

# USAID

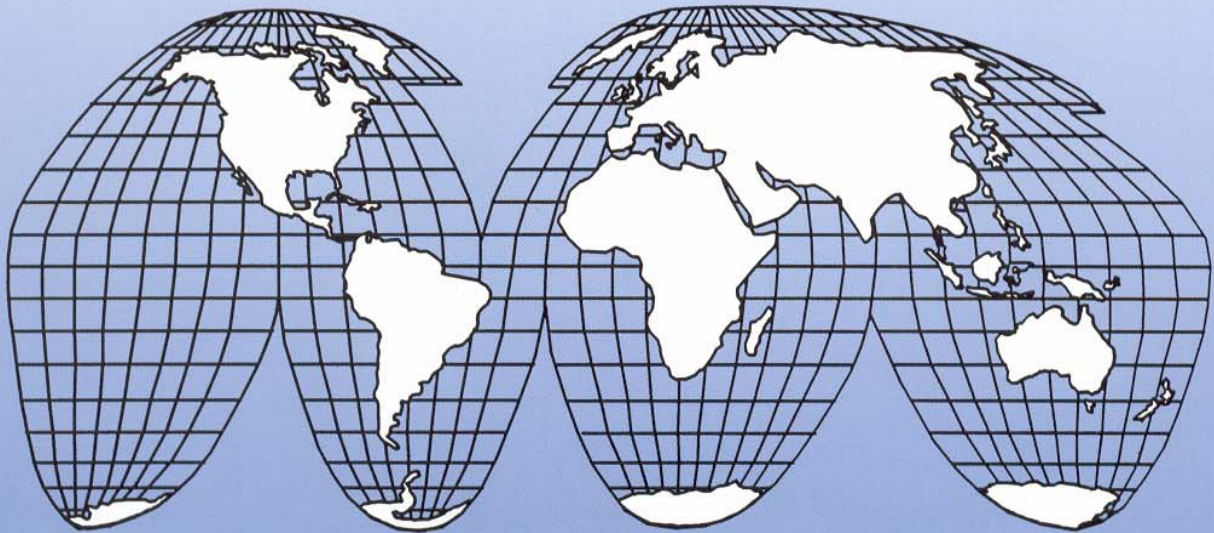
## OFFICE OF INSPECTOR GENERAL

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### Audit of USAID/Peru's Global Development Alliances

Audit Report No. 1-527-05-005-P

February 14, 2005



San Salvador, El Salvador





February 14, 2005

## MEMORANDUM

**FOR:** USAID/Peru Mission Director, Hilda Arellano

**FROM:** Acting Regional Inspector General/San Salvador, John Vernon  
“/s/“

**SUBJECT:** Audit of USAID/Peru’s Global Development Alliances (Report No. 1-527-05-005-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included your response in Appendix II.

This report contains two recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

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## **Summary of Results**

The Regional Inspector General/San Salvador conducted this audit to determine if USAID/Peru considered utilizing Global Development Alliances (GDAs) in planning its activities; if the Mission reported on GDAs accurately and completely; and if selected GDAs achieved their intended results.

The results of the audit concluded that USAID/Peru considered utilizing GDAs in planning its activities (page 7) and that USAID/Peru reported its GDAs accurately and completely (page 10). Of USAID/Peru's three GDAs, it was not possible to determine if two of them achieved their intended results because neither the Mission nor the implementing partners established annual performance targets to measure their intended results (page 12). The third GDA did not achieve its intended results as scheduled (page 15).

Two recommendations were made to address the findings discussed in this report. RIG/San Salvador recommended that USAID/Peru develop performance measures for its Lesser Known Species and Cordillera Azul GDAs, with specified intermediate targets and dates demonstrating when planned results will be achieved over the projects' lives (page 14) and that the Mission modify existing levels of planned annual targets to more closely reflect the slow implementation due to the challenging circumstances within the Huancavelica valley of Peru (page 16).

USAID/Peru agreed with the findings and recommendations presented in this report (page 17).

