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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/BOLIVIA'S INTEGRATED ALTERNATIVE DEVELOPMENT PROGRAM

AUDIT REPORT NO. 1-511-08-007-P
JULY 31, 2008

SAN SALVADOR, EL SALVADOR



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FROM THE AMERICAN PEOPLE
Office of Inspector General

July 31, 2008

MEMORANDUM

TO: Acting USAID/Bolivia Mission Director, Peter R. Natiello

FROM: Regional Inspector General/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of USAID/Bolivia's Integrated Alternative Development Program
(Report No. 1-511-08-007-P)

This memorandum is our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and we have included the mission's comments in their entirety in appendix II.

The report includes four recommendations for your action. The information provided in the mission's response to the draft report indicates that management decisions have been made for all four recommendations. Determination of final action for these recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the actions planned by the mission.

I appreciate the cooperation and courtesy extended to my staff throughout the audit.

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SUMMARY OF RESULTS

USAID/Bolivia's integrated alternative development program supports the U.S. Government's (USG's) national interest in combating international crime and drugs, and contributes to the USAID/State Department performance goal "trafficking in drugs, precursors, persons and arms disrupted, and criminal organizations dismantled." The program complements USG-supported interdiction, eradication, and public diplomacy efforts to achieve the performance goal by expanding and strengthening the sustainability of an alternative licit economy in coca-growing and associated regions. (See page 3.)

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed an audit of USAID/Bolivia's integrated alternative development program to answer the following questions:

- Did USAID/Bolivia's integrated alternative development program achieve planned results, and what has been the impact?
- Did USAID/Bolivia's reporting on its integrated alternative development program provide stakeholders with complete and accurate information on the progress of the program and the results achieved? (See page 5.)

For the first audit objective, USAID/Bolivia's integrated alternative development program (IAD) achieved five of the seven FY 2007 planned results we reviewed. The program met or exceeded its planned results for the annual export value of licit products, the number of families benefited by alternative development or alternative livelihood activities, increased sales of licit farm and non-farm products over the previous year, the number of kilometers of maintained or improved roads, and the number of hectares incorporated into the land ownership process. The program partially met its target for two performance indicators: the number of full-time equivalent jobs created and hectares of alternative development crops under cultivation. We could not determine whether the program achieved planned results for FY 2006 because the mission did not establish targets for the seven selected indicators. (See page 7.) Also related to the first audit objective, the audit showed that the IAD program needs an updated exit strategy to phase out funding of two tea factories (page 12), client groups have yet to pay an outstanding balance of counterpart contributions totaling \$213,522 (page 14), and excess program property needs to be disposed of (page 15).

Regarding the second audit objective, USAID/Bolivia (and the mission's contractors and recipients) reported complete and accurate information on the progress of the program and the results achieved. However, one implementing partner had weaknesses in the collection and reporting of one performance indicator: full-time job generation. (See page 16.)

The report recommends that USAID/Bolivia:

- Take action to implement an exit strategy to phase out financial support for two tea-processing facilities that have not become self-sustaining as originally envisioned when purchased in 2003. (See page 14.)

- Develop and implement an action plan to resolve the lack of counterpart contributions required from seven coffee producer grantees. (See page 15.)
- Work with Chemonics and the Government of Bolivia to develop a strategy to dispose of excess property in a timely fashion. (See page 16.)
- Work with the Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) to correct errors in its reporting on full-time equivalent job creation and institute procedures to accurately report performance data in the future. (See page 17.)

USAID/Bolivia agreed with the findings and recommendations in the draft audit report and has begun taking action on some of them. For example, the mission stated that funding mechanisms for the two tea processing facilities have already concluded and that no new activities will take place. Furthermore, the mission stated that the implementing partner will complete an exit strategy by October 31, 2008 for the Chimate tea facility and that a proposal to transfer the Caranavi tea plant will be submitted to the GOB by November 30, 2008. In addition, the mission has specific plans to address the report's other three recommendations. (See page 19 and appendix II.)

BACKGROUND

The U.S. Government made a large commitment to fighting drug production and narcotics trafficking throughout the Andean Region with the inauguration of Plan Colombia, or the Andean Counterdrug Initiative (ACI), in 2000. Plan Colombia was originally a \$4 billion, six-year plan (2000-2005), to reduce drug crop cultivation and improve human rights and the rule of law. The Andean region has been viewed as particularly important because it produces virtually all of the world's cocaine and increasing amounts of high-quality heroin: Colombia, Peru, and Bolivia are the three largest producers of cocaine. Bolivia ranks third behind Colombia and Peru in the cultivation of coca, with 27,500 hectares under coca production in 2006. This represents an 8 percent increase from 25,400 hectares in 2005.¹

ACI is managed by the State Department's Bureau of International Narcotics Control and Law Enforcement Affairs and funds are divided between programs that support eradication, interdiction, alternative crop development, and democratic institution building. Therefore, some ACI funds are transferred to the U.S. Agency for International Development (USAID) for alternative development programs that support development programs in coca growing areas, including infrastructure development, and marketing and technical support for alternative crops. ACI is not the only source of funds supporting counternarcotics and economic development in the Andean region. In addition to various military and Department of Defense programs, the United States also provides economic development aid in the form of Development Assistance, Child Survival and Health, and Economic Support Funds. While these programs are not considered part of the Andean Counterdrug Initiative, they do support many programs which are tangentially related, such as poverty reduction and infrastructure improvements.

