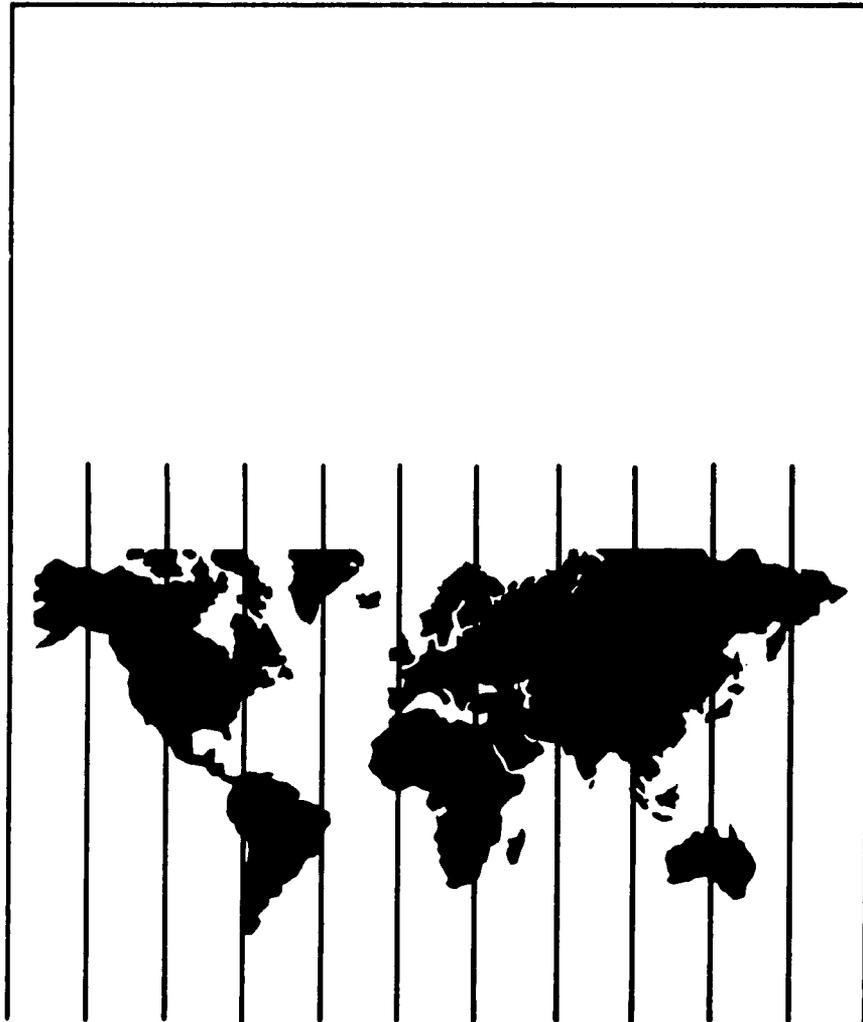


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

7/5/79

PDAA P 547

**INTEGRATED RURAL DEVELOPMENT - SONA:
SUCCESS DEPENDS ON EFFECTIVENESS OF
CREDIT AND AGRO-INDUSTRY COMPONENTS,
USAID/PANAMA PROJECT NO. 525-0186**

AUDIT REPORT NO. 1-525-84-6

2030

JUNE 28, 1984

The Sona integrated rural development project will cost about \$19.7 million. AID is contributing about \$9.7 million in loan funds, and the Government of Panama is providing the remainder. The project's broad objectives are to establish a capability within the Government of Panama to design and manage integrated rural development projects, and to implement the first project in Panama's Sona District.

The project is successfully building institutional capability, improving roads, and providing social services. However, progress in making loans to farmers has been disappointing, and little has been done to establish new businesses and thereby create employment opportunities in Sona. Success in these areas is critical to achieving overall project objectives. Certain management controls should also be strengthened.

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	i
Introduction	i
Audit Scope	i
Conclusions	i
BACKGROUND AND SCOPE	1
Background	1
Objectives, Scope, and Methodology	2
AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	3
Credit Component Is Making Slow Progress	3
Better Reporting Needed to Monitor Credit Component	6
Agro-Industry Component Is Stalled	7
Inadequate Accounting for Advances and Recoveries	9
No Formal Evaluation Conducted	10
EXHIBIT I - Financial Summary as of December 31, 1983	12
EXHIBIT II - Comparison of Goals to Achievements August 29, 1981 through December 31, 1983	13
APPENDIX A - List of Report Recommendations	15
APPENDIX B - List of Report Recipients	16

ACRONYMS

BDA	Agricultural Development Bank
GOP	Government of Panama
MIDA	Ministry of Agricultural Development
MIPPE	Ministry of Planning and Economic Policy
ONADRI	National Coordinating Office, a component of MIPPE

INTEGRATED RURAL DEVELOPMENT - SONA
Project No. 525-0186
Loan No. 525-T-046
USAID/PANAMA

EXECUTIVE SUMMARY

Introduction

The integrated rural development project in Panama's Sona District began in August 1981 and is scheduled for completion in October 1985. The project's dual purpose is to establish a capacity within the Government of Panama (GOP) to plan and manage integrated rural development projects, and to implement the first of these projects in Sona. Through this project, AID hopes to help the GOP stem migration from Sona and other rural districts by increasing incomes and improving living conditions in non-urban areas.

