

## BIBLIOGRAPHIC DATA SHEET

1. CONTROL NUMBER 2. SUBJECT CLASSIFICATION (698)

PN-APK-538 DC00-0000 - 6528

3. TITLE AND SUBTITLE (240) Review of AID-financed economic assistance program to Paraguay; USAID/Paraguay.

4. PERSONAL AUTHORS (100)

5. CORPORATE AUTHORS (101)

AID / Area Auditor General / Washington

6. DOCUMENT DATE (110)

1980

7. NUMBER OF PAGES (120)

54p.

8. ARC NUMBER (170)

9. REFERENCE ORGANIZATION (130)

AG/W

10. SUPPLEMENTARY NOTES (500)

(In audit report no. 1-526-80-16)

11. ABSTRACT (950) (Reviews six projects: 526-0703; 526-0113; 526-0101, 526-0122, 526-0118, 526-0601)

12. DESCRIPTORS (920)

Paraguay  
Economic assistance  
Evaluation  
Development strategyLoans  
Assessments  
Reviews  
Audit report

13. PROJECT NUMBER (150)

14. CONTRACT NO. (140)

AID/AG/W

15. CONTRACT TYPE (140)

16. TYPE OF DOCUMENT (160)

PN-AAK-538  
ISN=1814

**OFFICIAL FILE COPY**



# Auditor General

REVIEW OF AID-FINANCED  
ECONOMIC ASSISTANCE PROGRAM  
TO PARAGUAY  
USAID/PARAGUAY

Audit Report Number 1-526-80-16  
Issue Date July 31, 1980

Area Auditor General Latin American  
Agency for International Development  
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REVIEW OF AID-FINANCED  
ECONOMIC ASSISTANCE PROGRAM  
TO PARAGUAY  
USAID/PARAGUAY

EXECUTIVE SUMMARY

Introduction

Paraguay is predominantly a rural country with a population of approximately three million people living in an area encompassing about 150,000 square miles. Nearly 98 percent of the population live in the 60,000 square miles that comprise the Eastern Region of the country while the vast 90,000 square miles of the Chaco region have less than 50,000 population.

The Paraguayan economy has experienced an unprecedented boom generated by massive investment in hydroelectric power development and by favorable conditions in world markets for its agricultural products. Per Capita GNP was estimated by the United Nations to be about \$320 in 1974 and increasing to \$730 by 1977. But the boom has not helped the rural poor. The economic and social needs of the poor who are concentrated in rural areas, are associated with: (a) static agricultural technologies, (b) uncertain land rights, (c) inadequate transportation and communication, (d) insufficient educational opportunities, and (e) inadequate health and family planning.

The United States Economic Assistance Program to Paraguay as of December 31, 1979 consisted of 23 projects with obligations of \$20.2 million and expenditures of \$12.8 million. Most of this effort (10 projects with obligations of \$14.9 million) has been directed toward assisting small farmers by improving technology, providing credit and marketing services and introducing new crops. The remaining effort has been primarily in support of education and human resources projects, and special development activities. Many of the 23 projects, particularly those projects in education and human resources sector, and selected development activities have been substantially completed.

Scope

This interim audit reviewed five active AID assisted development projects and covered the period from inception of these projects through December 31, 1979. These five projects were selected for detailed review based on a survey of all active projects and represent those projects where goals and objectives were not being achieved, monitorship was inadequate or AID regulations were not being complied with.

The purpose of our audit was to identify problem areas which require management's attention to make changes for improved implementation and better utilization of resources.

## Conclusions and Recommendations

Our major conclusion after reviewing the five AID assisted development projects is that while varying degrees of progress had been made in accomplishing goals and objectives much more could have been accomplished by closer adherence to AID regulations and agreement provisions, better utilization of AID-financed assistance, and improved monitoring by USAID/Paraguay.

Limited progress has been made in achieving the project goal of improving Paraguay's property tax assessment and collection program under the Cadastral Survey/Property Tax projects. Of some 500,000 items to be processed for improved property tax assessments and collections, only 66,363 (about 13 percent) had been processed as of December 31, 1979 with AID financing scheduled to terminate in May 1980. We estimate that at the current rate of progress the project will not be completed until December 1984 more than 9 years after it was initiated (page 3 ).

USAID/Paraguay approved the purchase of AID-financed equipment and materials under the Cadastral Survey/Property Tax project without appropriate review and approval. Some of the items (delivered more than a year prior to our review) had not been installed while others were deadlined or not being used for various reasons (page 4 ). We found enough instances where AID regulations and agreement provisions were not followed to recommend that a special inquiry be conducted by a panel appointed by the Assistant Administrator for Latin America and the Caribbean (page 10 ).

Implementation of activities under the Cadastral Survey/Property Tax project has been delayed because vehicles were deadlined for lack of spare parts or were just not used and some items of data processing equipment were not installed while other items had not been received. For example, 8 of 18 jeeps purchased in early 1975 have been deadlined for various reasons and for varying periods of time (one for 34 months). An order was placed for spare parts and tools for the jeeps in November 1979 but had not arrived in Paraguay by mid March 1980, the time of our review (page 10 ).

Another example was the purchase of two data processing systems. The first system was ordered and delivered to Paraguay in November 1978. This system has never been installed and used. A second system was ordered in January 1980 but had not yet been delivered at the time of our review. Approximately \$185,000 of loan funds have been invested in these two data processing systems (page 14 ).

Overall results and progress of the four credit projects we reviewed ranged from successful to limited. In areas of share capital, savings in the central cooperative, and marketing the goals were generally reached or exceeded. But, progress has been unsatisfactory in the key areas of financial results, number of members, loan volume and delinquency rates. The credit institution will take several more years before it will operate at a profit (page 20).

The planned number of new members to join cooperatives had not been attained. Twenty nine cooperatives had only 5,242 members or 3,758 less farmers than the projected membership of 9,000 due to the selective membership policy as instituted because of early high delinquency rate in loan repayments (page 23 ). Loan volume of rural cooperatives as of June 1979 was projected at \$3 million. A shortfall of \$600,000 exists due to loan cut-off of cooperatives with high delinquency rates (page 26 ).

We believe that improved monitoring by USAID/Paraguay officials would have improved project implementation. For example, responsibility for the monitoring of the Cadastral Survey/Property Tax project was primarily left to an AID-financed advisor. Prior to December 1978 the advisor was on site in Paraguay, but during calendar year 1979 and early 1980 the advisor was an AID direct-hire employee assigned to Peru. The former advisor visited Paraguay twice during calendar year 1979 for a total of 9 days. We believe that many of the problems in implementing the Cadastral project stem from inadequate monitoring by USAID/Paraguay (page 18 ).

We have made eight recommendations in this report for improvements in project implementation and monitoring. USAID/Paraguay took action to implement many of our suggestions and proposed recommendations prior to the issuance of this report. We have recognized the actions taken in the following sections of this report.

## BACKGROUND

The United States began providing economic assistance to Paraguay in 1945. Through fiscal year 1979, Paraguay received \$155.3 million in bilateral economic assistance from the United States. The bilateral economic assistance has been administered by the United States Agency for International Development Mission to Paraguay (USAID/Paraguay) and its predecessor agencies.

The focus of the AID Program to Paraguay over the past few years has been directed toward assisting small farmers by improving technology, providing credit & marketing services, and introducing new crops.

The long range strategy is to reach the primary target group (individuals with incomes of \$300 or less per year) who are dispersed throughout five rural regions of Eastern Paraguay. The greatest bottleneck to alleviating poverty is the socio-political framework of development which has concentrated the benefits of growth in the capital city and overlooked the development needs of the rural poor. One of the fundamental implications of this long range strategy is the decentralization of national government entities. A.I.D. plans to encourage and persuade the national government to establish, in key service centers, local offices with sufficient financial and administrative authority to make decisions and provide services.

USAID/Paraguay started to implement its plans under the Small Farm Technology project (Loan 526-T-029) funded in fiscal year 1979. This project calls for a decentralization of the National Extension Service and the establishment of regional offices with some administrative and financial autonomy. Loan 526-T-029 was part of a proposed three loan package. The other two loans (Rural Roads for \$5.2 million and Market Town Development for \$5.8 million) received technical approval in January 1978. However, these two loans await clearance by the State Department's Human Rights Group (Christopher Group).

The U.S. economic assistance program to Paraguay as of December 31, 1979 consisted of 23 projects with obligations of \$20.2 million and expenditures of \$12.8 million. Many of the 23 projects particularly those projects in the health and education/human resources sectors, have been substantially completed. Most of the activity (10 projects with obligations of \$14.9 million) was in support of activities in the agriculture and rural sectors of the Paraguayan economy. The agriculture and rural development projects were primarily directed toward providing credit, technology, and marketing services. Significant assistance (\$2.3 million) was provided under a special development activity project for the surveying and updating of real property tax records (Exhibit A).

The primary responsibility for implementing the AID assisted projects was assigned to various Paraguayan and voluntary organizations. USAID/Paraguay's role has been principally one of monitoring, reviewing and evaluating.

Most of the current AID activities in Paraguay had not been reviewed by the AID Auditor General apparently because AID activities in other countries were given higher priority. An audit (Report No. 1-526-76-11) was done in 1975 and covered only Special Development Activities, Project No. 526-0601. Our current review showed that the problems of completion reports and advances which were

discussed in that report still exist on the Special Development Activities project. A special review (Report No. 1-526-78-4) of commodities and other activities provided under Population Project No. 526-0085 was done in 1977. The report contained eight recommendations all of which have been closed. There were no active population projects in USAID/Paraguay's program at the start of our current audit.

#### Scope.

The projects selected for detailed review were determined based on a survey of all active AID assisted development projects in Paraguay (Exhibit A). Five projects where goals and objectives were not being achieved, monitorship was inadequate, or AID regulations were not being complied with were included in our detailed review. This is an interim audit of those five projects and covered the period from inception of the projects through December 31, 1979.

The purpose of our audit was to identify problem areas which require management's attention to make changes for improved implementation and better utilization of resources.

Our audit included a review of project records and correspondence files maintained by USAID/Paraguay as well as selected records maintained by host country agencies. We discussed the projects, problems, implementation status, and possible solutions with USAID/Paraguay, host country and implementing organization officials. We visited selected project sites to view the operations and spot check the installation, utilization, and maintenance of AID-financed commodities.

A copy of this report in draft was provided to USAID/Paraguay for review and comment. USAID/Paraguay's comments were received on July 16, 1980 and considered in the preparation of this final report.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Cadastral Survey/Property Tax Project No. 526-0703

Limited progress in the accomplishment of the project goals of improving Paraguay's property tax assessment and collection program and of creating a national land cadastral survey system had been made in the 5-1/2 years since the project was initiated. Of some 500,000 items to be processed for improved property tax assessments and collection, only 66,363 (about 13 percent) had been processed by December 31, 1979. For the cadastral survey system to help provide basic information to assist in the planning and execution of other departmental programs, these items need to be processed.

The project suffered early setbacks because of delays in obtaining cartographic and aerial photographic products and procuring equipment. More recently the tax office has been unable to process the voluminous data being collected because data processing equipment was not available for use. Other factors contributing to the limited progress have been deadlined vehicles and delays in determining the type of equipment needed.

The effect of the above problems will be to delay completion of the project until December 1984 long after AID's assistance is to cease and more than 9 years after the project was initiated. The benefits of a better property tax assessment and collection program and a new tool to assist in planning and executing various host country programs will be limited or not available for several years.

### Background

The United States, acting through AID, signed loan agreement no. 526-W-026 on May 23, 1974, with the Republic of Paraguay. The loan agreement provided \$2.3 million to assist Paraguay in improving its property tax assessment and collection program and creating a national land cadastral survey system.

The planned improvements were to enable Paraguay's real property tax office to inventory, identify and define all land holdings, both urban and rural, in the more developed eastern region of the country. Through a series of aerial photographs, field verifications, compilations of all pertinent existing data, cadastral plans and records, and the preparation of a card file on each piece of property, a more effective and equitable tax system would evolve.

AID loan funds were to pay for the aerial photography, procurement of equipment and vehicles, technical assistance, and some project operation costs.

### Project Implementation

The project is years behind schedule and was not expected to be completed when AID's financing terminates. The terminal disbursement date at the time of our review was May 23, 1980. As of December 31, 1979, the overall percentage of completion was estimated at 61 percent. The various phases of the project ranged from 91 percent to 13 percent complete. At the current rate of progress, we

estimate that the project would be completed in December 1984 more than 9 years after the project was initiated (Exhibit B).

The project was delayed early on and never fully recovered. It took nearly 18 months for the Paraguayan implementing agency to negotiate a contract with the Military Geographic Institute to obtain cartographic supplies and aerial photographs.

An additional 5 months passed before the needed supplies were delivered. Performance under the contract has been delayed because materials were not provided on a timely basis and the aircraft used to take the photographs was deadlined prior to November 1979 with engine problems. Project plans called for photos of 100,000 square kilometers and so far pictures of only 70,600 square kilometers have been taken.