Bolivia was at one time the world's foremost producer of coca leaf. It made great strides in reducing coca cultivation under the Banzer-Quiroga administration (1997-2002), but current Government of Bolivia (GOB) policies are significantly different from those of the previous governments and generally rely on voluntary eradication. The total estimate of 27,500 hectares of coca bush cultivation in Bolivia in 2006 included 12,000 hectares (44 percent of total cultivation) permitted by Bolivian Law No. 1008 (1988) for traditional uses such as leaf chewing, medicinal preparations, and coca tea with the majority of this land in the Yungas of La Paz. In October 2004, the GOB temporarily authorized the cultivation of 3,200 hectares of coca in the Chapare region. This policy permits up to 0.16 hectares of coca per household for traditional uses. Farmers are to eradicate any coca in excess of these amounts.

It is in this challenging environment that USAID/Bolivia is implementing its integrated alternative development program (IAD) strategy for 2005 to 2009 to make the alternative licit economy in coca-growing areas increasingly sustainable. The mission plans to accomplish this objective by (1) increasing market competitiveness of alternative rural enterprises, (2) improving basic public services and social conditions, and (3) supporting more effective, transparent, and responsive democratic institutions.

¹ United Nations Office of Drugs and Crime, "Bolivia Coca Cultivation Survey" June 2007.

In June 2005, USAID and the GOB signed a five-year agreement to implement the IAD in the Chapare and Yungas regions.² An implementation letter signed in May 2007 responded to budget cuts and incorporated a number of programmatic adjustments, including shifting focus from the Chapare region toward the Yungas region (the traditional coca growing area). As of September 30, 2007, the program had a total estimated cost of \$291 million, had obligated \$225 million, and had disbursed \$210 million.

The main implementing partners and activities under the IAD program are as follows:

- Chemonics International, Inc. – Chemonics was awarded a cost-plus-fixed-fee contract with a period of performance from March 2005 through February 2010. The original \$60 million contract (currently in the process of being reduced to \$50 million because of budget cuts) supports the Rural Competitiveness Activity (ARCo) by identifying and assisting farmer groups and private sector associations that have considerable potential to be competitive in agricultural, agro-forestry, manufacturing, tourism, or other economic sectors. The project emphasis is on market demand, value chains, and sustainability.
- Chemonics International, Inc. – From November 2003 through May 2008, Chemonics (through a separate contract) also implemented the \$9 million Bolivia Land Titling Project, aimed at improving the lives of residents of the Cochabamba Tropics region (known as the Chapare) by addressing the lack of secure land tenure. To accomplish this task, the project provided assistance to strengthen the Instituto Nacional de Reforma Agraria and the Government of Bolivia’s property registry entity, the Derechos Reales. This institutional strengthening would allow these GOB entities to replicate the land titling processes in other parts of the country.
- Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) – In August 2005, ACDI/VOCA received a \$42 million cooperative agreement extending through July 2010 to implement USAID/Bolivia’s Integrated Community Development Fund as part of the overall integrated alternative development program. The principal objectives of the activity are to increase access to public goods and services for communities and smallholder-farmer organizations that are vulnerable to the coca-cocaine economy; increase the participation of local leaders, local governments and citizen organizations in the development process through a participatory process; improve the welfare of poor rural families by attending to the basic needs of communities; and support emergency and immediate-impact activities through rapid response to social conflict and natural disasters.
- United Nations Office of Drugs and Crime – In September 2005, the United Nations Office of Drugs and Crime received a grant of \$6.7 million from USAID, in addition to its own contribution of \$2.5 million, with the goal of establishing and facilitating the management of the natural resources in the Tropics of Cochabamba and the Yungas of La Paz.

² According to the United Nations Office of Drugs and Crime’s “Coca Cultivation Survey for Bolivia,” dated June 2007, 69 percent of the total hectares under coca production for 2006 were in the Yungas region and 30 percent were in the Chapare region.

- Rural Roads Authority Project – Through a grant agreement with the GOB, USAID/Bolivia provides support to the Rural Roads Authority Project. Overall, the project’s aim is to rehabilitate, improve, and consolidate a reliable rural road network in the Chapare and Yungas regions in order to link agricultural products with markets and support tourism and social development. The estimated cost of this project was \$6 million in FY 2006 and \$5.1 million in FY 2007.

AUDIT OBJECTIVES

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed an audit of USAID/Bolivia’s integrated alternative development program to answer the following questions:

- Did USAID/Bolivia’s integrated alternative development program achieve planned results, and what has been the impact?
- Did USAID/Bolivia’s reporting on its integrated alternative development program provide stakeholders with complete and accurate information on the progress of the program and the results achieved?

The audit scope and methodology are presented in appendix I.



Áreas de Intervención de Desarrollo Integral - USAID en Bolivia



(Map courtesy of Chemonics)

AUDIT FINDINGS

Did USAID/Bolivia's integrated alternative development program achieve planned results, and what has been the impact?

USAID/Bolivia's integrated alternative development program (IAD) achieved five of the seven planned results we reviewed³ for FY 2007. The program met or exceeded its planned results for the annual export value of licit products, the number of families benefited by alternative development or alternative livelihood activities, increased sales of licit farm and nonfarm products, the number of kilometers of maintained or improved roads, and the number of hectares incorporated in the land ownership process. The program partially met its targets for the remaining two indicators, hectares of alternative development crops under cultivation and the number of full-time equivalent jobs created. We could not determine whether or not the program achieved planned results for FY 2006 because the mission did not establish targets for the seven selected indicators.