The project has eight components: planning and administration, farm extension, services, credit, agro-industry, rural roads, health, education, and housing. The credit and agro-industry components, and to a lesser extent the farm services component, should have a direct effect on incomes in the region, while the other project components are primarily intended to improve the standard of living in other ways. The project budget is about \$19.7 million, including an AID loan for \$9.7 million and counterpart contributions of about \$10 million. By March 31, 1984, accrued AID expenditures totaled about \$2.2 million.

Audit Scope

This is the first audit of the project. Our objectives were to determine the project's status and prospects for success, to selectively review project internal controls, and to evaluate compliance with AID standards and the Project Agreement. We conducted the audit in Washington, D.C., Panama City, and the Sona project area covering project activities for the period from August 29, 1981 through mid-March 1984.

Conclusions

By early 1984, when we conducted our field work, the project organization was in place and generally satisfactory progress was also being made in the farm services, rural roads, and social services components. Progress in the credit and agro-industry components, however, has been disappointing. Because these components should have the most direct effect on incomes in Sona, improvements are needed to assure achievement of the project's overall objectives. Certain management controls should also be strengthened. Project goals and accomplishments are compared in Exhibit II.

The project's successes are in many cases surprising, given the problems experienced in other integrated rural development projects. For example, many similar projects have been unable to achieve cooperation between the many agencies needed to provide integrated development and welfare services. In contrast, the eight agencies involved in the Sona project have been able to

work together effectively (although some problems have been experienced in the agro-industry component -- see page 8). GOP and USAID/Panama officials attributed this level of cooperation to the personal talents of the GOP project manager, who is responsible for overall coordination; to the level of authority delegated to local level officials who developed good working relationships; and to lessons learned from GOP interagency conflicts which were partly responsible for the failure of an earlier project. Institution building has been neglected in other projects, but this project has successfully developed a viable organization to design and carry out integrated rural development projects. Much of this organization should survive the end of AID funding for Sona since, according to the GOP project manager, his office has assumed responsibility for a new \$13 million integrated rural development project beginning in late March 1984.

USAID/Panama officials are particularly pleased that, in the farm services component, agricultural extension agents are providing technical assistance to private farmers. They believe that this represents a significant departure from the GOP's capital-intensive, collective farm approach to agricultural development.

Credit

The credit component, however, probably cannot reach its objectives in the time available. By the end of 1983, only about 9 percent of the planned number and amount of farm loans had been made, while 56 percent of the scheduled implementation period had passed. While relatively slow progress in the first years of the project might have been anticipated, it appears that this component has fallen too far behind to reach its objectives by the project assistance completion date. Almost a year passed before the first loans were made, and a severe drought during the dry season of 1982-1983 depressed demand for farm loans. Technical and logistical problems which were not anticipated during project design have also reduced demand for certain types of loans. USAID/Panama needs to solve these technical problems or identify more profitable uses for farm loans, to accelerate progress in the credit component. It should also consider extending the project assistance completion date (see pages 3-6).

Agro-Industry

Little has been done to establish agriculturally-oriented businesses in the project area. Project officials told us that the Agricultural Development Bank (BDA), which has primary responsibility for this component, lacks experience with agro-industry projects. Apparently, the BDA has not received needed assistance from experts in the Ministry of Agricultural Development. Some corrective actions are already planned, and we recommend that USAID/Panama take action to accelerate progress in this component (see pages 7-9).

Management Controls

We also found certain deficiencies in management controls. When we began our fieldwork, the Government of Panama project office did not keep adequate

records on AID advances (see pages 9 and 10). Improvement is needed in periodic reporting, to permit better monitoring of the credit component (see pages 6 and 7). Finally, we noted that no formal project evaluation is scheduled until August 1984, about one year before the project assistance completion date (see pages 10 and 11).

Mission Comments

The Mission generally agreed with the factual content of this report. It believes that the Government of Panama project office should reconcile AID advances on a quarterly basis, to coincide with the Mission's review of advance levels, rather than on a monthly basis as we recommended in our draft report. We have modified our recommendation accordingly (See page 10).

REVIEW OF INTEGRATED RURAL DEVELOPMENT - SONA

Project No. 525-0186

Loan No. 525-T-046

USAID/Panama

BACKGROUND AND SCOPE

Background

On August 29, 1981, AID and the Government of Panama (GOP) signed Amendment No. 1 to Project Loan Agreement No. 525-T-046, to finance an integrated rural development project in the Sona District. Sona is a hilly farming region on the Pacific coast of Panama, about halfway between Panama City and the Costa Rican border.