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## **Background**

Over the last thirty years, the funding mix of financial resources dedicated to assisting the developing world has undergone a major transition. In 1970, 70 percent of the money that went to the developing world from the United States came from the Federal government and only 30 percent came from other sources. By 2000, only 20 percent came from the Federal government and 80 percent from other sources. In recognition of this shift, Secretary of State Colin Powell announced the establishment of the Global Development Alliance (GDA) Initiative in May 2001. The GDA was launched in January 2002 as one of USAID's four pillars to mainstream the use of the Public-Private Alliance business model within USAID. Its aim was to leverage USAID's limited resources to achieve a greater impact.

An alliance is an agreement between two or more parties to jointly define a development problem and jointly contribute to its solution. Alliance partners share resources, risks, and rewards in pursuit of a development objective that may be better achieved working together. USAID's guidelines for the GDA model currently require a minimum one-to-one matching of resources with all alliance partners combined; in addition, the partners' joint share must include non-public resources at least equal to 25 percent of the USAID contribution.

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To support GDAs, the GDA Secretariat was created as a small, temporary unit attached to the Office of the Administrator. The Secretariat provided technical assistance to missions and bureaus and managed an incentive fund to support alliance-building activities. The Secretariat itself did not directly manage GDA programs. Instead, individual operating units designed, negotiated, and implemented alliances in support of their strategic objectives. Performance reporting was the responsibility of the operating unit(s) involved in the alliance and was accomplished through USAID's Annual Reporting System. Operating units also reported alliance activity to the Secretariat for incorporation into the GDA Secretariat's database.

Working closely with development partners was certainly not new to USAID. Since 2001, Public-Private Alliances had been emphasized as a business model to increase USAID's effectiveness in delivering foreign assistance. In fiscal year 2003, USAID reported that it had initiated or substantially expanded an estimated 140 alliances with USAID funding of approximately \$273 million—leveraging an estimated \$1.2 billion in partner contributions. These alliances covered a variety of USAID initiatives ranging from economic growth to humanitarian assistance. Over this same period, USAID/Peru reported three GDAs with USAID funding of nearly \$6 million (of which \$300,000 derived from GDA Secretariat in USAID/Washington) and partner contributions amounting to \$7.1 million.

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## **Audit Objectives**

This audit was conducted as part of the Regional Inspector General/San Salvador's Annual Plan for 2005.

The audit was conducted to answer the following questions:

- Did USAID/Peru consider utilizing Global Development Alliances in planning its activities?
- Did USAID/Peru report its Global Development Alliances accurately and completely?
- Did selected USAID/Peru's Global Development Alliances achieve their intended results?

Appendix I contains a discussion of the audit's scope and methodology.



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**Audit Findings****Did USAID/Peru consider utilizing Global Development Alliances in planning its activities?**

USAID/Peru considered utilizing Global Development Alliances (GDAs) in planning its activities. USAID/Peru had seven strategic objectives in its Strategic Plan (prepared in June 2001) for Fiscal Years 2002 – 2006. Of these seven strategic objectives, two included GDAs. The strategic objectives which incorporated GDAs were the economic objective, “Increased Economic Opportunities for the Poor in Selected Economic Corridors,” and the environmental objective, “Strengthened Environmental Management to Address Priority Problems.”

The economic strategic objective was designed to support and monitor the progress of programs and activities that lead to increased economic opportunities for the target populations of Peru. The principal programs being carried out under the objective were P.L. 480 Title II Food Assistance; Microenterprise and Small Producers Support; Poverty Reduction and Alleviation; and a new Microfinance Initiative.

Of the four principal programs described above, the Poverty Reduction and Alleviation program, managed by Chemonics, was designed to make marketing and production assistance available to small and medium companies through Economic Service Centers located in each of ten priority economic corridors of Peru. These centers provided access to current and projected market information, along with information regarding financial and transportation services. A key function of the centers was the development and facilitation of commercial contacts between buyers and local producers, as well as the identification of companies willing to invest capital in local enterprises. The expected benefit of these centers was to increase production in the region. Both of these activities had been successful in generating increased incomes and employment for the strategic objective’s target beneficiaries.