Table 1: Selected USAID/Bolivia Integrated Alternative Development Program Indicators for FY 2007 and FY 2006

Indicator	FY 2007 Target	FY 2007 Results	FY 2006 Target	FY 2006 Results
Performance Management Plan Indicator				
Annual export value of licit products coming from Cochabamba Tropics and Yungas of La Paz (\$ millions)	28	35	No target established	N/A
Operational Plan Indicators				
Hectares of alternative development crops targeted by USG programs under cultivation	6,900	6,053 ⁴	No target established	4,900
Number of families benefited by alternative development or alternative livelihood activities in USG-assisted areas	5,947	12,671	No target established	7,584
Increased sales of licit farm and non-farm products in USG assisted areas over previous year (\$ millions)	15.24	16.54	No target established	11.40
Number of full-time equivalent jobs created by USG-sponsored alternative development or alternative livelihood activities	5,446	3,491	No target established	4,504
Number of kilometers of maintained and improved roads	540	548	No target established	4,113
Number of hectares incorporated in the land ownership process	100,000	113,537	No target established	115,000

³ These seven indicators were selected because they are considered to be the principal planned results of the program.

⁴ The target and reported results relate to activities implemented by the United Nations Office of Drugs and Crime. Chemonics achieved an additional 5,422 hectares of alternative crops under cultivation for FY 2007, but Chemonics' activities were not included in the target or the results reported above.

Actual results fell short of the established targets for licit crops and employment generation mainly because of a “wait and see” policy that USAID/Bolivia adopted in 2006, hoping to better align its activities with the Government of Bolivia’s still unclearly defined policy toward coca. Later that year, escalating violence in Caranavi led to the suspension of some of the program’s activities. During this period, projects were still approved on a case-by-case basis, but large-scale implementation efforts were not initiated until May 2007 when USAID/Bolivia and the GOB reached an agreement on program priorities. Implementing partners cited the influence of these events on achievement of program targets, which were established under the assumption that work would proceed uninterrupted. Because the issues affecting the political and security environment have been or are being addressed by the mission, we are not making any recommendations.

In achieving the five planned results specified above, USAID/Bolivia and its implementing partners have increased the sales of local businesses through improved market access, heightened communities’ access to public goods and services, and assisted rural families in meeting their basic needs.

As shown by the results shown in Table 1 above, USAID/Bolivia’s integrated alternative development program has had a positive impact on thousands of Bolivian families through its approach to providing Bolivians with alternative livelihoods to coca growing. The following examples illustrate the project’s impact:

- Producers of amaranth (a highly nutritious grain) in the community of Irupana estimated that 40 percent of their production was lost when they used to thresh the grain by hand. With threshing machines, purchased with Chemonics’ assistance, 100 percent of production is now available for processing. With Chemonics technical assistance, these producers created a line of breads, flour and snack foods. Furthermore, 80 of the amaranth producers have joined efforts with 120 honey beekeepers to produce a nutritious product that will be used for the Bolivian Ministry of Health’s prebirth and postbirth subsidy program. An order for a one-year supply of this product has already been placed.



In Irupana, producers process amaranth into breads, flour, and snack foods. Photo taken by a RIG/San Salvador auditor on April 9, 2008.

- Farmers in the community of La Plazuela estimated that 10 percent of their mango crop spoiled during transport and was unable to be sold at market. With ARCo’s assistance, the farmers purchased 6,314 plastic crates to replace their flimsy cardboard boxes. When stacked, the durable crates do not damage the fruit, allowing more to arrive safely at market. As a result, farmers no longer lose a

significant portion of their crop and also will be able to transport other goods. More than 100 families make their living from the mango crop.



Mango farmers in La Plazuela replaced their cardboard boxes with durable plastic crates, allowing more undamaged fruit to arrive at market. Photo taken by a RIG/San Salvador auditor on April 9, 2008.

- Coffee farmers in Trinidad Pampa, Coripata were unable to produce a consistent quality of roasted coffee bean because they could not control the temperature and timing of their old machinery. Hence, the price per kilogram was at most 20 bolivianos (the Bolivian local currency). Through ARCo's assistance, a 16-member local organization acquired a new gas- and electric-powered roasting machine. Now, they roast three blends of coffee: European, Italian, and American. Once the organization receives its sanitary practices certification, the price is expected to reach 30 to 40 bolivianos per kilogram. More than 700 local farmers are selling their harvests to the organization to be roasted.



New equipment for roasting coffee beans is used by a local organization in Trinidad Pampa. Photo taken by a RIG/San Salvador auditor on April 10, 2008.

- ACDI/VOCA uses a grassroots, community-based approach to increase access to public goods and services and working to meet the basic needs of poor rural families. Since the project strives to satisfy a community's stated needs, its impact is best exemplified by highlighting some of their varied activities. For example:
 - In Huanacán, Chulumani, USAID's funds were used to complete the second floor of a school serving a number of surrounding communities. A parent board is responsible for the maintenance. An estimated 570 students attend classes in the building, which is expected to serve the communities for the next 15 to 20 years. Pupils, teachers, and parents showed their appreciation through their class leaders and school director at the time of the auditors' visit. Some 240 families have benefited from the project.



