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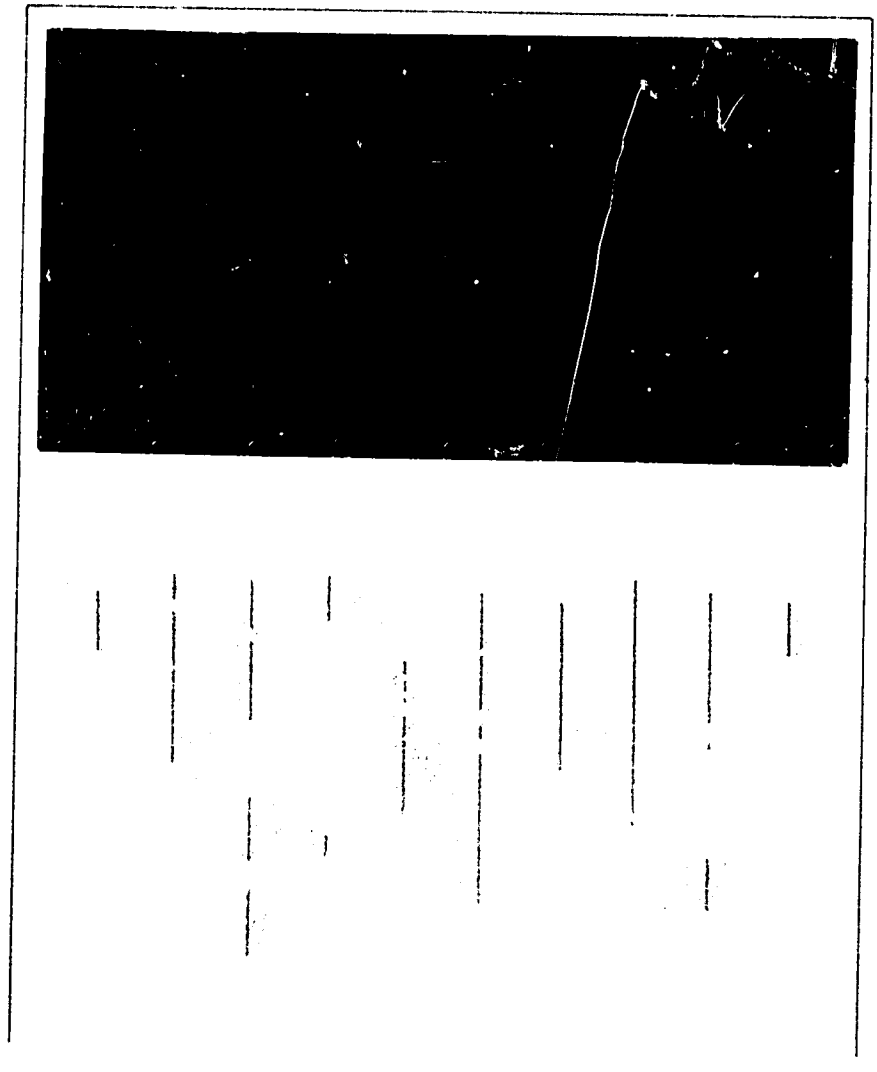

Regional Inspector General for Audit

LATIN AMERICA

(Washington, D.C.)

SMALL FARMER DEVELOPMENT
PROJECT NO. 520-0233
(LOAN NO. 520-T-026)
USAID/GUATEMALA
AUDIT REPORT NO. 1-520-82-10
APRIL 28, 1982

AID agreed to provide the Government of Guatemala about $14.9 million in loan and grant funds to assist in efforts to increase agricultural productivity and generate employment in rural areas. The project includes resettling families in new areas, testing irrigation and soil conservation practices, constructing access roads and training.

Progress had been made but much remained to be accomplished. Needed were better coordination among involved agencies, more construction of infrastructure, and the preparation of natural resource studies. USAID/Guatemala took action to make improvements in certain areas but still needs to improve its review of training funds, advances, and commitment of loan funds.

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SMALL FARMER DEVELOPMENT
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EXECUTIVE SUMMARY

Introduction

The objectives of the Small Farmer Development project were to increase agricultural productivity and general employment in rural areas. There are four components to the project. The New Lands Settlement component was designed to resettle families from the densely populated rural highlands to the Northern Transversal Strip of Guatemala. The current target is to resettle 3,600 families. Under the Land Resources Improvement component, about 10,000 hectares of land were to be improved with small scale irrigation and soil conservation projects. The target was revised downward to 1,500 hectares. The Access Roads component planned for the construction of approximately 280 kilometers of farm to market roads by labor intensive methods. The revised target is for the construction of 334 kilometers. To strengthen the Guatemalan Ministry of Agriculture's sector planning and coordination office and other training, the Human Development component was designed.

Under the terms of a loan agreement in April 1976, AID agreed to provide a total of $13 million. In addition, a grant agreement was signed in June 1976 in which AID agreed to provide $1.9 million. As of September 30, 1981, $6.7 million of the loan funds and $1.5 million of the grant funds had been disbursed.

Scope

Our audit covered the period April 8, 1976 to September 30, 1981, and was directed towards evaluating effectiveness, efficiency, and economy in accomplishing project objectives. To the extent deemed necessary, reviews, evaluations, and assessments were made of the activities being implemented under this project.

Conclusions

Progress had been made in the accomplishment of activities under the Small Farmer Development project. For example, approximately 1,100 families were resettled in 1981 and titles to lands in the project area had been granted to 1,434 families by the GOG. (600 families had migrated to the area on their own.) Also, some 277 kilometers of access roads had been constructed by labor intensive methods which provided employment to some 40,200 individuals from 1979 through 1981. Over 230 participants received training under the project and some 1,400 employees received pre and in-service training. However, we did note several areas that needed managerial attention.

