal Development and Infrastructure (MDI) Office will manage the SAS Project. The MDI Office Director will have overall responsibility for the Project and will supervise a FSNPSC Project Manager who will oversee daily project management. This position will be within the existing Mission personnel ceiling. The Project Manager will provide day-to-day technical direction and work closely with the CGR's Project Liaison Officer to insure that Project outputs are produced as planned.

GOH: The GOH will provide its counterpart contribution funding for the Project in a timely manner. The CGR will submit annual detailed implementation plans and budgets for A.I.D.'s review and approval. The CGR will procure commodities, services and equipment in accordance with approved annual counterpart budgets and implementation plans. The CGR will appoint a Project Liaison Officer whose job it will be to establish and maintain close communication between the CGR, the Mission, and the MFPC. The GOH will be responsible for procuring independent annual financial audits under the Mission's Recipient Audit Program.

C. Procurement Arrangements

The authorized source, origin and nationality of goods and services to be procured with A.I.D. financing will be the United States (000), except as A.I.D. may otherwise agree in writing. Project financed goods and services will be procured in accordance with relevant AID Handbooks, AID Acquisition Regulations (AIDAR), and the Federal Acquisition Regulations (FAR) as applicable. Local procurement will be carried out in accordance with the procedures of Handbook 1B. The Project will comply with the Agency's rules and procedures for Gray Amendment procurement. Ten per cent of the U.S. technical assistance/training will be sub-contracted to a Gray Amendment-eligible firm.

Non-U.S. procurement must be waived in accordance with Handbook 1, Supplement B, Chapter 18, for the procurement of two Third Country National non-PSC long-term advisors. Non-U.S. procurement for project management, secretarial support, studies and audit costs, and for third country observational tours does not require waivers. Other waivers for local or third country procurements will be obtained as required before proceeding with the procurements.

In addition to the two long-term advisors, the implementation of the Project will involve the provision of short-term technical assistance and training to the CGR. The Mission intends to procure both short-term technical assistance and training services from an institutional contractor, through full and open competition. Additional short-term technical assistance will also be procured by the Mission outside the institutional contract. The Mission will also procure commodities and equipment, and services associated with project management and evaluation. The CGR will procure required local short-term technical assistance and training services; commodities; and equipment with local currency counterpart funds.

VIII. MONITORING AND EVALUATION

A. Information System

The CGR will manage the Project information system, which will measure progress towards achieving project goal, purpose, and outputs, and if necessary, serve as the basis for revision of project indicators over the LOP. Local short-term TA will be procured by A.I.D. to help the CGR to gather gender disaggregated baseline information, and to develop and implement the system, which may be linked with the investigatory audit tracking system to be developed under the Project. The system will be designed to generate quarterly reports that will be used by CGR officials and A.I.D. project managers. The information thus generated on the status of project outputs will be incorporated into the Project Status Reports prepared as part of the Mission's Semi-Annual Reporting, and into reporting on the status of the Mission's Strategic Objectives, prepared annually for the Action Plan review in AID/W.

B. Evaluation Plan

There will be one evaluation conducted near the conclusion of the Project which will assess

achievement of the Project Purpose as well as the Project's contribution to the Mission's Strategic Objective No. 5, "More responsive selected democratic institutions and processes, with greater citizen participation." The evaluation will also document the final status of the indicators for the four project outputs. Finally, the evaluation will address "lessons learned" that may be applicable to related A.I.D. and/or GOH efforts.

Funding is also included in the Project budget for up to four special impact assessments. These efforts would focus on specific issues or implementation problems in order to offer timely analysis and the basis for resolution. For example, periodic assessments (i.e. every six months) will be contracted with outside expertise to look at progress made in improving investigatory audits and provide feedback to the Investigatory Audit Department.

C. Audits

Recipient audits will be undertaken on an annual basis. Funding will be provided from the A.I.D. Grant for the CGR to contract for independent financial audits under the Mission's Recipient Contracted Audit Program (RAP). In addition, A.I.D. may conduct periodic non-Federal audits of the entire project if warranted.

IX. ANALYTICAL CONSIDERATIONS

A. Institutional Analysis

A.I.D.'s desire to improve public accountability in Honduras stems from three sources. First, public confidence in the GOH is strongly effected by perceptions regarding the management of public funds and the level of corruption. Mis-management and corruption undermine confidence and work against democratic institutions. Second, the degree of A.I.D./Honduras's accountability for project funds is dependent on the accountability of the GOH. U.S. Government audit requirements necessitate the development of a strong auditing capacity within the GOH. Finally, strengthened auditing would result in improved financial management within the Honduran public sector which affects the effective and efficient use of *all* scarce public resources. The economic development of Honduras would thereby be facilitated.

No major technical constraints are expected to inhibit strengthening the audit capacity of the CGR. The Controller General is very supportive and many aspects of the project design are in accordance with plans already approved by the Controller General. The Project's ability to strengthen the political will to prosecute fraud uncovered by improved auditing is more uncertain. Corruption unfortunately exists at all levels of the Honduran government. There will be strong resistance from certain elements to any attempt to combat corruption. However, the fact that the current President of the Republic, the leading presidential candidates, and the Controller General have publicly and privately stated their concern regarding the effects of corruption is significant. A window of opportunity now exists to assist the GOH in improving its ability to battle fraud and corruption.

A significant constraint to the success of the Project is the current institutional weakness of both the AGO and the OPI. Both suffer from inadequate financial resources and organizational difficulties. In addition, coordination needs to be improved between the three agencies, in particular between the CGR and AGO. The success of the Project, at least in terms of reducing corruption, through successful prosecution of audit cases will depend on the ability and willingness of these two agencies to cooperate. Although the Project does not directly address these issues, the CGR is confident these areas can be improved and has indicated its willingness to take the lead on improving coordination between the three agencies.

The technical feasibility of the Project is closely linked with the passage by Congress of the CGR's amended Ley Orgánica and the proposed career law for Auditors, and the ability of the CGR to increase professional staff salaries. This fact is acknowledged in the project design by both the inclusion of activities intended to support these initiatives, and of conditions precedent which further encourage that the actions be taken.

2) Financial Analysis

Traditional return on investment and other monetary-based analytical tools for evaluating the impact of a project are difficult to apply to this project. It is expected that the major benefits of the Project will occur from improved public management of resources, decreased diversion of government resources from legitimate uses, and an improved public perception of the quality of government. These benefits are difficult to measure financially due to the absence of baseline data regarding the amount of funds currently being diverted by corruption and/or poor management. In addition, the financial costs of public distrust of government are difficult to measure, and not as important as the general loss of confidence in democratic government which accompanies corruption.

3) Economic Analysis

The projection of even the direct economic benefits of this project is exceeding problematic (see full Economic Analysis in the Project Files). Nonetheless, the value of the economic benefits that would be needed to justify the project's proposed investment can, and has been, calculated. Such benefits would have to amount to very roughly \$330,000 annually, given the projected stream of expenditures, a benefit stream of 15 years beginning in year two of the project, and a discount rate of 6 per cent. The Project has the strong potential to produce this level of gains and thus be economically viable: if the project succeeds in reducing waste or diversion of public resources by just L28.3 million or just .6-.7 per cent of the proposed FY 1994 GOH National Budget, it will have recouped the total A.I.D. and GOH project investment of \$4,049,000. The difficult-to-quantify benefits that Honduran consumers will receive from lower product prices and a greater quantity of goods should corruption be reduced must too be added.

4) Environmental Assessment

The Project has no direct environmental impact. The Mission Environmental Officer recommended a negative environmental threshold decision and a categorical exclusion was granted by the LAC Bureau Chief Environmental Officer (STATE 239013).

5) Social Soundness Analysis

The environment within which each component will operate affects the risk level involved in the Project. Risk in strengthening the audit capacity of the CGR is minimal. As noted elsewhere, the Controller General is very supportive of the Project. The Controller General is in a good position politically as demonstrated by his ability to obtain increased budgetary resources, including that for increasing staff salaries, for strengthening the CGR. This component also builds on A.I.D.'s prior successful effort to strengthen the CGR.

The Project component with the highest risk of failure is the development of an investigatory capacity within the CGR. The risk is that even if a strong investigatory capability in the CGR is developed under the Project, the audit results will not be utilized to prosecute suspected wrong-doers. Many officials within the Honduran government are sensitive to the political implications of corruption, or are corrupt themselves, and will resist any effort to pursue corruption. Even if the willingness exists, the ability of the AGO to successfully prosecute may be questioned. There is also no history of the AGO, OPI, and CGR working very effectively together. All three factors will militate against the success of this component of the Project. However, the environment for combatting corruption appears to be shifting to a more favorable one. As noted elsewhere, several key political players have come out publicly against corruption. The public awareness campaign and ongoing policy dialogue on corruption planned under the Project are intended to significantly increase the chances of success in prosecuting corruption.

The direct beneficiaries will be the personnel of the CGR, and to a limited degree the internal auditors of GOH agencies who will receive additional training from the CGR. Gender issues will be taken into consideration to the extent possible. The establishment of a merit system at the CGR for hiring and promotion will give women equal opportunity for advancement. Both men and women will benefit from training. Project statistics will be gender disaggregated.

STRENGTHENING ACCOUNTABILITY SYSTEMS
(522-0381)
Logical Framework

Life of Project Funding
From FY93 to FY96
Total U.S. Funding \$2.5 million

Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p><u>A.1 Goal</u></p> <p>More responsive selected democratic institutions and processes, with greater citizen participation.</p>	<p><u>A.2 Measurement of Goal Achievement</u></p> <p>Percentage of the public surveyed with an improved perception of government accountability increases by at least 30 percent.</p>	<p><u>A.3</u></p> <p>Public opinion survey</p>	<p><u>A.4</u></p> <ol style="list-style-type: none"> 1. Auditing is an effective means to improve government accountability. 2. Audit results will be used as evidence in the prosecution of fraud and corruption. 3. An increase in prosecutions will have an impact on public perceptions.
<p><u>B.1 Purpose</u></p> <p>To strengthen GOH auditing capability and accountability.</p>	<p><u>B.2 End of Project Status</u></p> <p>Controller General (GCR) is conducting audits in accordance with Generally Accepted Government Auditing Standards (GAGAS). Audited GOH institutions have taken corrective actions recommended in audit reports.</p> <p>CGR investigatory audit cases involving fraud and corruption are successfully prosecuted.</p>	<p><u>B.3</u></p> <p>RIG reports</p> <p>CGR records</p> <p>Attorney General records</p>	<p><u>B.4</u></p> <ol style="list-style-type: none"> 1. The GOH Controller General continues his support of improved CGR audit capabilities.

10

STRENGTHENING ACCOUNTABILITY SYSTEMS
(522-0381)
Logical Framework

Life of Project Funding
From **FY93** to **FY96**
Total U.S. Funding **\$2.5 million**

Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
C.1 <u>Outputs</u>	C.2 <u>Output Indicators</u>	C.3	C.4
1. Improved retention of qualified auditors.	At least fifty per cent decrease in turnover rate among supervisory auditors.	<ul style="list-style-type: none"> • CGR records 	GOH budgets funds to cover increased CGR salary scale.
2. Improved CGR audit capability.	At least one hundred per cent increase in the number of timely and professionally completed audit reports, including those conducted under the USAID Recipient Audit Program (RAP), submitted to the audited institutions for corrective action, and to Congress. The issuance by RIG of an unqualified certification of the OCG capability to perform audits under the Recipient Audit Program.	<ul style="list-style-type: none"> • CGR records • RIG records • Congressional Records 	
3. Establishment of an investigatory audit capacity in the CGR.	The submission of twenty investigatory audits capable of forming the basis for an successful prosecution to Congress, the Office of the Attorney General, or other appropriate GOH body.	<ul style="list-style-type: none"> • CGR records • OAG records 	An Investigatory Audit Unit is staffed with qualified individuals.
4. Increased public awareness of the costs associated with misuse of public resources, and of the role of the CGR in GOH efforts to control fraud and corruption.	Increase in constructive public involvement in the fight against corruption evidenced by the receipt of at least forty allegations of government fraud and corruption judged to merit investigation.	<ul style="list-style-type: none"> • CGR records 	Public awareness is sufficient to result in reporting of allegations.

ANNEX B

APPROVED CONCEPT PAPER

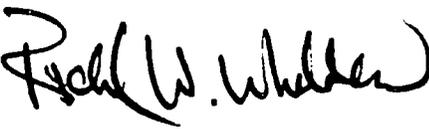
CONCEPT PAPER

STRENGTHENING ACCOUNTABILITY SYSTEMS PROJECT

PROJECT No. 522-0381

USAID/HONDURAS

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

From: Richard Whelden, DF 

Subject: Strengthening Accountability Systems Project (522-0381) Design

Date: May 26, 1993

Action Requested: That you approve the concept outlined in the attached Project Description for the proposed Strengthening Accountability System Project.

Background: The New Project Description (NPD) for the Strengthening Accountability Systems Project was presented in the FY 93-94 Action Plan. The NPD proposed a three-year project that would improve the GOH's capability to identify, investigate and successfully address instances of fraud and corruption, by improving the audit capacity of the GOH Controller General, and the systems of the Office of Public Integrity and the Attorney General Office.

In FY 92, \$50,000 in PD&S funds were made available for design work. The firm Robert Miranda & Company was contracted to (1) conduct a follow-on assessment of the state of GOH financial administration and internal controls and update a 1987 Price Waterhouse report on this subject, and (2) produce a draft project description and analysis.

At the same time, a Concept Paper was developed for Mission review and approval. This Concept Paper proposed that the project address the problem of corruption through four components:

- A) Development of Political Will: Career laws for the offices of the Controller General (OCG), Public Integrity (OPI) and Attorney General (OAG); USAID and Embassy involvement in policy dialogue.
- B) Development of Public Involvement: Anti-corruption Office in the OCG; public awareness campaigns; telephone "hot line".
- C) Upgrading Audit Capability: Improved OCG audit capacity.
- D) Development of an Investigatory/Prosecutorial Capacity: Improved coordination between the OCG, OPI, OAG on investigation and prosecutorial processes.

At a project review meeting held on January 29, 1993, concern was expressed that the project needed more focus, that there was questionable GOH commitment to some of the activities and that major involvement in the fight against corruption might be unrealistic and could result in malicious "whistle blowers".

At this meeting it was decided that (1) additional information/analysis be obtained on the major sources of corruption in Honduras and (2) a preliminary "strategy paper" be prepared and discussed with the Controller General; Attorney General; the Public Integrity Office; and other key persons.

With input from other offices, CONT/FARS prepared a list of the major types of corruption in Honduras. Emily Leonard, HRD Office Director, drafted a strategy paper. The proposed strategy shifted the project's focus from audit to prosecution. It proposed (1) the creation of a GOH commission consisting of three members from the Comisión Fiscal Interventora (government, private sector, and labor); the Controller General; the Director of the Public Integrity Office; the Attorney General; and the head Tributación and (2) that priority be placed on the Public Integrity Office, mainly because it is key to following up on both Controller General and Comisión Fiscal Interventora charges of corruption.

On March 12, a meeting was held to brief you on the proposed strategy, before discussing it outside the Mission. Some of your specific concerns are summarized below:

- The strategy did not contain anything that the GOH could not do on their own if they had the will;
- Commissions in Honduras do not work;
- Working with Fiscales is too labor intensive and the Mission does not have the staff for this type of involvement;
- USAID cannot and should not try to solve all GOH corruption problems.

It was decided that the project design should be kept simple and focus only on strengthening the Controller General's general audit and investigatory audit capabilities. Improved audits would at least cause embarrassment and serve as a basis for prosecution. You requested that a Project Description be prepared for negotiation with the Controller General.

Discussion: The attached Project Description responds to issues regarding the scope and focus of project activities, GOH commitment, and USAID's degree of involvement. It narrows the project's focus to the Controller General. It requires the GOH's commitment to take the necessary actions to improve retention of qualified auditors. Two long-term advisors will be contracted to implement the project in collaboration with a GOH liaison officer in the Controller General's Office.

Major project components are:

- Increasing Staff Stability
- Upgrading Audit Capability
- Development of an Investigatory Audit Capability
- Development of Public Awareness

The following issues remain to be addressed before we proceed with project design:

- Which Mission office should have management responsibility for the project. During the last review meeting, HRD requested that the project not be assigned to them due to their already heavy workload. DF recommends that CONT/FARS manage the project, within existing funding levels.
- At current budget levels the project is doable at this modest funding level. However, further budget and personnel reductions are likely. If these occur then it would be very difficult for the Mission to implement the project as scheduled unless something else was given lower priority.

ACTION REQUESTED: That you make a decision as to whether to approve the project description and proceed with the subject project design as described in the attached Project Description.

→ LOZ

APPROVED: OK
DISAPPROVED: _____
DATE: _____

but LOZ + Risk
Should review with
Rene Ardor. HE's
interested in this area

?