An estimated 570 students from Huancané and the surrounding communities attend primary and middle school in this building. Photo taken by a RIG/San Salvador auditor on April 9, 2008.

- A community market in Arapata, Coripata was built with ACDI/VOCA's assistance. The market is expected to hold 45 microbusinesses, benefit 46 families, and serve the community's 1,600 residents. At the time of the auditors' visit, 60 percent of the structure had been completed; it was expected to be completed by May 2008.



Arapata's market was expected to be completed by May 2008. Located in the center of the community, the market will house 45 stalls. Photo taken by a RIG/San Salvador auditor on April 10, 2008.

- USAID/Bolivia's Land Titling Project has helped thousands of Bolivians receive legal title to their land. According to mission documents, as of September 30, 2007, 31,481 properties totaling 414,870 hectares in the Chapare have been incorporated into the land title regularization process. The owners of 33 percent of these properties have received title to their land. Another 33 percent are awaiting the signature of the President of Bolivia in order to advance to the final stages of the process. However, the President has not approved any titles since August 2007.



A Bolivian man proudly holds his newly received land titles. Photo provided by Chemonics International, Inc.

- USAID/Bolivia reported that the Rural Roads Authority Project helped rehabilitate or improve 548 kilometers of roads during FY 2007. The Rural Roads Authority strives to create a rural roads network in the Chapare and the Yungas regions that will encourage economic development and tourism.



A road in the Chapare region supported by the USAID/Bolivia's Rural Roads Authority Project. Photo taken by a RIG auditor on April 10, 2008.

Although the program continues its positive work implementing its program strategy to increase the sustainability of licit economic activities in coca growing areas, the mission needs to address three issues. The mission needs to update and implement a strategy to phase out support for two Yungas tea factories, obtain required counterpart contributions from certain coffee producer groups, and dispose of excess program property. These issues are discussed in the following report sections.

Program Needs an Updated Exit Strategy to Phase Out Funding of Tea Factories in the Yungas Region

Summary: The mission's strategic objective for its IAD program is to make the alternative licit economy in coca growing regions increasingly sustainable. Under a previous mission project, the market access and poverty alleviation (MAPA) project, two tea-processing facilities in Caranavi and Chimate were purchased in August 2003. The MAPA project ended on December 31, 2005, and the responsibility for managing these activities was transferred to the new Chemonics team under the current rural competitiveness activity (ARCo). Although USAID/Bolivia and Chemonics have known that the competitiveness and sustainability of one of these tea plants is questionable and that the other is not likely to be sustainable in the foreseeable future, the phasing out and transfer of the two tea processing facilities has been delayed because of unresolved property rights issues and the need to obtain the GOB's agreement to transfer one of the plants. Approximately \$2.5 million has been spent so far on these plants, and the program continues to spend about \$20,000 a month to sustain plant activities.

The mission's objective under the IAD program is to make the alternative licit economy in coca-growing regions increasingly sustainable. Its agreement with Chemonics to implement the rural competitiveness activity states that the contractor shall not engage in approaches that are not sustainable. The contractor is to phase out any activities and sectors that are not competitive and sustainable. Moreover, the contractor is to gradually phase out incentives and subsidies provided to business and producer groups and these groups are to become self-directed and sustainable on their own in a competitive marketplace. The contractor is to develop clear approaches to using such subsidies effectively, without creating dependency or gross distortions. The contractor should also determine how it plans to remove subsidies over time, and to develop the exit strategies, mechanisms, and approaches it will undertake to "graduate" businesses and producer organizations from USAID assistance.

Under the previous MAPA project, in August 2003, Chemonics purchased two tea processing facilities (black and green tea processing) located in Caranavi and Chimate to help local farmers move away from coca cultivation by providing support in tea leaf production, processing, and marketing. Both of these plants are located in the Yungas region of the Department of La Paz. The MAPA project ended on December 31, 2005 and the responsibility for managing these activities was transferred to the new Chemonics team under the current rural competitiveness activity. To avoid disruption in the tea activities during the period between the two projects, Chemonics entered into a subcontract with the Fundación para el Desarrollo Tecnológico Agropecuario del Trópico Húmedo (FDTA-TH) to support the operations of both tea plants starting in August 2005. The plan was to make both facilities competitive and sustainable. USAID funds through MAPA were used to purchase the facilities and equipment. USAID funds were also provided through both MAPA and ARCo to assist FDTA-TH in financing operational costs, to provide technical assistance, and to purchase raw materials from tea producers in the area. However, after five years, these activities are not likely to be sustainable in the foreseeable future (Caranavi) or are of questionable sustainability (Chimate), as discussed below.

Caranavi Tea Plant - In April 2006, all project activities were suspended in the Caranavi area due to possible hostile actions against USAID-supported activities in the region, and FDTA-TH was instructed to suspend operations of the tea facility in Caranavi. In an effort to continue support of the tea producers in the area, the mission re-opened the tea plant by temporarily transferring the property to a third party (FDTA-TH) and continuing support of its operations with project funds through FDTA-TH. As a result, tea operations resumed on June 1, 2006. Subsequently, the mission and Chemonics realized that the Caranavi tea-processing operation is not a viable business, as insufficient quantities of tea are processed in the area.