- Project implementation was hindered by a lack of effective coordination between the implementing agency and nine other organizations. While agreement was reached early in the implementation phase on coordination, it did not work well during implementation. USAID/Guatemala needs to take action to improve coordination and determine an appropriate way to effectively utilize the AID resources made available.

- Construction of infrastructure (roads, schools, health facilities, and access paths) in the New Lands Settlement Area was behind schedule thus reducing the rate at which families could be resettled. Action has now been taken to address this problem.

- Natural resource studies of the New Lands Settlement Area had not been accomplished. The lack of the studies could hamper economic development and impose real hardship on the families resettled in the area.

- There was a need to determine road specifications for one road to determine if an overpayment had been made. Also, training needs required review. In addition, the use of a project vehicle needed to be appropriately documented.

- Improvements were needed in USAID/Guatemala's financial management and accounting records. Particularly with regard to funds for training, advances, and commitment of loan funds.

Recommendation

This report contains 10 recommendations for improvement. The findings and recommendations in this report were discussed with USAID/Guatemalan officials and a draft of this report was submitted to the Mission for review and comment. Comments provided, both written and verbal, were considered in preparing this final report.

BACKGROUND AND SCOPE

Background

Loan Agreement 520-T-026 between the Agency for International Development (AID) and the Government of Guatemala (GOG) was signed on April 8, 1976. Under the terms of the agreement, a total of $13 million was made available to the GOG for the purpose of carrying out a program for small farmer development. A grant agreement was signed on June 29, 1976 which provided $1.875 million primarily for technical assistance in implementing the small farmer development program. The GOG was to provide $6 million in counterpart funds. The original terminal date for disbursement was April 8, 1981. However, the project was reprogrammed in 1980 and the terminal disbursement date was extended to April 8, 1982. In March 1982, USAID/Guatemala requested that the project be extended 17 months for two components.

The specific objectives of the project were to increase agricultural productivity and generate employment in rural areas. The project has four main components:

- New Lands Settlement
- Land Resources Improvement
- Access Roads
- Human Resources Development

The New Lands Settlement component was designed to resettle 5,000 families from the densely populated rural highlands to the Northern Transversal Strip (FTN). The National Institute of Agricultural Transformation (INTA) was named as the implementing agency, but, the responsibility for the selection and organization of the families was left to various agricultural cooperative agencies. This latter aspect has come to be the responsibility of the Federation of Regional Agricultural Cooperatives (FECOAR). As a result of implementation delays, the project was reprogrammed in 1980 and some of the original goals were reduced. The New Lands Settlement component now aims to resettle 3,600 families instead of the original 5,000.

Under the Land Resources Improvement component, the Ministry of Agriculture was to implement pilot small scale irrigation projects on a pilot basis on up to 5,000 hectares. Soil conservation projects were to be performed on an additional 5,000 hectares. With the reprogramming of the project, the plans were scaled down and now call for only 1,500 hectares to be improved with irrigation and soil conservation projects.

Under the Access Roads component, the Ministry of Communications and Public Works was to construct approximately 280 kilometers of farm to market roads by labor intensive methods. In January 1981, there were about 2,000 rural workers participating in the program.

The Human Resources Development component planned to strengthen the Ministry of Agriculture's sector planning and coordination office, and to provide pre and in-service training as well as third country training to employees of the public agricultural sector. By January 1981, training had benefited roughly 200 public sector employees.

As of September 30, 1981, a total of $6.7 million of the $13.0 million loan and $1.5 million of the $1.9 million grant had been disbursed.

Scope of Audit

The purpose of the review was to assure that AID funds were used for project purposes; to evaluate USAID/Guatemala's effectiveness, efficiency, and economy in carrying out project objectives; and to determine compliance with AID regulations and the terms and conditions of underlying agreements. In addition, we reviewed progress in achieving specific objectives under the four major components of the project.

The audit covered the period from the signing of the loan agreement, April 8, 1976, to September 30, 1981. The review was made in accordance with generally accepted audit standards. We reviewed pertinent files and records maintained by USAID/Guatemala and those maintained by the GOG. We also interviewed officials from USAID/Guatemala and the GOG concerning project progress and difficulties. We also visited several project sites in the field in order to verify project progress and related implementation problems.

The results of our audit were discussed at an exit conference with USAID/Guatemala officials. A draft of this report was reviewed by USAID/Guatemala officials and their comments were considered in finalizing this report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An Overall Assessment of Program Goals and Accomplishments

The specific goals, as stated previously, were to increase agricultural production and generate employment in rural areas. Based on our review, it is our opinion that the project provided temporary employment to rural Guatemalans mainly through the labor intensive construction of rural access roads and carried out the relocation of farmers to new land settlements.

Project implementation was behind schedule. While there have been evaluations and studies of increases in agricultural productivity in pilot areas, there had not been an overall assessment of the impact of the project in increasing agricultural productivity. Implementing documents for the project require the GOG to provide AID with a final report which summarizes the accomplishments during the life of the project. But we found no evidence of what should be included in this report regarding an assessment of the impact on agricultural productivity. In discussing this point with USAID/Guatemala officials, it was agreed that a formal assessment of the changes in agricultural productivity should be made. To make such an assessment, it will be necessary to establish what is to be measured, to gather baseline data, and to establish the collecting and reporting procedures to provide necessary data for future analyses. USAID/Guatemala advised us in its comments on a draft of this report that the facility to collect and analyze the data required for a formal assessment of changes in agricultural productivity exists and the Guatemala Agricultural Sector Planning Unit has the capacity to collect and analyze the data.

Progress had been made in the completion of the specific objectives of the major components. Some specific accomplishments were:

- The Access Roads component of the project was the most successful in terms of the completion of physical goals. As of September 30, 1981, 276.9 kilometers of access roads had been constructed and the Guatemalan Ministry of Public Works planned to construct a total of 325 kilometers rather than the originally planned 281. The number of unskilled laborers benefiting from this construction program from 1979 through 1981 amounted to 40,228.