Fieldwork on the ground necessary to clarify and support the information obtained by aerial photographs has been delayed. Vehicles purchased specifically for this project to provide transport have been deadlined for extended periods for lack of spare parts and some were considered unsuitable because of frequent breakdowns, noise and other problems. Paraguayan implementing agency personnel delayed ordering spare parts because a change in type of vehicles was to be made. The change proved too costly and did not materialize. In the meantime, months passed without action and only limited transport for field work. Needed spare parts have now been ordered and other vehicles have been replaced. The replacements were reportedly being used effectively in carrying out field work. However, only 68 percent of the planned field work had been completed by December 31, 1979.

As the aerial photography and field verification phases began to produce results, data collected began piling up because adequate data processing machines had not been obtained. Data was being done manually by 30 to 35 people using listings produced by rented data processing equipment. In September 1978, it was estimated by the AID-financed advisor to the project that this phase was 2 years behind schedule. However, nothing was done to help alleviate the situation. No one could provide us an explanation for this inaction.

In November 1979, it was estimated that data on over 300,000 units had been collected but not processed and that by the time the field work is completed an additional 5 or 6 years would be needed to complete the processing phase. USAID/Paraguay approved a request from the Paraguayan implementing agency to purchase an IBM 34 data processing system and the system was ordered in January 1980. We were advised that the system had arrived in Paraguay by May 1980. However, the new system may not expedite the processing of data because there was some question as to the compatibility of the new system with existing equipment. This point is discussed further under the section of this report on data processing equipment. As of December 31, 1979, it was estimated that only 13 percent of the planned quantity of data had been processed.

### Procurement Problems

#### Procurement of Aircraft Engines

USAID/Paraguay approved the purchase of two aircraft engines using loan 526-W-026 funds. These engines were for a Paraguayan Air Force

aircraft being used to take aerial photographs for the project. In our opinion, the cost of these engines was not eligible for procurement with AID loan funds because the engines were for use on a military aircraft.

The Paraguayan implementing agency under the Cadastral Survey/Property Tax project entered into a contract with the Military Geographic Institute to take aerial photographs. One of the terms of this contract was that part of the payment would be made in kind, that is, \$45,000 in equipment.

We were unable to determine exactly what type of equipment was originally intended to be provided. However, it was apparently decided that aircraft engines should be provided because on October 25, 1977 USAID/Paraguay was requested to approve the purchase of two aircraft engines for the plane being used to take the aerial photographs. USAID/Paraguay approved the arrangement on October 28, 1977 and authorized the procurement with loan 526-W-026 funds.

Documents between Paraguayan and USAID/Paraguay officials leave no doubt that the engines being purchased were for a Paraguayan Air Force sky-master aircraft. Since 1977, Paraguayan officials, with the assistance of USAID/Paraguay, have been attempting to buy the engines and related spare parts. Several messages were exchanged between USAID/Paraguay and AID/Washington in efforts to locate a supplier for the engines. We noted that in none of the messages exchanged was the fact mentioned that the engines were for a Paraguayan Air Force aircraft.

Between October 1977 and March 1979, the Paraguayan implementing agency was able to contact only one supplier. USAID/Paraguay would not approve the single solicitation and requested help from AID/Washington to identify other potential suppliers. A list of five suppliers were contacted and based on the responses received one of the suppliers was selected.

The supplier received Letter of Credit No. 82035 from Riggs National Bank in August 1979. The supplier could not match the Letter of Credit with any quote it had provided so the Letter of Credit expired.

USAID/Paraguay requested the status of the engines in November 1979. AID/Washington advised in December 1979 that the supplier was not actively involved in the export business and was not interested in becoming proficient with the terms and conditions of Letters of Credit for one export sale.

Paraguayan officials then contacted the supplier, and provided certain documents necessary for the supplier to receive payment. We were advised by the USAID/Paraguayan Capital Development Officer during our review that the problems had been overcome and the engines should be in Paraguay by May 1980.

The guidelines in AID's handbooks specifically prohibit the use of economic assistance funds, the type provided under AID loan no. 526-W-026, to finance military use items. (AID Handbook 15 - Part 2B6.a.) The AID Commodity Eligibility List specifically lists military aircraft engines as being an ineligible commodity (Schedule 6, Subpart A - Code 660, 4822).

We realize that the aircraft for which the engines are being purchased has been and was expected to continue being used for Cadastral Survey work which is a non-military use. But the fact remains that the plane is a

Paraguayan Air Force aircraft. Thus, in our opinion that fact makes the purchase of engines for that aircraft ineligible for financing with AID economic assistance funds.

In our draft report, we recommended that USAID/Paraguay obtain from the AID, Office of the General Counsel a certification of eligibility for the purchase of the aircraft engines for a Paraguayan Air Force plane. AID/Washington authorized USAID/Paraguay on May 22, 1980 to complete the procurement of the aircraft engines and to tactfully remind the Paraguayan implementing agency of the implications of any potential military use of the skymaster aircraft. Since procurement of the aircraft engines has been authorized by AID/Washington, we deleted the draft recommendation from our final report.

#### Non-compliance with Regulations and Loan Provisions

USAID/Paraguay did not comply with AID regulations and loan agreement provisions for many of the purchases made under loan no. 526-W-026. The reason for non-compliance was not clear but some of the shortcomings can be attributed to a lack of knowledge by the USAID/Paraguayan project manager and the failure to adequately control the approval of procurements. These shortcomings resulted in normal competitive channels being bypassed and may have contributed to higher prices.

The regulations for the procurement of commodities with AID provided funds are set out in various handbooks and other publications. The loan agreement and implementing letters for loan no. 526-W-026 also include certain provisions to be followed when procurements are made. The following paragraphs list a number of instances where these regulations and provisions were not followed.

1. The loan agreement (section 6.06(c)), requires that bid documents and other documents related to solicitation of proposals be approved in writing prior to issuance to suppliers.

On December 10, 1976, Paraguayan officials requested information about teller machines (NCR 279 type machine, or equivalent) from five U.S. companies. Burroughs Corporation advised these officials that the Burroughs Distributor for Paraguay would be notified and NCR Corporation turned the matter over to its Paraguayan representative - Equipos Contables, S.A. We found no response from the Victor Comptometer Corp., The Singer Company and Litton Business Systems.

We found no evidence that the Paraguayan implementing agency prepared any specifications of the type of system it desired or requested bids from any of the companies contacted in December 1976. However, we did find that about 2 months before information was requested from the five U.S. companies in December 1976, NCR's representative in Paraguay, Equipos Contables, S.A., was providing Paraguayan officials information on what its teller machines (Models 43 and 279) would do and their prices.

Paraguayan officials met on September 14, 1977, to review the prices received for teller machines. While the document lists three companies,

the only company making an offer was NCR's representative in Paraguay. All equipment offered was NCR manufacture with a value of \$50,622.

USAID/Paraguay was notified of the actions taken on this procurement on September 17, 1977 and approved the purchase on September 23, 1977. While there was an AID-financed advisor working with the Paraguayan implementing agency (based on a memorandum he was aware of this transaction), this in our opinion does not take the place of prior notification and written approval required by the loan agreement. A total of \$55,684 was spent on this transaction.

2. The loan agreement (Section 6.09) requires that the borrower must furnish to AID information in regard to procurement of goods and services so as to permit publication in the "Aid financed export opportunities bulletin". This provision applies to procurements valued at \$10,000 or more. (Charged to \$25,000 in 1980.)

The purpose of this requirement is to ensure that U.S. firms have the opportunity to participate in furnishing goods and services financed with loan funds. There were at least 14 individual procurement transactions under this loan eligible to be published in the AID Bulletin. These transactions involved the purchase of various types of items, such as, data processing equipment, vehicles, reproduction materials and files.

While many of these 14 procurements were placed with U.S. firms, the lowest price and the widest range of companies were not necessarily obtained. To our knowledge, based on a review of the borrower's and USAID/Paraguay's files, one procurement was provided for publication in the "Bulletin", and in only one case was the requirement waived.

The provision requiring publication of procurements in the "Bulletin" was inserted in the loan agreement for some purpose. We believe it is reasonable to assume that the provision was directed to assure that as many U.S. firms as possible participate in procurements and that the most reasonable prices are obtained. We believe that the management of USAID/Paraguay failed to accomplish that goal on the procurements with loan no. 526-W-026 funds.

3. The loan agreement (Section 6.07) requires procurement to be on a competitive basis. AID Handbook 11, Chapter 3, provides that negotiated procurement can be authorized where the landed cost of a single transaction is less than \$50,000. Special types of negotiated procurement (proprietary, time limitation, and special situation) require a Waiver from an Assistant Administrator.

The Paraguayan implementing agency submitted a request to USAID/Paraguay on November 17, 1979, to approve direct procurement (single source) of a computer system, teller machines, a copy machine, map files, filing cabinets, and airconditioners. The request contained little justification for direct procurement of any of the items, but for most items it stated that similar items were on hand, they had operated satisfactorily, and satisfactory maintenance had been provided. The request gave no details on the composition of the computer

system; how many teller machines, map files, filing cabinets, or airconditioners were required; nor the estimated cost of the individual items or total cost of the requested direct procurements.

The USAID/Paraguayan Capital Development Officer on December 6, 1979, gave the Paraguayan officials contingent approval to make direct procurement of the items requested but asked for future consultations and prices for the purchases. The Paraguayan officials provided the requested information for the computer system and teller machines on January 15, 1980. Based on the data provided, the USAID/Paraguayan Capital Development Officer approved these purchases on January 18, 1980. Letters of Credit for the purchase of the computer system (\$100,000 est.) and the teller machines (\$29,600 est.) were requested to be opened on February 23, 1980. The purchases will be made through the local representatives of the U.S. manufacturers. (Additional comments on the computer system and teller machines is presented under the section on Utilization of AID-financed Commodities.)

Paraguayan officials contacted a supplier for the purchase of a U-BIX 1500 copy machine on January 25, 1980. The supplier was the same as the supplier named in the November 17, 1979 letter requesting direct procurement of a copy machine. USAID/Paraguay was requested to approve the purchase of the copier and limited supplies with a value of \$13,813 on January 28, 1980.

USAID/Paraguay requested the Paraguayan implementing agency to obtain quotes from more than one source and to include, if possible, U.S. suppliers. Two additional suppliers were contacted. Xerox of Paraguay was unable to provide information on availability of units and prices because they had not been provided by the home office. Estudio 70 provided prices for three models of Nashua copy machines.

On February 14, 1980, USAID/Paraguay was requested to approve the purchase of a Nashua 1250 from the supplier Estudio 70. The request for approval did not mention the price of the copy machine, but Estudio 70 had provided a quote of \$10,500 for the machine delivered in Paraguay. The USAID/Paraguay Capital Development Officer approved the purchase on February 21, 1980.

The Paraguayan implementing agency requested that a Letter of Credit be opened for the purchase of the copy machine and materials for a value of \$18,500 on February 28, 1980. The difference of \$8,000 between the price quoted for the copy machine and the value of the Letter of Credit appears to be primarily for paper. No mention is made in the request of USAID/Paraguay's approval that such a significant amount would be immediately required for materials to operate the copy machine.

Quotations had been received from two suppliers (\$5,000 est.) for the purchase of airconditioners at the time we concluded our field work on this audit. However, final decisions on the purchase had not been made at that time. Also, the map files and filing cabinets have not been ordered.

In our opinion, effective, competitive and negotiated procurements as defined by AID regulations and provisions of the loan agreement were not carried out. Suppliers were contacted on an ad-hoc basis and USAID/Paraguay authorized proprietary procurement without obtaining the required waivers from AID/Washington.

4. AID Handbook 15 requires prior approval by the Offices of Data Management and Commodity Management, AID/Washington for automatic data processing machines to be eligible for financing with AID funds.

We found no evidence during our review that the purchase of the computer system, approved by USAID/Paraguay on January 18, 1980, was dis-

discussed with, reviewed by, or approved by anyone in AID/Washington. In fact, we found no evidence that the purchase of the computer system, or the purchases of any of the other items approved in January and February 1980, were discussed with USAID/Paraguay's Mission Director. While we have discussed only recent approvals of purchases, similar transactions occurred in 1978 with the purchase of a cash recording data processing system. We believe that prior AID/Washington approval of this transaction was necessary to make the purchase eligible for AID financing.

During our review, a number of questions surfaced on the actual and probable use that will be made of the data processing equipment financed with loan no. 526-W-026 funds. These concerns are discussed in this report under the section on the utilization of AID-financed commodities.

We found no adequate explanation why AID procurement regulations and loan agreement provisions were not enforced by USAID/Paraguay. When we notified USAID/Paraguay of the above purchase transactions, it came as a surprise that the Capital Development Officer had granted approvals which were contrary to regulations and loan provisions. Normally, approvals waiving loan agreement provisions would be given in implementation letters signed by the Mission Director. This was not the case with the approvals granted under loan no. 526-W-026 as the Mission Director was unaware that the approvals had been given until we brought the matter to his attention.

The transactions discussed in this section clearly violated AID regulations and the approvals granted by the USAID/Paraguayan Capital Development Officer clearly exceeded his authority. The result being that significant quantities of AID-financed commodities may end up in Paraguay and be unuseable (see section on utilization of AID-financed commodity). The justifications for not soliciting competitive bids, for not publishing requests for bids in the "Bulletin", and for not requiring detailed specifications were weak or non-existent.