Adding to the ten centers described above, USAID/Peru signed a memorandum of understanding in January 2002 for an eleventh center located in the Huancavelica Valley, described as the poorest economic corridor in Peru. The memorandum was signed with the Buenaventura Mining Company of Peru. Under this agreement, the Buenaventura Mining Company was to contribute approximately \$1 million to finance operations of the Huancavelica center. USAID/Peru agreed to provide an additional \$140,000 to Chemonics’ existing contract of over \$16 million to manage this eleventh center. This MOU with Buenaventura met the definition of a GDA as defined by the GDA Secretariat. The definition of what constitutes a GDA will be further explained in the next section of this report (page 10).

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The environmental strategic objective was designed to promote sound environmental management policies to address priority problems. The strategic objective also contributed directly to the USAID/Peru Mission's goal of promoting the expansion of sustainable opportunities for improved quality of life through democratic processes and institutions. Community participation in decision-making, support for accountable, transparent governance and for Peruvian partners wishing to undertake peaceful advocacy for environmental policy reform – all elements of democratic processes – were integral elements of the strategic objective strategy.

As part of this strategy, USAID/Peru signed a cooperative agreement with the Field Museum of Natural History, Chicago, for \$5.25 million for environmental conservation activities in the Cordillera Azul National Park of Peru. This program strategy focused on protection of the biological diversity and ecological processes within the Park and also on development of ecologically compatible economic opportunities in the Park's Buffer Zone (agro forestry, diversification of chacras<sup>1</sup>, reforestation). The program included a component to increase local awareness of the biological and economic importance of the park through involvement of key stakeholders in park conservation and management activities. Under this agreement, which commenced in April 2003, the Field Museum of Chicago was to contribute \$5.6 million in cost-sharing.

Another activity under the environmental strategic objective was a program under a memorandum of understanding signed in 2002 involving USAID, the World Wildlife Fund (WWF) and Metafore to establish a Sustainable Forest Global Alliance. The memorandum between WWF and USAID was signed by USAID/Washington with the express intention of creating a GDA involving many countries, not just Peru. Metafore is a non-profit organization which promotes purchasing practices in North America that supports the conservation, protection, and restoration of forests throughout the world. Under this agreement, Metafore would work with USAID to extend its successful collaborative process in North America to forge new global partnerships among environmental organizations, the forest products industry, corporate consumers of wood, and a wide range of other enterprises.

Prior to this signing, USAID/Peru and WWF already had procured an alliance amounting to \$2.1 million via a cooperative agreement signed in May 2002 in which WWF had agreed to implement a forest sector project. This agreement was modified in September 2002 to increase USAID's contribution by \$550,000 in support of the memorandum of understanding described above. Of this amount, \$250,000 was obligated from USAID/Peru's program funds and the remaining \$300,000 through the GDA Secretariat in USAID/Washington. Also involved in this GDA were Exportimo/South Cone Trading Company, a Los Angeles-based furniture manufacturer, and Magensa, a Peruvian furniture manufacturer. These

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<sup>1</sup> Chacras refer to a family plot of land.

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two companies and WWF in the aggregate agreed to match USAID's contribution of \$550,000. The modification allowed the parties to promote lesser known species of wood for furniture manufacturing. Funds were allocated to the furniture companies so that both could manufacture, promote, and sell furniture manufactured from alternatives to the traditional species of wood such as mahogany and oak.

In March 2003, another amendment to the WWF cooperative agreement increased USAID's contribution by almost \$9.9 million (bringing the new total up to \$12.5 million, including the GDA project) to implement the Certification and Development of the Forest Sector project. The design of this project had been contemplated in the original cooperative agreement signed in 2002 to promote the reform of Peru's forest sector.

In April 2003, another cooperative agreement was signed with WWF for a total of \$3.5 million at the Mission Director's request to show rapid results in terms of income and job opportunities resulting from the sustainable use of forest resources. This new cooperative agreement was named Aguaytía-Von Humboldt. In May 2004, USAID/Peru began the process of merging all of these activities into a single cooperative agreement.

In summary, USAID/Peru incorporated three GDAs into its Peru country strategy. Those GDAs were the Huancavelica Economic Service Center, the Cordillera Azul forestry conservation project, and the Lesser Known Species project. These GDAs were created and implemented because the Mission determined that they were compatible with USAID/Peru's economic and environmental strategic objectives. Since 2002, USAID/Peru also considered a number of other GDAs suggested by the GDA Secretariat in USAID/Washington. Most of these GDAs were rejected because they were determined to be incompatible with USAID/Peru's priority areas. Mission officials voiced a number of important themes that grew out of the Mission's consideration of GDAs. Some of those points are presented in this report for informational purposes.