STRENGTHENING ACCOUNTABILITY SYSTEMS PROJECT

I. BACKGROUND

One of USAID's program objectives in Honduras is to promote more responsive selected democratic institutions and processes with greater citizen participation. In Honduras, as elsewhere, the legitimacy of a democratic government depends on its being perceived by the citizens as responsive, accountable and honest. Citizens must have confidence that their government is using its resources effectively and efficiently, and that official corruption, when it occurs, will be both uncovered and prosecuted.

In Honduras, three institutions are primarily responsible for accountability and integrity of the public sector: The Office of the Controller General (OCG), the Office of Public Integrity, and the Attorney General's Office. The OCG, the supreme audit agency for Honduras, is by far the largest institution and the one with broadest responsibilities as it is responsible for audit of all government programs and contracts.

From August 1988 to August 1991, USAID/Honduras implemented the Assistance to the Controller General Project which assisted the OCG to initiate a base set of modern auditing systems and practices, to revise its administrative procedures, and to train its staff. In large measure because of this project, the RIG/AT recently certified the OCG as an institution to conduct audits under the Recipient Audit Program. The OCG has introduced generally accepted government auditing standards and has developed training programs resulting in higher skill levels among its 135 auditors. According to RIG/AT, however, the OCG lacks capabilities in the areas of quality control of audits, audit supervision and reporting techniques. In addition, the OCG does not have the investigatory audit ability necessary to gather legal evidence to be used in the prosecution of corruption. Furthermore, the staff continues to be inadequately compensated, job security does not exist and personnel practices are affected by political influence.

The proposed project builds on earlier efforts and will improve the effectiveness and efficiency of the OCG as a first step towards improving the Government of Honduras (GOH) accountability environment.

This project supports and complements projected activities under the LAC Regional Accountability and Financial Management Improvement Project, Phase II, (RFMIP II), scheduled for implementation in 1993.

II. PROJECT DESCRIPTION

A. Problem to be Addressed

Inefficient use of resources and corruption is widespread. A stronger OCG capable of identifying, auditing, and investigating inefficient use of GOH funds and official

corruption would help the GOH to better control these problems. Corruption cases are increasingly being publicly identified in the media, but the GOH is seldom able to respond effectively even if it wants to because of lack of evidence. The result is increasing distrust of the government among citizens, which in turn negatively affects democracy in Honduras.

The project will address specific OCG problems including deficiencies in quality control and audit supervision, follow up of audit recommendations, as well as a lack of capability in certain specialized audit areas such as public works (construction) and procurement/ contracting.

The project will also address the OCG's inability to investigate allegations of corruption. Corruption cases are often not pursued because of the lack of investigative capacity, improper gathering of legal evidence, violations of legal technicalities and lack of timeliness.

The Controller General has repeatedly expressed his willingness to tackle the OCG's audit capability problem and the larger problem of corruption. With this political will, general lack of qualified staff becomes a major difficulty in dealing with the above problems. Although the Controller General has adopted stricter procedures for the recruitment of qualified professional auditors, the lack of adequate compensation and job security results in high turnover of qualified staff. It does not make sense to address OCG technical capabilities without reform of the OCG personnel structure. Otherwise, improvements made can be lost due to staff turnover.

B. Project Components

Three of the project components directly address the problems discussed in the previous section. A fourth public awareness component will enhance the effectiveness of the project's efforts to reduce corruption.

1. Increase Staff Stability

OUTPUTS: Improved retention of qualified auditors as measured by decrease in turnover rate from prior years.

DESCRIPTION: Early in the project, short-term technical assistance will be provided to the OCG to design and implement a program to recruit qualified staff, increase salaries to levels consistent with market rates, provide staff with job security at least similar to that provided for by the GOH Civil Service law governing the executive branch of the government, and develop a career path structure which will increase opportunity for OCG staff to advance in their profession. The project will finance cost of local advisors needed to develop this Law.

2. Upgrading Audit Capability

OUTPUTS: Improved OCG audit capability as measured by an increase in the number of timely and professionally completed audit reports submitted to the audited institutions for corrective action or to the Attorney General's Office for prosecution.

DESCRIPTION: Among the principal activities under this initiative, the project will improve the OCG financial and operational audit capability in the area of audit planning and management. With project financed technical assistance, the OCG will improve audit work plans, including audit staffing, utilization of outside auditing expertise, as well as audit supervision. The OCG will implement a quality review program for audit reports and work papers. Specific training will be developed which will address deficiencies uncovered in the quality review process. The project will utilize OCG priorities and target specialized audit areas, such as public works (construction of highways) and procurement.

The OCG, with the assistance of a project financed long-term audit specialist, will develop and implement plans to systematically improve selected areas. The OCG will update and implement audit policies and procedures in order to obtain an unqualified RIG certification.

The OCG will design and implement an information system to track reports and facilitate the follow-up of audit recommendations. Equipment purchased for the information system will be purchased with GOH counterpart funds.

This project component will benefit the USG as well as the GOH in that as the OCG improves its auditing capabilities, it will be better able to perform audits under the Recipient Audit Program. Less fraud and greater efficiency in the use of funds should result. Short-term TA will be contracted to assist the OCG improve its capabilities in specialized areas.

3. Development of an Investigatory Audit Capability

OUTPUT: An Investigatory Unit within the OCG which can carry out successful investigatory audits as measured by the number of timely and professionally completed investigation reports submitted to the Attorney General's Office for prosecution.

DESCRIPTION: Through this component the OCG will establish an investigatory audit function. To accomplish this, the project will contract a long-term advisor to assist in the establishment of a specialized department responsible for the investigation of allegations of corruption against public employees. Staff for this department will be competitively selected on a merit basis. Employees will be required to have strong backgrounds in both auditing and law, with an emphasis on investigative auditing. Evidentiary procedures consistent with Honduran law will be developed, as will an

information system to track corruption cases. In order to develop an investigatory legal capability, a specialized training program will be designed and initiated for the personnel of this unit.

4. Development of Public Awareness

OUTPUT: Increased public awareness and credibility of the role and efforts of the OCG in overseeing the efficient use of limited government resources. Ultimately, should the OCG be successful in its efforts to modernize, there will be an increase in constructive public involvement in the fight against corruption.

DESCRIPTION: Through this component the OCG will establish a public awareness office within its investigatory auditing unit. This office will initiate a public awareness campaign to combat fraud. An anti-corruption telephone "hot line" will be established to increase public involvement in uncovering fraud. Allegations received through this "hot line" will be screened to determine the veracity of the information. Those calls which merit further investigation will be turned over to the investigatory auditing unit.

The OCG will carry out public awareness campaigns through the distribution of posters and publications. In addition, seminars and other public gatherings on fraud and corruption will be held and coordinated with other organizations agencies. Key government decision-makers will be sponsored for participation in the Regional Financial Management Improvement Project (RFMIP) II RESPONDA CON regionwide teleconferences. Coverage of these activities by the Honduran press will be encouraged.

C. Proposed Condition Precedent

In order for this project to be successful, the OCG must develop and implement a Career Law and concomitant regulations which will provide for the hiring of better qualified staff and which will stop staff turnover. In addition, the OCG must upgrade its salary scale consistent with market rates. The following Condition Precedent to disbursement is proposed:

Prior to the disbursement of AID funds for assistance for the second year of project implementation, the GOH will submit to AID, evidence that (1) a Career Law for the OCG has been submitted to and approved by Congress, and (2) a revised salary scale has been duly authorized (financed with GOH national funds) and included in the CY 1995 GOH budget.

III. IMPLEMENTATION ARRANGEMENTS

USAID will sign a bilateral agreement with the GOH (with both the Ministry of Finance and the OCG) to obligate US grant funds and to require GOH counterpart funding. The OCG will be the designated implementing agency.

A key facet to the implementation of this project will be the appointment by the OCG of a project liaison officer whose purpose will be to establish and to maintain close communication between the OCG and the USAID/H.

A project-financed project officer will manage this project under the oversight of a USDH. The project officer will provide technical direction, approve work plans and project budgets, prepare scopes of work for the procurement of short term technical assistance and training services, and will ensure GOH support for the project through consultation and discussion with high level government officials. The project officer will also provide technical guidance to the OCG project liaison officer regarding the requirements of the Recipient Audit Program. This position would be within existing personnel ceilings.

The project will finance two long-term advisors. USAID will procure the services of a long-term audit specialist (non-PSC) who will be responsible for the development and management of the audit training plan. The Mission will also procure short-term technical assistance and training services in certain specialized audit areas and investigation.

Long-term technical assistance (non-PSC) in criminal investigation will also be hired to design and implement the investigatory unit as well as to train its staff to properly develop evidence for use in criminal prosecutions. This contractor will also be responsible for developing and implementing the public awareness campaign.

The project officer will also coordinate buy-in activities such as technical assistance and training with the RFMIP II. Training under this project will be on a short-term basis only. Most of the training will take place in Honduras as part of the OCG internal training program. The project will contract experts in investigatory auditing and public awareness. It is envisioned that the RFMIP II experts will provide training to an initial group of OCG staff. Subsequent courses will be developed by the full-time technical experts in auditing, investigation and public awareness, and will be offered as part of the internal training program of the OCG.

The Mission will contract directly for one evaluation of the project. The project will be audited under the Recipient Contracted Audit Program.

IV. PROPOSED PROJECT BUDGET. See Attachment A.

ATTACHMENT A

USAID/HONDURAS
STRENGTHENING ACCOUNTABILITY SYSTEMS

PROPOSED PROJECT BUDGET
(\$000)

	<u>USAID</u>	<u>GOH</u>	<u>TOTAL</u>
I. INCREASE STAFF STABILITY	15	35	50
II. UPGRADING AUDIT CAPABILITY	1,295	150	1,445
III. DEVELOPMENT OF AN INVESTIGATORY CAPACITY	787	358	1,145
IV. DEVELOPMENT OF PUBLIC AWARENESS	200	168	368
V. PROJECT ADMINISTRATION AND OTHER	203	289	492
	-----	-----	-----
TOTAL	<u>2,500</u>	<u>1,000</u>	<u>3,500</u>



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D.C.

23 de Septiembre, 1993.

S-119-93
No.....

Señor
MARSHALL D. BROWN
Director de Agencia para el
Desarrollo Internacional (AID)
Su Despacho

Señor Director:

El Ministerio de Hacienda y Crédito Público, en nombre y representación del Gobierno de la República de Honduras y en atención a la solicitud presentada por la Contraloría General de la República, respetuosamente solicita a la Agencia para el Desarrollo Internacional, una asistencia financiera en calidad de donación por US\$ 2,500.000.00 para el financiamiento del Proyecto denominado Fortalecimiento de los Sistemas Públicos de Rendición de Cuentas.

Esta asistencia tendrá la finalidad de proveer a la Contraloría General de la República, de la asistencia técnica y la capacitación requeridas para apoyar al Gobierno de Honduras en sus esfuerzos por mejorar el control sobre la administración financiera, el control fiscal y la investigación dentro del sector público a través del fortalecimiento de la Contraloría General de la República.

El costo del proyecto es de US\$ 3,500,000.00 de los cuales el Gobierno de Honduras aportará US\$ 1,000,000.00 del Presupuesto asignado a la Contraloría General de la República. Este proyecto asistirá a dicha dependencia para mejorar la estabilidad de su personal, su capacidad de auditoría, desarrollar capacidad interna para conducir investigaciones profesionales como parte de la auditoría, adquisición de equipo de apoyo permanente a los sistemas y promover una conciencia nacional sobre la importancia del papel de la Contraloría General de la República en el control de los recursos públicos.

Dada la importancia que el proyecto tiene para el Gobierno de la República de Honduras, solicitamos al Señor Director, que la presente solicitud sea aceptada, analizada y resuelta en el menor tiempo posible. La descripción del proyecto se encuentra adjunta con esta carta.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D.C.

No.....

Pág. No.2

S-119-93

Señor

MARSHALL D. BROWN

Con las muestras de mi mas alta y distinguida consideración.

Atentamente,



René Ardon Matute
RENE ARDON MATUTE
Ministro

ANNEX D – EXPANDED PROJECT DESCRIPTION

I. SUMMARY AND RECOMMENDATIONS

A. Summary

The purpose of the Strengthening Accountability Systems (SAS) Project (the Project) is to strengthen the Grantee's auditing capability and accountability. This will be done by strengthening the audit capabilities of the Office of the Controller General of the Republic (CGR).

Achievement of this purpose will contribute to Agency and Mission democratic initiatives by strengthening the Government of Honduras'(GOH) accountability and transparency. Such initiatives recognize that the legitimacy of democratic regimes depends on their being perceived by their citizens as responsive, accountable and honest. The Project will directly contribute to the Mission's Program Output No. 5.6 --Strengthened GOH Audit Capability and Public Accountability.

The Life of Project (LOP) will be three years, with a total funding of \$3,928,000; \$2,500,000 in USAID funding; the local currency equivalent of \$1,000,000 in GOH counterpart funding from Economic Support Fund (ESF)-generations; and the local currency equivalent of approximately \$428,000 in GOH counterpart funding from GOH National Funds.

The Project will consist of four components. The first will be the increase in staff stability of the CGR. Increasing staff stability within the CGR is vital because otherwise improvements in human resources resulting from the Project and other CGR efforts would be lost due to staff turnover. The second will be the upgrading of the CGR's basic audit capability. This effort will include both financial and operational audits, the latter being a new capability. The third component will be the development of an investigatory audit capability within the CGR. This will be an important new function within the CGR which will improve its audit efforts in uncovering corruption and fraud cases. The fourth will be the development of public awareness. This effort will increase the public's knowledge of the cost of fraud, waste and misuse of public resources, and corruption, and of the CGR's role and efforts in identifying, investigating, and documenting these problems.

Major outputs at the end of the project will be: (a) improved retention of qualified auditors; (b) improved CGR audit capability; (c) establishment of an investigatory audit capacity in the CGR; and (d) increased public awareness of the costs associated with misuse of public resources, and the role of the CGR in GOH efforts to control fraud, financial mismanagement and corruption.

A bilateral Project Grant Agreement will be signed with the Ministry of Finance and Public Credit (MFPC) and the CGR on behalf of the GOH (the Grantee). This agreement will designate the CGR as the Project implementing institution.

A.I.D Project funds will be used to finance technical assistance, training-related activities and equipment and commodities which will institutionally strengthen the CGR. A.I.D Project funds will also finance management and monitoring costs, periodic audits, and a final evaluation of the project. GOH ESF counterpart funding will be used to procure local technical assistance and training services, certain commodities and equipment, the salary of a Project Liaison Officer, and initial project staff salaries for the establishment of an Investigatory Audit Department and Public Awareness Unit. GOH National funds will finance increased professional salaries within the CGR, and a portion of the project staff salaries.

B. Project Design Issues

The Mission recognizes that the problem of weak public accountability associated with poor management and corruption has two facets: (a) varying degrees of political will and political resistance among GOH officials to address corruption issues; and (b) limited audit capability which decreases both the GOH's ability to detect instances of poor management and make recommendations for improvement, and to discover and prosecute corruption. The Project will address the second facet of the problem by strengthening the CGR's capacity to audit and investigate the use of government funds.

The overall design issue raised by the Project Committee during review of this Project Paper was whether the project was worth the investment of \$2.5 of USG resources in the institutional strengthening of the CGR absent firm GOH political will to tackle the problem of corruption. The Mission recognizes that transforming political will and behavior is a long-term process which may be affected by numerous variables beyond the scope of the Project (but are within the purview of the Mission's Strengthening Democratic Institutions Project). Project efforts to improve the GOH's ability to audit, investigate and document cases of public mismanagement and corruption will result in an increased ability to prosecute such cases. This, in turn, may strengthen – or force – the political will to do so. An additional project outcome will be the strengthened CGR capacity to participate in A.I.D's Recipient Audit Program.

A second issue was related to the GOH's commitment to undertake specific actions considered essential for the success of the project such as: (a) the distribution of final CGR audit reports for corrective action, publication, and possible prosecution to be required in the CGR's enabling legislation ("Ley Orgánica"); and, (b) increasing staff salaries and improving benefits among the CGR's professional staff to be required in the CGR's "Career Law for Auditors." Given the importance of these actions to the Project's Purpose, a decision was made to include them as Conditions Precedent to Disbursement in the Project Agreement. In addition, funding for CGR salary increases was included as an in-kind GOH counterpart contribution to the Project, to be financed with GOH National Funds.

Regarding the Career Law for Auditors, the Mission concurred with the CGR's position that sufficient time be allowed for the institution to prepare for the implementation of such a Law. Accordingly, Congress' approval of the Career Law will be included as a Condition Precedent to certain FY 1996 Disbursements. As to the "Ley Orgánica", the Controller General, while in full agreement with the need for the revised legislation, felt that the CGR should only be held responsible for the submission of the Law to Congress, not for the Law's passage. The Mission concurred with the CGR's position and decided that one Condition Precedent to first disbursement would require only formal submission of the Law to Congress. However, given the importance of the Law's enactment by Congress to the achievement of the project purpose, the Mission will include the enactment of the Law as a Condition Precedent to FY 1995 disbursements for certain project funded commodities.