There does not appear to be a basis for requesting a refund from Paraguay because it requested and obtained AID approval for the actions taken. However, the matter should be reviewed by appropriate AID officials and stringent action should be taken where necessary to reduce the possibility of it happening again.

USAID/Paraguay disagrees with our view that there was non-compliance with regulations and loan provisions. Its disagreement is based on USAID/Paraguay's opinion that the auditor made overly narrow interpretations of AID regulations and in some cases misinterpreted AID Policy Determination and Handbook provisions. USAID/Paraguay admits that it did not give prior approval of bid documents and other documents related to solicitation of proposals before issuance to suppliers commenting that such procedure would be perfunctory because an AID-financed advisor assisted in the procurement. No reasons were given for not providing the information for publication of the opportunities in the "Bulletin".

USAID/Paraguay interprets AID regulations as giving it the authority to approve proprietary procurements. It also stated that A.I.D. Policy Determination 58 dated July 1, 1974 does not apply to host country procurement of Automatic Data Processing equipment. Further, it stated that A.I.D. policy requiring prior AID/Washington approval for ADP systems is not well known and especially to those not familiar with the World of ADP and Procurement.

In our draft report, we recommended that USAID/Paraguay adopt a policy of using Implementation Letters to change or waive Loan Agreement provisions and that the Assistant Administrator for Latin America and the Caribbean convene a panel to examine the actions of AID personnel involved in the implementation of Loan No. 526-W-026. The recommendation referring to a policy of using Implementation Letters to change or waive Loan Agreement provisions has

been accepted and implemented by USAID/Paraguay. Consequently we removed the recommendation from the final report. We retained the recommendation for a special panel to examine the actions of AID personnel involved in the implementation of Loan No. 526-W-026. We agree with the Mission that it is difficult to follow AID Regulations to the precise letter. Our concern with this project is the large number of oversights.

#### Recommendation No. 1

The Assistant Administrator for Latin America and the Caribbean should convene a panel to examine the actions of AID personnel involved in the implementation of loan no. 526-W-026 and to make appropriate recommendations where authority was exceeded or not appropriately exercised.

#### Utilization of AID-financed Commodities

Implementation of activities under the Cadastral Survey/Property Tax project has been delayed because vehicles were deadlined for lack of spare parts or were just not used and some items of data processing equipment were not installed while other items had not been received. Paraguayan implementing agency officials have been slow in deciding which course of action to take to better utilize AID-financed commodities. As a result, actual accomplishments have fallen behind those originally planned.

#### Jeeps

Early in 1975, 18 jeeps were purchased to provide transportation to implement project activities at a landed cost of \$94,535. The jeeps arrived in June 1975. However, no spare parts were ordered as the local jeep dealer was to provide warranty service (at extra cost) and would be a source of spare parts. The local dealer stocked a wide range of spare parts.

In December 1978, Paraguayan officials requested and USAID/Paraguay approved the sale of the 18 gasoline powered jeeps. The sales proceeds from these jeeps were to be used to buy diesel powered jeeps. The change was to be made to reduce the cost of operations because of the high cost of gasoline in relation to diesel fuel.

Sometime between December 1978 and August 23, 1979, Paraguayan officials decided to drop the sale of gasoline powered jeeps and the purchase of diesel powered jeeps. We were unable to determine the exact date when the decision was made to drop the plan for the exchange of the jeeps. We were advised by Paraguayan officials that the exchange plan was dropped because the diesel powered jeeps cost too much. We were unable to locate any cost details on the diesel powered jeeps.

A request for quotes on spare parts and tools for the gasoline powered jeeps was made on August 23, 1979 and an order was placed in November 1979. A Letter of Credit was opened in February 1980 for about \$36,500 and the parts and tools had not arrived in Paraguay by mid March 1980.

The indecision on the part of the Paraguayan officials in how transportation would be provided to accomplish project objectives has taken its toll. Eight of the 18 jeeps were deadlined for various reasons and for varying periods of time (one for 34 months).

We visited the site where the deadlined vehicles were stored. None of the vehicles were in running order because engine parts had been removed and some vehicles appear to have been cannibalized.

We questioned Paraguayan officials as to why the vehicles were not being repaired. We were advised that the "Parts are too expensive locally." Therefore, no repair work will be done until the spare parts and tools ordered in November 1979 arrive.

In anticipation of getting the spare parts and tools, some action has been taken but a lot remains to be done. An area in the main office building has been identified for storage of the spare parts but no shelves have been built. A maintenance shop was under construction on the site where the deadlined jeeps were stored. The owner of the land had a contract to build the shop but no date for completion of the facility could be obtained. Two mechanics were available to go to work when the spare parts, tools and shop are ready.

Having 8 of 18 vehicles (44 percent) of your jeep fleet down cannot but hurt the field operations phase of the project (less than 70 percent complete as of December 31, 1979). The implementing agency will need its whole fleet when work starts in the western part of Paraguay.

#### Recommendation No. 2

USAID/Paraguay should obtain status reports from the Paraguayan implementing agency and take follow-up actions where necessary to ensure (1) that all deadlined vehicles are repaired, (2) that the spare parts and tools are adequately stored and controlled and, (3) a suitable repair/maintenance facility is completed.

#### Rokon Motorbikes

Forty-two off-road Rokon motorbikes purchased in 1975 at a cost of \$52,000 have been stored in the open air under a Mango tree for over 2 years. Although the motorbikes were specifically the item requested, Paraguayan officials decided after they arrived that the bikes were not suitable for the job. Also, after requesting and receiving authority to dispose of the bikes in 1978 none had been disposed of as of March 1980. Now the bikes are probably worth only a small fraction of their original cost and little was accomplished on the project by their use, thus, substantial AID funds have been expended without any apparent benefits being received.

The project called for a cross country motorbike for use by field parties working in areas accessible only by trails. The Invitation for Bid, released in November 1974, stated the item required was a "Rugged cross-country

type motorbike that is capable of sustaining long term operation in sandy and muddy terrain in hot and humid tropical area, like or similar to the Rokon Trail Breaker MK, III" that would meet specifications of "Top speed; 20-30 MPH - Light Weight; 175-195 pounds - High ground clearance; 12-15 inches - Carburetion; all position diaphragm type - Final drive; chain - Tires; large, low pressure type for operation in sand and mud - wheel base; 48 to 56 inches." To make sure Rokon Inc. would know about the request for bids, Paraguayan officials wrote Rokon a letter dated November 30, 1974.

Rokon was the only firm to respond to the request offering the Rokon "Ranger" which replaced the Trail-Breaker MK III model. The "Ranger" was billed as a new and improved machine. The Rokons were ordered in January 1975. The bikes arrived in Paraguay in May 1975.

In May 1977, Paraguayan officials proposed, with the support of the AID-financed advisor, that USAID/Paraguay approve the use of \$40,000 of Loan Funds for the purchase of 44 Honda Model 125 motorbikes. The Honda bikes were needed because the Rokon motorbikes were no good according to Paraguayan officials. Some reasons given were:

- (1) With constant use the Rokons breakdown more than 50 percent of the time. As a result, the field crews have found that they can get more done by walking.
- (2) The Paraguayan implementing agency tried to use a substitute item (Rokon) manufactured in the U.S., which seriously hampered and delayed field operations.
- (3) Rokons use a gas/oil mixture.
- (4) No spare parts for Rokon are available locally.
- (5) Rokons will be retained by regional offices and will still be used for off-road work.

Based on the above justification AID/Washington granted the waiver and approved the purchase. The Hondas were received in September 1977.

Our review showed:

- (1) The Paraguayan implementing agency got what it ordered. The Rokon specifications were used as a guide for the preparation of the invitation for bids.
- (2) In March 1975, prior to the delivery of the Rokons, Paraguayan officials asked the manufacturer for a price list of parts and accessories, and the factory recommendations as to what parts to stock and suggested quantities. The purpose of the inquiry was to get information so the bikes could be well maintained. Rokon replied and submitted a comprehensive proposal consisting of (a) a list of recommended spare parts, (b) the services of a factory maintenance specialist for 10 days, (c) an outline for a

training program and (d) suggesting translation of the Rokon technical materials into Spanish. The proposal was priced at \$19,700. Implementing agency officials did not act on this proposal. We could find no evidence in Paraguayan or USAID/Paraguay files to indicate that anything was done. Paraguayan implementing agency staff told us that nothing was done because the proposal was too expensive. We conclude, no parts were available because none were ordered.

- (3) In our review of the AID-financed advisor's reports, USAID/Paraguay's monthly reports to AID/Washington and USAID/Paraguay evaluation no. 77-1 covering loan activities for the period November 1975 to November 1976, we could not find a single comment that the Rokons were bad or unsuitable for the job. The first adverse comment we saw was in the May 1977 USAID/Paraguay's monthly report. The same month waiver action was started.
- (4) Likewise, the evaluation report did not mention anything about field operations being seriously hampered and delayed because of the Rokons.
- (5) Once the Hondas were received all the Rokons were pulled in and put under a Mango tree. That was in September 1977 and that was where they were in March 1980.

Paraguayan implementing agency staff told us there were two more reasons why the Rokons were not suitable. (1) the users found them ungainly, hard to ride and tiring to use and (2) the bikes made so much noise small communities would not allow them used on their streets.

The facts remain that the story told to Washington in order to obtain the waiver was incomplete. Needs change and no doubt some road bikes were needed and some should have been purchased. Unfortunately, the course of action taken resulted in the non-use of 42 Rokon bikes and loan funds of \$52,000 wasted. If spare parts and the technical assistance had been obtained, the Rokons would probably still be in use.

In December 1978 at the request of Paraguayan officials, USAID/Paraguay granted permission to sell the Rokons. However, the request has not been acted upon because according to Paraguayan officials they do not want to publicly draw attention to the mistake made in purchasing the bikes. In March 1980, consideration was being given to turning the bikes over to a Paraguayan Government Property Disposal Unit just to get rid of them. No one could tell us the condition of the bikes at the time of our review.

It seems that alternate ways of using the bikes have not been explored. At our exit conference, USAID/Paraguay's Agriculture Officer suggested the bikes could possibly be modified for agricultural use. The bikes are two-wheel drive and can operate at a minimum speed of 0.5 miles per hour and might be suitable for pulling a plow. The Agriculture Officer suggested experimenting

with two bikes. The Paraguayan Agriculture Department has a facility and staff to carry out such experiments.

### Recommendation No. 3

USAID/Paraguay, in conjunction with Paraguayan officials, should explore alternative uses for the Rokon motorbikes including experiments for possible agricultural use. If no alternative use is found, the bikes should be sold or otherwise properly disposed of.

### Data Processing Systems

Two data processing systems have been purchased. A National Cash Register (NCR) system and an International Business Machine (IBM) system. The NCR system has never been installed and used. The IBM system had not been received, but conditions point to an extended time before it will be used. The unsatisfactory utilization of the one system and a possible problem with the second system is attributable to insufficient review and knowledge about data processing systems by the purchaser. AID regulations requiring approval by AID/Washington officials before data processing systems are purchased were not followed. Approximately \$185,000 of loan funds have been invested in these two systems.

### NCR Equipment

The Paraguayan implementing agency requested USAID/Paraguay on September 17, 1977, to approve the purchase of several items of data processing equipment. The AID-financed advisor, who was working with the Paraguayan agency, stated, in his recommendation-for-approval memorandum of September 23, 1977, that the need to purchase the equipment was identified in the justification paper which initiated this project. The equipment was to help solve a tax delinquency rate problem by providing the officials a means to quickly and efficiently identify delinquent taxpayers at any time with print out lists so that letters and other means could be used to contact each taxpayer individually.

The project justification paper (capital assistance paper of December 20, 1973) shows a need for two teller machines at an estimated total cost of \$7,740 for the Data Processing Section of the implementing agency. From the documents we reviewed, it is not exactly clear the number of teller machines the Paraguayans were requesting to buy in September 1977, but it appears to be eight machines with other support equipment for an estimated total cost of \$50,622. We found no evidence that USAID/Paraguay questioned the increase in the number of machines or the significant increase in total costs. USAID/Paraguay's Capital Development Officer approved the purchase on September 23, 1977.

The machines and accessory items requested and approved were ordered from NCR and delivered to Paraguay in November 1978 at a total cost of about \$55,700.

We visited the Paraguayan implementing agency office to see how well the equipment was performing. We found that the equipment had never

been assembled and installed as a system, some items (mostly accessory items and costing more than \$16,000) were still in the original packing boxes and four units (costing \$16,700) had been traded-in on other NCR data processing equipment.

We tried to get some answers on why the four units were traded-in. Paraguayan officials advised us that they had been sold a bill of goods because the machines would not do what NCR said they would do. The Paraguayan staff of the agency advised us that its office's technical personnel and those involved in collecting taxes and maintaining accounts were never consulted on what type of equipment was needed. We asked why the four units were not simply returned if they had been misrepresented rather than being traded-in at \$2,500 less than their original cost. No explanations were provided.

NCR representatives told us the system was never installed because Paraguayan officials never asked them to install it. NCR could not tell us why the four units originally purchased were traded-in for the six more expensive models (\$4,086 vs \$7,300 each).