**The GDA Secretariat's Competitive Process** - The GDA Secretariat's role in building GDAs was to facilitate and bring new partners to missions for partnerships that can be mutually beneficial. If all parties agreed that the program was in their own best interest, the program would move ahead to the award stage. The Secretariat's role was neither to manage alliances nor to provide on-going funding (although it could provide seed money for new alliances). Hence, if a GDA were found to be compatible with a Mission country strategy, all additional management and funding responsibilities for the GDA would have to be considered by the Mission before implementing the alliance.

Each year the GDA Secretariat issued its worldwide Annual Program Statements (Statement). This Statement was a competitive mechanism to disperse the little funding the Secretariat had towards alliances that it thought would have multiplier

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effects in terms of development impact. The procedure for application was largely mission-driven and those missions that put in their own funding toward alliances were looked upon favorably.

USAID/Peru officials raised issues with respect to the GDA Secretariat's process of facilitating prospective GDA partners with the Mission. They believed that proposals resulting from a worldwide Statement did not incorporate the unique circumstances and priorities in Peru and its USAID program. In 2002, most of the concept papers reviewed were not consistent with the Mission's programmatic (geographic or technical) focus or approach. Mission officials did not see many viable partnerships coming from such a broad invitation. Also, despite the fact that the Statement clearly stated that there was no commitment to provide funding, the issuance of an invitation to submit concept papers created an expectation that funds would likely be available. The reality of the situation was that, absent some funding from GDA Secretariat in Washington, USAID/Peru's program funds were already committed to other projects. Therefore, it was unlikely that the Mission would be able to fund even good proposals.

This process led to some confusing management situations. For example, in 2002, Mission officials received a concept paper to conduct alliance work in several countries, not all in the Andean region. Unfortunately, no one was identified to coordinate technical, financial, and procurement considerations across those countries. The Mission believed that a Washington office should have been designated to take the lead in such cases, at least until individual and group Mission interests and capabilities were determined.

In summary, Mission officials did not view the Annual Program Statement process as being the most helpful or efficient way of establishing true, private, resource-mobilizing partnerships. It generated numerous proposals—few of which were compatible with the Mission's strategy. The time, effort, and resources spent to review proposals generated from the Statement process might have been better spent specifically identifying and pursuing local partnerships. From USAID/Peru's perspective, a system in which missions identified good opportunities and investors in the host country, while GDA Secretariat identified and cultivated likely U.S. investors and operators, might be preferable.

**Did USAID/Peru report its Global Development Alliances accurately and completely?**

USAID/Peru reported its Global Development Alliances (GDAs) accurately and completely.

GDA Secretariat officials requested that missions report alliances that met its definition of GDAs. It recognized that missions may have Public-Private Alliances (PPAs) that did not meet the GDA Secretariat's definition of an alliance. For an alliance to be included in the GDA Secretariat's database, the

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alliance must have contained the following characteristics. Alliance partners must have matched USAID funds on at least a one-to-one basis over the life of the alliance (a concept the Secretariat refers to as “leveraging”). Non-public resources should be no less than 25 percent of the USAID contribution, whether in cash or in kind. Finally, the alliance must include joint planning and shared risk, generally but not exclusively through the use of a memorandum of understanding.

Of USAID/Peru’s PPAs, three met the GDA Secretariat’s characteristics described above. These three alliances, described in the previous section of this report, were 1) the Huancavelica Economic Service Center (Center); 2) the Cordillera Azul National Park conservation program; and 3) the Lesser Known Species project.

With respect to the Huancavelica Center, the private partner involved was the Buenaventura Mining Company of Peru. USAID/Peru signed a memorandum with Buenaventura in which USAID agreed to contribute approximately \$140,000 via its contactor, Chemonics. Buenaventura agreed to contribute approximately \$1.0 million; hence, the first requirement, regarding one-to-one leveraging for a GDA was met. The second requirement was also met because the Company’s contribution of \$1.0 million exceeded 25 percent of USAID’s contribution of \$140,000. Joint planning and shared risks were illustrated through the use of this alliance’s memorandum, signed in February 2002, to open a center in the Huancavelica valley, considered the poorest area of Peru. Prior to the signing, USAID/Peru had opened ten centers throughout Peru via a contract with Chemonics, none of which were in the Huancavelica valley. Buenaventura, after displacing its mine workers in the valley, decided to finance this center with USAID/Peru’s assistance.