The original loan, signed on November 25, 1977, was to have financed another integrated rural development project in the Tonosi area of Panama. That project could not be implemented because of local opposition which culminated in a violent demonstration. According to the revised Project Paper, the failure at Tonosi was due to

- a lack of beneficiary participation in project design,
- an unpopular land redistribution component, and
- conflict between the Ministry of Planning and Economic Policy (MIPPE) and the Ministry of Agricultural Development (MIDA).

The designers of the Sona project aimed to avoid similar problems and thus far it appears that they have been successful.

The reprogrammed AID Loan No. 525-T-046 is for \$9.7 million, including \$180,000 in costs related to Tonosi. With GOP contributions of about \$10 million, the total project budget is about \$19.7 million. AID accrued expenditures totaled approximately \$2.2 million as of December 31, 1983. The project assistance completion date is October 31, 1985.

The purpose of the Sona project is to (1) establish a GOP institutional capability for planning and implementing integrated rural development projects, and (2) implement the first integrated rural development project.

Eight GOP agencies are involved in the project. A National Coordinating Office (ONADRI) within MIPPE is responsible for overall coordination and evaluation of the project; it has primary responsibility for the planning and administration component. MIDA carries out the farm extension services component with assistance from the Applied Agricultural Research Institute. The Agricultural Development Bank (BDA) has primary responsibility for the credit and agro-industry components. The Ministry of Public Works is responsible for rural

roads. Finally, the Ministries of Health, Education, and Housing are to implement the social services components.

Exhibit I provides details on project financing. Exhibit II shows planned and actual accomplishments as of December 31, 1983 in each of the eight project components.

Objectives, Scope, and Methodology

The Office of the Regional Inspector General for Audit/Latin America reviewed activities under the integrated rural development project in Sona, Panama, covering activities for the period from August 29, 1981 through mid-March 1984. This is the first audit of the project.

Our objectives were to

- evaluate the project's progress and prospects for success,
- selectively review project internal controls, and
- assess compliance with AID requirements and the Project Loan Agreement.

To accomplish these objectives, we reviewed pertinent files and interviewed officials in AID/Washington, USAID/Panama, and the GOP agencies implementing the project, as well as project officials and beneficiaries in the Sona project area. We verified the accuracy of AID financial reports, selectively tested GOP financial records, and performed other reviews and tests we considered necessary.

We discussed our findings and conclusions at an exit conference with USAID/Panama officials, and we submitted a draft audit report for Mission review and comment. All Mission comments were considered in preparing our report.

We made our review in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Credit Component Is Making Slow Progress

The credit component, which is intended to improve farmers' incomes by providing capital for better agricultural techniques, is making loans at a much slower pace than was planned. Loan demand has not met expectations because of the time required to organize credit and farm extension agents, a severe drought in 1982-83, and some unforeseen technical and logistical problems. Increasing the number of loans made will require solving these technical problems or identifying new uses for credit which will be more profitable to farmers. Since credit and agro-industry are the project components which should have the most direct effect on incomes in the Sona District, better progress in the credit component is necessary to ensure that the project as a whole will achieve its objectives.

BDA is responsible for implementing the credit component. The revolving credit fund is currently planned to have \$4,968,500 available for agricultural production loans. With administrative expenses, the total credit budget is \$5,823,600. Of this, AID is providing \$4,123,500 and the GOP is contributing \$1,700,100.

According to the Project Paper, these funds were planned to be loaned as follows: crop loans \$3,873,500, cattle loans \$2,844,625, and other loans \$609,000. The planned total amount, \$7,327,125, exceeds the original amount of the revolving fund because crop loans are to be repaid seasonally and would be "rolled over" or loaned out again.

According to ONADRI's quarterly progress reports, only 231 loans for \$644,574 had been made by the end of 1983 (84 loans in 1982 and 147 loans in 1983). BDA officials stated that about 90 percent of the loans were for cattle. Although about 9 percent of the planned number and amount of loans had been made, about 56 percent of the time available for project implementation had already passed. Therefore, it seems unlikely that the planned number of loans can be made by the project assistance completion date.

The credit component has fallen behind schedule because:

- Time was needed to develop operating procedures, and to recruit and train agents who educate farmers about the benefits of agricultural loans (many farmers had no previous credit experience). The first loans were made in August 1982, about one year after project implementation began.
- A severe drought beginning in November 1982 depressed demand for loans, since farming of any sort was difficult.
- Technical and logistical problems which were not foreseen during the project design made certain types of loans less attractive to farmers.

Some of the reasons for slow progress clearly could not be controlled by project officials, but it appears that some of the problems cited would have been alleviated by better planning.