However, transferring or disposing of the plant would require a signed agreement by both USAID and the GOB, through the Vice Ministry of Coca and Integrated Development, and the mission has not approached the GOB to discuss the issue.

From 2003 through November 2005, the MAPA program incurred expenditures of approximately \$1.1 million in support of the Caranavi plant and as of March 31, 2008, the rural competitiveness activity has spent \$217,917 in support of the Caranavi tea-processing plant operations (not including funds provided for marketing the tea) for a total investment of more than \$1.3 million. Over the last six months, Chemonics provided on average roughly \$5,200 per month in direct support of the tea plant. The plant continues to operate on a scaled-down processing schedule of two or three times a week depending on the supply of tea leaves available.

Chimate Tea Plant - In August 2003, the MAPA program initiated the process of purchasing the Chimate tea-processing facility from Hansa, Ltd., a Bolivian commercial enterprise firm, through a lease-to-buy agreement with a total negotiated price of \$125,000. On February 18, 2004, a new contract was signed with Hansa committing to purchase the property, and in March 2004, MAPA paid \$90,000 toward the purchase of the tea plant based on the acquisition of the entire 5.7 hectares of land being used by the plant. However, it was later determined that Hansa had purchased only three-quarters of a hectare while the plant expanded over the years to occupy 5.7 hectares. Thus, an issue arose regarding tenure over the remainder of the property which has delayed the final payment of \$35,000 to conclude the purchase. Four years have passed since the initial payment was made to Hansa Ltd. and the sale is still not complete. Nor has it been cancelled, and no other solution been found to resolve the issue.

Although the Chimate plant has never been self-sustaining without USAID support, at USAID's behest, Chemonics performed a commercial feasibility study and exit strategy for the plant and delivered it to USAID/Bolivia in June 2007. The study determined that the plant could be transformed into a profitable business and proposed that the tea producers supplying the plant and the FDTA-TH assume ownership of the plant if a development organization or consortium could be found willing to invest between \$500,000 and \$600,000 in the plant. The feasibility study's financial projections show the plant reaching sustainability within three years. International buyers have expressed interest in the high quality tea produced and have paid prices as high as \$7 per pound – substantially more than the prices previously received on the local market according to the mission. The feasibility study also assumes that 125 additional hectares of new tea production will be developed, that Chimate tea markets will continue to expand, and that the plant can continue to obtain premium prices for its tea.

As of March 31, 2008, the rural competitiveness activity has spent \$939,953 supporting the Chimate tea plant (not including funding provided for marketing the tea) with an average of \$15,345 spent every month to support the facility. Additionally, the prior program, MAPA, spent \$210,000 (including the \$90,000 initial payment for the purchase of the plant) during the course of its support of the plant. In total, USAID/Bolivia has spent approximately \$1.3 million to support the Chimate plant.

Chemonics officials stated that the delay in phasing out funding and transferring the facilities was due to the need to resolve various property rights issues. Chemonics submitted a detailed exit strategy for the Chimate operation in June 2007, containing a timeline for exiting the activity by December 2007. However, measures to prepare the operation and do the market testing necessary to attract a viable investor and exit the enterprise took longer than originally anticipated. Negotiations with an interested investor/partner began in January 2008.

MAPA and Chemonics have spent approximately \$2.5 million has been spent on these plants, and the program continues to incur monthly costs on these activities in the amount of approximately \$20,000. The mission should take appropriate actions to allow the program's limited financial resources to be used to fund more competitive and sustainable activities.

Recommendation No. 1: We recommend that USAID/Bolivia work with Chemonics to prepare and implement an updated exit strategy detailing specific actions to be taken along with timeframes to phase-out funding of the two tea-processing facilities.

Program Needs an Action Plan to Collect Counterpart Contributions from Coffee Producers

Summary: The mission's prior alternative development program, MAPA, entered into grant agreements with seven coffee producer groups whereby the program would fund \$876,011 and the coffee producers would provide \$265,920 in counterpart contributions. However, the producer groups contributed only \$52,401, leaving an outstanding balance of \$213,522 for their portion of the project funding. Chemonics' ARCo program inherited this outstanding balance and contracted with FDTA-TH to collect the delinquent payments from the appropriate coffee producers' groups. FDTA-TH has been unsuccessful because the grantees (half of whom are private companies) fear that the GOB will not approve the official transfer of the assets to them. Thus, Chemonics and the producers' groups are at an impasse: the assets cannot be distributed until outstanding balances are collected, but the producers are reluctant to pay without guarantees of ownership. The mission should develop and implement an action plan to clear the ongoing outstanding counterpart contributions from the coffee producer grantees.

Another issue inherited by the ARCo program from its predecessor program, MAPA (which ended in 2005), is that of outstanding counterpart contributions by coffee-processing center grants. The agreements with coffee producers required that, once they generated income, they were to pay their counterpart contributions.

However, the seven grantees have paid only \$52,401 in counterpart contributions, leaving an unpaid amount of approximately \$213,522. Chemonics has attempted to recover the counterpart obligations on its own, even going as far as subcontracting with FDTA-TH to serve as a collection agent. Under the arrangement developed by MAPA, FDTA-TH would have been the recipient of these payments anyway as contributions to its own development fund. In its search for solutions, Chemonics subcontracted FDTA-TH to pursue the collections in a more aggressive manner. In the end, FDTA-TH was unsuccessful in collecting any of the outstanding counterpart obligations, and no payments were ever made under this subcontract, which concluded at the end of 2007.