A third issue dealt with the payment of salaries of CGR employees hired due to project activities. The Mission's position is that salaries of permanent employees of GOH institutions should be financed from the institutions' annual operating budgets. Otherwise, at conclusion of projects, continued funding for such positions can be difficult to obtain. The Controller General requested that GOH National Budget funding of such salaries be eased in over the LOP to allow a gradual increase of the CGR's annual operating budget. Accordingly, the Mission concurred with the CGR's request and decided to approve the use of ESF-generated counterpart to cover one hundred (100) percent of the salaries of newly hired permanent staff, assigned due to project activities, during the first year of the project. This proportion will decline through project years two and three, and regular CGR operation budget funding will correspondingly increase, so that following the PACD one hundred (100) percent of the cost will be financed with GOH National Budget funds.

A fourth issue related to a concern about the potential drawbacks of procuring project technical assistance and training through a combination of contracting mechanisms such as buy-ins, non-PSCs and an institutional contract. Such drawbacks include increased Mission management load, loss of Mission control under buy-ins, and the inability to utilize "performance based contracting." The Mission recognized that these factors would be eliminated through a single procurement action with an institutional contractor. However, other matters had to be considered. First, by utilizing an institutional contract, the Project would have to take the risk of losing the expertise of an A.I.D.-funded PSC who has been successfully working with the CGR for over two years. Secondly, the GOH Controller General expressed his concern with having one institutional contractor providing all technical and training services and questioned the risk involved in the quality of the services. In view of these concerns, a decision was made to procure the long-term technical assistance through two non-PSCs, and the short-term technical assistance and training services through an institutional contract.

A fifth issue involved the percentage of the total Project budget allocated for the procurement of commodities and equipment. The Controller General felt strongly that substantial input of commodities and equipment would be required to achieve the identified Project outputs, particularly that of improving the CGR's audit capability. Approximately 22% of the overall

budget included in the Project Paper is reserved for the purchase of such goods. The Mission agreed to support the CGR's request provided that the commodity and equipment needs are documented. Accordingly, the Project Agreement will contain a Condition Precedent to the disbursement of Automated Data Processing (ADP) equipment or commodities requiring that an independent assessment of the ADP needs be completed. This assessment will include a recommendation on the type and amount of ADP equipment required by the CGR, thus confirming or, if necessary, adjusting the CGR's initial estimate.

C. Recommendation

The Project directly contributes to USAID/Honduras and Agency goals and objectives. Anticipated outputs will result in improved GOH auditing capability and accountability, which will contribute to an improved public perception of government and in the long-term to greater public participation in the democratic process.

The Project Committee which reviewed the Project Paper finds the proposed design technically, institutionally, financially and socially sound. This conclusion is based on various Project analyses completed by Mission staff who assisted in the design. The Project has no direct environmental impact and was granted a categorical environment threshold exclusion by the A.I.D. Latin America and the Caribbean Bureau (LAC) Chief Environmental Officer. It is the Committee's judgement that the SAS Project fits both within the Mission's Strategic Objectives and the GOH's development objectives, and can and will attain its purpose. The Committee recommends that it be approved.

The CGR and the MFPC have participated in the design of this project and strongly support it.

D. Project Design Team

The Mission Project Design Team was composed of:

Elena Brinemann	Deputy Mission Director
Leon S. Waskin	Office of Development Finance
(*) Thomas Johnson	Office of Development Finance
(*) Marcela Moya	Office of Development Finance
Robert Bonnaffon	Office of the Controller
(*) Frank Caropreso	Office of the Controller
(*) Marco Zavala	Office of the Controller
Mauricio Montes	Office of the Controller
Carmen Zambrana	Office of Development Programs
Carlos Solis	Office of Development Programs
Emily Leonard	Office of Human Resources

Ronald Glass	Office of Human Resources
Vicente Diaz	Office of Economic Programs and Analysis
Donald Harrison	Office of Economic Programs and Analysis
Michael Snyder	Office of Contract Management
Clifford Brown	Regional Legal Advisor

(*) Core group

II. BACKGROUND

A. Country Setting

Honduras, with a 1990 GDP per capita of approximately \$590, is one of the poorest countries in Latin America. Like many fragile democracies in poor countries, it is faced with the daunting task of modernizing the government sector with extremely limited resources and in the face of wide-spread official corruption. Government has been associated traditionally with patronage, low salaries, inefficiency and corruption. In this context, strengthening the accountability of the Honduran government will be a key factor in improving the effectiveness and efficiency of the government sector, and thus strengthening the public's perception of democratic institutions.

Public awareness of the costs of corruption has been growing in Honduras. Key political figures, including the President, have spoken publicly of the problem of corruption. The most recent action taken by the GOH in the fight against corruption was the President's creation of a "Comisión Fiscal Interventora", within the Executive Branch, for the purpose of investigating and verifying that GOH administrative actions are within the GOH laws and regulations, especially those that relate to the use of public funds and control over GOH property. With key decision-makers going on record against corruption, the opportunity exists to turn the rhetoric against corruption into reality.

In Honduras, three institutions are primarily responsible for looking after accountability and integrity in the public sector—the CGR, the Office of Public Integrity (OPI), and the Attorney General's Office (AGO). In theory, these three institutions work together to assure the accountability of government officials and projects. In practice, linkages between the three organizations and their capacity to carry out their mandated functions in an effective manner are weak. The CGR is by far the largest and most far reaching of the three institutions. A fourth institution, the MFPC, is a focal point for improving financial management throughout the Government of Honduras. All the executive branch financial management functions, budget, treasury, debt management, and accounting, fall under the jurisdiction of the MFPC. All auditing functions, including internal auditing of governmental agencies, fall under the jurisdiction of the CGR.

The CGR is the supreme audit entity responsible for auditing government programs and contracts. No other single governmental institution is more responsible for encouraging greater public sector accountability. The Controller General is appointed by the Honduran legislature for a five year period, and is directly responsible to that body. The term of the current Controller General expires in early 1997. The CGR is independent financially and structurally of the executive branch of the government.

The OPI is an independent agency of the legislative branch established for the purpose of monitoring and assuring the integrity of public officials. In addition to its role of receiving and reviewing the financial statements of public officials, it is also charged with the review of the contractual process—with the right to observe all aspects of contracting—from pre-qualification to final selection. Only the OPI has access to information from personal bank accounts of public officials.

The AGO is the legal representative of the State. Its primary role is to ensure that actions taken by government agencies are in accordance with legal requirements. In addition, it is also the agency charged with prosecuting instances of corruption uncovered by the CGR. The Attorney General is appointed by Congress for a six-year period.

B. Description of the Problem and Project Rationale

The overall problem the Project will address is weak public accountability associated with the loss of public resources as a result of poor management and corruption. Improved public accountability goes hand-in-hand with the strengthening of democratic institutions. The problem has two facets. First, there exist varying degrees of political will and political resistance among GOH officials to address corruption issues. Second, limited audit capability decreases both the GOH's ability to improve financial management through implementation of audit recommendations and its ability to discover and prosecute corruption.

The first facet of the problem is beyond the immediate scope of the Project. There will always be "some" political will to undertake, and "some" political resistance to undertaking, efforts to fight corruption. Political support within the GOH to address the problem of corruption has been growing. However, transforming political will and behavior is a long-term process which may be affected by numerous variables.

The SAS Project will address the second facet of the problem -- the lack of CGR capacity to audit and investigate inefficient and/or illicit use of government funds. Cases of misuse of public funds and corruption are increasingly being made public, but the GOH is seldom able to respond effectively, even if it wants to, because of lack of evidence. The result is increasing distrust of the government among its citizens, which in turn undermines democracy. A stronger and more efficient CGR will help promote transparency and accountability of GOH institutions and individuals and, over time, improve public perceptions of democratic institutions.

Strengthening the audit capacity of the CGR has been a focus of USAID/Honduras technical assistance for some time. In 1987, Price Waterhouse was contracted to undertake a study of the audit capacity of the CGR and make recommendations regarding its improvement and modernization. Many of those recommendations were successfully implemented with technical assistance from a follow-up project—in particular the development of more modern audit techniques and enhanced training capacity for CGR staff. However, gains are threatened due to the constant turnover of staff. According to the Office of A.I.D.'s Regional Inspector General (RIG), the CGR is deficient in the areas of quality control of audits, audit supervision, and reporting techniques. Furthermore, many of the cases the CGR refers to the AGO go unprosecuted because of significant weaknesses in investigation of public fraud, improper gathering of evidence, and violations of legal technicalities.

The project will focus on strengthening the CGR's general audit capabilities; developing a new investigatory audit capacity within the CGR; and increasing the public's awareness of the costs associated with inefficient use of public resources and corruption. The end result of project efforts will be an CGR capable of issuing professional and timely audit reports that are submitted to the audited institutions for corrective action, the AGO for possible prosecution, and to Congress. The project will also contribute to the growth of an anti-corruption ethic and political will at multiple levels within the GOH over the generations to come.

III. PROGRAM FACTORS

A. Relationship to Agency Policy and Objectives

The A.I.D. Democracy Initiative proposes focusing A.I.D. experience, skills, and resources to help promote and consolidate democracy as the legitimate organizing principle for political systems throughout the world. As part of this effort, it has been recognized that the legitimacy of democratic regimes depends on their being perceived by their citizens as responsive, accountable, and honest.

A.I.D. supports economic development by encouraging the emergence and establishment of political systems which establish and maintain effective, responsive, and publicly accountable government institutions. Accountability in the management of public finances is a particularly important aspect of government accountability because it not only documents the proper use of public funds, but it also helps host country governments obtain additional benefits from scarce resources by managing them more prudently.

Independent professional audit is essential to the oversight function of the Legislative Branch of government. Corruption, abuse of office, payoffs, bribes, fraudulent acts, nepotism, and favoritism cannot be fully stamped out, but they can be vigorously opposed through a strong audit function and increased public awareness of the costs of corruption.

This Honduras SAS Project is in line with LAC regional efforts to improve government accountability throughout the region, and complements projected activities under the LAC Regional Accountability and Financial Management Improvement Project, Phase II (RFMIP II), authorized in FY 1993. RFMIP II will have four major components: promoting the Integrated Financial Management Systems (IFMS) concept through regional and country activities, assisting with the implementation of IFMS where host country and Mission support is sufficient, and anti-corruption initiatives. It is anticipated that the Honduras SAS project may benefit from regional activities, especially in the area of training and regional conferences.

B. Relationship to Mission Strategies

USAID/Honduras has adopted "more responsive selected democratic institutions and processes" as one of the five strategic objectives of its program. The Project will support this objective by strengthening the GOH's accountability and transparency through improved auditing to fight corruption. It will specifically address the Mission's Program Output No. 5.6 -- Strengthened GOH Audit Capability and Public Accountability.

The SAS Project's public awareness campaign will include seminars for the general public and for specific groups such as judges, prosecutors, and municipal leaders. The project will coordinate public awareness seminars with the Mission's Strengthening Democratic Institutions (SDI) and Municipal Development Projects. The project expects to use the Judicial Career Law Regulations and the Congressional Career Law and Regulations developed under the SDI Project as models for a similar effort to reform the CGR's personnel structure.

C. Conformity with GOH Strategy

Key political figures, including the President, have spoken publicly of the problem of corruption. The GOH President's creation of a "Comisión Fiscal Interventora" is an example of GOH political interest in addressing the problem of corruption. It was created to investigate and verify that GOH administrative actions are consistent with Honduran laws and regulations, especially those that relate to the use of public funds and control over GOH property. This commission is to maintain ongoing communication with the CGR, OPI and AGO.

The CGR and the MFPC are very supportive of the SAS Project. The Controller General has developed a plan to improve the audit function within the CGR, much of which is incorporated into the project. The Controller General is in the process of revising its enabling legislation, which will include several provisions considered essential to the success of the project. The MFPC, CGR, RIG and A.I.D have drafted an agreement whereby the CGR will audit (under the Recipient Contracted Audit Program) GOH projects financed by A.I.D. Final

approval of this agreement by the MFPC is expected shortly.

IV. PROJECT OBJECTIVES

Project, Goal and Purpose

A. Goal: The goal of the Project is to promote more responsive selected democratic institutions and processes, with greater citizen participation. The measurement of goal achievement will be that improved public perception of government accountability increases by thirty (30) percent.

B. Purpose: The Project Purpose is to strengthen the Grantee's auditing capability and accountability.

C. End of Project Status: The measurement of the achievement of the Project Purpose will be that:

- CGR audits are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS);
- audited GOH institutions have taken corrective actions recommended in CGR audit reports; and,
- CGR investigatory audit cases involving fraud are successfully prosecuted.

D. Outputs: The Project's activities will result in:

- improved retention of qualified auditors;
- improved CGR audit capability;
- establishment of an investigatory audit capacity in the CGR; and,
- increased public awareness of the costs associated with misuse of public resources, and of the role of the CGR in GOH efforts to control fraud and corruption.

V. PROJECT DESCRIPTION

The SAS Project will be implemented by the CGR. The CGR will appoint a full-time Project Liaison Officer to manage project implementation on its behalf. To promote effective project implementation this individual will closely coordinate his/her activities with the USAID Project Officer.

The SAS Project will consist of four components. The first will be the increase in staff stability of the CGR. Increasing staff stability within the CGR is vital because otherwise improvements in human resources resulting from the project and other CGR efforts would be lost due to staff turnover. The second will be the upgrading of the CGR's basic audit capability. This effort will include both financial and operational audits, the latter being a new capability. The third component will be the development of an investigatory audit capability within the CGR. This will be an important new function within the CGR which will improve its audit efforts in uncovering corruption and fraud cases. The fourth will be the development of public awareness. This effort will increase the public's knowledge of the cost of fraud, misuse and mismanagement of public resources, and corruption, and of the CGR's role and efforts in identifying, investigating, and documenting these problems.

A. Increase Staff Stability

This component will improve retention of qualified auditors as measured by at least a fifty (50) per cent decrease in turnover rate among CGR supervisory auditors.

The CGR will have primary responsibility for implementing this component, which will involve the use of short-term technical assistance as described below and the passage, by the National Congress of legislation directly related to CGR staff stability. Accordingly, the CGR will be responsible for achievement of the component's specific objective.

Early in the project, local short-term technical assistance will be procured by the CGR to assist in a review and updating of their personnel system. This will include the development of a detailed staffing pattern and a review of the CGR's personnel capabilities, position qualifications, and job descriptions. This technical assistance will be financed with the Grantee's local currency counterpart funds. If necessary, the Controller General will replace some of its current staff with better qualified personnel.

Local short-term technical assistance, again procured by the CGR, will also help the CGR develop and draft a Career Law for Auditors and its concomitant regulations. This law will define a career path based on merit that will allow CGR staff to advance professionally and provide job security at least similar to that provided by the GOH Civil Service Law covering the executive branch of the government. The Career Law will address the hiring and firing of professionals, and establish the legal framework for the administration of personnel, including salary levels and grievance procedures. The Career Law will require the CGR to adopt a personnel program which guarantees that compensation and appointments are based on merit and open competition, and that all firings be limited to failure to carry out the responsibilities of the position and not for political reasons.

The Grantee will be responsible for enactment of the CGR Career Law by the Honduran Congress. The CGR has requested that sufficient time be allowed for the institution to prepare for the advent of the new system that this law will establish. The Controller General

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is planning to submit the Law to Congress by late 1995. USAID will be responsible for determining that the proposed Career Law is satisfactory in form and substance to the Mission. The Grantee's commitment for enactment of the Law will be included in the Project Agreement as a Condition Precedent to Disbursement for certain project-funded disbursements in Fiscal Year 1996. This law will be extremely important to assure that Project efforts are not lost due to staff turnover.

A revised salary scale to increase professional salaries to levels consistent with market rates will also be prepared and implemented by the CGR with the short-term technical assistance. The Minister of Finance and Public Credit has agreed that this action is necessary. However, the MHCP supports the salary increases only if the current staff level of the CGR is not increased. Any salary increase will be paid for exclusively with GOH National Funds, i.e., funds from the Government's own General Budget, rather than local currency generated by other A.I.D. activities, and will be considered in-kind contribution to the Project. While it is widely recognized that competitive salary levels are required to reduce staff turnover, approval of the CGR's salary levels and personnel plan are very sensitive issues in which the Mission will not be involved.

B. Improved CGR Audit Capability

This component will improve the CGR's capability to perform financial and operational audits as measured by: (1) an at least one hundred (100) per cent increase in the number of timely and professionally completed audit reports, including those conducted under the USAID Recipient Contracted Audits Program, submitted to the audited institutions for corrective action; and, (2) the issuance of an unqualified certification from A.I.D.'s RIG of CGR capability to perform audits under the Recipient Contracted Audits Program.