USAID/Panama and GOP officials told us that to implement the credit component, they first had to organize a network of agricultural extension agents. No adequate model existed elsewhere in Panama, since the extension agent approach to agricultural development had been discontinued during the administration of General Omar Torrijos. The extension agents work with BDA credit agents to explain to farmers how agricultural loans can enable them to employ better farming methods and increase their incomes. Project officials expect the pace of loan activity to accelerate as farmers' attitudes change.

A long drought in 1982-1983 was a major impediment to loan activity, according to project officials. They said that the drought was disastrous to agriculture in the region (for example, about one-third of the cattle in the Sona District died). Consequently, few loans were made during this period. One of the farmers we interviewed used a BDA loan to plant rice and corn, but had suffered a considerable loss due to the drought. He planned to take out another loan in 1984.

Loans for certain types of crops and livestock have moved slowly due to unforeseen technical problems. It appears that more attention should have been paid to the feasibility of these activities during project design:

- Only three loans for swine production were made in 1983. The BDA Sona Branch Manager told us that domestic farmers could not produce pork at prices competitive with imported pork.
- Only one loan for chicken raising was made in 1983. BDA and MIDA officials told us that the type of chicken they had initially encouraged farmers to raise would not bring a high enough price to make chicken raising profitable. They are now introducing a different breed which they believe will be more profitable, encouraging demand for loans.
- Demand for bean cultivation loans has been slow, BDA and MIDA officials told us, at least partly because of inadequate storage facilities. A grain silo is being built in the area as part of another AID project, but it is two to three years behind schedule, according to BDA officials. ^{1/}
- The BDA Sona Branch Manager stated that no loans for apiculture (bee raising) have been made because (1) BDA is concerned about the impact of African bees on bee raising, and (2) a honey processing plant which was planned to absorb honey production has not been built.

^{1/} Project No. 525-0178, Grains and Perishables Marketing.

An AID Assistant Project Development Officer cautioned us that some of the explanations provided by BDA may not be authoritative, since bankers are not necessarily farming experts. In particular, he believes that the entire technology for raising chickens must be improved to make the activity profitable and attractive to farmers.

Loan activity must be increased during the last two years of the project, so that the credit component can achieve, or more nearly achieve, its objectives. Farmers receiving loans agree to plant improved pasture, stop burning off weeds, build fences, and meet other requirements. Thus, the credit component has the potential to reverse decades-old farming practices which cause soil depletion and erosion. Also, the credit component should directly contribute to the overall project objective of increasing incomes in the Sona District. For these reasons, success in this component is critical to overall project success.

Increasing loan activity will require identifying new uses for credit, or solving the technical problems which are inhibiting demand for swine, chicken, apiculture, and some crop loans. BDA's project coordinator also plans to propose procedural changes which he believes will increase the number of loans made. First, he would decentralize loan approval authority down to the Sona branch office, to improve the timeliness of loan approvals. Second, he would change application procedures and provide free notary services to reduce the cost of applying for a loan. Finally, he would establish a bank on wheels (this was planned in the Project Paper but never implemented) so that farmers would not have to take a day off and travel to the district center when applying for a loan or receiving disbursements.

Conclusion

The pace of loan activity to date has been disappointing. USAID/Panama should make use of the opportunity afforded by the upcoming project evaluation to address the technical problems inhibiting progress in this project component, and consider whether extending the project assistance completion date would allow the credit component to reach its goals. If an extension would not provide a reasonable chance of success, excess credit funds should be reprogrammed to another project component or deobligated.

Recommendation No. 1

USAID/Panama:

- a) ensure that the upcoming project evaluation assesses the technical factors inhibiting progress in the credit component and, with ONADRI and BDA, develop a plan to accelerate progress;

- b) as part of the same evaluation, determine whether an extension of the project assistance completion date, together with other modifications, would provide a reasonable chance of successfully completing the credit component; and
- c) reprogram or deobligate any excess AID funds allocated to the credit component.

Better Reporting Needed to Monitor Credit Component

ONADRI's quarterly progress report tracks activities in the credit component in a manner such that (1) accomplishments cannot be directly compared to planned activities, and (2) project beneficiaries cannot be identified. Because of poor design, the quarterly report does not show where the credit component is succeeding or failing, or identify what type of farmer is benefiting from the loans.

The project management information system is intended to assist participating agencies in planning, monitoring, and evaluating project activities. However, because of poor design, the quarterly reports are of limited use to managers concerned with the progress of the credit component.

The quarterly reports do not permit comparison of planned and actual loans made for either (1) the type of farmer receiving credit, or (2) the purpose for which the loans were used (e.g., number of loans for planting rice, number of loans for buying cattle, etc.).

The December 31, 1983 report shows that the following activities were planned in the credit component for 1983.