Chemonics' staff stated that the coffee producers were unwilling to contribute their portion because, given the current political environment, there was no assurance that they would receive ownership of the coffee plant fixed assets after their contributions were made. The IAD program needs a written letter of approval from the GOB to transfer ownership of the coffee plants, but mission and partner officials do not believe the current GOB would be willing to authorize such a transfer to private enterprises.

The end result of this longstanding issue is that \$213,522 in past-due counterpart contributions has not been received from the grantees and, therefore, could not be put to use funding additional productive development projects as planned.

Recommendation No. 2: We recommend that USAID/Bolivia develop and implement an action plan to resolve the lack of counterpart contributions required of the coffee producers.

Mission Needs an Action Plan for the Disposition of Program Assets

Summary: Section 52.245-1 of the Federal Acquisition Regulation requires that excess property be disposed of at the time it is determined to be in excess of contractual needs. The current Chemonics activity has been warehousing hundreds of unusable items from previous awards that need disposal. The cost of warehousing these items amounts to approximately \$1,600 per month, and Chemonics has spent \$25,000 to date in warehouse and security expenses for these items. One reason the items have not been disposed of is that mission and partner staff doubt that the GOB would approve the disposition of the property and assets to private enterprises as they would like to do. However, the mission has not yet approached the GOB.

Section 52.245-1 of the Federal Acquisition Regulation, entitled "Government Property," requires a contractor to have proper authorization from the Contracting Officer for property disposal and to dispose of items at the time they are determined to be in excess of contractual needs. Additionally, the Chemonics contract states that the contractor will submit to the cognizant technical officer for approval a long-range procurement plan for new nonexpendable property items that carefully considers source, origin, and nationality restrictions, as well as inventories and disposition of nonexpendable property to be transferred from activities previously managed by other USAID contractors and grantees in the Chapare and Yungas areas.

Chemonics staff stated that, since 2005, the project has been warehousing hundreds of items from previous IAD programs that need to be disposed of. The list of items warehoused for disposition includes desks, chairs, bookshelves, filing cabinets, and

vehicles. To accommodate all these items, the program has rented a number of warehouse and vehicle storage facilities in the cities of La Paz and Cochabamba. The assets have little or no value, but the program has spent almost \$25,000 to store and secure this excess property and continues to incur more than \$1,600 a month in storage and related expenses.

Mission and partner staff stated that they doubt the GOB would approve the disposition of property and assets to private enterprises, but they have not approached the GOB with the issue.

The program continues to pay warehousing and security costs related to the excess assets. To date, the program has paid almost \$25,000 in warehousing and security costs to store the assets. Additionally, simply warehousing unneeded assets is unwise since they may lose value due to obsolescence or lack of regular maintenance.

Recommendation No. 3: We recommend that USAID/Bolivia work with Chemonics and the Government of Bolivia to develop a strategy with specific actions and timeframes to dispose of unneeded assets in a timely fashion.

Did USAID/Bolivia’s reporting on its integrated alternative development program provide stakeholders with complete and accurate information on the progress of the program and the results achieved?

USAID/Bolivia’s reporting on its IAD program was complete and accurate with the exception of its reported figures for its performance indicator “number of full-time equivalent jobs created.” This issue is discussed in the following section.

ACDI/VOCA Needs to Strengthen Reporting of the Generation of Full-Time Equivalent Employment

Summary: According to Automated Directives System (ADS) 203.3.5.1, performance data should reflect the five quality standards of validity, integrity, precision, reliability, and timeliness. ACDI/VOCA’s performance monitoring plan established a methodology to determine the employment generated from infrastructure, economic, and productive activities. However, monitoring and evaluation personnel did not apply this methodology in the case of infrastructure projects, relying instead on regional field offices’ reports on employment generated. Little oversight was carried out to determine the accuracy or precision of the data submitted to USAID/Bolivia through quarterly reports. The weak level of oversight resulted in the overreporting of employment figures in both FY 2006 and FY 2007. USAID/Bolivia and ACDI/VOCA should periodically verify performance data collection methodologies and results. The mission should also work with its partner to correct prior performance reporting errors and to strengthen the collection and reporting of full-time equivalent employment creation.

USAID’s ADS section 203.3.5.1 outlines five standards of quality that performance data should reflect. Missions should assess the validity, integrity, precision, reliability, and timeliness of data to ensure that the strategic objective team is aware of its strengths,

weaknesses, and ability to influence management decisions. USAID provides additional guidance to strengthen performance data quality in its Monitoring and Evaluation Guidebook, which states that, for performance monitoring data for indicators, implementation should be periodically checked to maintain quality control and that programs should have routine procedures for maintaining quality, such as staff training for all new staff, periodic review of procedures for consistency of record keeping, and sometimes supervisor monitoring or duplicate collection/coding for reliability checks.

In November 2007, USAID/Bolivia assessed the quality of the data to be reported for the number of full-time equivalent (FTE) jobs created by alternative development or alternative livelihood activities through ACDI/VOCA's activities. In its assessment, the mission concluded that the indicator's data quality was satisfactory, citing clearly defined methodologies for determining the number of FTE jobs created under infrastructure, economic, and productive activities.