- Under the Human Resources Development component, 237 participants received training primarily in other Latin American countries. Approximately 1,400 public agricultural sector employees received pre and in-service training during 1981. The ability of the Agricultural Sector Planning Unit (USPA) to conduct studies, analyze data, and plan agricultural sector development was therefore being improved.

- The Land Resources component had not brought the planned number of hectares under irrigation or soil conservation practices. However, studies of some areas which had been brought under soil conservation practices showed significant increases in agricultural productivity of corn, beans, wheat and potatoes.

- The New Lands Settlement component accounted for most of the problem areas disclosed by our review. Nevertheless, its positive accomplishments cannot be overlooked. The cooperative was able to resettle approximately 1,100 families in 1981. Including the 600 families that had previously migrated to the area on their own, there were approximately 1,700 families residing in the project area. Titles to land in the project area had been granted to 1,434 families by the GOG.

Although progress had been made in achieving project goals and objectives, our audit disclosed several areas which needed managerial attention. The remaining parts of this report discuss areas where changes or improvements could result in more efficiency, effectiveness, or economy in project implementation.

The Project Activity Completion Date

The Project Activity Completion Date (PACD) of this project was scheduled to expire on April 8, 1982. Our review showed that there were considerable implementation delays with the project, particularly in the New Lands Settlement component. There were several reasons for these delays. However, the end result was that the project could not be completed by the PACD and should be extended. Any extension of the PACD should address the lack of effective coordination between GOG agencies and ministries implementing the project as well as the other problems noted throughout this report.

As stated above, the PACD of April 8, 1982 cannot be met and should be extended. There were several reasons for the implementation delays; these included a cumbersome and ineffective disbursement system of the GOG, a lack of effective coordination between GOG agencies and ministries, and the failure of the implementing agency to construct or have constructed infrastructure in the project area. Some examples are stated in the paragraphs which follow.

During the initial stages of project implementation, the GOG disbursement system was cumbursome and ineffective. A revolving fund was established in the Agricultural Development Bank (BANDESA) into which AID reimbursements were deposited. The GOG also deposited its counterpart funds in the BANDESA revolving account. The GOG Ministry of Finance made a deposit of funds into the revolving account in January 1979 as agreed. However, the GOG Ministry of Finance refused to honor the second request for funds from BANDESA in July 1979. This held up payments to the implementing agency which in turn delayed payments to the cooperative. This particular matter was resolved but INTA complained to USAID Guatemala one year later that, "BANDESA fiscal controls are not appropriate to INTA's method of road construction." This problem continued until March of 1981 when AID arranged to disburse funds directly to INTA and the cooperative. Although the methods of payment from USAID/Guatemala and GOG Ministry of Finance have been resolved, project implementation was delayed for an indefinite period of time by the reimbursement procedure.

Project implementation has also been hindered by a lack of effective coordination between the implementing agency and other agencies within the GOG. The New Lands Settlement component alone involves the implementing agency, seven other agencies of the public agricultural sector, the Ministries of Education and Public Health, and a non-governmental cooperative agency. The number of institutions involved suggest implementation problems and the rate of implementation confirmed this.

Considerable problems were encountered getting personnel of the various agricultural agencies established in the project area because of the lack of infrastructure and support. However, approximately 200 individuals from nine government agencies have been stationed in the project area. These individuals were providing agricultural extension and other services, including credit, to the settlers. The settlers had made 30 makeshift schools and the Ministry of Education had supplied 12 teachers. Remaining teachers were funded by the implementing agency.

At the time of our fieldwork, the Mission was considering a 5 to 17 month extension of the project. Based on the accomplishments to date and the tasks still remaining to be done, we believe that an extension should be granted. USAID/Guatemala requested a 17 month extension of the PACD of this project on March 25, 1982, in order to complete the labor intensive access roads and new lands settlement components.

In response to a draft of this report, USAID/Guatemala acknowledged that there had been difficulties in the coordination of activities among the different organizations. It stated that agreements reached at the outset of project implementation regarding a coordinating mechanism were not effectively executed. In conclusion, USAID/Guatemala stated it had obtained "GOG established procedures which were to ensure effective coordination, but there is really not much AID can do to force the execution of these agreements." We believe there are several alternatives available to USAID/Guatemala to encourage coordination of the various organizations involved, including the drastic step of suspending disbursements on the project. Perhaps the solution might be to segregate the various aspects of the projects and deal directly with each implementing agency. However, the significant point of this issue is that USAID/Guatemala must find a way to ensure that the AID resources made available will be effectively utilized in a timely manner.

Recommendation No. 1

USAID/Guatemala should review the status of activities under the Small Farmer Development project and determine an appropriate way to effectively utilize the AID resources made available.

Penetration Roads and Facilities for New Lands Settlement Area

The construction of new roads and infrastructure was significantly behind schedule. Only 6 kilometers of new roads had been constructed, 6 kilometers of existing roads had been reconditioned and none of the planned schools and health facilities had been constructed. The major reasons for this shortfall

was the physical location and climatic conditions of the project area and ineffective GOG organization and administration. As a result of these implementation delays, the rate of family resettlements had to be scaled down and new area settlers were living in very primitive conditions without adequate health and educational facilities.

To ensure the recruitment and resettlemnent of families in the New Lands Settlement area, project documentation called for, among other things, the construction of 33.8 kilometers of new penetration roads, and health and educational facilities. Later an implementation letter changed the plans for roads to require the construction of 31.6 kilometers of new penetration roads and reconditioning of 6 kilometers of existing roads.

Construction of roads, schools and health facilities was hampered by the physical location, climate, and terrain of the project area. The Northern Transversal Strip is located on the northern border of Guatemala next to Mexico. The area is very remote and contains no major cities. Merely getting to the project area is difficult. Roads and bridges wash out and crossing the Chixoy River is dangerous and difficult during the rainy season. In addition, guerilla activity in the countryside made overland travel difficult and uncertain. The resettlement area is basically a tropical jungle and has a lengthy rainy season. Construction is impossible during certain parts of the year.