<u>Loan Category</u>	<u>Number</u>	<u>Amount</u>
Small Farmers	70	\$80,000
Medium Farmers	25	100,000
Collective Farms	4	200,000
Swine Improvement	51	20,000
Dual Purpose Cattle	8	50,000
Calves	62	250,000
Beef Cattle	20	40,000
Apiculture	50	60,000
TOTAL	<u>290</u>	<u>\$800,000</u>

In contrast to this plan, actual loans for 1983 were presented as follows:

<u>Type of Loan</u>	<u>Number</u>	<u>Amount</u>
Planting Rice	50	\$12,902
Planting Corn	17	4,000
Planting Beans	1	100
Calves	47	313,525
Beef Cattle	28	170,519
Swine Improvement	3	2,900
Chickens	1	100
TOTAL	<u>147</u>	<u>\$504,046</u>

As can be seen from this example, the report does not describe planned activities and actual accomplishments in a consistent manner. ONADRI's Administrator agreed that the report is deficient in this regard.

We believe that the report should first show planned activities and accomplishments as a function of the class of farmer as stated in the Project Paper: precaristas (owners of less than 7.4 acres of land), small farmers, medium farmers, large farmers, and collective farms. Planned and actual activity should also be reported by the type of loan: rice, corn, beans, calves, beef cattle, dual purpose cattle, hogs, chickens, and bees. This type of presentation would define what class of farmer is benefiting from the loans, and would show whether the credit component has been successful in introducing new crops and new livestock varieties. This information should help ONADRI's Director pinpoint problems which have impeded progress in the credit component.

Conclusion

ONADRI's quarterly report is of limited use to managers concerned with planning, monitoring, and evaluating progress in the credit component. USAID officials stated that the information needed is readily available, and that changes could be accomplished with a minimum of effort.

Recommendation No. 2

USAID/Panama obtain from ONADRI revised quarterly reports that consistently present planned and actual loan activity by both class of farmer and type of loan.

Agro-Industry Component Is Stalled

Little progress has been made in the agro-industry component, which was intended to provide markets for non-traditional farm produce, and to provide employment opportunities in the Sona District. According to project officials,

BDA has not made any sub-loans to entrepreneurs mainly because BDA lacks experience in agro-industry projects, and because it has received little assistance from MIDA's agro-industry experts. The project budget includes \$821,500 in AID loan funds and \$302,000 in counterpart contributions, totalling \$1,123,500 for feasibility studies, sub-loans to entrepreneurs, and operating expenses. BDA is assigned primary responsibility for implementing agro-industry projects, with assistance from MIDA's Agro-Industrial Division.

ONADRI's Director told us that his office had prepared four brief studies demonstrating that businesses involved in marmalade and milk products, cheese processing, bee raising equipment and honey processing, and fish processing could be feasible and profitable. Three proposals were formally submitted to BDA for approval, but BDA is still reviewing the proposals and has not approved any sub-loans for businesses.

According to BDA's Project Coordinator, the Bank has not approved any sub-loans because

- BDA lacks experience in reviewing agro-industry projects;
- BDA regulations limit the total amount of any agro-industry loan to \$100,000, while the honey bee project would cost substantially more (ONADRI's Director estimates the cost at \$160,000); and
- MIDA has provided little assistance in reviewing feasibility studies, pointing out deficiencies without indicating how the studies could be strengthened.

USAID/Panama officials agreed that the lack of progress is due, in part, to BDA's lack of expertise and MIDA's failure to provide assistance. They also told us that the previous BDA director (who was replaced in early 1984) did not support this project.

USAID/Panama officials consider the success of this component particularly important since it would provide employment to landless laborers who will not be reached by the farm services and credit components. Success in the agro-industry component should also provide markets for nontraditional farm produce, stimulating demand for agricultural production loans offered in the credit component. For these reasons, we believe that every effort should be made to implement this component in the time available, before consideration is given to reprogramming agro-industry funds to another project component.

GOP project officials are taking some steps to accelerate implementation of the agro-industry component. ONADRI's Director planned to meet with the new director of BDA in March 1984, to develop a strategy for implementing this component. BDA and ONADRI plan to hire or train an expert in agro-industries, reducing BDA's reliance on MIDA experts. Finally, BDA's project coordinator anticipated that the regulation limiting agro-industry loans to \$100,000 could be changed, and a subloan approved for the honey bee project, within 30 days of a request from ONADRI's Director.

Conclusion

Because no agro-industry loans have been made, and no businesses have been established, this component has had no effect on employment or incomes in Sona. The principal problem appears to be BDA's lack of expertise in agro-industry projects. Corrective actions planned by GOP project staff are a positive step, and USAID/Panama officials also expressed interest in taking action before the first project evaluation is completed late this year.

Recommendation No. 3

USAID/Panama, in cooperation with the GOP project staff:

- a) develop a plan for accelerating progress in the agro-industry component (the plan should specifically include deadlines for reaching affirmative or negative decisions on the three agro-industry proposals now being reviewed by BDA, and establish time-frames for reviewing future proposals), and
- b) ensure that acceleration of the agro-industry component is also a major area of focus during the upcoming project evaluation.