The NCR salesmen who sold the equipment to the Paraguayan agency are now executives with Burroughs-Paraguay. The salesmen told us two types of equipment were sold to the Paraguayan agency. One type was free standing machines that were meant to be sent to tax districts outside of Asuncion, Paraguay. The rest of the equipment was termed the NCR 279 system and was a partial system. The data was to be registered and recorded on the NCR 279 machines with magnetic attachments. The data put on cassettes was to be collected using the connector and concentrator. That was where the system sold to the Paraguayan agency ended. After processing by the concentrator, the data would have to be run through an NCR computer located at NCR's office in Asuncion. To update a delinquent tax list and prepare notices, the master file would have to be maintained at NCR. One salesman said the system was not set up because the Paraguayan Government would never allow tax information (amounts collected and delinquency lists) to be maintained by a private firm. Another explanation offered was that the machines were so good that it would make it difficult for any wrong doing to take place at the tax collection office. The salesmen said the NCR 279 system was adequate and could handle transactions done at tax offices.

Although the NCR equipment received in November 1978 was not in use by the Paraguayan implementing agency, USAID/Paraguay authorized in January 1980 a second purchase of NCR equipment. The second purchase was justified in an AID-financed advisor's memorandum dated November 20, 1979, which stated, in part:

"Present Situation: The RPTO (Paraguayan implementing agency) purchased several NCR Teller machines for use at the tax collection windows in Asuncion. However, some were sent to the tax Collection Offices in Encarnacion and Pto. Pte. Stroessner."

"Requirement: The Collection Offices in each Department need teller machines to tabulate the tax collected and to cancel the tax receipt. Since the number of tax payers is

increasing at a very increased rate due to the Cadastral Project, these offices need more machines than were originally estimated in 1973"

"Justification for NCR Machines: (1) All the machines on hand are from NCR. They are operating without problems. (2) NCR is the only Code 941 company in Paraguay that provides maintenance services."

The justification in our opinion was both inadequate and ambiguous. The type machine, approximate cost and number of units required were missing. Also, based on our visit, more than half of the equipment and accessories received in November 1978 had not been installed or used. The AID-financed advisor apparently relied on information from someone else and the USAID/Paraguay Capital Development Officer apparently approved the second NCR purchase without checking to see if the first units purchased had been utilized.

Using the January 1980 USAID/Paraguay approval which was based on the above justification, the Paraguayan agency traded-in four machines which had never been used and originally cost \$16,700 for an allowance of \$14,200 which was added to \$29,000 AID provided funds and purchased 6 more expensive NCR machines. The new machines had not arrived in Paraguay at the time of our review in March 1980 so utilization will have to be checked at a later date.

#### IBM Equipment

On November 20, 1979 the AID-financed advisor recommended approval of a Paraguayan implementing agency request that USAID/Paraguay approve the purchase of an IBM System 34 computer. Justification for a computer was based on the fact that 30 to 35 clerks, using the present manual system aided by a mechanical system, were falling behind in processing data. Work was 2 years behind schedule and at current rates would be 5 or 6 years behind when field work was finished.

Proprietary procurement of the IBM System 34 was justified on the basis:

- "(1) The computer uses a system of disketts which provide random access to the data.
- (2) The test run proved that the IBM Series 34 computer could be programmed to cover the needs.
- (3) IBM is the only computer company in Paraguay that provides maintenance service.
- (4) The Tax Office budget for renting IBM equipment can be used to pay maintenance and programming needs.

- (5) The computer can be used to improve tax collection procedures."

The system was ordered in January 1980 and had not been delivered in March 1980. A letter of credit for about \$100,000 was requested to be opened on February 23, 1980 to pay for the computer system.

A cursory review of the justification and approval showed that the approval may have been in error, especially for propriety procurement. Both Burroughs and NCR representatives told us: (1) both companies have computers with the same or more capabilities than the IBM System 34; (2) both could provide the machines at less cost; (3) both provide full maintenance and programming services in Paraguay; and (4) both have computers which are compatible with the NCR equipment already owned by the Paraguayan agency whereas the IBM system was not compatible with existing NCR equipment. We also contacted an IBM representative and he agreed that the IBM system was not compatible with the NCR equipment.

On the surface, a data processing system of some sort appears to be needed. The question is what kind. As pointed out in A.I.D. Policy Determination No. 58 dated July 1974 "The ADP (Automatic Data Processing Equipment and Services) field continues to be characterized by rapid technological and conceptual change. To achieve and maintain economy and effectiveness in these circumstances and assure compatibility of hardware and software, we must bring our best technical competence to bear on the acquisition of ADP services and equipment.

..."Consequently, I am requiring that the Office of Data Management (SER/DM) review and approve ... All country, regional, or inter-regional project proposals (whether loan or grant financed) and all PIO/T's which identify the proposed acquisition of computer services or equipment."

In view of the non-utilization of data processing equipment in the past, the apparent non-compatibility of recently purchased equipment with existing equipment, and the potential waste of funds on data processing equipment, we believe USAID/Paraguay should request the AID/Washington, Office of Data Management, to send representatives to Paraguay to review the NCR and IBM acquisitions and provide guidance to the Paraguayan officials on utilization, additional acquisitions needed and disposition of any unutilizable equipment.

#### Recommendation No. 4

USAID/Paraguay should request the AID/Washington, Office of Data Management, to provide a technician to review the purchases of data processing equipment made with AID Loan No. 526-W-026 funds and provide advice that will assure maximum utilization of the equipment. For equipment that cannot be utilized, a Bill for Collec-

tion should be issued to the Paraguayan implementing agency.

### Improvements Needed to Provide Adequate Monitoring

We found no evidence that adequate and effective contact took place between USAID/Paraguay and Paraguayan implementing agency officials during the implementation phase of the Cadastral Survey/Property Tax project. Oversight responsibilities were primarily performed by an AID-financed advisor up to December 1973. At that time, the advisor became an AID direct hire employee and has visited Paraguay twice on temporary duty to review project activities. We believe that the slow progress of the project, procurement problems, and utilization of AID-financed equipment discussed above are directly related to inadequate monitoring of the project by USAID/Paraguay officials.

Responsibility for monitoring the Cadastral Survey/Property Tax project was assigned to the USAID/Paraguay Capital Development Office. Up to December 1978, there was an AID-financed advisor assigned to the project and working directly with Paraguayan officials implementing activities. The USAID/Paraguay Capital Development Office relied heavily upon the advisor in its monitoring of the project. The AID-financed advisor intermittently acted as the USAID/Paraguay Capital Development Officer when direct hire employees were not available. The advisor left Paraguay in December 1978 to accept a direct hire position with the USAID Mission in Peru.

A new direct hire employee arrived in Paraguay in January 1979 as Capital Development Officer. USAID/Paraguay arranged for the former advisor to visit Paraguay periodically from Peru to review project activities. The former advisor has visited Paraguay twice -- in May and November 1979, for visits of 3 and 6 days. The purpose of these visits was to provide technical guidance and help Paraguayan officials in overall project implementation.

Apparently, the current USAID/Paraguay Capital Development Officer felt that the temporary visits by the former advisor were sufficient oversight because he did not perform the usual oversight duties. We were advised that contacts were made with the implementing office by phone. The Capital Development Officer took action on requests made. The justification for these requests were usually initiated by the former advisor during his temporary visits and most requests involved procurement of equipment. We found no evidence that visits were made to the Paraguayan implementing office.

We attempted to discuss the project with the Capital Development Officer but were advised that he was not knowledgeable enough with activities to discuss them. He advised us that if we wanted to know about the project we should call in the former advisor from Peru. We requested the former advisor to come to Paraguay, but he declined because of his current workload.

Our audit surfaced several problems that we believe should have been known by USAID/Paraguay, but were not because project oversight arrangements were not adequate.

-- Utilization of funds from sale of motorbikes. In July 1977 after obtaining a source waiver from AID/Washington, USAID/Paraguay authorized the purchase of 44 Honda motorbikes to be sold to implementing agency employees involved in performance of loan activities. The proceeds from these sales were to be deposited in a special account; reports on the number of motorbikes sold, amounts collected and still due were to be submitted; and agreements by all parties were to be made in writing on how the funds were to be used. Of course, none of these provisions were complied with, and no action was taken by USAID/Paraguay to determine why. We found that sales proceeds were deposited in an operating expense account, and funds were lent to employees to make major repairs on the motorbikes (all loans had been repaid at the time of our audit). After we brought the matter to its attention, USAID/Paraguay took action to correct the deficiencies.

-- Unutilized equipment discussed in earlier sections of this report.

We believe that had more adequate monitoring of this project taken place, implementation would have been improved, equipment would not have gone unutilized for extended periods of time, non-compatible type of equipment may not have been purchased, and appropriate clearances would have provided reasonable assurances that eligible and compatible commodities were purchased.

We discussed monitorship with the USAID/Paraguay Mission Director at the conclusion of our audit. We advised the Mission Director that in our opinion the Cadastral Survey/Property Tax project could not be properly managed by temporary visits by the former advisor. We believe that USAID/Paraguay officials must assume normal oversight monitorship of this project.

In commenting on a draft of this report, USAID/Paraguay contends that its staff was in constant contact with Implementing Agency people. But these contacts were considered to be too frequent and usually too brief to justify recording them through file memos. Further, USAID/Paraguay stated that we gave too much weight to the quality of Mission monitoring in our speculation as to the causes of the problems and delays this project has experienced.

USAID/Paraguay accepted our recommendation calling for improved monitorship. It reported that positive actions have been taken, such as, increased emphasis on field inspections and a monthly project status review chaired by the Director. We agree these actions meet the substance of our recommendation. We will close the recommendation when this policy is evidenced by a Mission Order.

## Recommendation No. 5

USAID/Paraguay should establish procedures to ensure effective monitoring of its assistance projects.

### Credit Projects

Overall results and progress of the AID assisted credit projects against established targets have ranged from successful to limited. In areas of share capital, savings in the central cooperative, and marketing, the goals were generally reached or exceeded. But, progress has been unsatisfactory in the key areas of financial results, number of members, loan volume and delinquency rates. In fact, delinquencies are a serious problem as nine cooperatives (35 percent of the rural coops) are legally insolvent and have been since 1975. AID executed a project to provide a stabilization fund for these cooperatives but few tangible results have been obtained. In 1979, AID entered into a pilot crop intensification project which may, if not effectively implemented, cause the sponsoring institution to fail. In the recent past, there have been four AID projects directed toward the assistance of the credit union cooperative movement in Paraguay which we will discuss in this section.

### Background

AID assistance to the credit union cooperative movement in Paraguay started in 1970 with an AID contract directly to the Credit Union National Association, Inc. (Association), Washington, D.C. A representative of the Association began organizing credit unions. During the period 1970 through late 1973, the National Development Bank served as the financing arm for the credit union cooperative movement and substantial sums of money were loaned to the credit unions.

Late in 1973, the Central Cooperativa Nacional Ltda. (CREDICOOP) was formed to provide a central focal point for credit union development. Since that time, AID assistance to the credit union movement has been channeled through CREDICOOP. In 1975, AID made a loan to the Government of the Republic of Paraguay to provide CREDICOOP with \$3 million in funds for loans to small farmers. To further assist the credit union movement, AID made a grant to CREDICOOP in February 1978 to provide \$306,000 to provide consultant services, commodities, training, and assist the grantee pay its operating expenses. This grant was subsequently amended to provide additional funds. As of March 31, 1980, a total of \$1,915,000 had been provided under this grant.

In 1975 a serious problem developed with nine of the credit unions that became a part of CREDICOOP in 1973. Because of a number of factors including poor agricultural yields and prices, a substantial number of the credit union members were unable to repay their loans, which in turn precluded the credit unions from repaying the substantial sums borrowed from the National Development Bank. In fact if the National Development Bank so desired it could have closed these credit unions.

The problem of credit union delinquencies remained unresolved until August 1978 when AID entered into an agreement with CREDICOOP to provide funds

(\$281,300) for a stabilization fund. The purpose of the fund was to enable the nine credit unions, which were in serious financial and administrative trouble, to become financially solvent and to resume normal operations. The fund was to become a revolving fund, from the repayments by these nine credit unions, to assist other credit unions in trouble.

More recently, in August 1979, AID signed a grant agreement with CREDICOOP to provide funds (\$1.9 million) to establish an agribusiness capability on a pilot basis. The purpose of the project is to promote and finance the supply of inputs which will lead to establishment or increase in production, processing, and distribution/export of labor-intensive food crops in the central areas of Paraguay. Approximately 500 small farm families will be recipients of technical assistance and credit provided through CREDICOOP.

The above is an overview of the assistance AID has provided to credit projects in Paraguay in recent years. The implementation, current status, and problems, if any, are discussed in the following paragraphs.

Small Farmer Development  
Project No. 526-0113

The goal of this project, as amended, was to increase the productivity and income of Paraguayan farmers who cultivate less than 20 hectares of land. There was to be an integrated program under this project to provide credit, technical assistance and marketing services. Some of the technical assistance was to be funded with AID grant funds (Project No. 526-0101 see next section), the remainder of the technical assistance and marketing services were to be funded by CREDICOOP and its members, and the funds for credit were to be provided by a loan from AID.