Given the location, climate and terrain, difficulties and delays in construction are understandable. However, the implementing agency itself contributed to these delays through a lack of effective organization and administration. When road construction was ready to begin in August 1979, Mission officials learned that they did not have an understanding with the implementing agency regarding the method and amount of payment for road construction in the project area. The implementing agency had not budgeted funds for the construction of penetration roads and therefore wanted 100 percent of the cost of the initial 17 kilometers to be financed with AID loan funds. AID agreed to finance 100 percent of the estimated construction cost for the first 4.2 kilometers which, they estimated, would be completed by the end of 1979. FAR procedures were to apply to the remaining 29.6 kilometers and AID's percentage would be approximately 42 percent of the agreed upon estimated costs. (The type, number and financial estimates for roads were changed by subsequent implementation letters.)

The implementing agency finally constructed 4 of the original 4.2 kilometer road early in 1981 and reconditioned an additional 6 kilometers of existing roads. However, the implementing agency found that it did not have the capacity to construct the remaining roads. A contract with a private construction firm was finally signed in March of 1981 for the remaining road construction. As of November 1981, the private contractor had only completed an additional 2 kilometers of road. Due to a lack of access to and around the project area, the cooperative reported that it would have to reduce the number of settlers from 600 to 200 families during the last quarter of 1981.

Delays and protract i negotiations have accrued concerning the construction of other infrastructure, such as, schools, health posts, storage facilities, grain drying facilities, and office buildings. The implementing agency first submitted plans and designs for these structures in mid-1980. However, USAID/Guatemala's Engineering Office rejected these plans in July 1980 noting that the plans lacked sound engineering practices and INTA had no experience in this type of construction. In March 1981, it was decided that the work should be contracted out. In November 1981, the contract for the construction of these facilities had not been let, and none of the planned schools and health posts had been built.

The lack of health and educational facilities has hindered recruitment of new settlers since many are quite naturally reluctant to live in such primitive conditions. The settlers have shown their desire for educational facilities by constructing 30 makeshift schools with their own resources. Health facilities are particularly important since malaria and other tropical deseases are prevalent in the area. There have been deaths reported, mainly among children, due to the lack of health facilities.

The delays in infrastructure construction caused by ineffective GOG administration have hindered resettlement activity and imposed real physical hardships on the resettled families.

USAID/Guatemala advised us in its comments on a draft of this report that INTA had signed contracts for the construction of roads and buildings required in the project area. It also advised us that construction was underway and progressing well at the end of March 1982. Therefore, we are making no recommendation.

Access Paths - New Lands Settlement Area

The construction of 120 kilometers of access paths in the New Lands Settlement project area was not progressing well. The lack of access paths slowed the rate of resettlement and made transportation difficult for the settlers in the project area. In addition, the lack of progress in this area resulted in less employment and income to the settlers than anticipated in the project plans. The construction of access paths under "Food for Work" projects is an opportunity to provide employment for settlers while accomplishing project objectives.

Project documentation called for the construction of 120 kilometers of access paths to link villages and major roads. These paths were to be constructed by the fixed amount reimbursement (FAR) method with AID paying $810.00 per kilometer and the GOG paying $270.00. The implementing agency had constructed approximately 10 kilometers of access paths as of November 1981. Part of these access paths were constructed by INTA and part by a contractor. The construction of paths was not part of the original contract but INTA was negotiating with the contractor for the inclusion of path construction at the time of our audit.

The project paper envisioned the construction of these access paths to be performed by the settlers with minimal engineering assistance. The project paper also envisioned path construction as important compensation for

the settlers, especially during the initial stage of settlement. However, the settlers have received only limited compensation since few of the paths have been constructed. The lack of work was one of the most serious problems facing the new settlers. Less than 25 percent of the population had employment, and this, along with the lack of health facilities, was the major reason for desertion among the settlers.

The engineer on contract to AID and the advisor working with the cooperative stated that these access paths could be constructed by labor intensive means using the settlers in the area. In fact, the cooperative was administering a small "Food for Work" program for the construction of some access paths. The advisor to the cooperative reported that, "The P.L. #480 'Food for Work' is functioning even better than we had contemplated in our rather optimistic proposal. Communities have responded enthusiastically to the idea of working for food. Discipline in work responsibilities for the projects is strictly enforced by elected project committees."

The idea of having the cooperative administer the access path construction had been proposed previously. However, INTA felt that the cooperative lacked the administrative capacity and had enough to do already. In view of the success of its "Food for Work" program, this idea should be reconsidered. If the cooperative cannot administer the program, perhaps INTA could administer such a program.

In replying to a draft of this report, USAID/Guatemala advised us that in January 1982 INTA, under the supervision of an AID engineer, began a program to construct access paths with labor intensive methods. AID purchased tools and CARE "Food for Work" supplies were being utilized to support the activity. Therefore, we are making no recommendation.

Lack of Natural Resources Studies

Natural resource studies of the New Lands Settlement project area, envisioned in the project paper, had not been accomplished due to a lack of GOG initiative. The result was that the new settlers were farming in a new and harsh environment without real knowledge of what crops were best suited to the area. Not only does this lack of knowledge hamper economic development, but it can impose real hardship on the settlers if subsistence crops do not prove suitable to the area.

The project paper called for studies of natural resources, land use and a cadaster of the area to be accomplished concurrently with the settlement of the first 2,000 families in the area. In addition to benefiting the settlers in the project area, the studies were intended to, "... provide the basis for orderly settlement of additional areas in the northern transversal strip after the loan disbursement period." The financial plan included an estimate of $1.65 million in project funds for these studies

In September 1979, the Mission considered various options on how to perform these studies. One option was to award the contract to a Guatemalan consulting firm. There were several firms interested in this type of activity. However, a contract with a private firm was not acceptable to INTA. Also, INTA was the sole owner of support facilities in the project

area and was reluctant to make its facilities available to persons working for a private firm.