Inadequate Accounting for Advances and Recoveries

When we began our fieldwork in January 1984, ONADRI did not adequately control \$860,000 in AID advances kept by ONADRI for its own use or sub-advanced to other GOP agencies. It could not, for example, tell us how much money it had advanced to each agency participating in the project. Therefore, ONADRI lacked information needed to properly manage AID advances. The responsible officials told us that they had not kept adequate records because they had not received explicit guidance from AID.

ONADRI needs to know how much money each agency involved in the project has on hand, to avoid either running short of cash or maintaining advances in excess of project requirements, and to ensure that advanced funds are allocated to the agency where they are most needed. According to USAID/Panama's Acting Controller, BDA has maintained advances in excess of its requirements, while other project agencies were short of cash. (BDA had \$479,000 in advances in February 1983, a figure which was reduced to about \$366,000 by August 1983). He emphasized, though, that his office conducts reviews every two months to ensure that the total amount of AID advances held by GOP agencies does not exceed project requirements.

We designed forms for reconciling advances and recoveries, and provided these to ONADRI's Accountant. On February 27, the Accountant provided us records on advances and recoveries from May 1982 through January 1984, which reconciled with USAID/Panama's records. The Project Administrator and the Accountant told us that they did not maintain similar records before our audit because AID had not given them explicit guidance on how to do the reconciliations.

Conclusion

Before we began our audit, ONADRI lacked information needed to properly allocate AID advances among the GOP project agencies, and to avoid maintaining too large or too small advance balances. ONADRI should reconcile advances and recoveries each quarter.

Recommendation No. 4

USAID/Panama obtain from ONADRI reconciliations of AID advances and recoveries for each project agency on a quarterly basis.

Mission Comments

"ONADRI has received explicit guidance from USAID. Our financial analysts have worked with them frequently during the project implementation and have explained to them the need to properly allocate the AID advance among the GOP agencies. We concur in the substance of the recommendation. However, we feel the reconciliation should only be required quarterly rather than monthly. This would coincide with our established procedures for reviewing AID advances held by GOP agencies. The reconciliation by ONADRI would provide additional information to facilitate the review which we believe will meet the intent of the recommendation and provide adequate monitoring of the project advance."

We are now recommending that USAID/Panama obtain reconciliations of AID advances and recoveries for each project agency on a quarterly basis.

No Formal Evaluation Conducted

Although the Project Paper states that the project should be evaluated at least annually, no formal evaluation has been accomplished. Such evaluations could have focused attention on slow progress in the credit and agro-industry components, when more time was available for corrective actions. The first formal evaluation is scheduled for August 1984, about one year before the project assistance completion date.

The Project Paper contemplated that annual evaluations would be carried out jointly by the GOP, USAID/Panama, and any necessary outside expert consultants. The project staff has not yet conducted a formal evaluation, even though more than two-and-one-half years have passed since the Project Agreement was signed.

According to ONADRI, the project technical committee evaluated the project in 1982 and 1983, but these evaluations were intended to adjust "institutional coordination mechanisms", not to reprogram funds or activities. ONADRI contrasted the limited scope of these exercises with the more thorough evaluation planned for later this year. Thorough, annual evaluations, which were planned in the Project Paper, could have permitted early corrective action in the credit and agro-industry components.

Conclusion

Formal evaluations - which were planned in the Project Paper - are a standard management tool used to pinpoint implementation problems. Because it has not conducted thorough evaluations, USAID/Panama lost opportunities to accelerate progress in the credit and agro-industry components. We are not making a recommendation because a formal evaluation is planned for August 1984.

EXHIBIT I

Financial Summary as of December 31, 1983 ^{1/}
Integrated Rural Development - Sona
Project No. 525-0186
USAID/Panama
(\$000)

<u>COMPONENT</u>	<u>PLAN</u>			<u>ACCRUED EXPENDITURES</u>		
	<u>AID</u>	<u>GOP</u>	<u>Total</u>	<u>AID</u>	<u>GOP ^{2/}</u>	<u>Total</u>
<u>Planning & Administration^{3/}</u>	<u>\$1,630</u>	<u>\$2,335</u>	<u>\$3,965</u>	<u>\$528</u>	<u>\$536</u>	<u>\$1,063</u>
<u>Agricultural Development</u>	<u>\$8,070</u>	<u>\$4,268</u>	<u>\$12,338</u>	<u>\$1,636</u>	<u>\$1,476</u>	<u>\$3,112</u>
Farm Services	1,125	1,362	2,487	282	819	1,101
Credit	4,124	1,700	5,824	524	357	881
Agro-industry	822	302	1,124	0	0	0
Rural Roads	2,000	904	2,904	831	299	1,130
<u>Social Services</u>	-	<u>\$3,394</u>	<u>\$3,394</u>	-	<u>\$1,433</u>	<u>\$1,433</u>
Health	-	920	920	-	532	532
Education	-	1,400	1,400	-	615	615
Housing	-	1,075	1,075	-	286	286
TOTAL	<u>\$9,700</u>	<u>\$9,998</u>	<u>\$19,698</u>	<u>\$2,164</u>	<u>\$3,445</u>	<u>\$5,609</u>

1/ Detail may not add to totals due to rounding.