Under this initiative, long-term technical assistance will be provided to address the CGR's problems and deficiencies in quality control, audit supervision, preparation of reports, and follow-up of audit recommendations. In addition, short-term technical assistance and training will be provided to address the CGR's lack of technical audit capability in certain specialized areas. All technical assistance and training required under this component will be procured by USAID using Project Grant funds. The technical assistance and training will be provided by an institutional contractor in whose selection the CGR will participate.

A long-term resident Audit Specialist, provided through a direct A.I.D. non-Personal Services Contract (PSC), will work closely with the Controller General and designated CGR personnel to develop a detailed plan to achieve the required reforms. This action plan will be based on the Controller General's own improvement plan. The Audit Specialist will work with the CGR to improve its current audit policies, procedures, and standards to assure efficiency and effectiveness. The revised auditing standards will govern the undertaking of all government audits, whether performed by CGR staff or outside contracts auditors. Such standards will include the need for establishing objectives prior to undertaking the audit,

conducting exit conferences, and discussing audit results prior to the issuance of final reports.

The Audit Specialist will provide the CGR with technical assistance in developing an audit supervision program to oversee all stages of the audit process, including workplans and staffing requirements. This individual will also assist the CGR in developing a quality review program which will assure that audit reports and workpapers are prepared appropriately. The Audit Specialist will assist the Controller General to develop specific plans, including a determination of technical assistance and training requirements, to improve systematically selected audit areas and develop new specialized areas. Areas of audit specialization include, but are not necessarily limited to: public works (construction), budget and public debt control, administrative contracting, and environmental auditing. The CGR will place emphasis on the in-depth development of a few selected areas rather than attempting to develop capabilities in numerous new specialized areas. Finally, the Audit Specialist will also be responsible for initial drafting of all scopes of work (SOWs) for short-term technical assistance and training provided under an institutional contract. The SOWs will be reviewed and approved by the CGR and USAID, which will then authorize the institutional contractor to provide the services.

Training efforts will generally focus on assessing staff training needs, developing improved training events and strengthening the CGR's existing Training Department to effectively deliver the courses. In some cases initial staff training in new, specialized audit areas will be delivered by the Project-financed institutional contract, a process involving training-of-trainers as well. Observational tours within the region will play an important role in implementing this project component. CGR auditors will be sent to observe the work of their counterparts in other countries. Such visits, expected to last an average of two weeks, will involve on-the-job-training as CGR staff participate in actual audit work. Visits are anticipated to Costa Rica, Ecuador, Bolivia, Chile and Puerto Rico. In some cases, these tours will be combined with classroom training that is not available in Honduras, such as is offered by the Government of Costa Rica's Audit Training Center. Attendance at selected professional conferences, seminars and other events within the region will also be financed by the A.I.D. contribution to SAS. Project training materials and other training-related commodities and equipment, will be procured by the GOH using counterpart funds and, if necessary, by A.I.D using Grant funds.

In conjunction with improving the CGR's audit capabilities, this component will also improve its information systems. For example, an information database to track CGR audit reports and the status of recommendations will be developed. The project will begin by providing short-term technical assistance to determine the precise information needs of the CGR related to the improvement of its audit capacity. This assessment will also verify and, if necessary, update the computer hardware and software requirements that underlie the illustrative budget presented in Attachment I to this Annex. USAID will fund and procure, on behalf of the CGR, all required commodities, as well as the short-term technical assistance (which will be provided outside the institutional contract) required to design and establish the information system.

In order to assess the CGR's improved auditing capabilities, the Mission will ask the RIG to carry out another evaluation of CGR audit procedures and reports to determine the CGR's capability to perform audits under the Recipient Contracted Audits Program.

The Grantee will be responsible for enactment by the Honduran Congress of a revised CGR "Ley Orgánica" that will require, among other things, that all CGR final audit reports be submitted to Congress, and mechanisms be established to encourage timely (within one year) closure of final financial and operational audit recommendations. Such mechanisms may include sanctions such as fines, and/or withholding of National Budget allocations. The Grantee's commitment to include such provisions in a revised "Ley Orgánica" to be submitted to Congress, will be included in the Project Agreement as a Condition Precedent to first disbursement. Furthermore, the passage by Congress of a "Ley Orgánica" acceptable in form and substance to USAID will be a Condition Precedent to certain FY 1995 disbursements. This law will be extremely important to the success of Project efforts in improving the CGR's audit capabilities.

C. Development of an Investigatory Audit Capability

This component will develop an investigatory audit capacity within the CGR. Attainment of this capacity will be evidenced by the completion and submission to the Congress, the Office of the Attorney General, or other appropriate GOH entity of at least twenty (20) investigatory audits capable of forming the basis for successful prosecution.

To accomplish this objective, long-term technical assistance will be provided to the CGR through a direct A.I.D. non-PSC for an Investigatory Audit Specialist, while short-term technical assistance will be provided through the above-mentioned institutional contract. This assistance will help the CGR to establish a new specialized department responsible for the conduct of investigatory audits involving possible fraud and corruption. The Investigatory Audit Department will consist of a rapid response team, completely independent from, but working closely with, other CGR departments. It will require highly qualified staff which will be selected by the Controller General on a competitive/merit basis. The Investigatory Audit Department will receive requests for investigatory audits from various sources. When the CGR determines during the conduct of a financial or operational audit that an investigation is necessary to examine possible cases of fraud or corruption, the CGR will immediately transfer the action to the Investigatory Audit Department. Additional sources of requests for formal investigation audits will be other GOH entities such as the "Comisión Fiscal Interventora" and the OPI, which will request such audits of cases they identify as possible instances of fraud or corruption. Allegations from the public will also be received through a "hot line" to be established under the Project.

This Investigatory Audit Department staff will be strengthened in the necessary skills for carrying out investigatory audits through the Investigatory Audit Specialist and short-term technical assistance and training. The CGR's own Training Department will, in the process,

also receive assistance in developing an investigatory audit training program for future use. Short-term technical assistance and training required under this component will be provided by consultants whose services will be acquired through the institutional contract. CGR investigatory auditors will also benefit from observational tours and attendance at selected events within the region to be arranged by the institutional contractor.

The Investigatory Audit Specialist will be responsible for initial drafting of all SOWs for short-term technical assistance and training to be provided under the institutional contract. The SOWs will be reviewed and approved by the CGR and USAID, which will then authorize the institutional contractor to provide the services. The short-term technical assistance is expected to include, *inter alia*, development of evidentiary procedures consistent with Honduran law; procedures to assess the validity of allegations received from various sources, including the public; and strategies for improving communication and cooperation between other GOH entities involved with the identification, investigation and prosecution of fraud and acts of corruption.

The Grantee will be responsible for enactment of the above mentioned "Ley Orgánica." Such law will also require that all final investigatory audit reports be sent to the Attorney General and Congress. However, investigatory audit reports will be sent to Congress after an appropriate period of time, to be determined by the CGR in consultation with the AGO and Congress. In the event that the Attorney General declines to prosecute, the Congress will decide whether to make the audit results public. The Grantee's commitment to include such provision in the "Ley Orgánica" to be submitted to Congress, will be included in the Project Agreement as a Condition Precedent to first disbursement. Furthermore, the passage by Congress of a suitable "Ley Orgánica" will be a Condition Precedent to certain FY 1995 disbursements. This law will be extremely important to success of Project efforts to develop an investigatory audit capability within the CGR that results in successful prosecutions.

An investigatory audit tracking system will be developed to follow up on actions taken by the AGO on CGR investigatory audit reports. Impact assessments will be procured by A.I.D with Grant funds to determine whether investigatory audits are capable of forming the basis for successful prosecution by the AGO; and if not, why.

Office furnishings, computer workstations, and office equipment required for the Department will be procured by the CGR with the Grantee's local currency counterpart funds. Laptop computers, peripherals, software and specialized equipment will be procured by USAID using Project Grant funds. The salaries of any new permanent staff assigned to the Department will be financed the first year of the project by -generated local currency counterpart contribution. In the second Project Year -generated financing shall not exceed fifty (50) per cent of the total cost of personnel salary and benefits. In the third and final Project Year the level of this financing will be further reduced to twenty-five (25) per cent. The balance of the required personnel funding in each year shall be included in the CGR's annual budget and financed out of the Grantee's National Budget.

D. Development of Public Awareness

This component will complement all other project efforts by helping to increase public awareness of the costs associated with waste and misuse of public resources and the role of the CGR in GOH efforts to control fraud, mismanagement, and corruption. This will be measured by an increase in constructive public involvement in the fight against mismanagement and corruption, evidenced by the receipt of at least forty (40) allegations of government fraud, mismanagement and/or corruption judged to merit investigation and possible sanction and/or prosecution.

The Investigatory Audit Specialist will also be responsible for assisting the CGR to establish a permanently staffed Public Awareness Unit. With this assistance and other short-term technical assistance, identified by the Specialist and acquired through the institutional contract, the Unit will develop and begin implementation of a public awareness campaign developed with consideration of gender issues. One aspect of the campaign will involve seminars with key GOH officials and distribution of posters and publications among different groups including legislators, judges, prosecutors, municipal officials, and public employees. The purpose of these seminars will be to provide knowledge concerning the CGR's new role in uncovering and investigating corruption. The seminars will also discuss the role of other GOH institutions involved in the investigation and prosecution of fraud and acts of corruption, and the need to coordinate efforts to significantly affect this problem.

Another component of the campaign will target the general public through, *inter alia*, the issuance of press releases regarding the impact and cost of mismanagement, fraud and corruption, and seminars for members of selected non-governmental organizations dedicated to improving government honesty and efficiency. Advertisements in newspapers and on the radio will focus on the right of the Honduran people for greater governmental accountability and discuss how citizens can personally participate in the fight against mismanagement and corruption. For example, the public will be advised where to go, call, or mail to provide information on allegations of corruption, mismanagement or fraud.

The portion of the public awareness campaign directed at public officials will also address the need for follow-up on recommendations contained in the financial and operational audits conducted by the CGR. The importance of effective public sector management will be stressed, along with the role of auditing as a primary means of identifying areas for improvement. The existence of sanctions resulting from failure to close audit recommendations, and the willingness of the CGR to use them, will also be prominently noted.

The cost of designing and implementing the Public Awareness Campaign will be covered both by A.I.D. Grant resources and local currency counterpart funds. Office furnishings, computer workstations, and office equipment required for the Unit will be procured by the CGR with the Grantee's local currency counterpart funds. Computer peripherals, software and presentation equipment will be procured by USAID using Project Grant funds. The salaries

of any new permanent staff assigned to the Unit will be financed the first year of the Project by –generated local currency counterpart contribution. In the second Project Year ESF-generated financing shall not exceed fifty (50) per cent of the total cost of personnel salary and benefits. In the third and final Project Year the level of this financing will be further reduced to twenty-five (25) per cent. The balance of the required personnel funding in each year shall be included in the CGR's annual budget and financed out of the Grantee's National Budget.

ANNEX E - DETAILED COST ESTIMATE AND FINANCIAL PLAN

I. The A.I.D. Contribution

The total Life-of-Project A.I.D. contribution to the SAS Project is estimated at \$2,500,000. This will include an initial obligation of \$458,000 in FY 1993 Development Assistance funds. USAID expects that subsequent incremental obligations totalling \$2,042,000 will be made from the Development Assistance account in FYs 1994-95.

The A.I.D. contribution is described below by Project Element, which is the basis of the MACS project accounting system utilized by the Mission.

A. Long-Term Advisors

Two long-term resident advisors will be procured by USAID through non-Personal Services Contracts. One advisor, the "Audit Specialist," will be contracted for a period of thirty-six (36) months, while the second, the "Investigatory Audit Specialist," will be contracted for approximately thirty (30) months. Both advisors are expected to be Third Country Nationals (TCNs). The estimated cost of the AID-funded long-term advisors is \$725,000.

B. Institutional Contract

USAID will procure short-term TA and training related services through an institutional contract. The contract will cover an approximately 30 month period, and include approximately forty-five (45) person months of TA, and twenty-eight (28) person months of training-related services. In addition, the contract will include funding to provide approximately fifteen (15) observational tours averaging eight persons per trip to countries in Latin America. The estimated cost of the institutional contract is \$990,000.

C. Short-Term Technical Assistance

Approximately seven person-months of short-term TA will be procured outside of the institutional contract by USAID; Grant funding will be utilized to contract TA for an information/ADP needs assessment at the outset of the Project. The estimated cost of this short-term TA is \$50,000.

D. Commodities and Equipment

A.I.D.-funded commodities include computers, software, and specialized office equipment which cannot be purchased, or is more expensive in Honduras. A schedule of these commodities and equipment is presented in Table IV. The estimated cost of A.I.D. funded commodities and equipment is \$320,000. All A.I.D.-funded commodities will be procured directly by the Mission.

E. Project Management

The Project will be managed on a day-to-day basis within the Mission by a Foreign Service National Personal Service Contractor (FSNPSC). The estimated cost of the Project Manager and related office support expenses is \$150,000.

F. Evaluations and Monitoring

This project element includes monitoring, special impact assessments and the final evaluation. Costs associated with monitoring include the development of baseline data for output indicators and of subsequent updating; in particular, the public opinion surveys. Special impact assessments will be conducted, as needed, to examine specific impacts or implementation problems to offer the basis for informed decision making. The final evaluation will cover project impact and measurement of results. The estimated cost of the activities under this element is \$125,000.

G. Audits

The project has budgeted \$60,000 for audits. (See Section III(C), below.)

H. Cost Assumptions

The cost estimates that underlie the budget figures depend on several important assumptions. These include:

(a) Burdened salaries for short-term expatriate consultants are estimated at \$7,200 per month, or approximately \$300 per work day assuming a six-day work week. The figure was arrived at based on recent USAID procurement experience.

(b) The estimated cost for the long-term resident advisors procured under non-PSCs is based on the fact that one, and possibly both, will be Third Country Nationals. TCNs normally have a history of lower salaries than PSC recruited from the United States. In addition, one of the positions is expected to be filled by an individual who is already working for the CGR under a Mission funded PSC. A good record of costs is therefore available and has been utilized in preparing the estimate.

(c) The cost of local short-term consultants is budgeted at \$3,000 per month. This is consistent with the recent experience of the CGR in procuring the type of specialized services, e.g., drafting legislation, required.

(d) The estimated rates for fringe benefits, overhead, and fees associated with the institutional contract are based on information provided by the Mission's Office of Contract Management.

(e) The costs of commodities and equipment were estimated by the CGR based on a survey of current U.S. (A.I.D. procured) and local (CGR procured) prices.

(f) An inflation factor of 10 per cent was built into the cost estimates for the non-PSC long-term advisors. An overall contingency of approximately 5 per cent was added to both the A.I.D. budget and the GOH local currency budget. Given the relatively short LOP these figures are considered adequate.

(g) GOH costs to hire staff for the Investigatory Audit Department and the Public Awareness Unit are based on the expected increased salary levels for all CGR professional staff.

II. The Government of Honduras Contribution

A. Short-Term Technical Assistance

GOH ESF-generated local currency funding will procure local short-term consultants who will provide TA under the Project's "Increase Staff Stability" and "Development of Public Awareness" components. Required GOH funding for this element is estimated to be the local currency equivalent of \$75,000, or approximately 25 person months.

B. Seminars and Conferences

GOH ESF-generated local currency counterpart funding will finance in-country seminars and attendance at international conferences related to the Project's "Development of Public Awareness" component. Required GOH funding for this element is estimated to be the local currency equivalent of \$55,000, of which approximately half will be spent on each activity.

C. Commodities and Equipment

The GOH will finance, using ESF generations, the installation of computer equipment, training room refurbishment and equipment, additional office equipment and furnishings, computers, training materials, and vehicles. A schedule of these commodities and equipment is presented in Table IV. The estimated cost of GOH funded commodities and equipment is the lempira equivalent of \$579,000.

D. Project Staff Salaries

Both National Budget funds and ESF-generated local currency will be used by the CGR to hire and retain staff required for the establishment of the Investigatory Audit Department and the Public Awareness Unit. ESF generations will also finance the salary of a Project Liaison Officer working in the CGR. The estimated LOP cost of the Liaison Officer's salary is the lempira equivalent of \$75,000. As shown in Tables 3.1 and 3.2 that follow, the cost of the Investigatory Audit Department and the Public Awareness Unit staff is estimated at the equivalent of \$288,000, approximately half of which will be financed by the GOH using ESF generations according to the following schedule: ESF generations will cover 100% of the salaries during Year 1 of the Project, 50% in Year 2, and 25% in Year 3.

E. Professional Staff Salary Increases

National Budget funds used for increased professional salaries will comprise an in-kind GOH counterpart contribution. The GOH costs under this element, provided in-kind, are estimated to be the local currency equivalent of \$284,000.

III. FINANCIAL PLAN

A. Financial Costs

The total funding of the Project is \$3,928,000. The USAID contribution to the project will be \$2,500,000. The GOH will contribute the equivalent of \$1,000,000 in ESF generated local currency funds, and an additional lempira equivalent amount of \$428,000 in GOH National Budget funds.