With respect to the Cordillera Azul project, this alliance was formed as a modification to a pre-existing cooperative agreement signed in April 2003. USAID/Peru funded \$5.25 million and partnered with the Field Museum of Natural History in Chicago. The museum agreed to contribute \$5.6 million. This met the one-to-one leveraging requirement. Since the museum was a non-public institution, the 25 percent requirement was also met. The cooperative agreement also detailed the joint planning and shared risks involved. The museum, working in close collaboration with Centro de Conservación, Investigación y Manejo de Areas Naturales (Center for Conservation, Research, and Management of Natural Resources - CIMA), agreed to jointly develop ecologically compatible opportunities for communities neighboring the Cordillera Azul National Park. The 1.35 million hectare national park (approximately 3.3 million acres) in central Peru, established in May 2001, had unique potential to transform land-use dynamics in the Central Huallaga (formerly “Coca”) Valley. The USAID investment of \$5.25 million over four years was part of the overall Field Museum Program which received funding from other sources including the Moore and McArthur Foundations, totaling over \$10 million, that offered local communities

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long-term, stable alternatives to illicit crops in the lands adjacent to the national park.

With respect to the Lesser Known Species project, this alliance was a modification to an existing cooperative agreement with World Wildlife Fund (WWF) and was a small portion of a much larger development project. The partners were already working together before the creation of the GDA Secretariat. This modification was signed in September 2002 and increased the total amount of the award by \$550,000. Further, a memorandum encompassing worldwide activities with the WWF was signed by the USAID Administrator. USAID/Peru provided \$250,000 of the \$550,000 to WWF. WWF and two more partners, Exportimo and Magensa (furniture companies) together were matching the amount of \$550,000. GDA Secretariat from USAID/Washington was providing the remaining funds of \$300,000 for the Peru portion of the project (the project was actually worldwide). Thus, the one-to-one leveraging requirement was met. WWF and the other partners were private institutions; and therefore, the 25 percent requirement was met. The memorandum signed by the Administrator, as well as the award modification signed by USAID/Peru, demonstrated joint planning and risk. The partners agreed to pool resources for the purpose of cultivating and promoting non-traditional sources of wood in order to preserve certain species of forest, such as oak and mahogany.

USAID/Peru's Annual Report for Fiscal Year 2004 completely and accurately reported results of the Mission's development activities related to these GDAs for the year ending September 30, 2003. The Annual Report was USAID's main program reporting document and was used primarily for justifying future budgets. The Mission prepared this report according to the Annual Report Guidance for 2003. The Guidance requested that missions report GDA information. With respect to GDAs, we found that the Mission's Annual Report for Fiscal Year 2004 complied, in all material respects, with the Annual Report Guidance for 2003.

**Did selected USAID/Peru's Global Development Alliances achieve their intended results?**

For two of USAID/Peru's three Global Development Alliances (GDAs), we were unable to fully answer the audit objective because neither USAID/Peru nor its alliance partners identified what the intended results or performance targets were. The third of USAID/Peru's GDAs did not achieve its intended results as scheduled.

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## **Two of USAID/Peru's Global Development Alliances Did Not Have Intended Results or Performance Targets Identified**

Summary: Two of USAID/Peru's Global Development Alliances did not have intended results, or performance targets, identified. This was a requirement under the Automated Directives System 202.3.6. One of the two alliances did not have intended results or performance targets identified because it was part of a much larger development program which did have overall results identified, and therefore, no specific results or targets for the alliance itself were developed. The other alliance did not have intended results or performance targets identified because the Mission and the implementing partner had not reached an agreement on the performance indicators to use for monitoring activities. Without performance indicators and targets identified, USAID/Peru could not determine if its alliance activities were having the desired effects.