Infrastructure projects are responsible for more than half of the employment generated by ACDI/VOCA in FY 2006 and FY 2007. In its performance monitoring plan, ACDI/VOCA elaborates a method for estimating employment generation based on historical rates of labor generation for seven types of infrastructure projects, investment amounts, and working days required to achieve one FTE job. However, monitoring and evaluation personnel did not apply this methodology to determine the amount of employment generated. Instead, ACDI/VOCA monitoring and evaluation personnel simply reported the number of people employed during the project. This method overstated FTE employment because most laborers were engaged on a temporary basis only.

ACDI/VOCA reports its results to USAID/Bolivia through quarterly reports. Information from these reports is subsequently reported as the results achieved by the integrated development program. However, little verification was performed by either the mission or by ACDI/VOCA to ensure that the reported performance figures were accurate.

As a result, FY 2006 and FY 2007 achievements for FTE jobs generated by ACDI/VOCA's activities were significantly overreported. In the mission's 2007 operational plan, USAID/Bolivia reported that ACDI/VOCA's activities generated 630 jobs in FY 2006. However, when the established methodology was correctly applied, the number fell to 28, only 4 percent of the reported result. Mission staff stated that 630 jobs were reported because they mistakenly reported the target amount as the actual number of jobs created.

In FY 2007, the correct method for calculating employment generation showed 304 FTE jobs, approximately 62 percent of the 494 reported by ACDI/VOCA.

Accurate information on program results is needed to accurately report on the program's progress and to permit well-informed program and budget decisions.

Recommendation No. 4: We recommend that USAID/Bolivia work with ACDI/VOCA to correct its reporting on FY 2006 and FY 2007 full-time equivalent job creation and institutes procedures to accurately report on this indicator.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Bolivia agreed with the findings and recommendations in the draft audit report and has begun taking action on some of them. Regarding Recommendation No. 1, the mission stated that funding mechanisms for the two tea-processing facilities have already concluded and that no new activities will take place. Furthermore, the mission stated that the implementing partner will complete an exit strategy by October 31, 2008 for the Chimate tea facility and that a proposal to transfer the Caranavi tea plant will be submitted to the GOB by November 30, 2008. In response to Recommendation No. 4, the mission stated that ACDI/VOCA has, among other things, hired a monitoring and evaluation specialist to review 2006 and 2007 results for the equivalent jobs indicator and to evaluate current data collection and validation procedures. The mission also has specific plans along with target dates to implement Recommendation Nos. 2 and 3. Thus, management decisions have been made on all four recommendations. Mission comments in their entirety are presented in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit fieldwork was performed in Bolivia from March 31 to April 18, 2008, at USAID/Bolivia's offices in La Paz; Chemonics International, Inc.'s offices in the cities of La Paz, Coroico, Chimore, and Ivirgarzama; ACDI/VOCA's offices in La Paz; Government of Bolivia offices; and judgmentally selected program communities in the Yungas and in the Chapare regions.

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions: (1) Did USAID/Bolivia's Integrated Alternative Development Program achieve planned results and what has been the impact? (2) Did USAID/Bolivia's reporting on its Integrated Alternative Development Program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved? The audit primarily covered the period from October 1, 2005 to September 30, 2007.

In planning and performing the audit, we assessed the mission's internal controls related to its integrated alternative development activities. The internal controls identified included the mission's performance management plan, mission data quality assessments, cognizant technical officer field visits, program quarterly progress reports, regular communication between mission staff and program implementers, and the mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982.

As of September 2007, USAID/Bolivia's IAD program had total cumulative obligations of \$225.5 million and total expenditures of \$209.5 million. In carrying out the audit, interviews were conducted with officials from USAID/Bolivia, the Government of Bolivia, the Department of State, Chemonics International, Inc., ACDI/VOCA, United Nations Office of Drugs and Crime, the Rural Roads Authority Project, and program beneficiaries. Program documentation provided by these parties was also reviewed.

As part of the audit fieldwork, we met with various producer groups, business leaders, and grantees during our regional visits to the Yungas and Chapare regions. We visited a total of 17 of Chemonics' 216 competitive market access projects and producer groups and 14 of ACDI/VOCA's 457 social and public projects. These 31 activities in the two regions included such projects as community potable water projects, fish farms, banana processing, supplying school furniture, poultry farms, public restroom facilities, pineapple production, honey production, palm heart production and processing, and leadership training to young community-selected leaders.

Methodology

To answer the audit objectives, we interviewed officials from USAID/Bolivia, implementing partners, and the Government of Bolivia. We reviewed relevant mission program documentation, such as the mission's strategic plan, the mission's performance plan, performance management plan, operational plan, award documents, correspondence, field visit reports, and data quality assessments. We also reviewed contractor-prepared documentation, such as annual work plans, quarterly and annual progress reports, and monthly reports prepared by regional office staff.

To determine whether results were achieved, we focused on one performance indicator included in the mission's FY 2005-2009 performance management plan and six indicators included in the mission's FY 2007 operational plan. We selected these seven indicators because they are considered to be the principal planned results of the program. We conducted interviews with officials from implementing partners and a sample of beneficiaries in the field. We reviewed partners' progress reports and supporting documentation. In selecting activities to visit in the field, we judgmentally selected 17 of 216 Chemonics projects and 14 of 457 ACDI/VOCA projects throughout the lower Yungas and Chapare regions. The judgmental sample selection was based on a number of factors including selecting a variety of types of projects and achieving a balance between ACDI/VOCA and ARCo projects. Logistics was also a factor: many projects are remote and travel to them is difficult, and our site visit time was limited.