2/ As reported by ONADRI.

3/ Includes cost of Tonosi project (\$180,000 in AID funds).

Comparison of Goals to Achievements
Integrated Rural Development - Sona
August 29, 1981 Through December 31, 1983

<u>Component</u>	<u>Goals in Project Paper</u>	<u>Goals Per December 31, 1983 Quarterly Report</u>	<u>Actual Accomplishments as of December 31, 1983</u>
<u>Planning & Administration</u>	Establish National Coordinating Office (ONADRI) to coordinate and evaluate the IRD project, and design future projects.	No change.	Accomplished.
	Establish National Consultative Commission to provide overall policy for the IRD program.	No change.	Accomplished.
	Establish Local Coordinating Office in the Sona District.	No change.	Accomplished.
<u>Agricultural Development</u>			
Farm Services	Establish 5 production offices in the Sona District.	No change.	None of the buildings were completed but all 5 production offices were staffed and operating.
	Provide technical assistance to 2,930 farmers.	Provide technical assistance to 2,613 farmers.	Technical assistance being provided to more than 2,400 farmers.
Credit	Make 2,711 agricultural production loans worth \$7,327,125.	Make 2,465 loans to small and medium size farmers.	Made 231 loans worth \$652,574 to all types of farmers.
Agro-Industry	Fund agro-industry studies and credits worth \$1.2 million.	No change.	No studies approved, no loans made.
Rural Roads	Construct approximately 66 kilometers of road. Rehabilitate 40 kilometers of road.	Construct 60 kilometers of road. Rehabilitate 40 kilometers of road.	Constructed 49.4 kilometers of road. Rehabilitated 30 kilometers of road.

Comparison of Goals to Achievements
Integrated Rural Development - Sona
August 29, 1981 Through December 31, 1983

<u>Component</u>	<u>Goals in Project Paper</u>	<u>Goals in December 31, 1983 Quarterly Report</u>	<u>Actual Accomplishments as of December 31, 1983</u>
	Establish road maintenance unit.	No change.	Equipment contract awarded.
<u>Social Services</u>			
Education	Build 45 classrooms.	Build 43 classrooms.	Completed 35 classrooms.
	Build 12 dormitories	No change.	None completed.
	Provide 7 sets of kitchen equipment.	Build and equip 7 kitchens.	None completed, but 25 classrooms and 2 schools were repaired, and 1 school dining room was built.
	Build 2 laboratories	No change.	None completed.
	Teach minimal reading and writing skills to 3,000 illiterates.	No change.	In 1983, 1,694 adults were receiving basic literacy training.
Housing	Provide 30-54 complete houses, 100-161 <u>piso-techo</u> houses (roof and foundation only), 400-558 rehabilitated houses, and 350-1,090 serviced lots.	No change.	None completed. (However, the audit team saw several houses under construction.)
Health	Build 6 health posts.	No change.	Completed 3 health posts.
	Add maternal/child care annex to Guaramal Health Sub-Center.	No change.	Completed.
	Build 14 aqueducts.	No change.	Completed 19 aqueducts.
	Dig 40 wells.	No change.	Dug 21 wells.
	Build 1,000 latrines.	No change.	Completed 826 latrines.

Source: Planned accomplishments are from the Project Paper and the December 31, 1983 Quarterly Status Report. Actual accomplishments are as reported by ONADRI, USAID/Panama, and project officials.

List of Recommendations

Recommendation No. 1

USAID/Panama:

- a) ensure that the upcoming project evaluation assesses the technical factors inhibiting progress in the credit component and, with ONADRI and BDA, develop a plan to accelerate progress;
- b) as part of the same evaluation, determine whether an extension of the project assistance completion date, together with other modifications, would provide a reasonable chance of successfully completing the credit component; and
- c) reprogram or deobligate any excess AID funds allocated to the credit component.

Recommendation No. 2

USAID/Panama obtain from ONADRI revised quarterly reports that consistently present planned and actual loan activity by both class of farmer and type of loan.

Recommendation No. 3

USAID/Panama, in cooperation with the GOP project staff:

- a) develop a plan for accelerating progress in the agro-industry component (the plan should specifically include deadlines for reaching affirmative or negative decisions on the three agro-industry proposals now being reviewed by BDA, and establish time-frames for reviewing future proposals), and
- b) ensure that acceleration of the agro-industry component is also a major area of focus during the upcoming project evaluation.