The attached tables provide cost estimates and anticipated budgetary requirements over the three year LOP. Table I presents expected USAID and GOH expenditures by Project Element. Table II outlines expected A.I.D. expenditures by Fiscal Year and type of input, while Table II.1 presents the estimated annual cost of the institutional contractor. Table III presents the anticipated GOH local currency expenditures on an annual basis. The projected annual cost of professional staff hired by the CGR for the Investigatory Audit Department and the Public Awareness Unit, and professional salary increases, are presented in Tables III.1 and III.2. Table IV provides a schedule of the commodities and equipment to be financed by both A.I.D. Grant resources and GOH counterpart contributions. Table V presents the project's projected annual obligations and expenditures. A summary of Project contributions by component and funding source is presented in Table VI.

B. Methods of Financing

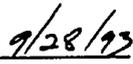
A.I.D.-funded TA and training will be provided through direct A.I.D. non-Personal Services Contracts (PSCs) and a direct institutional contract with a U.S. firm. The two non-PSCs will deliver long-term technical assistance while the institutional contractor will be responsible for the provision of long and short-term TA and training, and for arranging and providing funding for regional observation tours. The Mission will contract directly for certain short-term TA, the project management staff, project monitoring activities, special impact assessments, and the evaluation. The methods of financing and implementation are detailed in Table VII.

C. Audits

Independent recipient audits will be directly contracted by the CGR under the recipient audit program (RAP). Agency contracted, non-federal audits of project activities are not anticipated to be needed. Although this project will be executed under a Handbook 3 bilateral Grant Agreement with the Government of Honduras, under which the Controller General of the Republic may also audit the project, the fact that this project itself is to be implemented by the Controller General precludes this.



Controller



Date

TABLE I - ESTIMATED COSTS BY PROJECT ELEMENT (\$000 or Lempira Equivalent)

	<u>USAID</u>	<u>GOH ESF</u>	<u>GOH National Funds</u>	<u>TOTAL</u>
<u>A.I.D. PROJECT ELEMENTS</u>				
I. LONG-TERM ADVISORS - 5.5 person years	<u>725</u>			725
II. INSTITUTIONAL CONTRACT - 52 person months short-term TA - Observational Tours/Exchanges	<u>990</u> <u>515</u> <u>475</u>			990
III. SHORT-TERM TA - 7 person months	<u>50</u>			50
IV. COMMODITIES - CGR Office/Computer Equipment	<u>320</u>			320
V. USAID PROJECT MANAGEMENT - FSNPSC Project Manager - Supplies and Equipment	<u>150</u> <u>135</u> <u>15</u>			150
VI. EVALUATION AND MONITORING - Final Evaluation - Special Assessment - Project Monitoring	<u>125</u> <u>60</u> <u>45</u> <u>15</u>			125
VII. AUDITS - Annual Recipient Audits	<u>60</u>			60
CONTINGENCY	<u>80</u>			80
Subtotal	2,500			2,500
<u>GOH COSTS</u>				
A. SHORT-TERM TECHNICAL ASSISTANCE - 30 person months		75		
B. STAFF TRAINING		20		
C. CONFERENCES		35		

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	<u>USAID</u>	<u>GOH</u> <u>ESF</u>	<u>GOH</u> <u>National</u> <u>Funds</u>	<u>TOTAL</u>
D. COMMODITIES		579		579
- Office/Computer Equipment		300		
- Vehicles		200		
- Training Materials/Publications		79		
E. PROJECT MANAGEMENT				
- CGR Project Liaison Officer		75		75
F. PROFESSIONAL SALARIES		144	144	288
G. STAFF SALARY INCREASES			284	284
CONTINGENCY		72		72
Subtotal		1,000	428	1,428
GRAND TOTAL				3,928

TABLE II - USAID PROJECT COSTS BY INPUT BY YEAR
Calendar Years
US\$ (000)

DESCRIPTION	93	94	95	96	TOTAL
1) Institutional Development *	0.0	480.0	860.0	745.0	2,085.0
2) Project Management	15.0	55.0	50.0	30.0	150.0
3) Project Monitoring and Evaluation	15.0	15.0	20.0	75.0	125.0
4) Audits	0.0	20.0	20.0	20.0	60.0
5)Contingency					80.0
TOTAL	30.0	570.0	950.0	870.0	2,500.0

* Includes technical assistance, training and commodities

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TABLE III - LOCAL CURRENCY REQUIREMENTS (000LPs)
Calendar Years

DESCRIPTION	94	95	96	TOTAL
1) Equipment	1,470	1,932	651	4,053
2) Office Salaries	557	992	992	2,541
3) Training and Technical Assistance	189	350	371	910
4) Salary Increase	1,053	933	849	2,835
5) Contingency	165	165	174	504
TOTAL	3,434	4,372	3,037	10,843

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**TABLE III.1: GOVERNMENT OF HONDURAS CONTRIBUTION (U.S. EQUIVALENT)
PROFESSIONAL STAFF SALARIES- INVESTIGATORY AUDIT DEPARTMENT**

Description	Unit Price	Unit	Year One	Year Two	Year Three	LOP
			1994	1995	1996	
-Department Chief	850	Mo	5,313	11,475	11,475	28,263
-Secretary	214	Mo	1,338	2,889	2,889	7,116
-6 Investigative Auditors	500	Mo	18,750	40,500	40,500	99,750
TOTAL SALARIES			25,400	54,864	54,864	135,128
EMPLOYER CONTRIBUTION			6,871	13,741	13,741	34,353
TOTAL			32,271	68,605	68,605	169,481
ESF CONTRIBUTION(100%.50%.25%)			32,271	34,303	17,151	83,725
IN-KIND CONTRIBUTION(0%.50%.75%)			0	34,303	51,454	85,756

PROFESSIONAL STAFF SALARIES-PUBLIC AWARENESS DEPARTMENT

Description	Unit Price	Unit	Year One	Year Two	Year Three	LOP
			1994	1995	1996	
-Department Chief	714	Mo	4,463	9,639	9,639	23,741
-Assistant to Dept. Chief	555	Mo	3,469	7,493	7,493	18,454
-AudioVisual Operator	280	Mo	1,750	3,780	3,780	9,310
-Public Relations Manager	425	Mo	2,656	5,738	5,738	14,131
-AudioVisual technician	280	Mo	1,750	3,780	3,780	9,310
-Secretary	210	Mo	1,313	2,835	2,835	6,983
-Receptionist	143	Mo	891	1,924	1,924	4,738
-2 telephone Operators	128	Mo	1,594	3,443	3,443	8,479
TOTAL SALARIES			17,884	38,630	38,630	95,145
EMPLOYER CONTRIBUTION			4,678	9,353	9,353	23,384
TOTAL			22,562	47,983	47,983	118,529
ESF CONTRIBUTION(100%.50%.25%)			22,562	23,992	11,996	58,550
IN-KIND CONTRIBUTION(0%.50%.75%)			0	23,992	35,987	59,979

SUMMARY

	Year One	Year Two	Year Three	LOP
TOTAL ESF	54,833	58,294	29,147	142,275
TOTAL NATIONAL FUNDS(IN-KIND)	0	58,294	87,441	145,735
TOTAL SALARIES	54,833	116,588	116,588	288,010

Note: Year One includes only 6 months salary since staff will be hired at mid-year(1994) after TA assessment

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TABLE III.2**PROFESSIONAL SALARY INCREASE
SOURCE:GOH NATIONAL FUNDS**

PAYROLL (MONTHLY)(LPS)	YEAR I (10.5%)	YEAR II (12.5%)	YEAR III (15.5%)	TOTAL
LPS 350.000	36,750.00	48,343.75	67,439.53	
ADJUSTED PAYROLL	386,750.00	435,093.75	502,533.28	
ANNUAL INCREASE (LINE 1 X 13)	477,750.00	628,468.75	876,713.91	
CONVERTED TO US\$	68,250.00	89,781.25	125,244.84	283,276.09
			ROUNDED TO	284,000.00

EXCHANGE RATE: L7.00=\$1.00**U:\FARSPUB\QDATA\TABLEIII.2**55
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TABLE IV - SCHEDULE OF COMMODITIES AND EQUIPMENT

USAID CONTRIBUTION			
	UNIT PRICE(\$'s)	QUANTITY	TOTAL
LAN SERVER	39,415	1	39,415
SOFTWARE	640	125	80,000
TERMINALS	1,800	25	45,000
PRINTERS	700	10	7,000
LAPTOP COMPUTERS	2,200	60	132,000
LAPTOP PRINTERS	499	15	7,485
SHREDDER	700	2	1,400
SLIDE/MOVIE- PROJECTOR	400	2	800
TV/MONITOR	800	4	3,200
VHS CAMERAS	800	4	3,200
TAPE RECORDERS	100	5	500
	USAID	SUB-TOTAL	320,000
ESF COUNTERPART CONTRIBUTION			
DESCRIPTION	UNIT PRICE(\$'s)	QUANTITY	TOTAL
			\$
INSTALL EQUIPMENT			70,000
REFURBISHING			50,000
CONFERENCE TABLE	1,000	3	3,000
PHOTOCOPIER	5,000	3	15,000
TRAINING ROOM	25,000	1	25,000
TRAINING MATERIALS	45,000	1	45,000
A/C EQUIPMENT	25,000	1	25,000
WORKSTATIONS	350	100	35,000
CHAIRS	75	100	7,500
FILES	150	25	3,750
PBX	4,000	1	4,000
FAX	2,500	4	10,000
TELEPHONES	50	10	500
VEHICLES	40,000	5	200,000
OFFICE DIVISIONS	2,000	20	40,000
OFFICE EQUIPMENT	45,000	VARIOUS	45,000
	GOH	SUB-TOTAL	578,750
	COMMODITIES TOTAL		898,750

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TABLE V - OBLIGATION/EXPENDITURE SCHEDULE (\$000)

FISCAL YEAR	OBLIGATION	EXPENDITURE	PROJECTED FYE BALANCE
1993	458	0	458
1994	574	460	572
1995	1,468	855	1,185
1996	0	1,185	0
TOTAL	2,500	2,500	N/A

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TABLE VI - SUMMARY OF LIFE OF PROJECT CONTRIBUTIONS BY COMPONENT AND FUNDING

COMPONENT	GOH (ESF)	GOH (In-Kind)	A.I.D.	TOTAL	AS % OF TOTAL
1) Increasing Staff Stability	30	284	-	314	8
2) Improving Audit Capacity	286	-	975	1,261	32
3) Development of an Investigatory Audit Capability	338	86	736	1,160	29.5
4) Development of Public Awareness	189	58	374	621	16
5) Mgnt, Evaluation, Audit, Contingency	157	0	415	572	14.5
TOTALS.	1,000	428	2,500	3,928	-

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TABLE VII: METHODS OF FINANCING AND IMPLEMENTATION

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount</u>
I. Institutional Development Technical Assistance & Training		
Non-Personal Services Contract	Direct Payment	725,000
Institutional Contractor	Direct Payment	990,000
Purchase Orders	Direct Payment	50,000
Commodities	Direct Payment	<u>320,000</u>
II. USAID Project Management		
Personal Services Contract (USAID Contracted)	Direct Payment	135,000
Misc. Support Costs (Communications, secretarial, office supplies, etc.)	Direct Payment	<u>15,000</u>
III. Evaluation and Monitoring		
Evaluations IQC (AID/W)	Direct Payment	65,000
Special Assessments Purchase Orders (USAID Contracted)	Direct Payment	45,000
Monitoring Purchase Orders (USAID Contracted)	Direct Payment	<u>15,000</u>
IV. Audits		
Purchase Orders (CGR contracted)	Reimbursement of Voucher	<u>60,000</u>
V. Contingencies		<u>80,000</u>
TOTAL PROJECT		2,500,000

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ANNEX F - IMPLEMENTATION PLAN AND SCHEDULE

I. PROJECT ELEMENTS

There are seven project elements under the Project:

- 1) Long-Term Advisors
- 2) Institutional Contract
- 3) Short-Term Technical Assistance
- 4) Commodities and Equipment
- 5) Project Management
- 6) Evaluations and Monitoring
- 7) Audits

Each element is discussed below. A presentation of key implementation steps over the first six months of the Project follows. An illustrative implementation schedule covering the entire LOP is attached.

A) Long-Term Advisors

Long-term technical assistance will be provided by two non-PSC advisors placed in the CGR. One advisor (Audit Specialist) will be responsible for TA associated with project component No. 2, Upgrading Audit Capability. The second advisor (Investigatory Specialist) will be responsible for project components No. 3, Development of an Investigatory Audit Capability, and No. 4, Development of Public Awareness.

- i) Audit Specialist: This advisor will work with CGR staff to identify, and then develop and implement plans to systematically improve CGR audit capabilities. This work will involve the development and management of an audit training plan, and the drafting of Scopes of Work (SOWs) for short-term TA provided under the institutional contract, e.g., that involving selected specialized audit areas. The Audit Specialist will work closely with the Controller General in the implementation of his plan for the reorganization of the CGR. This advisor will also assist with the development of audit workplans and improved audit procedures.
- ii) Investigatory Specialist: This individual will assist in the development of the Investigatory Audit Department, and of the Public Awareness Unit. His/her duties will include the drafting of job descriptions, development of auditing procedures which will result in evidence consistent with Honduran law to be used for prosecution, and the design and implementation of an information system to track cases. The advisor will also assist the CGR Project Liaison Officer with the development of linking and coordinating mechanisms between the CGR and the Attorney General's Office and the Office of Public Integrity. Finally, this advisor will assist with the development and implementation of the public awareness campaign. An important component of this effort will be to identify procedures by which tips received by the "hot line" to be established by the CGR will be screened for veracity. The advisor will be responsible for

the drafting of SOWs for short-term TA to be provided under the institutional contract

Draft terms of references for each position are attached to this Annex.

B) Institutional Contract

Short-term TA and training-related services will be provided under the Project through a competitively-bid institutional contract. These services will support all but the first project component. While the contract will not involve any resident advisors, it is expected that the Contractor will hire a local coordinator, or sub-contract with a local firm, to handle the logistics associated with the short-term consultations and observational tours.

As noted in the last section, the long-term advisors will be responsible for developing the SOWs for short-term consultants supplied under the institutional contract. The SOWs will be reviewed and approved by both the CGR Project Liaison Officer and the USAID Project Manager. The latter will then authorize the contractor to provide the services. An illustrative list of such short-term TA needs is attached.

Training services provided under the contract will generally focus on assessing staff training needs, developing improved training events, and strengthening the CGR's existing Training Department to effectively deliver the courses. In some cases initial staff training in new, specialized audit areas will be delivered, a process involving training-of-trainers as well. A preliminary list of specialized training offerings contemplated under the Project is attached.

Observational tours within the region will be funded under the institutional contract. The Contractor will organize these events in close cooperation with the long-term advisors and the CGR Project Liaison Officer, and make all the necessary arrangements, e.g., transportation, lodging, etc.

C. Short-Term Technical Assistance

A small amount of short-term technical assistance will be procured by the Mission outside the institutional contract. During the first months of the Project this TA will conduct an assessment of the information and ADP needs of the CGR. The CGR and USAID will together develop the SOW for this effort. Short-term TA will also be procured by the CGR using GOH counterpart contributions. The SOWs for these efforts will be developed by the Audit Specialist.

D. Commodities and Equipment

A.I.D. financed procurement, based on specifications developed by the CGR upon the completion of the ADP needs assessment, will be conducted by the Mission's Office of Contract Management. These commodities and equipment will be transferred to the CGR for its use during the LOP. Commodities and equipment financed by GOH counterpart

contributions, will be procured by the CGR or other GOH entity.

E. Project Management

The Project will be managed on a day-to-day basis by a FSNPSC in the Mission's Office of Municipal Development and Infrastructure. He/she will work under the supervision of the USDH Office Director, who will develop the SOW for the position. CGR project management will be the day-to-day responsibility of the Project Liaison Officer, working under the overall supervision of the Controller General. The SOW for this position will be developed by the CGR with input from USAID.

F. Evaluations and Monitoring

Project monitoring will be conducted by both the CGR and the Mission (see Annex H, Monitoring and Evaluation Plan, for detailed information). The Project Officer will decide, after consultation with the CGR Project Liaison Officer, when a Special Impact Assessment is warranted. Assessment SOWs will be drafted by the Project Manager and reviewed by the CGR. The assessments will be contracted by the Mission's Office of Contract Management. A final evaluation of the Project will be arranged by the Mission, most likely through an AID/W IQC. The evaluation SOW will be developed by the Project Officer and the Mission's Evaluation Officer, with input from the CGR. The institutional contractor will be evaluated as per Mission Notice 93-061, by the Project Manager, while the Controller General will evaluate the non-PSC long term advisors.

G. Audits

Independent annual audits will be contracted by the CGR. The SOW of these audits will conform to the requirements of the Mission's Recipient Audit Program (RAP).

II. KEY IMPLEMENTATION ACTIONS

Key implementation actions for the first six months of the project are outlined below based on project elements. Absence of a particular element in a period indicates that no additional key actions are required. The Implementation Schedule that follows indicates key implementation actions over the LOP.