Another option was for INTA to perform the studies employing people under a contract arrangement. However, the Agricultural Sector Planning Unit (USPA) was against it. Consequently, the plans for the studies were dropped and the money reprogrammed into other areas.

Some 1700 families were located in the project area as of November 1981. For the most part, these families were growing subsistence crops. Over 75 percent of the settlers, who applied for credit, applied for short-term credit for growing basic subsistence crops even though there was a general concensus that commercial crops were better suited to the area. For example, the first subsistence crops planted in the area, particularly beans and corn, did not grow well.

The Institute of Agricultural Science and Technology (ICTA) was experimenting in the project area with various tropical crops. However, this was its first and only experience with these tropical crops. The agricultural extension service had the following tropical plants ready for distribution to settlers:

Crop	No. of Plants
Coco	76,736
Coffee	201,778
Achiote	4,600
Rubber trees	128,254
Cardamon	68,290

There were reports that coffee could not be grown competitively in the area. However, we were told by the advisor to the cooperative that actually no one knows exactly what crops would grow well in the jungle environment. Therefore, in view of the planned extension of the project, the Mission should renew discussions with the GOG concerning a study of natural resources in the project area. Such a study would not only benefit the settlers in the project area but would also be of great value for further colonization in the Northern Transversal Strip.

We believe that the significance of the natural resource studies cannot be overemphasized. Resources equivalent to millions of dollars have, and are being, expended to relocate thousands of individuals to the Northern Transversal Strip of Guatemala. Plans call for an expansion of the program once the initial areas are inhabited. To be effective in its efforts, the GOG must be in a position to assist the settlers once they are relocated. The natural resource studies, in our opinion, are the key to unlocking the assets of the resettlement area for the newly arrived settlers. We believe that the performance of the studies, as they were envisioned in the project paper, are essential to the successful implementation of the project.

In response to a draft of this report, the Mission replied that it agreed with the "importance of natural resource studies. However, the GOG does not give the natural resource studies a high priority at this time. If there is

an expanded settlement program, the Mission will seek to obtain the agreement of GOG to undertake natural resource studies". In its request for an extension of this project, USAID/Guatemala stated that the target was to move a total of 3,600 families into the New Lands Settlement area, utilizing some $5.6 million in AID resources plus substantial GOG resources. We believe that this significant investment of resources be protected to the extent possible by having the natural resource studies performed. Therefore, we have retained our recommendation.

Recommendation No. 2

USAID/Guatemala should obtain an agreement with the GOG that the natural resource studies of the Northern Transversal Strip will be made.

Technical Specifications of Road Construction

INTA did not construct a road in the New Lands Settlement project area according to the original specifications used to estimate its cost. Consequently, USAID/Guatemala may have overpaid INTA about $46,000.

The original estimate for all roads to be constructed in the New Lands Settlement area was set at $72,000 per kilometer, based on the use of macadam. By letter dated March 27, 1981, the GOG requested AID to approve revised specifications (use of gravel vs. macadam) and revised cost estimates ($60,000 vs. $72,000 per kilometer) for access roads. AID approved the GOG request through Implementation Letter No. 26 issued on April 21, 1981. However, the estimated cost to construct the four-kilometer Dolores road remained at $72,000 and the estimated cost of the remaining 27.4 kilometers of access roads was reduced to $60,000.

In June 1981, USAID/Guatemala's Chief Engineer certified that the four-kilometer Dolores road was completed and that INTA should be reimbursed at $72,000 per kilometer in accordance with Implementation Letter No. 26, or a total of $288,000. INTA was reimbursed the full amount on July 29, 1981, even though the roads were constructed with gravel rather than with macadam.

In connection with the Dolores road, INTA constructed two access paths measuring 2.5 kilometers and included the cost of these paths in the total amount requested for the construction of the Dolores road. However, it did not appear that the path construction would offset the cost for not using macadam on the Dolores road since the estimated cost of these paths was only $1,080 per kilometer with AID's share being only $810 per kilometer. Under this formula, AID would have reimbursed INTA $2,025 for the construction ofto ese paths if the cost had not been included in the total paid for the Dolores road.

INTA did not know how much it actually cost to construct the four-kilometer Dolores road. However, if the difference in estimated cost per kilometer between the Dolores road and other roads in the area is due solely to the use of macadam, it appears that AID paid INTA about $48,000 more than its estimated costs. Reducing this amount by the $2,025 that AID would have reimbursed INTA for the construction of access paths leaves an overpayment of $45,975.

Recommendation No. 3

USAID/Guatemala should (a) review the technical specifications and financial arrangements made for the Dolores road, (b) compare actual construction and payments, and (c) initiate refund action for any excess payments.

Training

A total of 237 participants in the public agriculture sector received training under the human resources component of the project. However, employees of the special unit formed to implement the New Lands Settlement component had received no training. We found no evidence that INTA had nominated any of the special implementation unit's employees for training under the loan. Implementation of the project had been delayed considerably by contractural problems and a lack of effective administration. Delays may have been reduced if suitable training had been received.

Section E 2 b(2) of the Project Paper states that, "In addition to the above courses, special attention will be devoted to training of sector personnel who will be involved in the land settlement and land improvement elements of the loan ....". Several employees of the implementing unit spoke to us during our review concerning the need for training and expressed a desire to attend training courses.

INTA officials took part in the nomination and selection of individuals for participant training and many INTA employees received short-term training. However, we found no evidence that the 200 INTA employees from the special unit implementing the New Lands Settlement component had been nominated or selected for training.

Mission officials were not aware that personnel of the special implementing unit had not received training and stated that they had never received complaints or requests for training from this unit.