Recommendation No. 4

USAID/Panama obtain from ONADRI reconciliations of AID advances and recoveries for each project agency on a quarterly basis.

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LESSONS LEARNED SUMMARY

RIG/A/LA REPORT NO. 1-525-84- - INTEGRATED RURAL DEVELOPMENT - SONA:
SUCCESS DEPENDS ON EFFECTIVENESS OF CREDIT AND AGRO-INDUSTRY COMPONENTS

USAID/PANAMA

PROJECT NO. 525-0186

Audit Procedures

The objective of the audit was to determine the project's status and prospects for success, to selectively review project internal controls, and to evaluate compliance with AID standards and the Project Agreement.

The audit consisted of reviews in Washington, D.C., Panama City, and the Sona project area. Test and reviews were made in USAID's project accounting system, with the GOP agency that controlled the advances from USAID, with GOP agencies which administered parts of the project such as the Agricultural Development Bank, and the Ministry for Agricultural Development. This information was obtained from progress and evaluation reports; interviews with cognizant USAID, and host country personnel; selected site visits, interviews of recipients and beneficiaries of the project.

Four problems were identified in the audit report as well as one observation. We noted that some of the reasons for slow progress to date could not be controlled by project officials, but that other reasons cited would have been alleviated by better planning.

Substantive Report Issues

The credit component, which is intended to improve farmers' incomes by providing capital for better agricultural techniques, is making loans at a much slower pace than was planned. Loan demand has not met expectations because of the time required to organize credit and farm extension agents, a severe drought in 1982-83, and some unforeseen technical and logistical problems. Increasing the number of loans made will require solving these technical problems or identifying new uses for credit which will be more profitable to farmers. Because the credit component has the potential to increase farmers' incomes and improve agricultural techniques, better progress in this component is necessary to ensure that the project as a whole will achieve its objectives.

Little progress has been made in the agro-industry component, which was intended to provide markets for non-traditional farm produce, and to provide employment opportunities in the Sona District. According to project officials, BDA has not made any sub-loans to entrepreneurs mainly because BDA lacks experience in agro-industry, and because it has received little assistance from MIDA's agro-industry experts.

When we began our fieldwork in January 1984, the GOP agency responsible did not adequately control \$860,000 in AID advances kept by this Agency for its own use or sub-advanced to other GOP agencies. It could not, for example, tell us how much money it had advanced to each agency participating in the project. Therefore, this agency lacked information needed to properly manage AID advances. The responsible officials told us that they had not kept adequate records because they had not received explicit guidance from AID.

The GOP agency monitoring the project issued quarterly progress reports that tracked activities in the credit component in a manner such that (1) accomplishments could not be directly compared to planned activities, and (2) project beneficiaries could not be identified. Because of poor design, the quarterly report did not show where the credit component was succeeding or failing, or identify what type of farmer was benefiting from the loans that were made.

We observed that although the Project Paper stated that the project should be evaluated at least annually, no formal evaluation has yet been accomplished. Such evaluations could have focused attention on slow progress in the credit and agro-industry components, when more time was available for corrective actions. The first formal evaluation is scheduled for August 1984, about one year before the project assistance completion date.

Lessons Learned (for management)

- USAIDs must recognize some project down time in reorganizing or reestablishing an agricultural extension system that has been scrapped or abolished by the host government.
- USAIDs must consider factors external to the project when trying to establish a revolving credit fund for non-traditional loans. There may be factors that will inhibit the profitability of such crop loans that need to be solved before these loans can be made.

- USAIDS must determine ahead of time whether or not the expertise for establishing agro-industries resides in any of the host country's agencies before planning the responsibility for developing such a program in one of these agencies.

- USAIDs need to review in detail host country monitoring, evaluating, tracking and reporting systems to ascertain that these reports are accurate, will identify where a project is succeeding or failing, and identify the type or class of beneficiaries benefiting from the project.

- USAIDs must require periodic reconciliation and reporting of advances given to host country agencies for project activities. Failure to do this may lead to excessive advances, may cause a loss of accountability, and may delay project progress because some agencies which are sub-advanced funds may be short funds, while others have excessive funds.

- USAIDs should not forego periodic evaluations, as such evaluations may focus attention on problems when more time is available for corrective actions.

- USAIDs should recognize the importance of cooperation between host country agencies which must work together in order for a project to succeed.

- USAIDs should investigate country specific factors that might inhibit or prevent the successful operation of parts of a project which in turn may jeopardize the success of the total project.

Lessons Learned (for the audit function)

- Reviewing the operation of a revolving credit loan fund involves more than looking at the loan procedures of the lending agency. Factors external to the project may impede or make such loans unfeasible or non-profitable.
- Having a Spanish language capability in a Latin American country is essential to successfully completing an audit review.