The Lesser Known Species (Species) and the Cordillera Azul National Park alliances did not have performance indicators, commonly known as results or outputs, to measure the performance of the activities. For the Species activity, the Mission viewed this program as a sub-component of a larger environmental development project, and therefore did not prepare separate targets. The Species program was a small part of other USAID/Peru environmental activities involving the World Wildlife Fund (WWF) totaling approximately \$12 million. USAID/Peru only contributed \$250,000 for the GDA portion of the activities. The other GDA amounts were provided from the GDA Secretariat (\$300,000) and from the three alliance partners WWF, Exportimo and Magensa. Exportimo and Magensa were both furniture companies. WWF, Exportimo, and Magensa agreed to contribute \$550,000 in the aggregate. Because the GDA portion was a relatively small portion of the overall WWF project, no indicators were developed specifically for GDA activity. A new workplan (being developed in conjunction with USAID) for the Alliance that was currently being negotiated mentioned two indicators, but there were none previously. These two indicators were:

- A strategic plan and three international agreements or alliances would be created to develop national and international markets for Lesser Known Species.
- Two furniture manufacturing companies would incorporate Lesser Known Species in their production lines, increasing the economic value associated with sustainable forest management.

Although the new workplan defined the above as indicators, the Cognizant Technical Officer (CTO) agreed that developing more specific measurable results as defined by the Automated Directives System (ADS) for the alliance would be a useful monitoring tool. The new Mission Environment Team Leader was already

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aware of the lack of measurable outputs and was working with the CTO to develop them.

For the National Park project, the lack of a performance management plan (also known as performance monitoring plan) was the result of several factors. The acting Mission Director (Deputy Mission Director) acknowledged that a Performance Monitoring Plan (PMP) should have been established during the first six months and finalized during the first year but this had not happened. Further, the alliance partner had to develop an efficient Monitoring and Evaluation system to track program activities that could respond to the overall conservation objectives as well as alternative development objectives, as the activity was funded by the Andean Counternarcotics Initiative (ACI) fund. Field Museum of Natural History and its in-country partner, Centro de Conservación, Investigación y Manejo de Areas Naturales (Center for Conservation, Research, and Management of Natural Resources - CIMA), presented several draft Performance Monitoring Plans to the new CTO, but the Mission had not approved any plan considering there were no clear definitions of objectives or practical and measurable indicators that took into consideration the conservation of the park and the anti-narcotics nature of the activity. The museum hired Associates in Rural Development (ARD), a U.S.-based non-government organization, to provide technical assistance and to develop a Performance Monitoring Plan, but the plan produced by ARD was not adequate. Therefore, the museum decided to develop the plan itself in order to comply with the USAID/Peru Environment & Natural Resources Results Framework. More than a year has passed and the Museum has not developed an effective Monitoring and Evaluation system for National Park activities. As with the Lesser Known Species Alliance, the new Mission Environment Team Leader recently became aware of the lack of a Monitoring and Evaluation system and was already working to establish one.

ADS 202.3.6 states that monitoring the quality and timeliness of outputs produced by implementing partners is a major task of CTOs and Strategic Objective teams. Outputs are specifically described in contract statements of work and grant agreement program descriptions. Outputs are critical to achieving results. Delays in completing outputs, or problems in output quality, provide an early warning that results may not be achieved as planned. Without an adequate system for measuring planned outputs, CTOs and team leaders cannot know whether the activities are having the desired effects.

In light of these circumstances with respect to the Lesser Known Species and Cordillera Azul National Park projects, we are making the following recommendation:



**Recommendation No. 1: We recommend that USAID/Peru develop targeted performance indicators for its Lesser Known Species and Cordillera Azul National Park Global Development Alliances, with specified intermediate goals and dates indicating when planned results will be achieved over the projects' lives.**

**One of USAID/Peru's Global Development Alliances Did Not Achieve Its Intended Results as Scheduled**

Summary: One of USAID/Peru's Global Development Alliances, the Huancavelica Economic Service Center, had not accomplished its intended results because the established targeted output levels for the year ending December 31, 2003, were based upon conditions in other economic corridors of Peru where poverty and unemployment were less severe. According to Automated Directives System 202.3.6 and TIPS 8, establishing realistic goals was vital for motivating employees and building confidence.