On December 7, 1976, an amended loan agreement was signed between AID and the Paraguayan Government which provided funds for credit resources of \$3 million for Paraguayan small farmers through CREDICOOP. The funds were quickly used and by September 25, 1979 all \$3 million had been disbursed. USAID/Paraguay reviewed the utilization of these funds on several occasions and determined in each case that all funds had been fully utilized for the purpose intended.

Credit Unions  
Project No. 526-0101

AID granted to CREDICOOP \$306,000 on February 27, 1978, as the first increment of funds to support a project that would lead to the development of that organization. Subsequent amendments have been made to the grant agreement which added funds to support project implementation. As of March 31, 1980, a total of \$1,915,000 had been provided by AID.

Specifically the project was to enable CREDICOOP by June 30, 1981: to generate revenues in excess of costs; to provide the services its rural cooperatives require to deliver credit, technical assistance and marketing services to 15,100 small farmers; and to be able to continue to increase the number of rural cooperatives and small farmer members in the CREDICOOP system. CREDICOOP's major activities under the project were to: provide reasonably priced credit to

small farmers; provide technical assistance to small farmers; market small farmer production; assist rural cooperatives to better serve their members and attract new members; and form new rural cooperatives.

The grant agreement established end of project indicators as well as interim targets to be reached by CREDICOOP. There were specific targets established in areas of financial strength, membership, credit and marketing. In areas of share capital, savings in CREDICOOP, and marketing, the interim targets were generally reached or exceeded. But, progress has been unsatisfactory in the key areas of CREDICOOP annual net profit, number of members, loan volumes, and delinquency rates. The grant agreement also provided funds for CREDICOOP to build grain drying facilities and purchase support equipment. These funds have not been used.

The areas where the interim targets have not been met and terms of the grant agreement have not been complied with are discussed in the following paragraphs.

CREDICOOP's Annual Net Profit (Loss)

The projections included in the grant agreement showed that it would be the end of calendar year 1980 <sup>1/</sup> before CREDICOOP started earning a net profit without AID assistance in paying operating expenses. Thus, in order to prevent CREDICOOP from showing a net loss from operations AID has contributed, under the Credit Unions and earlier projects, funds to assist in paying the operating costs. AID's final contribution to assist in paying these costs under the Credit Union project was to be 1980.

A comparison of actual results with the projections shows that it probably will be several years before CREDICOOP starts operating at a profit.

Profit and (Loss) (\$000's)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Actual Results with AID Grant	\$ 2	\$ 3	\$ 10	
Less AID Grant	<u>104.3</u>	<u>100.3</u>	<u>96.7</u>	
Actual Results Without AID Grant	<u>\$(102.3)</u>	<u>\$( 97.3)</u>	<u>\$( 86.7)</u>	<u>2/</u>
Projected Results Without AID Grant	<u>\$( 96.5)</u>	<u>\$( 70.5)</u>	<u>\$( 39.5)</u>	<u>\$ 2.5</u>

<sup>1/</sup> The figures in the grant agreement are shown as of June 30 each year whereas the actual results are reported as of December 31 each year. Therefore, we adjusted the figures in the grant agreement to show estimates as of December 31 each year so comparisons between projected and actual figures could be made.

<sup>2/</sup> Data not available.

As shown by the above table it has been the AID grant funds that have allowed CREDICOOP to show a small profit on its income statement. The AID grant for 1980 is to be only \$21,000 as the funds provided to assist in payment of operating expenses have been utilized. Thus, CREDICOOP should show a substantial loss on its income statement for 1980 and we estimate that it will probably be 1983 before it realizes a profit.

There are several reasons why CREDICOOP has not been meeting its net profit targets. Three of these reasons are membership, delinquencies, and loan volume, which are discussed below.

### Membership

A total of 30 rural cooperatives with 9,000 members was planned as of June 30, 1979. At that date, 29 rural cooperatives affiliated with CREDICOOP had been formed but there were only 5,242 members or 3,758 fewer farmers than originally projected.

The less than planned membership growth was due to the conservative policy adopted by CREDICOOP through which cooperatives were encouraged to exercise great selectivity in admitting new members. This policy was adopted as a result of high delinquencies experienced in rural cooperatives in the early years (1970-1974) when the rural cooperatives had no membership strategy for member selection and thus admitted all individuals who applied.

CREDICOOP was aware that membership growth is crucial to its financial self-sufficiency, and was trying to combine the two conflicting goals of low delinquency and membership growth by adopting a new and formalized policy of growth with selectivity. This policy emphasizes development of "committees for the company" within cooperatives before they launch membership campaigns. Such committees, informal groups of farmers residing in the same area and belonging to the same coop, coordinate technical assistance and marketing services provided coop members. They may also assist with collection of delinquent loans and may recruit and recommend other farmers for membership.

A comparison of the actual number of members with the planned number of members as of June 30, 1979 shows that additional efforts are certainly needed to reach the planned goal of 15,100 members. USAID/Paraguay should assist in this effort of attracting new members by insisting that CREDICOOP make the services it offers so valuable that individuals will be readily available and eager to join.

### Delinquency Rates

A continuing delinquency problem exists both at the CREDICOOP level and at the cooperative level. The cooperative average delinquency rate to CREDICOOP was 30 percent and the members average delinquency rate to the cooperatives was 28 percent as of August 31, 1979.

The overall delinquency problem has its origin in the delinquency within the individual cooperatives. The most frequent causes for the high delinquencies were bad harvests, ineffective boards and/or managers, failure to follow sound credit rules and procedures, lack of supervision of credit use and

inadequate follow-up on delinquent loans. Corrective action was being taken as part of the Credit Union Financial Stabilization Fund Project. Additional actions, which may include outside assistance, were being discussed by USAID/Paraguay with CREDICOOP.

Delinquencies have been a continuing problem for the cooperatives. Just how bad the problem was unfortunately depends on the method used to calculate the delinquency rate. Before 1975 the traditional method was used. This method derives a rate by dividing only the payments overdue by the total of the loan portfolio. In the opinion of the AID-financed advisor, this method usually results in a low rate, is self-deceptive and produces calculations which serve no management purpose.

The delinquency problem surfaced in 1975 after a change in AID-financed advisors. CREDICOOP claims that the AID-financed advisor during the period 1970-74: (1) concealed facts about the pilot project which would have shown the effects that continued utilization of the leverage and delinquency policies would have on the financial position of the credit unions; (2) rendered erroneous advice concerning methods for calculating delinquency rates knowing the methods would produce distorted ratios; and (3) advised the credit unions to "leverage" borrowed funds to capital at a ratio as high as 13/1, an unacceptable ratio given the high delinquency factor, the erroneous method of calculation, and the newness and inexperience of the credit union movement in Paraguay.

With the high leverage ratio of 13/1 (borrowed funds to capital), a moderate (20 percent or less) delinquency rate does not produce the cash flow necessary to service loans. The credit unions were unable to service their loans and the amounts borrowed from the National Development Bank in the early 1970's were in default. The only reason the affected credit unions did not close their doors was because the National Development Bank did not require repayment as the loans came due.

CREDICOOP contends that in 1972 the pilot project suffered a 50 percent loss of funds loaned out and that 60 percent of the credit unions capital was being drained away. Despite this situation, the AID-financed advisors continued to recommend the promotion of credit. The credit unions increased their leverage ratio from 2/1 in 1971 to a high of 13/1 in 1974. (The United States standard is 1/2 to 1).

In June 1973, internal reports by the AID-financed advisor showed a 65 percent delinquency rate with respect to agriculture loans while its reports to AID for the same period claimed delinquency was not a problem except in one credit union. Of the twelve rural credit unions assisted by the AID-financed advisor during the 1971-73 period, nine were (and still are) near insolvency.

Between 1975 and 1978, no particular action was taken to lessen the burden of the financially unsound credit unions. In 1978, CREDICOOP took steps to rectify the situation. First step taken was the planned engagement of a U.S. law firm to determine the merits of a possible suit against the organization furnishing the AID-financed advisor. That organization's position was that the fault was not the advisor's but was the lender's, the National Development Bank.

USAID/Paraguay's view of the situation as stated in a position paper dated May 4, 1978 was "irrespective of the basis for legal action, the Mission does believe that the problems of these credit unions flow from the inadequacies of the technical advice rendered and that CUNA (organization furnishing the advisors) should participate in a program to resolve them. CREDICOOP has studied the problem and independently decided upon a course of action. CREDICOOP has told us that they would not pursue this line of action (lawsuit) if it would cause problems for the Mission or the Agency;...

"The Mission will pursue the 'good offices' approach leaving the initiative with CREDICOOP avoiding any position on a possible lawsuit and arranging in Washington a meeting with representatives of CREDICOOP, CUNA, and AID."

Negotiations during 1978 in Washington between the concerned parties concluded that the best course of action would be to consider an Operational Program Grant (OPG) for the creation of a stabilization fund.

An OPG grant in the amount of \$281,300 was authorized on August 3, 1978 and signed with CREDICOOP on August 31, 1978. The grant became the main vehicle to help cooperatives to regain financial soundness. The purpose and approach of the stabilization fund is discussed in detail under Credit Union Financial Stabilization Fund - Project 526-0122 (see page 27).

The causes of delinquency are known. The strongest factor causing delinquencies was marketing. If the cooperative does not pick up the farmer's produce before another purchaser gets there the loan will be delinquent for another year. (The cooperative deducts the amount due from the purchase price when marketing the farmer's produce). An evaluation of the Credit Union project in 1979 identified other causes, such as, bad harvests, ineffective boards and/or managers, failure to follow sound credit rules and procedures, lack of supervision of credit use and inadequate follow-up on delinquent loans.

The mechanism (stabilization fund) to correct delinquency is already in place. It's just a matter of doing a better job with the resources provided.

At the close of our field work on this audit, USAID/Paraguay had notified CREDICOOP of its concern about delinquency. It planned to meet with CREDICOOP to again review the delinquency problem and come up with an action plan to correct it.

In response to a draft of this report, USAID/Paraguay informed us that a plan to improve performance had been put into effect. It advised us that personnel changes at several of the cooperatives with serious delinquency problems had been made, including the replacement of an inept manager. It also advised us that CREDICOOP recently absorbed UNIPACO (a marketing cooperative) which should lead to a significant growth of farmer members. In view of these steps, we are not making a recommendation.

### Loan Volume

The annual volume of all loans made by rural cooperatives as of June 1979 was projected to be \$3 million. The actual volume as of June 1979 was \$2.4 million or a shortfall of \$600,000. The shortfall resulted from the less than planned membership in the rural cooperatives and the cut-off of credit to the cooperatives experiencing high delinquency rates.

For the cooperatives and CREDICOOP to make sound loans and realize sufficient net profits to become self-sustaining organizations, the problems of membership and delinquency rates will have to be solved.

### Grain Drying Facility

The grant agreement calls for the building of grain drying facilities and the purchase of support equipment. The AID contribution to the facility is \$50,000, but has not been used. CREDICOOP wants to use the funds to erect an AID donated graining drying/storage facility. USAID/Paraguay has informally agreed to the plan, but CREDICOOP has taken little action to carry out the plan.

Although funds were made available in May 1978, little action has been taken to build the facility. The grant agreement calls for CREDICOOP to have two storage facilities with dryers and adequate vehicles and equipment to provide marketing services for 15,100 small farmers. In the July 1979 project evaluation, USAID/Paraguay said the requirement for grain drying/storage facilities was not properly defined because under the present scheme CREDICOOP acts as a marketing agent for its affiliates and does not physically handle the bulk of the agricultural products marketed. The evaluation called for an investigation of data available to ascertain how the grain drying and storage needs of the small farmers were being met.

Both USAID/Paraguay and CREDICOOP told us that it has been informally agreed that the member's grain drying and storage needs would be satisfied if CREDICOOP erected the two steel silos, including drying capability, donated by USAID/Paraguay in 1977. CREDICOOP told us the silos would be erected at Cooperative Bogado. The hold up was due to obtaining use of land owned by the municipality. The municipality had given rights to use the land to the Ministry of Agriculture. The Ministry does not plan to use the land and CREDICOOP was seeking a release from the Ministry. Once the release is obtained the facility can be erected. CREDICOOP was moving very slowly to implement the informal agreement. The request for release of the land was made in February 1980. More than land use was involved. Engineering services for design of the support structure and preparation of the site were needed. No steps had been taken to obtain these services.

The informal agreement provides that any unused materials or funds could be used to construct a warehouse on the property recently acquired by CREDICOOP. In our discussions with the USAID/Paraguay Project Manager, we pointed out that unless the grant agreement is changed funds could not be used to put up the donated facility and that the informal agreement must be put in writing and communicated to the grantee via an implementation letter. The Project Manager agreed that the terms and condition of the informal agreement needed to be put in writing.

In response to a draft of this report, USAID/Paraguay provided a copy of an implementation letter detailing the terms and conditions for the erect of two steel silos with drying capabilities at Cooperative Bogado. The implementation letter was issued April 11, 1980. Therefore, we are making no recommendation.