The problems encountered by the implementing unit in design, contracting and construction suggest a lack of managerial expertise. For example, the plans, cost estimates, and material lists for the proposed health posts were rejected in July 1980 by the AID Mission Chief Engineer who noted that, "The plans although fairly complete, lack some basic considerations due to the fact that INTA has no experience in this kind of building." Although the plans have now been approved, the contract to accomplish the actual construction had not been let at the time of our audit.

The AID funded advisor to the cooperative also noted, "The difficulties caused by high water and lack of roads have been mentioned already. This is derived from the inability of INTA to either build themselves or contract out the road work last year." The cooperative had to delay the resettlement of settlers due to the lack of adequate roads.

USAID/Guatemala advised us that the Chief of the INTA implementing unit had been sent to several countries to visit similar activities to learn from their experiences and the experience of other employees should be considered on-the-job training. USAID/Guatemala agreed to review the training needs.

Recommendation No. 4

USAID/Guatemala should review the need for training by personnel of the special implementing unit with GOG officials and agree on what training will be provided.

Rental of Vehicles

The project was renting eight vehicles from the cooperative at a monthly cost of $6,900. These vehicles were not used for the transportation of settlers to the project area but rather for the transport of cooperative personnel and material.

USAID/Guatemala agreed to the rental arrangement in Implementation Letter No. 24 in March 1981, when it agreed to make disbursements directly to the cooperative for all programmed expenses. The rental arrangement was included in the revised financial plan for the period May through December 1981. However, AID had paid rental fees since August 1980.

The vehicles in the project area were reportedly used for the transportation of construction material, basic grains for the settlers, food under the CARE program, survey workers, and sick or injured settlers. The vehicles used outside the project area were used by cooperative employees involved in promoting resettlement activities. Reportedly, the cooperative had 1,000 families enlisted and ready to resettle in the project area.

Vehicle rental cost amounted to $65,100 as of September 30, 1981. In addition, the project was financing the cost of gasoline, as well as maintenance and repairs for the eight vehicles. Gasoline was budgeted at $10,500 for the May through December 1981 period and maintenance was budgeted at $8,000 for the same period. This appears to be a high monthly cost for vehicles needed for an extended period of time.

In its reply to a draft of this report, USAID/Guatemala advised us that funding to the cooperative will terminate in July 1982, and considering the lead time required to purchase vehicles, less than 3 months rental savings would result. If financing terminates in July 1982 and assuming that the eight vehicles will be rented until that time, a total of about $134,000 ($65,100 + $69,000) will be expended for vehicles which could have been purchased for about $80,000. There are many variables that must be considered in making a decision on whether to rent or purchase vehicles. However, we believe that because of the significant difference between the rental cost and the cost to purchase, in this case an initial decision to purchase rather than rent would have been appropriate. Since financing of the cooperative is to terminate in July 1982, no recommendation is made.

Exchange of Project Vehicle

A vehicle purchased by AID for use by INTA was being used by the Office of the Director of that agency and not by the implementing unit. However, the implementing unit had received three additional vehicles for use in the project area in exchange for the AID financed vehicle. This exchange was undocumented and the legal status was unclear.

A 1978 Ford Bronco was purchased for $9,185 in February 1979 to be used on the resettlement component of the project. However, the vehicle was subsequently used by the Office of the Director of INTA and not by the unit actually implementing the project. The implementing unit received three Nissan jeeps in exchange for the Ford Bronco and these vehicles were being used for project purposes. Since this arrangement was beneficial for the project and the Director of INTA was at times directly involved with the project, the Mission was willing to document this transaction. However, the legality of this transaction is unclear and it should be reviewed and documented by appropriate AID officials.

Recommendation No. 5

USAID/Guatemala should obtain a ruling from the AID General Counsel on the legality of this vehicle exchange and document the exchange if it is to be continued.

Unliquidated Balances

At the time of our audit, there was an unliquidated balance of $263,186 in the participant training account. Of this amount, we identified $94,138 as unused balances in accounts for participants who had completed or terminated training prior to October 31, 1980. These unused balances were probably due to two factors: (a) the Mission had not received an advice of charge for a particular participant; or (b) the training had not required the amount obligated. To use the funds more effectively, USAID/Guatemala should determine the amount which can be reprogrammed.

The unliquidated balance of $94,138 was derived from 24 Project Implementing Orders for Participants (PIO/Ps) covering 101 participants in long and short-term training. Training in all but 2 cases was provided in Mexico. The most recent entry found on the control record for these PIO/Ps was March 1981.

In response to a draft of this report, USAID/Guatemala advised us that it had completed a detailed review of the unliquidated balances on PIO/Ps which resulted in $52,380 being made available for reprogramming. We are pleased to see the rapid response by USAID/Guatemala to our finding. Because of the amount of funds involved in unliquidated balances on PIO/Ps, we believe that USAID/ Guatemala should review these balances on a regular basis.

Recommendation No. 6

USAID/Guatemala should establish procedures to review the status of the unliquidated balances on Project Implementing Orders for Participants (PIO/Ps) on a regular basis to determine if valid obligations exist, if not, deobligation actions should be initiated and the funds reprogrammed.

Advance of Funds

As of October 31, 1981, outstanding advances on the Small Farmer Development project amounted to $463,032 and were being retained by four different organizations. One organization (FECOAR) was using and accounting for fund usage in a proper manner; the agreement was due to expire in December 1981 and a reevaluation on need was required. However, our review showed that the other three organizations were neither using the funds in a prompt manner nor were they accounting for expenditures in a timely manner. The actual needs of these three organizations were not clear and there was a need for USAID/Guatemala to improve its monitoring of these advances to achieve the controls dictated by AID Cash Management Procedures and the Treasury Fiscal Requirements Manual (TFRM 6-8000).