To determine whether complete and accurate information was reported, we interviewed mission and implementing partner personnel to gain an understanding of how results are collected and reported. We validated the reported results for FY 2006 and FY 2007 by tracing mission-reported results back to the records maintained at the offices of the implementing partners. For three of the selected indicators, we validated the results for two of the eight quarters of the audit period. For one indicator, we validated results for two of the eight quarters for Chemonics and all quarters for ACDI/VOCA. For one indicator for which reporting began in FY 2007, we validated results for one quarter. For two of the indicators, we reviewed data submitted from the implementing partners.

MANAGEMENT COMMENTS

DATE: July 15, 2008

REPLY TO: Alan Hurdus, Acting Director, USAID/Bolivia

TO: Timothy E. Cox, RIG/San Salvador

SUBJECT: USAID/Bolivia's response to the audit report of the Integrated Alternative Development Program (Report No. 1-511-08-00X-P)

USAID/Bolivia has reviewed the draft audit report transmitted to the Mission on June 18, 2008 and provides our comments below. We would like to first thank the RIG leadership and the audit team for the thoughtful and well-written report. The Mission appreciates the efforts taken to understand the complex issues and to propose useful and reasonable recommendations to strengthen the management and performance of our IAD programs. Below are responses to the specific recommendations.

Recommendation No. 1: We recommend that USAID/Bolivia work with Chemonics to prepare and implement an updated exit strategy detailing specific actions to be taken along with timeframes to phase-out funding of the two tea processing facilities.

Response to Recommendation No. 1: The Mission concurs with this recommendation and has already begun to implement the recommendation. Grant assistance to the Chimate tea factory and one sub-contract with the Fundación Trópico Húmedo (FDTA-TH) supporting operational costs of the Chimate and Caranavi tea plants and expansion of production of raw materials concluded on June 30, 2008. Another subcontract with FDTA-TH designed to secure an investor for the Chimate tea operation, also scheduled to conclude on June 30, was terminated prematurely on April 25 when the prospective investor withdrew. While payments under these now-concluded mechanisms will continue to be disbursed over the next several months as results are verified and documentation secured, no new activities under these grants/subcontracts will take place beyond those dates. As such, USAID funding mechanisms for the two tea processing facilities have already concluded.

We are currently operating in a complicated and challenging environment that has a bearing on proposed actions and our ability to optimally resolve and execute proposed actions. Nevertheless an exit strategy to address the implications of our funding and its discontinuation to Chimate, S.A. is currently being updated and will be submitted by Chemonics on October 31, 2008. This will include an updated plan for title transfer of the Chimate tea plant, as well as a transfer of Chimate, S.A. to the local producers. The latter could include provision of limited technical assistance by the ARCo project in organizational development and marketing.

Regarding the Caranavi tea plant, an approval to temporarily transfer ownership of this asset was issued by the Mission to Chemonics in May, 2006. The Mission will submit an asset disposition proposal to the Vice Ministry of Coca and Integrated Development

(VCDI) which includes the proposed transfer of the tea plant by November 30, 2008.

Recommendation No. 2: We recommend that USAID/Bolivia develop and implement an action plan to resolve the lack of counterpart contributions required of the coffee producers.

Response to Recommendation No. 2: The Mission concurs with this audit recommendation. We believe that, in the absence of guarantees from the GOB that the coffee grantees will be able to assume ownership of the coffee processing facilities, it is highly unlikely that these counterpart contributions will ever be collected. This places the status of the assets in limbo, since an Implementation Letter signed by VCDI is necessary in order to transfer ownership of the assets. The Mission, in collaboration with Chemonics and VCDI, will develop an action plan for resolving this issue by November 30, 2008.

Recommendation No. 3: We recommend that USAID/Bolivia work with Chemonics and the GOB to develop a strategy with specific actions and timeframes to dispose of unneeded assets in a timely fashion.

Response to Recommendation No. 3: The Mission concurs with this audit recommendation. The Mission will work with Chemonics to review and update the asset disposition plan and will draft a corresponding implementation letter for the purpose of discussion with VCDI by November 30, 2008.

It should be noted that while the Mission can formulate its action plans, component actions and corresponding dates, and will do so with a view towards maximizing programmatic impact and sustainability, the current policy environment could complicate our ability to effect the proposed disposition of assets in planned time frames.

Recommendation No. 4: We recommend that USAID/Bolivia work with the Assistance (ACDI/VOCA) to correct errors for its full-time equivalent job creation performance indicator and institute procedures to accurately report performance data in the future.

Response to Recommendation No. 4: The Mission concurs with this audit recommendation and has already begun to implement actions in coordination with ACDI/VOCA. These include the following: a) ACDI/VOCA has contracted a study to assess and as necessary refine the methodology used to measure the creation of jobs and increased sales for its economic development projects, b) ACDI/VOCA hired a Monitoring & Evaluation specialist to review 2006 and 2007 results for the equivalent jobs indicator, and to evaluate current data collection and data validation procedures and improve internal quality control methods. The IAD office will conduct periodic checks to assess and maintain data quality control.

USAID/Bolivia will input the correct data in the FY 2008 Performance Review report as well as in the Operational Plan information system (FACTS). These actions are expected to be completed by November 2008 in accordance with Agency guidelines.

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