Credit Union Financial Stabilization Fund  
Project No. 526-0122

AID entered into an agreement on August 31, 1978 to grant \$281,300 to CREDICOOP as a contribution to a Credit Union Financial Stabilization Program. In addition to the funds granted by AID, CREDICOOP and its member cooperatives, the organization furnishing the AID-financed advisors, and the National Development Bank were all to provide funds and resources to the Stabilization Program.

The purpose of the Stabilization Program was to enable nine credit union cooperatives, which were in serious financial and administrative situations, to become financially solvent and to resume normal lending operations. The Stabilization Program was developed as a result of CREDICOOP's initiation of action to bring a lawsuit against the organization furnishing AID-financed advisors to the credit union movement in Paraguay.

The Stabilization Program was to be implemented through two processes:

1) Funds would be contributed to a special stabilization fund account established by CREDICOOP. The funds would be lent to the nine cooperatives that were in serious trouble. The cooperatives were to use the funds to repay the National Development Bank the loans in default and to repay CREDICOOP over a period of 10 years. The cooperatives were to pay only a 2 percent annual service fee for the use of the stabilization funds. Principal repayments and service fees paid to CREDICOOP were to be held in the stabilization fund for the use of any other cooperative that should find itself in financial or administrative trouble.

2) CREDICOOP was to provide technical assistance to the nine cooperatives by providing special courses for managers and employees in areas of need. A thorough analysis of specific problem areas and needs was to be made of the nine cooperatives to determine what assistance should be provided. Also, an incentive/salary-maintenance program was to be established to reward employees upon the attainment of targeted loan collections, promotion of share capital and maintenance of up-to-date accounting systems.

As of December 31, 1979, the various organizations had made the required contributions to the stabilization fund, loans have been made to the cooperatives, and technical assistance has been provided to the cooperatives in need. However, we noted during our review that there were problems in implementation that needed management's attention in the areas of reporting and the incentive/salary-maintenance program.

## Reporting Requirements

The reporting requirements contained in the grant agreement are, in our opinion, inadequate to gauge the progress the nine cooperatives are making to become financially solvent. The grant agreement requires CREDICOOP to provide data on members, shares, deposits, loans and exceptional progress or problems on a case by case basis. A review of this data gave us little knowledge about the project. Reporting requirements needs to be more comprehensive. CREDICOOP should provide to AID:

1) In table form, a recap of the financial status of the stabilization fund showing: (a) initial contributions; (b) principal and interest payments; (c) monies lent; (d) principal repayments and fees collected; (e) cash incentives paid and (f) salary supplements paid.

2) A listing of courses held and special technical assistance given specifically for the cooperatives being stabilized.

3) A narrative on each cooperative being stabilized showing progress against annual targets and improvements in financial soundness.

Payments by the cooperatives to CREDICOOP were falling short of the amount planned. More important the cooperatives were not remitting all collections made to CREDICOOP for deposit in the stabilization fund.

<u>Status at</u>	<u>Planned Recovery 1979</u>	<u>Collections by Cooperatives</u>	<u>Amount Remitted to CREDICOOP</u>	<u>Balance Due CREDICOOP</u>
Aug. 31, 1979	¢8,919,475 \$ 70,789	¢4,968,335 \$ 39,431	¢1,946,864 \$ 15,451	¢3,021,471 \$ 23,980
Nov. 30, 1979	¢8,919,475 \$ 70,789	¢6,349,074 \$ 50,389	¢3,326,223 \$ 26,399	¢3,022,851 \$ 23,990

The overall balance due CREDICOOP stayed about the same in the August and November status reports. This was due to offsetting results. At Cooperative Coe Pyajhu the amount owed CREDICOOP was reduced from ¢1,067,029 due on August 31, 1979 to ¢509,839 due on November 30, 1979. At San Ignacio Cooperative the amount owed increased from ¢267,949 due at the end of August to ¢793,893 due at the end of November.

CREDICOOP officials told us that all cooperatives do not remit all collections because they want to hold the money collected because only a two percent fee is charged and the cooperatives can (and do) relend the funds collected at a 12-13 percent rate or more.

CREDICOOP should demand that all money collected be remitted intact for deposit to the stabilization fund. Deserving cooperatives are eligible to request new loans from the stabilization fund.

## Incentive/Salary-Maintenance Program

CREDICOOP has established an across-the-board incentive payment of 10 percent of recuperations collected. CREDICOOP pays the incentive even if all the money collected is not remitted to the stabilization fund. For example, Coe Pyajhu Credit Union collected ¢1,301,202 (\$10,327) and received an incentive of ¢130,120 (\$1,033). Collections of only ¢234,173 (\$1,859) were remitted to the stabilization fund. Yaguaron Credit Union collected ¢549,744 (\$4,363) and received an incentive of ¢54,974 (\$436). Collections of only ¢100,000 (\$794) were remitted to CREDICOOP.

CREDICOOP officials told us the AID-financed advisors told them that an incentive should be paid based on collections made by the cooperatives and not on remittances made to the stabilization fund. We believe that this incentive payment policy is incorrect. Money collected does not benefit the stabilization fund until received by CREDICOOP. This policy should be changed.

CREDICOOP's program of incentive/salary-maintenance payments doesn't fit the requirements of the grant agreement. The grant agreement calls for "An incentive program, and/or a salary-maintenance program for those cooperatives requiring it, will be implemented in the nine cooperatives. Employees will be rewarded upon attainment of concrete, easily measured targets... and maintenance of up-to-date accounting systems... Each cooperative will receive about \$1,700/year beginning in 1979 (and through 1981) as a salary supplement for achievement of the goals mentioned above." It is evident that incentives and salary payments were to be tied to achieving specific goals i.e., loan collection amounts, increased share capital and up-to-date records.

Special covenant No. 3(e) of the grant agreement required CREDICOOP to present AID a detailed operational and financial plan for the stabilization fund. The "plan" was provided to AID March 13, 1979, and USAID/Paraguay in its letter of March 20, 1979 agreed to reimburse for disbursements made to cover both the positive incentive on recuperations and for salary maintenance of the administrative personnel.

The only mention in the "plan" of a salary-maintenance program was that the salary of administrative personnel of cooperatives Yuty and Juan E. O'Leary would be supported by giving each cooperative a loan.

We found that the plan proposed and accepted by USAID/Paraguay only partially contains the elements of an incentive/salary-maintenance program as outlined in the grant agreement. The 10 percent paid on collections was an incentive but it did not consider the established goals. A cooperative collecting and depositing to the "stabilization fund" 90 percent of the goal should be awarded more on a percent basis than someone collecting only 45 percent of the goal. But in the "plan" proposed and accepted this was not the case. No reference was made to increased share capital and up-to-date records or any other target.

The list of conditions to be met before a cooperative could participate in the Stabilization Program had little meaning. For example, participating cooperatives must have a written recuperation policy. USAID/Paraguay evaluation No. 79-6 of October 1979 says "So far, only four of the nine cooperatives have adopted marketing and loan recuperation policies".

We believe the spirit and intent of the incentive and salary maintenance parts of the grant agreement were not being carried out. The program should be modified to carry out the intent of the grant agreement which was to give grants to deserving cooperatives for achieving preset targets such as loan collections, increased share capital, and up-to-date records.

We brought the matters discussed above to the attention of USAID/Paraguay on March 5, 1980. USAID/Paraguay agreed with our findings and on March 17, 1980, signed a "Letter of Understanding" with CREDICOOP which incorporated new reporting requirements, provisions that all collections be deposited to the stabilization fund, and a requirement for the submission of a revised incentive/salary-maintenance program which sets forth certain goals. The requirements and provisions set forth in the "Letter of Understanding" should remedy the deficiencies noted during our review; therefore, we are making no recommendation.

Mini Fundia (Small Farm) Crop Intensification  
Project No. 526-0118

The project was off to a slow start which may threaten not only the success of the project but may also threaten the survival of CREDICOOP. Technical assistance crucial to the implementation of the project had not been obtained. Because of its slow start, the project will be a heavy financial burden to CREDICOOP and the drain of funds may adversely affect the entire CREDICOOP organization. Also, procedures for the accounting and control of funds need to be established to ensure that project funds are used to accomplish project objectives, that is, provide production credit.

A grant agreement was entered into on August 31, 1979, between AID and CREDICOOP whereby AID would provide \$1.9 million and CREDICOOP would provide \$2.6 million for this project. No expenditures had been made by AID as of March 31, 1980.

The purpose of the project was to establish within CREDICOOP an agribusiness capability on a pilot basis to promote and finance the supply of inputs necessary to establish or increase the production, processing, and distribution of labor-intensive food crops (tomatoes, bananas, pineapples, and strawberries) in the central area of Paraguay. The project was directed towards assisting small farmers in establishing a system for the production and marketing of these selected food crops. Approximately 500 small farm families were expected to participate and be the recipients of technical assistance and credit in this project. Farm income gains of 20 percent annually were anticipated.

Probable Adverse Effects of Delayed Contracting

Timely provision of technical assistance is crucial to the success of the project. Virtually every aspect of project implementation requires expertise at a level beyond the present capability of CREDICOOP. For example, specialists are needed in horticulture, packing and marketing, cold storage, irrigation, agribusiness management, and agricultural policy.

The continued delay of contracting is forcing CREDICOOP to proceed without the benefit of the advice of U.S. advisors. These advisors were needed because CREDICOOP does not have the required expertise. Although implementation was at an early stage, decisions must be made that will affect operations throughout the life of the project. For example, CREDICOOP together with the Paraguayan Ministry of Agriculture Extension Service and The National Agronomic Institute was developing a list of recommended practices for tomato production which will be disseminated to the first group of farmer participants. Preparation of these recommendations could not be delayed because tomato planting season was in April 1980. Also, a research plan was being developed for 1980 by technicians who were not well trained in research methodology.

The delay in obtaining the technical assistance was due to bureaucratic ineptitude. Educational universities were identified as the source for technical assistance before AID had fully developed the program. In March 1979, AID/Washington was in the process of identifying eligible universities. Although the order requesting the technical services was hand delivered to AID/Washington on November 19, 1979, AID/Washington was still in the process of preparing a Request for Technical Proposal (RFTP) on February 26, 1980.

At our exit conference in March 1980, USAID/Paraguay's Mission Director informed us the RFTP had been prepared and distributed to eligible universities. To speed up the selection process after proposals are submitted, AID/Washington personnel will hand carry the proposals to Paraguay for analysis and selection.

We believe that because of the crucial importance of the technical advisors, USAID/Paraguay should delay the implementation of the other portions of the project until the advisors are on location in Paraguay.

In commenting on a draft of this report, USAID/Paraguay stated:

"The USAID shares the auditor's concern that AID/W's delay in arranging technical assistance poses a threat to project success. However, the proposed remedy, to delay provision of other AID inputs until the AID financed technicians arrive in Paraguay, poses a much greater threat, and should be reconsidered. To so delay would be to renege on AID's legal commitment to CREDICOOP to support the project. Moreover such an action would stand in stark contrast to the good faith CREDICOOP has shown in moving ahead with project implementation with its own resources. The first year's tomato crop was planted some time ago and will be harvested in July and August. CREDICOOP has financed this crop entirely with its counterpart funds, and in the absence of the AID experts has shown considerable creativity in arranging for technical assistance on an emergency basis from the Peace Corps and Helvetas, the Swiss economic assistance agency. Fortunately, these organizations have been willing and able to provide the outside expertise CREDICOOP has needed so far. However, it is unlikely that these or other non-AID agencies will be able to deliver other types of technical assistance which will be needed in the near future, such as expertise in cold storage. Thus, as the Mission expressed in its cable to AID/W of 06/19/80 (ASUNCION 2481, copy enclosed), it is incumbent upon AID/W to act immediately to arrange for the technical assistance, failing which the Mission will contract for these services itself."

We agree with USAID/Paraguay's remarks and believe it should be given permission to obtain the required technical assistance on its own if AID/Washington cannot deliver the expertise within a reasonable period of time.

Recommendation No. 6

The Assistant Administrator for Latin America and the Caribbean give permission to USAID/Paraguay to contract for required technical assistance, utilizing the services of the Regional Legal Advisor and Regional Contracting Officer as necessary, if AID/Washington does not deliver the expertise within a reasonable period of time.

Ability of CREDICOOP to Support Project

We are concerned that the counterpart funding requirements may be more than CREDICOOP can afford and may have an adverse effect on its current business.

The grant agreement calls for a total counterpart contribution of \$2.6 million over a 5-year period, an average of \$516,000 a year. These cost estimates, made in 1977, have escalated. The agreement calls for CREDICOOP to pay for all overruns. We estimate first year costs will exceed \$725,000:

-- Land	\$ 285,714
-- Office Building	252,000
-- New Personnel	37,000
-- Operating Expense	<u>150,740</u>
	<u>\$ 725,454</u>

CREDICOOP's letter to us dated March 13, 1980 stated "for the five years of the project the actual (counterpart funding) will exceed initial estimates". To finance the immediate cash costs, CREDICOOP took out a 6-year loan to pay for the land and plans to borrow funds to pay for the office building.