As of October 31, 1981, four GOG organizations had outstanding advances totalling $463,032:

GOG Organization	Outstanding Advance
FECOAR	$200,000
BANDESA	241,859
INTA	3,796
USPA	17,377
	$463,032

In the case of FECOAR, our review revealed that the organization was accounting for expenditures in a periodic and systematic manner. The need for the advance seemed genuine. Regarding the other three organizations, our review showed that accounting or usage of funds had not been made in a prompt and timely manner. Examples follow:

- Under the grant agreement, the Mission advanced $6,000 to the Agriculture Sector Planning Unit (USPA) on July 27, 1977. We found no record that this money had been used for almost four years. Finally, in June 1981, USPA accounted for the advance.

- The Mission granted additional advances to USPA of $10,000 each in August and November 1979 for a total of $20,000. In June 1981, USPA accounted for $2,623.02 of these additional advances. However, there was still an unliquidated balance of $17,376.98 at the time of our review. The needs of USPA for this advance were not clear.

- The Mission made an advance of $389,000 to the National Agricultural Development Bank (BANDESA) on April 9, 1981, for the purpose of disbursing credit funds committed to settlers in the FTN for the period January through March 1981. At the time of our review in November 1981, BANDESA had accounted for $147,141, leaving an outstanding balance of $241,859. Bank officials told us that the $389,000 had not been fully utilized as of September 30, 1981. Since the credit plan submitted by BANDESA showed commitments of $389,000 for the first quarter of 1981, we believe this advance should have been disbursed and accounted for in a more timely manner.

- The Mission advanced $3,796 to INTA in July 1979 for the purpose of purchasing two radios for project use. The Capital Development letter required that the advance be liquidatd within 90 days from receipt. However, INTA had not accounted for the advance at the time of our review. At our request, INTA submitted a voucher to clear the advance which was outstanding for over 2 years.

USAID/Guatemala advised us that it would process pending vouchers to liquidate outstanding advances to BANDESA and USPA. When we receive documentation that the advances have been liquidated, we will then close the following recommendation.

Recommendation No. 7

USAID/Guatemala should (a) evaluate the need for continuation of advance funds to BANDESA and USPA; and (b) ensure that these two organizations are using and accounting for funds in a timely manner.

We believe USAID/Guatemala needs to strengthen its procedures relating to the approval and monitoring of advances. These procedures should be consistent with AID Cash Management Procedures stated in State Cable No. 273219, dated October 1979, which serves as a basis for implementation of Treasury Fiscal Requirements Manual (TFRM 6-8000).

The TFRM defines advances as payments made before delivery of goods and in anticipation of future costs. It further states that " ... it is the responsibility of Agencies to monitor the cash management practice of their recipient organization to ensure that Federal cash is not maintained by them in excess of immediate disbursement needs." And, further, "Agencies will establish such systems and procedures as may be necessary to assure that balances are maintained commensurate with immediate disbursing needs." AID has been advised that the term "immediate disbursing needs" ... "may be assumed to be cash requirements for as long as thirty days from the date the recipient receives the advance until it is expended."

While the 30-day criteria may be exceeded, " ... in unusual instances when the AID Mission office has established that project implementation will be interrupted or impeded ... AID expects that judgment will be applied by USAID Controllers, contracting officers, and others in determining the immediate disbursing needs of specific recipients."

The overridng theme of the Agency's cash management policy (State 273219) is directed at ensuring that Federal cash advances are not in excess of immediate need; that controls be implemented to assure no excess advances; that advances be based on documented plans for use; and that funds advanced will, in fact, be promptly disbursed for approved project or program costs.

Commenting on a draft of this report, USAID/Guatemala stated that:

"Mission is well aware of AID and U.S. Treasury cash management procedures. Mission Order Con 31 dated Octobert 31, 1980 sent by pouch this day established Mission policy for advances. AID and

Treasury guidelines do not state that advances must be liquidated in less than 30 days but that the recipient organization disburse the advance within that time frame. You indicate that as of November 1981 BANDESA had $241,859 outstanding. In December, 1981 the Mission received a voucher from BANDESA for period July 1, to September 30, 1981 in the amount of $169,572 leaving balance outstanding of $72,287. BANDESA's average rate of expenditure indicates that they had disbursed the entire advance before the end of November 1981 -- because of tardy submission of vouchers it remains unliquidated on AID records. In order to monitor outstanding advances the Office of Controller completes a monthly report of advances outstanding. This report includes date of advance, organization name, and amount. Any advances outstanding more than 60 days are reviewed as to their reasonableness."

We reviewed the Mission policy for advances dated October 31, 1980 and found that it contains the guidelines for authorization and liquidation of advances. However, the policy does not include guidelines on the review of outstanding advances or what will be done when advances are not "promptly disbursed for approved project or program costs."

In the case of the advance to BANDESA, we are not in a position at this time to determine the current status of the advance. However, a review of comments made about the advance convinced us that improvements in the monitoring of advances is needed.

Statement at the time the advance was made (April 9, 1981):

> Advance is to be used for disbursing credit funds committed during January and March 1981.

Statement made during audit by bank officials (November 1981):

> All advance funds ($389,000) have been used as of September 30, 1981.

USAID/Guatemala comments on draft report (March 1982):

> Advance funds of $316,173 had been used as of September 30, 1981, and based on rate of expenditure, all advance funds should have been used before the end of November 1981.

We believe that a timely review of the use of the advance made to BANDESA would have shown that the funds were not being promptly disbursed. Therefore, the size of the advance should have been immediately reduced. We also believe that review procedures should be incorporated into the Mission order on advances.

Recommendation No. 8

USAID/Guatemala should amend its procedures regarding advance of funds to provide for adequate and effective monitoring guidelines.

Commitment of Loan Funds

At the time of our review, valid documents, such as, implementation letters and capital development letters, snowed a commitment of AID funds totaling $11,525,860, but USAID/Guatemala's accounting records showed a commitment of only $8,704,219. This was because commitments totaling $2,821,641 had not been recorded in USAID/Guatemala's accounting records. Consequently, USAID/Guatemala's records did not reflect funds committed to the project by sub-obligating documents.