Project Month 1 – October '93

A) Long-Term Advisors

CGR develops SOWs for both advisors for review by Mission.

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B) Institutional Contract

Mission Technical Office begins development of SOW.

C. Short-Term Technical Assistance

Technical Office and CGR develop SOW for assessment of information and ADP needs.

D. Commodities and Equipment

(See item 'C,' above.)

E. Project Management

Technical Office develops SOW for FSNPSC Project Manager. PIO/T is prepared and cleared.

CGR develops SOW for Project Liaison Officer for review and approval by Mission.

F. Evaluations and Monitoring

Technical Office develops SOW for TA to establish monitoring and evaluation baseline.

Project Month 2 – November '93

A) Long-Term Advisors

PIO/Ts including req'd. waivers prepared, and cleared. Search for Investigatory Audit Specialist begun. Audit Specialist contracted.

B) Institutional Contract

PIO/T is prepared and cleared. RFP is issued.

C. Short-Term Technical Assistance

Information/ADP needs assessment PIO/T is prepared and cleared. Mission contracts TA (under \$25,000).

E. Project Management

Mission Project Manager is contracted.

CGR Project Liaison Officer is identified.

F. Evaluations and Monitoring

Mission contracts (local) TA to establish monitoring and evaluation baseline.

Project Month 3 – December '93

A) Long-Term Advisors

Search for Investigatory Audit Specialist continues.

B) Institutional Contract

PIO/T is prepared and cleared. RFP is issued.

C. Short-Term Technical Assistance

SOW for TA to assist in the design of the Project Information System developed; PIO/T cleared; and, TA contracted.

D. Commodities and Equipment

Information/ADP needs assessment completed. Commodity procurement in conjunction with establishing the Project Information System

E. Project Management

CGR Project Liaison Officer is contracted and placed.

F. Evaluations and Monitoring

Monitoring and evaluation baseline established.

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Project Month 4 – January '94

A) Long-Term Advisors

Search for Investigatory Audit Specialist completed. Contract negotiations begun.

B) Institutional Contract

RFP responses analyzed by Mission Selection Committee. Contracts Officer begins negotiations.

Project Month 5 – February '94

A) Long-Term Advisors

Contract negotiations completed.

B) Institutional Contract

Contracts Officer continues negotiations.

Project Month 6 – March '94

A) Long-Term Advisors

Investigatory Audit Specialist placed.

B) Institutional Contract

Contract signed. Initial SOWs for short-term TA developed.

C. Short-Term Technical Assistance

Project Information System TA completed.

F. Evaluations and Monitoring

Project Information System operational.

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TRAINING PLAN AND IMPLEMENTING UNITS

TRAINING COURSES	STAFF	SAS	RFMIP II
Operational Auditing	Auditors	X	
Recipient Contracted Audits	Auditors	X	
Use of a Computer in Auditing	Auditors and ADP Technicians	X	
Project Controls	Auditors and Engineers	X	
Administrative Contracting	Auditors and Lawyers	X	
Auditing and Internal Control	Auditors	X	
Statistical Sampling Technics	Auditors	X	
Ethics of the Auditors and Public Employœe	Various	X	
Audit Planning and Programming	Auditors	X	
Evaluation of the Internal Control	Auditors	X	
Auditing Evidence	Auditors	X	
Audit Supervision	Auditors	X	
Reporting of Audit Findings	Various	X	
Quality Control	Various	X	
Computer Principles	Various	X	
Identification and Process of Claim	Auditors and Lawyers	X	
Fraud Investigation Technics	Various	X	X
Quality of the Evidence in the Investigation	Various	X	X
Analysis and Qualification Technique to File Claims	Various	X	X
Interpersonal Relations	Various	X	
Conferences to professionals and other Organizations about the Participation of the citizenry in the Fight of Corruption	Various	X	X

ALCANCE DEL TRABAJO DE UN CONSULTOR ESPECIALISTA EN AUDITORIA GUBERNAMENTAL

1. Desarrollar programas de capacitación en auditoria operacional y colaborar en la capacitación de los auditores en el uso del computador para el ejercicio de la auditoria.
2. Organizar y ejecutar seminarios, talleres y otras actividades de capacitación y desarrollo profesional sobre temas relacionados con el proceso de la auditoria que como producto del control de calidad y supervisión, se consideren prioritarias para mejorar el trabajo de los auditores.
3. Diseñar un sistema de control de calidad interno de los trabajos de auditoria y monitorear su aplicación por parte del personal de la Contraloría General de la República (CGR).
4. Propiciar la ejecución de programas de control de calidad externo por medio de firmas de contadores públicos o de otros organismos superiores de control de la región.
5. Asesorar al personal de la CGR en la ejecución de auditorias a programas y proyectos financiados por la USAID con el propósito de que reúnan los requisitos de calidad establecidos por la USAID.
6. Organizar y ejecutar, en coordinación con la Supervisión General de Auditoria Internas, programas de capacitación en auditoria interna gubernamental.
7. Promover reuniones de trabajo con funcionarios del Ministerio de Hacienda, de la Procuraduría General de la República, de la Dirección de Probidad Administrativa, de la Superintendencia de Bancos, para coordinar el intercambio de información y la integración de equipos interinstitucionales dirigidos al control de recursos públicos.
8. Brindar capacitación al personal de las entidades públicas en los sistemas de control, con énfasis en la responsabilidad de los funcionarios de rendir cuentas de la gestión encomendada.
9. En coordinación con el Departamento de Planificación, Organización y Sistemas, propiciar el desarrollo organizacional de la Contraloría.

10. Colaborar con el Departamento Legal en la revisión de las disposiciones legales y reglamentarias de la Contraloría, con el propósito de presentar al Congreso Nacional proyectos de leyes que promuevan mejoras al sistema de control de los recursos públicos.
11. Actualizar las normas y guías para las diferentes fases del proceso de la auditoría para incorporarlas al manual de auditoría gubernamental.

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ALCANCE DEL TRABAJO DE UN CONSULTOR ESPECIALISTA EN LAS INVESTIGACIONES DE HECHOS FRAUDULENTOS

1. Asistir a la CGR en la organización de una oficina especializada en la investigación de hechos delictivos.
2. Elaborar documentos técnicos que establezcan la metodología que utilizará la CGR para investigar hechos delictivos.
3. Impartir capacitación al personal de la CGR y a los auditores internos en técnicas de investigación de actos delictivos.
4. Monitorear a los auditores de la Contraloría y a los auditores internos, en la investigación de hechos específicos cuya investigación sea ordenada por el Contralor General de la República.
5. Cooperar con los funcionarios de la Dirección de Probidad Administrativa y de la Procuraduría General de la República cuando realicen trabajos de investigación de hechos delictivos en acción conjunta con el personal de la CGR.
6. Elaborar proyectos de disposiciones legales que permitan una lucha más eficaz contra la corrupción y faciliten la aplicación de sanciones para los culpables.
7. Participar en programas de capacitación organizados por el Centro de Formación de Auditores Gubernamentales para divulgar las técnicas de investigación de hechos delictivos y la forma de evidenciar las pruebas logradas en este proceso.

ANNEX F - IMPLEMENTATION SCHEDULE

FY	<u>YEAR 1</u>						<u>YEAR 2</u>				<u>YEAR 3</u>				PROJECT ACTIVITY
	1993		1994				1995				1996				
	J	D	M	J	D	M	J	D	M	J	D	M	J		
QTR	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
		•													Project Agreement signed/Yr.1 Obligation
				•											Design of program to update personnel system completed (1/94)
				•											Revised salary scale completed (1/94)
				•											Review of personnel system completed (3/94)
				•											Audit improvement Action Plan completed (3/94)
				•											Investigatory Audit Advisor placed (3/94)
					•										Audit Supervision Program completed (6/94)
					•										Inv. Audit Dept. personnel selected and placed (6/94)
															Yr. 2 Obligation (9/94)
						•									Audit Quality Review Program Developed (9/94)
						•									Selected Audit Improvement Plans Developed (9/94)
						•									"Hot Line" screening procedures finalized (9/94)
						•									Information assessment conducted (9/94)
						•									Intensive training for Inv. Audit staff completed (9/94)
							•								Information system designed (12/94)
							•								Public Awareness campaign design completed (12/94)
							•								Inv. Audit procedures finalized (12/94)
							•								"Hot Line" operational (12/94)
									•						Implementation of new personnel system completed (6/95)
															D.aft Career Law completed (9/95)
															Yr. 3 Obligation
														•	Career Law Approved by Congress (3/96)
														•	PACD of 3-Yr. Project or Yr. 4 Obligation (9/96)

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ANNEX G - PROCUREMENT PLAN

I. AUTHORIZED SOURCE/ORIGIN

The authorized source/origin for procurement under the Project is the United States (000), for purchases with foreign exchange from the Grant, and Honduras or CACM for local purchases as permitted by Handbook 1B, Chapter 18. Procurement will follow the rules and guidelines of the relevant USAID Handbooks, including Handbook 1B, Procurement Policies; Handbook 15, Commodities; Handbook 10, Training; and Handbook 14, USAID Acquisition Regulations, and the Federal Acquisition Regulations (FAR) as applicable. Local and third-country procurement will be carried out in accordance with the procedures of Handbook 1B. In addition, the Project will comply with the Agency's Gray Amendment rules and procedures.

II. NON-U.S. PROCUREMENT

The Project has been designed in accordance with Handbook 1, Sup. B, Chap. 18. U.S. procurement is required whenever practicable. Local procurement for the Project is planned only for those goods or services for which Handbook 1, Sup. B, Chap. 18 provides a specific exemption. The attached table presents the Procurement Plan and indicates the "buy America" implications of each type of procurement funded under the Project. All procurements will require U.S. source, origin and nationality except for the following. The first procurements cited will require waivers under the cited sections of Handbook 1, Sup. B, Chap. 18; the remainder will not:

1) The long-term advisors, a Audit Specialist and an Investigatory Audit Specialist, to be procured through individual non-PSCs are both expected to be Third-Country Nationals (TCNs). The estimated total funding for each non-PSC will exceed \$250,000. Handbook 1 guidance applies to professional services contracts over this amount. Nationality waivers will be prepared and approved prior to both non-PSC procurements.

2) The Project will fund non-federal recipient contracted audits. It is highly likely that the only locally-appropriate and cost-effective audit firms will be Host Country. Handbook 1 guidance does not apply to professional services contracts under \$250,000.

3) The USAID Project Manager will be a PSC with Host Country nationality. The estimated LOP cost of the position is \$135,000. Handbook 1 guidance does not apply to professional services contracts under \$250,000.

4) The Project budget includes funding for several separate studies and assessments relating to Project evaluation and monitoring. No single procurement from a U.S. or Host Country firm is estimated to cost more than \$50,000. Handbook 1 provides that the guidance does not apply to professional services contracts under \$250,000.

5) The Project budget includes funding for professional publications and subscriptions to professional journals. Many are expected to be procured from Host Country or Third Country

sources. Handbook 1 provides that the guidance does not apply to such purchases provided that these purchases do not exceed \$5,000 per procurement action.

If during project implementation an additional procurement is proposed that requires a waiver under Handbook 1, Sup. B, Chap. 18, such a waiver will be obtained before proceeding with the procurement.

In those transactions for which local procurement is authorized, local sources will be utilized in accordance with Handbook 3, Appendix 5D, and the LAC Central American Strategy to encourage effective regional cooperation.

III. GRAY AMENDMENT PROCUREMENT

The Project will comply with the Agency's rules and procedures for Gray Amendment procurement. At least ten per cent of the U.S. technical assistance will be sub-contracted to a Gray Amendment eligible firm.

A.I.D. PROCUREMENT PLAN

Commodity Service	Description	Estimated Cost	Source	Origin	Type of Procurement	First Delivery Date (month)	Purchase Agent
Long-Term Technical Assistance	Non-PSCs	725,000	941	941	Competitive	4	USAID/H
Short-Term Technical Assistance	To Assess CGR ADP & Information Needs	50,000	000	000	Competitive	4	USAID/H
Short Term Technical Assistance, Training, Observational Tours and Conferences	Institutional Contractor	990,000	000	000	Competitive	8	USAID/H
Commodities	AID Direct Contract	320,000	000	000	Competitive	4	USAID/H
Project Management	PSC	150,000	935	935	Non-Competitive	1	USAID/H
Studies	AID Direct Contract	65,000	935	935	Competitive	4	USAID/H
Evaluation	IQC Contract	60,000	000	000	Competitive	33	AID/W
Audits	Recipient	60,000	935	935	Competitive	12	CGR
Total		*2,420,000					
Total U.S.		1,425,000					
Total Non U.S.		1,075,000					

* Note: A \$80,000 contingency brings the total of the estimated costs to \$2,500,000.

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ANNEX H – MONITORING AND EVALUATION PLAN

I. PROJECT MONITORING

SAS Project monitoring will provide a basis for measuring progress towards achieving project outputs, and thus informed management decisionmaking. It will also serve as the basis for a decision to conduct special rapid assessments of specific implementation issues. Finally, project monitoring will result in important information to be used during the final project evaluation.

Data gained from monitoring will be gathered into a Project Information System operated by the CGR. The information generated by the CGR on the status of project outputs will be incorporated by the USAID Project Manager into the Project Status Reports prepared as part of the Mission's Semiannual Reporting, and into reporting on the status of the Mission's Strategic Objectives prepared annually for the Action Plan review in AID/W. System data will be gender-disaggregated to the maximum extent possible.

A) Levels of Required Information

Information from Project monitoring will be gathered and analyzed at two levels:

1) Project Level: Project level monitoring, which will be the responsibility of the CGR Project Liaison Officer, will focus on measuring achievement of the Project Outputs utilizing the indicators contained in the Logical Framework (see attached Table of M&E Activities). These include:

- a) At least a fifty (50) per cent decrease in turnover rate among supervisory auditors;
- b) At least a one hundred (100) per cent increase in the number of timely and professionally completed audit reports, including those conducted under the USAID Recipient Audit Program (RAP), submitted to the audited institutions for corrective action, and to Congress; and, the issuance by RIG of an unqualified certification of the OCG capability to perform audits under the Recipient Audit Program;
- c) The submission of at least twenty (20) investigatory audits capable of forming the basis for successful prosecution to the Office of the Attorney General, Congress, and/or other appropriate GOH bodies; and,
- d) The receipt by the CGR of at least forty (40) allegations of government fraud and corruption judged to merit investigation.

The indicators for Outputs (b), (c) and (d) require further definition. This will be undertaken in the first few months of the project by USAID contracted consultants who will, with the CGR, develop the Project Information System and establish the monitoring baseline. For example, what is "timely" must be specified under Output (b). "Professionally completed" will likely correspond to the Program Indicator noted below, i.e., "in accordance with AICPA

Standards." A unqualified RIG certification of the CGR to perform audits under the RAP will serve as the basis for this measure.

The definition of "capable of serving as the basis for successful prosecution" under Output (c) is more problematic. One option would be to rely on the judgement of the Investigatory Audit Specialist to be provided under the Project. However, since this individual will be in part responsible for giving the CGR this capability the advisor would in effect be judging his own performance. A more likely alternative is to convene, as needed, a "panel of experts" consisting of individuals with knowledge of Honduran law and auditing procedures to pass judgement on the audits.

The TA offered under the Project to assist the CGR in the establishment of the Investigatory Audit Department and the Public Awareness Campaign will also assist in the development of criteria to screen allegations received by the CGR. These criteria will provide the basis for judging those allegations meriting investigation by the CGR.

Short-term technical assistance will be provided to the CGR to gather baseline information, and to develop and implement the monitoring information system, which may be linked with the investigatory audit tracking system to be developed under the Project. The baseline will be established and the information system operational in no more than nine (9) months from Project Authorization. In addition, the CGR will collect data on the training and technical assistance activities funded under the Project, including disaggregated participant information and an assessment of its effectiveness.

2) Mission Level: Mission level monitoring will involve the assembly and appraisal of financial information that will permit project managers to assess how and at what rate project funding is being expended, and the correlation of that funding with planned project outputs. All Mission level information will be assembled on a semiannual basis in the standard Project Status Report. Monitoring at this level will also be associated with measuring progress towards the Mission Strategic Objective, of "more responsive selected democratic institutions and processes, with greater citizen participation." The Project will contribute to one of this objective's program outputs, "strengthened GOH auditing capability and public accountability" and the two associated program indicators as discussed in the next section (also see the attached Table on M&E Activities).

B) Measuring Program Indicators

The Program Indicators covered by the SAS Project are:

- Controller General Conducting Audits in Accordance with GAGAS Standards; and,
- Audit findings of Fraud and Corruption are Prosecuted and Sanctioned.