AID has been supporting credit projects in Paraguay since 1970 and CREDICOOP since its establishment in 1973. In addition to providing technical assistance, grant financing of equipment and fixtures, CREDICOOP's operating costs have been funded at the rate of about \$100,000 per year. AID will grant \$21,000 for operating expense in 1980 which is planned to be the final year of support. Excluding the AID support, CREDICOOP had a loss of approximately \$95,000 a year, for the period 1977-1979 (see page 22).

A project paper prepared by AID in 1977 showed balance sheet projections which estimated that CREDICOOP would show a profit from regular operations starting in 1980. With a projection that an overall profit would be realized in 1982.

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Net Income From Other Operations	25	41	50	60	70
Income from Mini Fundia Project	58	58	209	495	544
Expenditures for Mini Fundia Project	(173)	(224)	(224)	(224)	(246)
Total Net Income	( 90)	(125)	35	331	368

As shown on pages 22 and 23 of this report, CREDICOOP is not likely to have a net profit from other operations until 1983. Therefore, we believe that with all of its other problems the Mini Fundia project could be the final blow to CREDICOOP's chances of becoming a viable organization. We also believe that in order to track the progress of the Mini Fundia project it is necessary for USAID/Paraguay to monitor the overall financial results of CREDICOOP on a continuing basis to gauge shortfalls and make appropriate changes in the project. Under the terms of the grant agreement, USAID/Paraguay should receive copies of quarterly financial statements and progress reports on the Mini Fundia project. We believe that USAID/Paraguay should receive statements on all of CREDICOOP's activities.

In response to a draft of this report, USAID/Paraguay commented:

"The Mission agrees that in view of the financial implications for CREDICOOP of the Minifundia Crop Intensification Project, it will be necessary that the Mission closely monitor CREDICOOP's overall financial condition. The USAID intends to do this with the aid of financial statements which are already being provided the Mission by CREDICOOP. These include CREDICOOP's Annual Budget and trial balance sheets prepared on a monthly basis. The latter include a statement of income by source, use of funds by department, and a budgetary control. Based on data contained in the trial balance sheets, the Mission maintains a monthly cash flow statement. CREDICOOP also provides the Mission quarterly financial data on its marketing operations."

The financial statements and supporting financial data being provided by CREDICOOP appear to be sufficient to enable USAID/Paraguay to closely monitor overall financial condition. Consequently we are not making a recommendation.

#### Accounting and Control of Funds

The accounting and control of AID grant funds needs to be redefined and agreed to by AID and CREDICOOP if AID wants to ensure that funds are used for production credit for the life-of-the-project. It was not clear from implementation letters issued how the funds were to be handled and controlled.

The project agreement provides for the establishment of a \$1,705,000 revolving fund to be used to provide production credit to small farmers participating in the project. Six hundred ninety-one thousand dollars (\$691,000) will be financed by AID and \$1,014,000 by CREDICOOP.

Section 4.3 (item d) of the Project Agreement - Disbursement for Specific Project Activities - requires an accounting control plan for farmer subloans. Implementation Letter No. 2, dated December 17, 1979, accepted CREDICOOP's existing regulations as satisfactory stating "Farmer subloans should be accounted for in the same manner as under AID Loan 027" (Small Farm Development Loan).

We found the procedures used to control Loan 027 funds unsatisfactory if AID desires to identify the specific use of funds. We quote from a USAID/Paraguay memo dated September 14, 1979 from the Financial Analyst to the Controller. Subject End Use of Loan 027 Funds.

- "2. Our review was made to determine the validity of the supporting vouchers of the subloans and to verify the eligibility of the items financed with the loan funds, in line with the IL #6, Control on End Use of Funds."
  
- "4. Inasmuch as first generation and the reflows of the loan funds are commingled in CREDICOOP's account, we were not able to determine which subloans were made with the first generation funds."

We discussed the handling and intended use of farmer credit with the USAID/Paraguay Project Manager. The Project Manager agreed that current language covering the handling and control of credit funds was not definitive and a better understanding was needed. In our memo to CREDICOOP dated March 3, 1980, we outlined USAID/Paraguay's ideas on how the funds should be used, controlled, and how the funds would flow into the revolving fund.

- For the-life-of-the-project AID first generation and rollover funds can be used only for production credit.
- CREDICOOP funds and AID funds will be put into the revolving fund on a pari-passu basis.
- AID funds must be kept in a separate bank account and a separate account should be established for rollover funds.
- CREDICOOP contributions will be put into a separate account so that the amount used on the project can be identified.

We discussed the memo with CREDICOOP and it agreed in principle with the handling and control procedures described. In its note to us dated March 13, 1980, it departed from the original stand. It agreed to establish separate accounts for the original grant funds and CREDICOOP contribution, but believed the recuperated funds should be handled as part of its normal operations. No mention was made concerning flow of funds on a pari-passu basis.

To assure adequate control and use of grant funds and establish a pari-passu basis for contribution of grant and counterpart funds USAID/Paraguay and CREDICOOP should meet and agree upon the procedures to be used. The agreed upon procedure should be put into an implementation letter. USAID/Paraguay advised us in its reply to a draft of this report that an implementation letter had been drafted and would be issued shortly. Since the implementation letter has not been issued, we have retained our recommendation.

#### Recommendation No. 7

USAID/Paraguay, in conjunction with CREDICOOP, should establish a detailed procedure for the control of grant and counterpart funds and establish a basis for the flow of funds. This procedure should be put into an implementation letter.

#### Special Development Activities Project No. 526-0601

The accounts and records for Special Development Activities were not being adequately maintained by USAID/Paraguay. Control records were not adequate to readily determine subproject status, formal reporting was needed that would show both the financial and physical status of subprojects and more pre-visits and inspections of projects were needed.

The Special Development Activities project was initiated in 1964 and through December 31, 1979, a total of 269 subprojects in agriculture, education, and health had been approved by USAID/Paraguay for a total of \$548,000. AID's average support for each subproject has been \$2,037. As of December 31, 1979, supporting documentation for all but \$84,000 had been received by USAID/Paraguay.

The purpose of the project is to provide funds for the support of small (maximum \$3,000) subprojects which are to have immediate impact and promote self-help consciousness in the communities being assisted. At least 50 percent of the cost of each subproject is to be provided by the local communities through the contribution of funds, labor and/or materials.

We found that improvements in documenting, selecting, managing and monitoring the subprojects were needed. These areas are discussed in the following paragraphs.

#### Documentation

The USAID/Paraguay Special Development Activities office maintained a master log of approved subprojects. When a subproject has been approved, it was entered in the master log in chronological order. In addition to the master log, an individual folder was maintained for each of the subprojects. Neither of these two sources showed the status of the subproject quickly.

The master log did not show (a) dates subprojects were approved, (b) date of physical completion, (c) date of financial completion, nor (d) dates of site inspections. The individual subproject folders did not, in most cases, contain copies of completion reports or field trip reports because most had not been made.

The individual subproject folders were filed in chronological order and were not separated according to project status (complete/incomplete) or in any other way. There were no markings or other annotations on the outside of the folder which indicated the status of the subproject. To determine the status of the subprojects, the individual subproject folders must be pulled and reviewed in detail. An easier method should be devised.

### Subproject Selection

Two subprojects were visited and weaknesses in subproject selection were noted. In one case, it was questionable whether the institution should have received Special Development Activities funds. In the other case, the facilities provided were not being used because the subproject sponsor lacked funds to provide the equipment needed. Pre-approval visits would probably have resulted in non-approval of the subprojects and prevented the situations from arising.

A grant of \$379,700 (\$2,700) to the Escuela Agricola Salesiana "Don Bosco" to finance materials and labor to build a chicken coop for 1,000 chickens was approved in fiscal year 1978. The purpose of the subproject was to teach poultry raising to some 80 low-income rural students and production would be sold to generate income for the school. We found that the subproject was a big success. The AID-financed building was finished and three others had been added. Capacity had been increased to house 3,000 chickens. At the time of our visit, the chicken count was 1,622 hens, which were producing 50 dozen eggs per day. The hens lay for a period of one year and then are sold for meat. Seventy percent of the eggs and hens were sold to the families of the students attending the school. The problem was that the institution billed as an Agriculture School was actually a catholic seminary. Agriculture was a very limited part of the curriculum. Given the boys at the school were poor and most students starting an education at a seminary do not become priests, the fact remains AID subsidized an activity that benefited the church.

The other subproject site we visited was financed with a grant of \$326,660 (\$2,420) to Colegio San Alfonso to finance the construction of a multi-purpose classroom. This grant was approved during fiscal year 1979. The classroom was to be used to teach courses in electronics, carpentry, technical drawings and home economics. We found during our visit that the classroom had been completed but was not in use. The school did not have the funds to buy the necessary equipment. An application for financial aid had been submitted to the Paraguayan Ministry of Education. The Director of the school could not give us a date when the completed classroom would be put to use.

In both cases, a better pre-project review would have turned up the discrepancies. With the Peace Corps volunteer doing pre-project reviews these problems should be eliminated.

### Internal Reporting

The annual information report to USAID/Paraguay's Mission Director was not adequate. The report simply lists current year subprojects citing subproject no., title and description, sometimes noting the subproject was completed and the

grant amount. The report was merely a listing of the information contained in the master log maintained by the Special Development Activities office and as noted above this log did not contain enough information on the subprojects.

### Advances to Grantees

USAID/Paraguay makes an advance of all AID-provided funds to the grantee at the time the grant agreement is signed. USAID/Paraguay records these payments on its records as funds fully expended even though the grantee has not actually expended the funds.

At some later date, the grantee expends the funds for subproject activities and provides supporting documentation to USAID/Paraguay. After receiving supporting documentation sufficient to cover the amount of funds advanced, USAID/Paraguay considers the subprojects financially closed.

As of February 12, 1980, we found that there were 29 subprojects that had not been financially closed and advances of \$84,000 remained to be supported with documentation by the grantees. Of course, USAID/Paraguay's official records showed these \$84,000 expended and fully accounted for by the grantees. The 29 open subprojects had been approved in five prior fiscal periods (15 in fiscal year 1979; 7 in fiscal year 1978; 3 in fiscal year 1977; 2 in the transitional quarter of 1976; and 2 in fiscal year 1975).

USAID/Paraguay keeps track of the financial status of each subproject by using memorandum accounts maintained by its financial analyst. Periodically the financial analyst gives a list of funds to be accounted for to the Special Development Activities office. That office annotates the list showing what action has been taken to clear the outstanding amounts. This periodic status reporting was done informally and once the list has been returned to the financial analyst it was discarded.

We believe USAID/Paraguay should formalize the advances made to grantees for Special Development Activities and enter these advances into its official records for proper accounting and follow-up action.

### Monitorship

Up to January 1980, USAID/Paraguay had generally not actively monitored Special Development Activity subprojects. Our review of fiscal year 1978 and 1979 subproject files showed that prior to January 1980 only 6 of the 45 subprojects approved in those years had been visited.

In January 1980, a Peace Corps Volunteer was assigned as Special Projects Field Coordinator. Among other duties, the volunteer monitors the Special Development Activities by visiting each subproject site twice - once, either as a preliminary site inspection or during implementation, and secondly after the project has been finished. Site visits to 38 subprojects were completed up to February 25, 1980. The plan was to have the Peace Corps Volunteer visit all projects approved less than 4 years ago as well as all projects approved prior to that date where financial documentation had not been submitted by the grantee.

The use of a Peace Corps Volunteer to make field visits seems to be ideal. At a minimum cost, USAID/Paraguay was getting a good look at its Special Development Activity subprojects.

In a memorandum to USAID/Paraguay, we recommended that:

- The Special Development Activities office expand the subproject log to include all pertinent data.
- The Special Development Activities office provide a semi-annual report to USAID/Paraguay's Mission Director which shows project progress and status both financially and physically.
- Special Development Activities grants be recorded as advances on the Controller's records, and
- USAID/Paraguay request the Peace Corps to continue the services of the Special Projects Field Coordinator (current tour ends in June 1980).

At our exit conference, USAID/Paraguay provided documentation to show that action had been taken to implement all recommendations proposed, except for formally recording advances made to Special Development Activities grantees. To our proposed recommendation, USAID/Paraguay replied:

"The Mission believes there is nothing to be gained by treating the SDA (Special Development Activities) disbursements as advances rather than cash grants for SDA activities includes the eventual accounting for the cash grant. If the cash grants were to be treated as advances, paperwork would quadruple for an activity which is already consuming an inordinate amount of Mission time when compared with the dollar volume of the activity (\$50,000 to \$70,000 a year). Reporting SDA's as advances would also cause an avalanche of reporting under the new cash management instructions from Treasury which limits advances to 30 day requirements.

"Accordingly, the Mission prefers to continue treating the SDA's officially as cash grants and believes that present procedures provide an adequate internal control over the SDA grants."

We believe that by recording the advances made to Special Development Activities grantees in the official records as advances better control of the subprojects would be accomplished and more current closing of the subprojects would take place.

#### Recommendation No. 8

USAID/Paraguay should establish procedures to record all advances made to Special Development Activity grantees as advances in its official accounting records.