AID funds for projects being assisted are generally obligated with the signing of loan and grant agreements. As specific tasks to accomplish the overall goals and objectives are determined, the obligated funds are sub-obligated or committed to the identified tasks by various documents, such as, implementation letters and capital development letters. Proper control must be maintained over the sub-obligating documents to ensure that the obligated funds are not over committed.

We found that more than $2.8 million had been sub-obligated by various documents but had not been recorded in the accounting records. These commitments occurred over a period of months. For example, a sub-obligation of $29,280 under the Human Resources component was made in February 1981 but had not been recorded as of October 1981. Three subobligations of about $1 million each under the New Lands Settlement component were made by implementing documents but were not recorded. These sub-obligations were made in April, June and September 1981. While monthly reconciliations of sub-obligating documents and accounting records should have been made, adequate monthly reconciliations were not performed. It did not happen in this instance, but commitments made by sub-obligating documents could easily exceed the total amount obligated for a project if proper control of sub-obligating documents is not maintained. USAID/Guatemala's Acting Controller agreed that all sub-obligating documents should be recorded and steps were taken to correct the situations noted.

USAID/Guatemala amended its procedures on the identifying, summarizing and recording of sub-obligating documents on December 3, 1981. We reviewed a copy of the amended procedures and did not find guidelines which, in our opinion, would ensure that all sub-obligating documents would be recorded in the accounting records.

Recommendation No. 9

USAID/Guatemala should amend its accounting procedure to include steps which will ensure that all sub-obligating documents are identified, summarized and recorded.

Project Monitoring

USAID/Guatemala was adequately monitoring the implementation of the project. However, written reports on field trips to the New Lands Settlement project area were not prepared by the project manager. Field trips and site visits should be documented for better program operations and continuity of effective project management.

The Mission recieved periodic reports from implementing agencies and contractors which facilitated project monitoring. The Agricultural Sector Planning Unit submited quarterly progress reports on the overall operations of the project.

The special unit created by INTA, to oversee the New Lands Settlement component, prepared a monthly report concerning colonization and coordination problems. The cooperative, with the responsibility for selection, transportation, and assistance of the new settlers, provided a monthly statistical report and a more complete quarterly progress report. In addition, the AID-funded contractor submited a monthly progress report of activities.

Likewise, the implementing agency for the access roads component submitted a monthly report. The consultant to the project submited a progress report every 2 months and performed an overall evaluation of the project in May 1981.

The AID-funded contractor who furnished technial assistance to the Agricultural Sector Planning Unit (USPA) submitted progress reports every two months as well as a final report covering 4 years of activities. Also, under the Human Resources component of the project, the Mission training officer participated actively in the selection of participants and had been asked to participate in GOG training program

Progress reports have been written by both regional divisions involved in the land resources improvement and the AID funded contractors submitted monthly activity reports on this component.

There have been three overall evaluations of the project, the most recent one conducted by USPA.

As a result of these reports, problem areas have been cited and corrective actions such as reprogramming have been taken.

However, even with the number of reports cited above, documentation of field trips and site visits made by USAID project management is necessary for effective program operations. Field trip reports also facilitate continuous project management when AID personnel are reassigned.

Recommendation No. 10

USAID/Guatemala should establish procedures which require field trip reports for each visit made to project sites.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Guatemala should review the status of activities under the Small Farmer Development project and determine an appropriate way to effectively utilize the AID resources made available. (Page 5)

Recommendation No. 2

USAID/Guatemala should obtain an agreement with the GOG that the natural resource studies of the Northern Transversal Strip will be made. (Page 10)

Recommendation No. 3

USAID/Guatemala should (a) review the technical specifications and financial arrangements made for the Dolores road, (b) compare actual construction and payments, and (c) initiate refund action for any excess payments. (Page 11)

Recommendation No. 4

USAID/Guatemala should review the need for training by personnel of the special implementing unit with GOG officials and agree on what training will be provided. (Page 12)

Recommendation No. 5

USAID/Guatemala should obtain a ruling from the AID General Counsel on the legality of this vehicle exchange and document the exchange if it is to be continued. (Page 13)

Recommendation No. 6

USAID/Guatemala should establish procedures to review the status of the unliquidated balances on Project Implementing Orders for Participants (PIO/Ps) on a regular basis to determine if valid obligations exist, if not, deobligation actions should be initiated and the funds reprogrammed. (Page 13)

Recommendation No. 7

USAID/Guatemala should (a) evaluate the need for continuation of advance funds to BANDESA and USPA; and (b) ensure that these two organizations are using and accounting for funds in a timely manner. (Page 15)

Recommendation No. 8

USAID/Guatemala should amend its procedures regarding advance of funds to provide for adequate and effective monitoring guidelines. (Page 16)

Recommendation No. 9

USAID/Guatemala should amend its accounting procedure to include steps which will ensure that all sub-obligating documents are identified, summarized and recorded. (Page 17)

Recommendation No. 10

USAID/Guatemala should establish procedures which require field trip reports for each visit made to project sites. (Page 18)

APPENDIX B

LIST OF RECIPIENTS

	No of Copies
Deputy Administrator	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC/CAR), AID/W	5
Mission Director, USAID/Guatemala	5
Assistant Administrator - Bureau for Science & Technology (S&T)	1
Assistant Administrator - Office of Legislative Affairs	1
Office of Financial Management - (M/FM/ASD), AID/W	3
Directorate for Program and Management Services (DAA/M)	2
General Counsel (GC), AID/W	1
Audit Liaison Office (LAC/DP), AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, AID/W	4
PPC/E, AID/W	4
Inspector General, AID/W	1
IG/PPP, AID/W	1
IG/EMS, AID/W	12
AIG/II, AID/W	1
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