As noted above, RIG certification will comprise the basis for the first indicator. The second Indicator, however, presents a bit of a problem. This Program Indicator was developed at a time when the proposed SAS Project was to also involve the Office of the Attorney General; thus, prosecutions based on investigatory audits were within the Project's terms of reference. Now that the Project has been narrowed to focus exclusively on the CGR, such prosecutions are no longer a specific project output. As noted earlier, investigatory audits will be monitored in terms of both their quantity and their quality as related to their use in successful prosecutions. Although the Project does not take responsibility for actual prosecutions, those resulting from the improved audit capability of the CGR will be measured.

Responsibility for this monitoring will rest with Mission project managers using data supplied by the CGR. The CGR's project level information system will be capable of disaggregating these units of measure based on the Mission's definitions, and reporting to USAID on a semiannual basis.

II. IMPACT ASSESSMENTS

The Mission will also conduct, as needed, rapid low-cost assessments of specific impacts or implementation problems in order to offer timely analysis and the basis for informed decisionmaking.

One use of the impact assessments will be to determine whether the investigatory audits produced by the CGR are capable of forming the basis for successful prosecution by the AGO. These assessments will be conducted by a small team with experience in Honduran law, investigatory auditing, and evidentiary procedures. This team will examine audits which are rejected by the AGO as not providing the required evidence for likely conviction. The implicit objective of these assessments is to determine whether decisions not to prosecute are the result of flawed audits, or lack of capability or political will on the part of the AGO.

All impact assessments will be designed and implemented as collaborative exercises involving the CGR.

III. PROJECT EVALUATION

The evaluation of the Project to be conducted by USAID will cover several areas. It will:

- assess whether the anticipated End-of-Project Status (EOPS) has been achieved;
- determine whether planned Outputs have been reached;
- describe what other impacts, intended or otherwise, the Project has had; and,

- summarize general "lessons learned" for application with similar USAID and GOH efforts.
- pass judgement on whether the two Program Indicators relating to Mission Strategic Objective No. 5 have been met.

The evaluation, which will be conducted during the final quarter of the Project, will also identify any follow-up activities which could help to sustain the positive effects of the effort.

IV. CONTRACTOR PERFORMANCE EVALUATION

The Mission will evaluate the performance of the institutional contractor procured under the Project as per USAID/Honduras Mission Notice 93-061, dated May 3, 1993. Mission policy is that all contracts valued at \$100,000 shall be evaluated by the Project Officer on an annual basis. The institutional contractor will be evaluated using the form attached to the Mission Notice. The two non-PSCs will be evaluated by the CGR using the form prescribed in Mission Order 750.

M&E ACTIVITIES

RESPONSIBLE INSTITUTION	ACTIVITIES
<p>MONITORING CGR - Resources: Project Liaison Officer ST-TA (Hardware, software) ST-TA (Project info system)</p>	<ol style="list-style-type: none"> 1. Establish two systems: <ol style="list-style-type: none"> (a) Database and system to track audit reports and to follow-up recommendations (b) Project Information System (Select needed staff, identify data collection needs and sources, develop collection formats and reporting instruments to USAID/Honduras). This will include collection and reporting of gender disaggregated information, training, hot line contacts, info on awareness activities 2. Coordinate activities to ensure the most appropriate definition of verifiable indicators for outputs (b), (c) and (d) 3. Develop criteria needed to qualify output indicators 4. Collect data to assess progress towards outputs and purpose achievement 5. Ensure feedback among CGR, USAID, and AGO regarding prosecution of audit reports
<p>USAID/Honduras - Resources: Project Officer Backstop Officer (DF) Backstop Officer (DP) ST-TA (baseline data)</p>	<ol style="list-style-type: none"> 1. Semiannually, receive data on outputs and purpose from the CGR, analyze progress, and provide feedback to the CGR 2. Semiannually, assembly and appraise financial information, and provide feedback to the CGR 3. Develop project reporting documents for use by the Mission, including SARs 4. Schedule and carry out baseline study 5. Schedule, contract and follow up public opinion survey (working group) 6. Collect project data at the SO Program Output level 7. Annually, evaluate contractor performance
<p>EVALUATION USAID/Honduras - CGR</p>	<ol style="list-style-type: none"> 1. Identify needed special assessments 2. Prepare SOWs for rapid low-cost assessments and contract needed consultants 3. Develop SOW for the project evaluation, backstop evaluation team and develop evaluation documents for AID use

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DATA COLLECTION AND REPORTING

PROJECT DATA	HOW	BY WHOM	HOW OFTEN
GOAL: More responsive selected democratic institutions and processes, with greater citizen participation			
Percentage of the public surveyed with an improved perception of government accountability increases by at least <i>30 percent</i> .	Public Opinion Survey	Working Group (Technical Office, DF, DP)	9 months after authorization
PURPOSE: To strengthen GOH auditing capability and accountability			
Controller General is conducting audits in accordance with Generally Accepted Government Auditing Standards (GAGAS).	RIG reports	USAID	Periodic assessments and final evaluation
Audited GOH institutions have taken corrective actions recommended in audit reports.	CGR Reports	USAID	Periodic assessments and final evaluation
CGR investigatory audit cases involving fraud and corruption are successfully prosecuted.	Attorney General	USAID	Periodic assessments and final evaluation
PROGRAM OUTPUT: Strengthened GOH auditing capabilities and public accountability			
1. Controller General Conducting audits in accordance with AICPA standards	RIG reports	USAID	Final evaluation
2. Audit findings of fraud and corruption are prosecuted and sanctioned	OCG records Public Integrity records Attorney General records	USAID	Final evaluation

DATA COLLECTION AND REPORTING
(Continued)

PROJECT DATA	HOW	BY WHOM	HOW OFTEN
OUTPUTS			
<p>1. Improved retention of qualified auditors At least <i>fifty percent</i> decrease in turnover rate among supervisory auditors</p>	CGR records	CGR – Project Liaison Officer	Quarterly collection, semiannual reporting
<p>2. Improved CGR audit capability At least <i>one hundred percent</i> increase in the number of timely and professionally completed audit reports, including those conducted under the USAID Recipient Audit Program (RAP), submitted to the audited institutions for corrective action, and to Congress.</p> <p>The issuance by RIG of an unqualified certification of the OCG capability to perform audits under the recipient audit program.</p>	CGR records, RIG records, Congressional Records	CGR – Project Liaison Officer	Monthly collection, semiannual reporting
<p>3. Development of an investigatory audit capability The submission of <i>twenty</i> investigatory audits capable of forming the basis for successful prosecution to Congress, the Office of the Attorney General, or other appropriate GOH body.</p>	CGR records OAG records Congressional Records	CGR – Project Liaison Officer	Monthly collection, semiannual reporting
<p>4. Increased public awareness of the costs associated with misuse of public resources, and of the role of the CGR in GOH efforts to control fraud and corruption Increase in constructive public involvement in the fight against corruption evidenced by the receipt of at least <i>forty</i> allegations of government fraud and corruption judged to merit investigation.</p>	CGR records	CGR – Project Liaison Officer	Monthly collection, semiannual reporting

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ANNEX I - INSTITUTIONAL ANALYSIS

A) General Background

The Controller General of the Republic of Honduras (CGR) was created in 1957 and reports to the governing board of the National Legislature of the Republic. The Controller General and his/her Deputy are selected by the Congress for a five-year period which is not concurrent with either the Presidential term or the national legislature's term. In accordance with the CGR's enabling legislation (*Ley Organica*), the institution is responsible for performing post-audits of governmental agencies in order to promote proper management of public funds. The *Ley* calls for the CGR to perform audits of GOH agencies selectively based on an annual plan, however this has never been entirely achieved, because of a lack of capable human resources, and limited economic resources (2 years ago, the CGR budget was only \$4.0 million, of which \$2.9 went for payroll). This lack of economic resources significantly jeopardized the CGR independence, since most of its staff per-diem and travel costs ended up being paid by the GOH agency being audited.

The CGR's current organizational structure includes those offices established under the *Ley Organica*, such as the Office of the Controller, Deputy Controller, and four audit offices responsible for performing audits of agencies located in specific public sector areas. The CGR has organized other offices that are not included under the *Ley* in order to address operating needs. These departments are Planning, Organization, and Systems (DEPOS), Personnel, Training Center for Governmental Auditors (CEFAG), General Supervision of Internal Auditors, General Supervision of Public Work Projects, General Supervision of Budget Control and General Supervision of Public Contracts. In total, there are currently 277 employees, including 172 auditors. It is important to mention that only 50 are professional auditors, and the vast majority of 122 only completed high school. The Department of Training has 4 employees, including 3 trainers, and this department lacks a chief. (See Attached Organization Chart)

B) Institutional Constraints

The intent of the CGR's enabling legislation was to create a strong mechanism for financial control over the public sector. However, for a number of reasons the CGR has never completely fulfilled this objective in its over thirty years of existence. Some of these reasons relate to the CGR's technical capabilities, while others are related to a lack of capacity and willingness on the part of other GOH institutions to address public sector financial mismanagement and corruption.

The question of technical capability is closely related to the budget constraints that have faced the CGR. An insufficient budget has in turn affected the skill level of CGR professional staff. Only an estimated 50 CGR professionals have received college-level education in accounting and/or auditing. To address this problem, the CGR has developed an in-house staff training program with assistance from a previous USAID project, (*Assistance to the Controller General*, 522-0338). Under this project significant staff professional training was provided. It has been

difficult, however, to retain many of the more skilled staff. This reality is directly related to the low staff salaries in comparison to those paid in other public sector agencies, much less with comparable positions in the private sector. There is a strong incentive for those staff with higher educational and professional experience to leave the CGR if other opportunities arise.

Low budget allocations have also diminished the CGR's effectiveness by severely restricting the procurement of necessary supplies, equipment, and vehicles. Auditing and reporting work must be conducted largely without the use of modern automated data processing (ADP) equipment. For example, among the entire staff of professional auditors, there are only eight personal computers (PCs) and four low speed printers, along with basic software, available for use. Lack of appropriate ADP equipment and software has prevented the CGR from developing a successful audit management and follow-up tracking system. Auditors, who spend much of their time involved with field work, must take public transportation to their assignments, in the process wasting valuable time. Clearly these constraints limit the CGR's ability to fulfill its mandate of carrying out annual audits of GOH institutions, and result in general criteria of the CGR for the length of time it takes to complete the audits it does undertake.

Staff capabilities have also suffered from lack of civil service type protection and uncertain promotion standards. Staff appointments have from time to time been based upon considerations other than education, experience and performance. The more capable employees were not always those promoted. Before the term of the present Controller General, Hondurans Presidential election results have also resulted in the sacking of qualified staff for political reasons. At present The Controller General is implementing a plan to address efficiently the key issue of recruiting and retaining a qualified professional staff. Aspects of this plan are discussed in the next section.

One result of the CGR's limited capabilities has been that the findings and recommendations of audits have not resulted in corrective actions. This has had a financial cost. Because the CGR has not had the capacity to perform audits of all public sector agencies on an annual basis (most of the time, the CGR takes four or five years between audits of the same institution), most of the claims for ineligible expenditures paid by audited agencies and noted in the CGR audit reports are never resolved and reimbursed to the Government in accordance with CGR recommendations. Many claims presented in audit reports have been unresolved for years. In addition, as the CGR could not ensure that the recommendations included in audit reports were implemented by audited institutions, a less quantifiable but nevertheless real cost, in terms of financial efficiency, has been borne by the GOH.

In terms of its functions, the CGR's enabling legislation places emphasis on post-audits involving the financial management of public sector agencies. Article 22 of the legislation establishes that in cases of suspected fraud, misuse of funds or other illegal acts, the CGR will transmit the case to the Office of the Attorney General of the Republic through special audit reports. The reports are "special" only in the sense that a standard financial audit may have uncovered evidence of a criminal act and is therefore forwarded to the Attorney General. Since CGR auditors do not have the necessary skills to conduct investigatory audits, ranging from basic techniques of investigation to knowledge of evidentiary procedures required under the Honduran legal system,

and the proper role of the Attorney General is to prosecute, not investigate, the effect has been that the GOH itself does not have much capability to investigate and prosecute fraud and acts of corruption.

C) Past Institutional Strengthening

Under the *Assistance to the Controller General* Project, implemented between 1987 and 1990, the CGR made significant institutional improvements. Under the Project the CGR, with the assistance of technical advisors, developed and introduced "Generally Accepted Government Auditing Standards" (GAGAS), procedures for the evaluation and examination of internal control structures, ethical standards for government auditors, and standards for the preparation of workpapers and the supervision of the audit process. The CGR is in the process of incorporating this work into the first draft of the Governmental Audit Manual.

All of the material has been used by the CGR in staff training. Between 1987 and 1991, the CGR carried out a very intensive training effort to increase audit skills of its staff. Nearly fifty training courses and seminars dealing with financial accounting and auditing were conducted. During this period training activities were highly emphasized and about ninety per cent of the CGR professional staff was trained. This training effort resulted in professional audits performed on governmental agencies and projects. The A.I.D. Regional Office of the Inspector General (RIG) evaluated the resulting audit capacity and provisionally certified that the CGR was capable of performing audits of GOH institutions under the USAID/Honduras Recipient Contracted Audit Program (RAP). Based upon this determination, the CGR is in the process of signing an agreement with RIG to conduct RAP audits of USAID-funded projects.

With the assistance of Project-funded technical advisors, the CGR also prepared an amendment to its enabling legislation and submitted it to Congress in 1991. It was not approved. This is fortunate since the current Controller General considers those proposed modifications as outdated, and has drafted a new amendment to the *Ley Organica*. This amendment, which is expected to be passed by Congress in October 1993, will strengthen the CGR's ability to achieve some important objectives, including:

- * Assessing the effectiveness and cost efficiency of GOH programs. The CGR will be given the mandate to conduct Operational Audits.
- * Achieving greater financial autonomy and stability in annual budget allocations, enabling the CGR to improve planning and delivery of services.
- * Reducing the length of time required to finalize audit reports by limiting to one the number of appeals that audited public employees can present to resolve claimants included in audit reports.
- * Improving the use of sanctions to promote response to audit findings. Authority for the

application of administrative sanctions on public employees who do not follow legal regulations and governmental control procedures will be granted to the CGR.

- * Gaining the ability to conduct Investigatory Audits in response to allegations of fraud and corruption.

D) Required Institutional Improvements

Despite the progress made to date, further improvements are required in order to make the CGR the most effective institution possible. The most significant of these are:

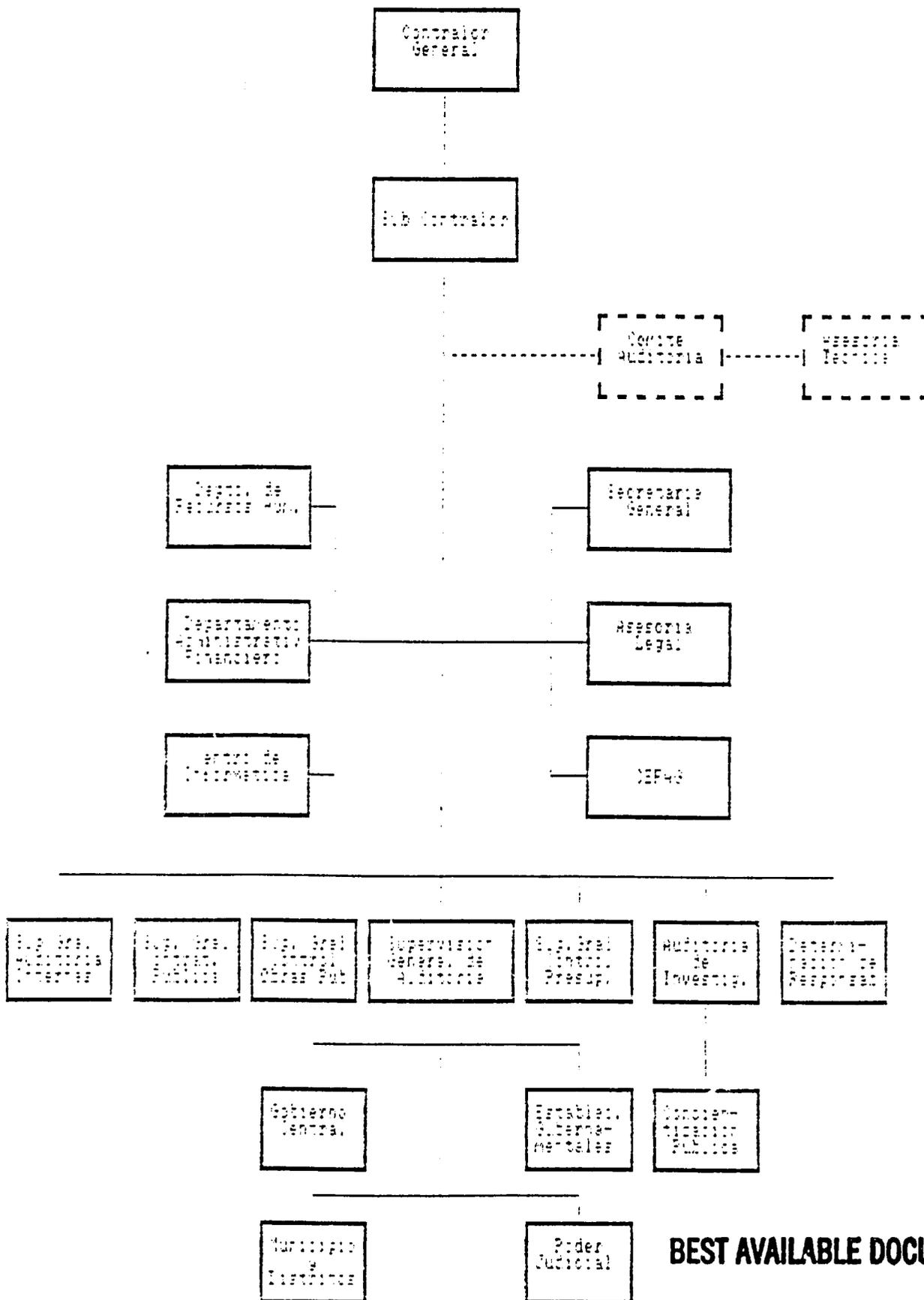
- The CGR enabling legislation passed in 1957 now requires a thorough updating. The current environment in which government agencies operate has changed, which affects the accountability of public employees as well as the role of the CGR. The CGR must be capable to act in this new context as the supreme audit authority in Honduras. Only a significantly revised *Ley Organica* which broadens the institution's mandate and at the same time increases the resources available can provide the CGR with the foundation for further strengthening.
- In order to fulfill this role the resources available to, and financial autonomy of, the CGR must be improved. The CGR must be able to manage its own budget and develop and implement a compensation plan to ensure that it will be capable of hiring and retaining qualified personnel.
- The CGR must develop and have enacted a Career Law to ensure that personnel selection and job security are based on merit and are not affected by political considerations, and that unqualified personnel may be dismissed.
- The CGR should seek quality over quantity in terms of its professional staff. In this regard it should continue with its training efforts to promote the professional development of its staff.
- The increased use of ADP equipment to enhance staff productivity should be a general objective. The CGR has produced a preliminary list, reflected in the SAS Project budget, of the types/amounts of office equipment, including ADP equipment, believed necessary to result in a significant increase in its auditing capability (see Table IV, Annex E). This automation program will be implemented following completion of a more detailed assessment of, *inter alia*, existing and projected staff levels, modern auditing procedures, staff training requirements, and technical equipment requirements.
- The CGR must develop its institutional capacity in specialized audit areas which correspond to the range of modern governmental functions.