USAID/PARAGUAY  
 STATUS OF AID BILATERAL ECONOMIC ASSISTANCE  
 AS OF DECEMBER 31, 1979  
 (000's)

<u>Category of Assistance and Project Name</u>	<u>Project No.</u>	<u>Obligated</u>	<u>Expended</u>	<u>Unliquidated</u>
<u>Agriculture, Rural Development and Nutrition</u>				
Technical Support	526-0100	\$ 502	\$ 491	\$ 11
Credit Unions	526-0101	1,854	1,802	52
Ag. Plan. & Statistics	526-0104	282	282	0
Rural Enterprises	526-0107	2,500	2,500	0
Small Farmer Technology	526-0109	5,500	0	5,500
Small Farmer Development	526-0113	3,000	3,000	0
Mini Fundia Crop Intensif.	526-0118	627	0	627
Honey Production	526-0119	25	12	13
Indian Settlement	526-0120	336	220	116
Credit Union Financial Stabl.	526-0122	266	222	44
Sub-total		<u>14,892</u>	<u>8,529</u>	<u>6,363</u>
<u>Health</u>				
Health Education II	526-0306	61	47	14
Program Develop. Support	526-0307	1	1	0
Sub-total		<u>62</u>	<u>48</u>	<u>14</u>
<u>Education and Human Resources</u>				
Technical Support	526-0500	424	414	10
Rural Non-Formal Ed.	526-0501	480	480	0
Rural Radio Education	526-0502	579	579	0
Bilingual Education	526-0503	478	72	406
Community Services	526-0506	120	100	20
Vocational Institute	526-0507	96	96	0
Sub-total		<u>2,177</u>	<u>1,741</u>	<u>436</u>
<u>Selected Development Activities</u>				
Legal Rights for Rural Women	526-0509	80	13	67
Legal Aid to the Poor	526-0510	75	0	75
Program Develop. & Support	526-0600	77	77	0
Special Develop. Activities	526-0601	548	548	0
Cadastral Survey/Property Tax	526-0703	2,300	1,878	422
Sub-total		<u>3,080</u>	<u>2,516</u>	<u>564</u>
TOTAL		<u>\$20,211</u>	<u>\$12,834</u>	<u>\$7,377</u>

EXHIBIT B

CADASTRAL SURVEY AND REAL PROPERTY TAX IMPROVEMENT PROJECT No. 526-0703  
 LOAN AGREEMENT No. 526-W-026  
 SCHEDULE OF PROJECT ACCOMPLISHMENTS AND ESTIMATED COMPLETION DATES  
 AS OF 12/31/79

Phase No.	Cadastral Survey Survey Phases	Totals		Percentage of Completion	Estimated Completion Dates
		Quantities	Completed		
1	Acquisition of Pre-Cadastral Data	618,092	562,925	91.1	7/81
2	Acquisition of Cartographic and Photographic Products	163,528	100,328	61.4	2/82
3	Preparation and Combining Pre-Cadastral Data	624,963	560,212	89.6	7/82
4	Field Operations - Urban and Rural	518,352	353,663	68.2	6/83
5	Designing of Cadastral Plans	726,871	515,534	70.9	6/84
6	Preparation of Cadastral Data	500,195	67,143	13.4	12/84
7	Cadastral Maintenance	500,195	66,363	13.3	12/84
	<b>Totals</b>	<b>3,652,196</b>	<b>2,226,168</b>	<b>60.9</b>	

REAL PROPERTY TAX IMPROVEMENT

1	Registration of Property Improvements	41,205
	Square Meters	3,868,805

	<u>TAXES COLLECTED</u>	1975	1979	Percentage Increase
2	Field Collection Function	ø24,551,810 \$ 194,856	ø70,341,991 \$ 558,270	187% <u>1/</u>
3	Tax Collection Agencies	5 ø28,418,851 \$ 225,546	8 ø105,796,432 \$ 839,654	60% 272% <u>1/</u>

1/ Increased Collections Due to Cadastral Project cannot be determined at this time.

Exchange Rate: Guaranies ø126 = US\$1.00.

LISTING OF RECOMMENDATIONS

Recommendation No. 1

The Assistant Administrator for Latin America and the Caribbean should convene a panel to examine the actions of AID personnel involved in the implementation of loan No. 526-W-026 and to make appropriate recommendations where authority was exceeded or not appropriately exercised. (Page 10)

Recommendation No. 2

USAID/Paraguay should obtain status reports from the Paraguayan implementing agency and take follow-up actions where necessary to ensure (1) that all deadlined vehicles are repaired, (2) that the spare parts and tools are adequately stored and controlled and, (3) a suitable repair/maintenance facility is completed. (Page 11)

Recommendation No. 3

USAID/Paraguay, in conjunction with Paraguayan officials, should explore alternative uses for the Rokon motorbikes including experiments for possible agricultural use. If no alternative use is found, the bikes should be sold or otherwise properly disposed of. (Page 14)

Recommendation No. 4

USAID/Paraguay should request the AID/Washington, Office of Data Management, to provide a technician to review the purchases of data processing equipment made with AID Loan No. 526-W-026 funds and provide advise that will assure maximum utilization of the equipment. For equipment that cannot be utilized, a Bill for Collection should be issued to the Paraguayan implementing agency. (Page 17)

Recommendation No. 5

USAID/Paraguay should establish procedures to ensure effective monitorship of its assistance projects. (Page 20)

Recommendation No. 6

The Assistant Administrator for Latin America and the Caribbean give permission to USAID/Paraguay to contract for required technical assistance, utilizing the services of the Regional Legal Advisor and Regional Contracting Officer as necessary, if AID/Washington does not deliver the expertise within a reasonable period of time. (Page 32)

Recommendation No. 7

USAID/Paraguay, in conjunction with CREDICOOP, should establish a detailed procedure for the control of grant and counterpart funds and establish a basis for the flow of funds. This procedure should be put into an implementation letter. (Page 35)

Recommendation No. 8

USAID/Paraguay should establish procedures to record all advances made to Special Development Activity grantees as advances in its official accounting records. (Page 38)

LISTING OF REPORT RECIPIENTS

	<u>Copies</u>
Deputy Administrator, AID/W	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	5
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Controller, Office of Financial Management (OFM), AID/W	1
Mission Director, USAID/Paraguay	5
Paraguay Country Officer, ARA/ECA, AID/W	1
General Counsel, GC, AID/W	1
Director, LAC/DP/PO, AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, Room 813, SA-18, AID/W	4
PPC/E, AID/W	1
AA/DS, Development Support, AID/W	1
Auditor General, AID/W	1
AAG/AFRICA (West), AID/W	1
AAG/AFRICA (East), Nairobi, Kenya	1
AAG/E, Cairo, Egypt	1
AAG/EA, Manila, Phillipines	1
AAG/NE, Karachi, Pakistan	1
AAG/W, AID/W	1
AG/EMS/C&R, AID/w	12
AG/PPP, AID/W	1
AG/IIS, AID/W	1
AAG/LA Bolivia Residency	1
AAG/NE, New Delhi Residency	1
IDCA's Legislative and Public Affairs Office, AID/W	1
IDCA, AID/W	1
IIC/IIS/Panama	1

DATE: July 30, 1980

# memorandum

REPLY TO: Mission Director, Paul A. Montavon *PM*

SUBJECT: Project Status Reports

TO: USAID Project Monitors and Action Officers

1. Beginning Monday, August 4, 1980, we will initiate a process of periodic reporting and discussion of all active Mission Projects. Thereafter, a meeting will be held on the first Monday of each month at 02:30 PM to provide a monthly project status review. All project monitors and action officers are expected to attend this monthly staff meeting, so please note it on your calendars and keep the period from 02:30 to 04:30 free on the first Monday of the month.

2. Mr. Connolly will be contacting all of you in the next few days to discuss the format for reporting on project status. The proposed review system will not only help me to keep informed of project status and problems as they arise, but should also benefit project implementation through regular discussions of the whole program by the technical staff.

cc: DIR  
RF

DIR:PAMontavon:brhs, 7.30.80

UNCLASSIFIED

**BEST AVAILABLE DOCUMENT**

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10  
(REV. 7-76)  
GSA FPMR (41 CFR) 101-11.8  
5010-102

# BEST AVAILABLE DOCUMENT

July 18, 1980

18 de julio de 1980

Senator Leonidas P. de Virgili  
Lic. Juan Peralta Paredes  
CREDICOOP  
Asunción

Senadora Leonidas P. de Virgili  
Lic. Juan Peralta Paredes  
CREDICOOP  
Asunción

Ref.: Project No. 526-0118  
Minifundia Crop  
Intensification  
Implementation Letter  
No. 4

Ref.: Proyecto No. 526-0118  
Intensificación de Cultivos  
en la Zona de Minifundio  
Carta de Ejecución No. 4

Dear Sirs:

De mi consideración:

This letter provides you guidance concerning the accounting and control of funds to be used for small farmer credit under the subject Project. Project funds include AID grant funds, CREDICOOP's counterpart contribution, and reflows generated from repayment of small farmer loans. Provisions herein described complement those set forth in our previous Implementation Letter No. 3 dated May 22, 1980.

Esta carta proporciona indicaciones relativas a la contabilidad y el control de fondos a ser utilizado con relación al crédito para pequeños agricultores bajo el Proyecto de referencia. Los fondos del Proyecto incluyen fondos de donación de AID, la contribución de contrapartida de CREDICOOP, y recuperaciones generadas a través de los reembolsos de préstamos a pequeños agricultores. Las indicaciones detalladas más abajo complementan aquellas descritas en nuestra Carta de Ejecución No. 3 del 22 de mayo de 1980.

1. All reflows derived from repayment of small farmer loans, regardless of whether these loans are financed by AID or CREDICOOP, should be used only for production credit during the life of the Project. All of the reflows will be needed for this purpose since additions of new capital alone will be insufficient to meet total

1. Todas las recuperaciones generadas mediante reembolsos de préstamos a pequeños agricultores, sin distinguir entre préstamos financiados por AID o CREDICOOP, deben ser usadas únicamente para créditos de producción durante la vida del Proyecto. Será necesario utilizar todas las recuperaciones para este propósito ya que la incorporación de capital nuevo por sí solo será insuficiente

credit requirements. Unless modified through subsequent implementation letters, annual contributions by AID and CREDICOOP of first generation capital for small farmer credit will coincide with the amounts shown in Table II - Projection of Expenditures, p. 2, Annex XIII of the Project Paper.

para satisfacer la demanda total de credito. De no existir modificaciones mediante cartas de ejecución subsiguientes, las contribuciones anuales de AID y CREDICOOP de capital nuevo para créditos para pequeños agricultores coincidirán con los montos indicados en el Cuadro II - Proyección de Gastos, pág. 2, Anexo XIII del Documento del Proyecto (Project Paper).

2. CREDICOOP funds and AID funds will be added to the small farmer credit fund on a pari passu basis in accordance with the ratio of contributions by AID and CREDICOOP to be made for production credit in a given year. Unless modified through subsequent implementation letters, CREDICOOP, for each new dollar contributed by AID, will put \$1.38 into the fund in Project Year (PY) 1; \$0.50 in PY 3; and \$1.06 in PY 4. In PY 5 CREDICOOP will provide all new capital to the fund. No new monies for small farmer credit are expected to be needed in PY 2.

2. Los fondos de CREDICOOP y los de AID serán incorporados al fondo de créditos para pequeños agricultores sobre una base pari passu en proporción con las contribuciones de AID y CREDICOOP para créditos de producción durante un determinado año. De no existir modificaciones mediante cartas de ejecución subsiguientes, por cada dólar nuevo contribuido por AID, CREDICOOP aportará al fondo \$1,38 en el 1er. Año del Proyecto (AP); \$0,50 en el 3er. AP; y \$1,06 en el 4º AP. En el 5º AP CREDICOOP proveerá todo el capital nuevo para el fondo. Se considera que no se necesitará capital nuevo para créditos en el 2º AP.

3. AID will disburse its contribution according to the procedures described in Sections II.A. and II.B. of Implementation Letter No. 3. Should an advance of AID funds become necessary, such advance will be deposited into a separate bank account as per Section II.B. of Implementation Letter No. 3.

3. AID desembolsará su contribución de acuerdo a los procedimientos descritos en las Secciones II.A. y II.B. de la Carta de Ejecución No. 3. De ser necesario un adelanto de fondos de AID, el mismo será depositado en una cuenta bancaria separada según la Sección II.B. de la Carta de Ejecución No. 3.

4. CREDICOOP will maintain accounting records designed in such a way that the amounts of a) AID grant funds;

4. CREDICOOP mantendrá registros contables diseñados de tal forma que los montos de a) los fondos de donación de AID; b) la

CPFDICOP counterpart; and  
e) raffos can be adequately  
and readily identified.

contrapartida de CPFDICOP; y  
e) las recuperaciones puedan ser  
fácil y adecuadamente identifi-  
cadas.

Sincerely yours,

Sin otro particular, me place  
saludarios muy atentamente.

*Paul A. Montavon*  
Paul A. Montavon  
Director

Clearances: RDO:LKLaird (in draft)  
PO:CWOglesby (in draft)  
CON:LCFengler (in draft)

<sup>DX</sup>  
D/RDO:DLAlverson:PO/ES:SMichailuk:brhs, 7.18.80

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