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- An Operational Auditing capability should be developed and utilized by the CGR to promote the improved effectiveness of GOH programs.
- The CGR should design and implement an internal quality control program and audit tracking system to ensure that audits are of a consistent high quality, are produced in a timely manner, and that audit recommendations are addressed by audited institutions.
- The CGR must develop a strong investigatory audit capability which will result in prosecutable evidence involving cases of public sector fraud and corruption. In order to use this capacity effectively, the CGR should strive to improve its communication and cooperation with other GOH institutions involved with criminal investigation and prosecution, particularly the Office of the Attorney General.

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CONTRALORIA GENERAL DE LA REPUBLICA ORGANIGRAMA ESTRUCTURAL



BEST AVAILABLE DOCUMENT

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HONDURAS - 1993

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics Certification

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 542 of the FY 1993 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) 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):

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Yes.

(1) has the President in the April 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

Not applicable.

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

No.

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No.

3. **Seizure of U.S. Property** (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?

4. Communist countries (FAA Secs. 620(a), 620(f), 620D; FY 1993 Appropriations Act Secs. 512, 543): Is recipient country a Communist country? If so, has the President: (a) 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, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No, the recipient country is not a Communist country.

5. Mob Action (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?

Honduras has fully compensated the U.S.G. for damages related to the April 1988 incident of mob action against U.S. property. Honduras has taken adequate measures to prevent reoccurrence of such incidents.

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

No.

7. Seizure of U.S. Fishing Vessels (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.

No.

fishing vessel because of fishing activities in international waters?
(b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. Loan Default (FAA Sec. 620(q); FY 1993 Appropriations Act Sec. 518 (Brooke Amendment)): (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 1990 Appropriations Act appropriates funds?

9. Military Equipment (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.)

10. Diplomatic Relations with U.S. (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?

11. U.N. Obligations (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?

Yes. Honduras has been from time to time in default as defined by FAA Sec. 620(q) and the Brooke Amendment. However, Honduras has signed a bilateral rescheduling agreement including all USG loans subject to 620(q) and Brooke Sanctions. This agreement will enter into effect on March 29, 1993.

Yes, taken into consideration by the Administrator at the time of approval of the 1993 OYB.

No.

Honduras is not in arrears on the payment of obligations to the U.N. to the extent described in Article 19 of the U.N. Charter. Other arrearages, in general were taken into

(Reference may be made to the "Taking into Consideration" memo.)

account by the Administrator at the time of approval of the FY 1993 OYB.

12. International Terrorism

a. **Sanctuary and support** (FY 1993 Appropriations Act Sec. 554; FAA Sec. 620A): **No.**
Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

b. **Airport Security** (ISDCA of 1985 Sec. 552(b)). **No.**
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?

13. **Discrimination** (FAA Sec. 666(b)): **No.**
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?

14. **Nuclear Technology** (FAA Secs. 669, 670): **No.**
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? 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

service? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

15. **Algiers Meeting** (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.)

No, this item was taken into account at the time of approval of the FY 1993 OYB and its appropriation.

16. **Military Coup** (FY 1993 Appropriations Act 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?

No.

17. **Refugee Cooperation** (FY 1993 Appropriations Act Sec. 538): 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?

Yes.

18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No.

B. **COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")**

1. **Human Rights Violations** (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?

No.

9.8

Abortions (FY 1993 Appropriations Act Sec. 534): 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? **No.**

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (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? **No.**

LAC/CEN:KBaier/Hon:lm:3/3/93:7-9555

Clearances:

LAC/CEN:TCWagner	_____	_____
LAC/SAM:AMcDonald	_____	_____
LAC/DR:JHradsky	_____	_____
LAC/DPP:EZallman	_____	_____
EC/LAC:RMeighan	_____	_____
ARA/CEN:JARndt	_____	_____
State/IOSB:THobgood	_____	_____
State/HA/BA:KLyons	_____	_____
State/RP/ENA:DKemp	_____	_____
State/INM:ECarroll	_____	_____

MEMORANDUM

TO: Distribution

FROM: Clifford H. Brown, RLA 

SUBJECT: FY 1993 Checklists

DATE: January 29, 1993

Attached is the FY 1993 Country and Assistance Checklist. This should be used for all projects or programs authorized in FY 1993, including HB 13 grants/cooperative agreements unless such grants/cooperative agreements are subsumed under an umbrella project already authorized.

Please distribute within you respective offices as you see fit.

Distribution: Paul Bisek, Office of AID Rep/Belice
Tom Delaney, USAID/Guatemala
Jeff Goodson, ROCAP
Rick Wheldon, USAID/Honduras

10/96

ASSISTANCE CHECKLIST

STRENGTHENING ACCOUNTABILITY SYSTEMS PROJECT (522-0381)

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development

Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance 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.

1. The project will neither encourage or discourage these efforts directly; to the extent public accountability is enhanced, there will be indirect benefits in each of the areas.

2. U.S. Private Trade and

Investment (FAA Sec. 601(b)): Information and conclusions on how assistance 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).

2. The project will neither encourage or discourage these efforts directly; to the extent public accountability is enhanced, there will be indirect benefits in each of the areas.

3. Congressional Notification

a. General requirement (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be 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 (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

3.a. The obligation was notified in the FY 1993 Congressional Presentation (page 523).

b. Notice of new account obligation (FY 1993 Appropriations Act

3.b. N/A.

Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. Cash transfers and nonproject sector assistance (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. Engineering and Financial Plans (FAA Sec. 611(a)): 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?

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, 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?

6. Water Resources (FAA Sec. 611(b); FY 1993 Appropriations Act 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.*)?

3.c. N/A.

4.a. Yes.

4.b. Yes.

5. No legislative action is required. FY 1995 disbursements will depend on passage of a "Ley Orgánica" for the Controller General which has apparent support from Honduras Congress.

6. Appropriated funds will not be used for water or water-related land resource construction.

(See A.I.D. Handbook 3 for guidelines.)

7. Cash Transfer and Sector Assistance (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

7. N/A.

8. Capital Assistance (FAA Sec. 611(e)): 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?

8. N/A.

9. Multiple Country Objectives (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.

9. See response to No. A.1. above.

10. U.S. Private Trade (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).

10. See response to No. A.2. above.

11. Local Currencies

a. **Recipient Contributions** (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.

11.a. The host country will contribute the local currency equivalent of \$1.0 million as cash counterpart contribution and the local currency equivalent of approximately \$0.5 million as in-kind counterpart contribution.

b. **U.S.-Owned Currency** (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?

11.b. No.

c. **Separate Account** (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

11.c.(1) N/A. Local currency will not be generated as a result of this project.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

11.c.(2) N/A.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

11.c.(3) N/A.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

11.c.(4) N/A.

12. Trade Restrictions

a. **Surplus Commodities (FY 1993 Appropriations Act Sec. 520(a)):** 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?

12.a. N/A.

b. **Textiles (Lautenberg Amendment) (FY 1993 Appropriations Act Sec. 520(c)):** 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?

12.b. No.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13.a. No.
13.b. No.

14. PVO Assistance

a. Auditing and registration (FY 1993 Appropriations Act Sec. 536): 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.?

14.a. N/A.

b. Funding sources (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): 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?

14.b. N/A.

15. Project Agreement Documentation (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).

15. N/A.

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. Women in Development (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

19. Abortions (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):

16. Metric measurements are standard in Honduras. Most procurements will not require measurements.

17. Yes. Project activities will be gender sensitive and will encourage the participation of women to the extent possible.

18. No. The project will work with the Controller General of the Republic. Assistance of this type is not as effectively provided by regional or multilateral organizations.

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

19.a. No.

b. Will any funds be used to lobby for abortion?

19.b. No.

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

20. No.

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

21.a. There are no U.S. owned foreign currencies available for project costs.

b. **Release of currencies** (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?

21.b. No.

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

22.a. Yes. Approved USAID procurement procedures and policies will be followed.

b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as

22.b. Yes.

otherwise determined in accordance with the criteria of this section?

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

22.c. N/A..

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

22.d. N/A.. No non-U.S. procurement of agricultural commodity of product is envisioned.

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

22.e. No.

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable

22.f. No.

rates?

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

i. Termination for convenience of U.S. Government (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

j. Consulting services (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other

22.g. Yes. The project does not now anticipate using facilities and resources of other federal agencies. If federal agencies, e.g., GAO, are used, they would not be in competition with private enterprise nor would they interfere with domestic programs.

22.h. Yes.

22.i. All contracts and grants executed under the project will have such a provision.

22.j. Yes.

22.k. Metric measurements are standard in Honduras. Most procurements will not require measurement.

business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

22.1. Yes.

23. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

23.a. N/A. This is not a capital project.

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

23.b. N/A.

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

23.c. No such construction will be financed by the project.

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

24. N/A.

25. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

25. Yes.

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

26.a. Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

26.b. Yes.

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

27. Yes.

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of

28. Yes.

financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

29. **CIA Activities (FAA Sec. 662):** 29. Yes.
Will assistance preclude use of financing for CIA activities?

30. **Motor Vehicles (FAA Sec. 636(i)):** 30. Yes.
Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

31. **Military Personnel (FY 1993 Appropriations Act Sec. 503):** 31. Yes.
Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

32. **Payment of U.N. Assessments (FY 1993 Appropriations Act Sec. 505):** 32. Yes.
Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

33. **Multilateral Organization Lending (FY 1993 Appropriations Act Sec. 506):** 33. Yes.
Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

34. **Export of Nuclear Resources (FY 1993 Appropriations Act Sec. 510):** 34. Yes.
Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

35. **Repression of Population (FY 1993 Appropriations Act Sec. 511):** 35. Yes.
Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the

legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

36. Publicity or Propaganda (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

36. No.

37. Marine Insurance (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

37. Yes.

38. Exchange for Prohibited Act (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

38. No.

39. Commitment of Funds (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

39. No.

40. Impact on U.S. Jobs (FY 1993 Appropriations Act, Sec. 599):

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? 40.a. No.

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? 40.b. No.

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country? 40.c. No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): 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: 1.1 N/A.
1.2 N/A.
(1) 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 (2) in

support of research that is intended primarily to benefit U.S. producers?

2. Tied Aid Credits (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

2. No.

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

3. No.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity 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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

4. The project recognizes the need and desire of the host country to address public sector accountability. The country's intellectual resources will be used to encourage the institutional development of the Office of the Controller General. The project will support training in government auditing to strengthen the country's accountability and encourage greater citizen participation in the fight against inefficient use of public resources and corruption.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

5. The Project recognizes that corruption and misuse of public resources undermines sustainable economic development. The Host Country, by addressing its accountability problems, will be in a better position for using government resources for legitimate economic development purposes.

6. Special Development Emphases (FAA Secs. 102(b), 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 insuring wide participation

6.a. N/A.

b. The Project will contribute to the strengthening of the host country's public sector accountability. Improved accountability and efficient use of government resources go hand-in-hand with sustainable economic development which ultimately will benefit the poor. Local

of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) 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.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): 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)?

8. Benefit to Poor Majority (FAA Sec. 128(b)): 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?

9. Abortions (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):

a. 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?

democratic processes improve as citizens perceive host government institutions as responsive, accountable and honest.

c. The Project will support the host-country's interest in improving public sector accountability.

d. Project activities will be gender sensitive and will promote the participation of women to the extent possible.

e. Regional cooperation will be encouraged through support of observational tours and regional conferences at public sector auditing institutions in other countries in the region.

7. Yes. The recipient country will provide approximately 38 percent of the total cost of the project.

8. The project will contribute to more efficient use of limited government resources over the generations to come. This will ultimately benefit the poor. The project will not monitor the ultimate benefits to the poor since this effect is beyond the scope of the project.

9.a. No.

b. 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? 9.b. No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? 9.c. No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? 9.d. No.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? 9.e. N/A.

f. 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? 9.f. No.

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? 9.g. No.

10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable 10. Yes.

procurement rules allow otherwise?

11. Disadvantaged Enterprises (FY 1993 Appropriations Act Sec. 563): 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 40 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)?

12. Biological Diversity (FAA Sec. 119(g): 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?

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the

11. Procurement will follow Agency policy and guidance for complying with the Gray Amendment. It is anticipated that the institutional contract will involve economically and socially disadvantaged enterprises as appropriate through subcontracts.

12.a.- d. No. The project does not deal with any aspect of biological diversity.

13.a. Yes.

13.b. No. The project does not deal with the conservation and management of tropical forests.

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assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) 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; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) 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; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best

sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) 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; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded 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?

13.c. No.

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

13.d. N/A.

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e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

14. Energy (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

15. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

16. Deobligation/Reobligation (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

13.e. The project was granted a categorical environmental threshold decision exclusion as a result of the Initial Environment Evaluation (93 STATE 239013).

14. N/A.

15. N/A.. The project does not contemplate a debt-for-nature exchange.

16. N/A. Use of deob-reob is not envisioned at this time.

17. Loans

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

17.a.- d. This is not a loan-financed project.

18. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves

18.1., 3-5. See responses to No. B6 and B8 above.

18.2 N/A.

toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

- a. Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made. 19.a. N/A..
- b. Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people. 19.b. N/A..
- c. Food security:** Describe extent to which activity increases national food 19.c. N/A..

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security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

20. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

21. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

22. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected

20. N/A..

21.a. – b. The project will provide training to strengthen the Office of the Controller General. This will contribute to the improvement of the host-country's accountability and use of limited resources for the implementation of public activities.

development problems, describe extent to which activity is:

- a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; 22.a. N/A.
- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; 22.b. N/A.
- c. research into, and evaluation of, economic development processes and techniques; 22.c. N/A.
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; 22.d. N/A.
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; 22.e. N/A.
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. 22.f. N/A.

23. **Capital Projects (Jobs Through Export Act of 1992, Secs. 303 and 306(d)):** If assistance is being provided for a capital project, is the project developmentally sound 23. N/A.

and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level?



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

ANNEX K
ENVIRONMENTAL THRESHOLD
DECISION

LAC-IEE-93-36

REQUEST FOR A CATEGORICAL EXEMPTION

Project Location : Honduras

Project Title : Strengthening Accountability Systems (SAS)

Project Number : 522-0381

Funding : \$2.5 million (DA)
\$1.0 million (Local Currency)

Life of Project : FY 94-97

IEE Prepared by : Rafael Rosario, USAID/Honduras
Environmental Officer

Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : None

James S. Hester Date 8/3/93
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to : Marshall D. Brown → *Slip...*
Mission Director
USAID/Honduras

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USAID/Honduras

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USAID/Honduras

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