With respect to the Huancavelica Economic Service Center (Center), this GDA was not on schedule to achieve the intended results. Sales, employment growth, and private investments, which were the three indicators for this activity, were below the targets established.

As of December 31, 2003, net sales increased by only \$190,778, while the targeted output for the year was approximately \$1.2 million. Additional employment (in terms of word-days generated) was 5,375, out of a goal of 113,771; and private investments were \$114, out of a goal of \$330,000. The intended and actual results are described in the table below.

**Table No. 1 – Huancavelica Economic Service Center GDA**

<b>Indicators</b>	<b>Actual results 12/31/03 (unaudited)</b>	<b>FY 2003 Targeted Results</b>	<b>Percent of Target Achieved</b>
Increase in Net Sales	\$190,778	\$1,155,000	17%
Additional Employment	5,374	113,771	5%
Private Investments	\$114	\$330,000	0%

The target levels were jointly developed by Buenaventura and USAID/Peru. Chemonics had already been engaged through a contract in excess of \$16 million to manage ten centers throughout Peru. The Mission had no plans to open a center in the Huancavelica valley of Peru until the Buenaventura Mining Company agreed to provide \$1 million of its own funds to build the center to provide assistance to its many displaced mine workers in the valley. The Mission agreed and amended Chemonics' contract for an additional \$140,000. The annual

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goals for the Huancavelica Center described above were based upon projections used by Chemonics in the other ten centers, derived from successful experience on those corridors, and adjusted to consider the productive characteristics of Huancavelica. Economic conditions such as poverty and unemployment in these ten areas were not as acute as they were in the Huancavelica valley, which caused problems in attracting and retaining qualified professionals for the Huancavelica Center and delayed implementation. Hence, the 2003 targeted levels described above were unrealistically high.

In addition to using targets based on assumptions that were not necessarily applicable to the Huancavelica valley, Mission and Chemonics officials were not as focused on meeting the 2003 annual goal as they were in meeting the overall Huancavelica Center goals of \$3.85 million, 379,237, and \$1.1 million for net sales, additional employment and direct investments, respectively. Both Mission and Chemonics officials were confident that those goals could be met by the contract ending date in 2007 without additional funding from the Buenaventura Mining Company. Further, a Chemonics official explained that problems related to Huancavelica were mostly in the first year, and he gave examples of recent successes in the trout, wool, and asparagus industries. Still, the USAID/Peru CTO agreed that revising the intermediate annual targets that would reflect the challenging circumstances in the valley would serve as a useful monitoring tool.

As stated above (page 13), according to ADS 202.3.6, without intended results or targeted outputs identified, USAID/Peru could not determine if its alliance activities were having the desired effects. Also, according to Establishing Performance Targets, TIPS 8, a natural tension exists between the need for setting realistic targets and the value, from a motivational perspective, of setting targets high enough to ensure that staff and stakeholders will stretch to meet them. When motivated, people can often achieve more than they imagine. At the same time, realistic targets build confidence about an operating unit's ability to plan and perform. When an operating unit sets targets that are too high, it constantly falls short of the expectations it sets for itself and others.

In light of the circumstances described above, we are making the following recommendation:

**Recommendation No. 2: We recommend that USAID/Peru revise the planned levels of intermediate annual targeted results for the Huancavelica Economic Service Center such that the annual target levels more closely reflect the slow implementation due to the challenging circumstances within the Huancavelica valley of Peru.**

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**Evaluation of  
Management  
Comments**

USAID/Peru agreed with the findings and recommendations presented in this report. Accordingly, management decisions were made for the recommendations. USAID/Peru comments are included in their entirety in Appendix II.

Recommendations one and two have been slightly changed from the draft report to be consistent with the terminology used in the Mission.

Determination of final action will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

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**Scope and  
Methodology****Scope**

The Regional Inspector General/San Salvador conducted this audit in accordance with U.S. generally accepted government auditing standards. The audit was one of a series of worldwide audits to be conducted by the Regional Inspector General offices. This audit was designed to answer whether USAID/Peru (1) considered utilizing Global Development Alliances (GDAs) in planning its activities; (2) reported its GDAs accurately and completely; and (3) ensured that its GDAs achieved their intended results. We were unable to fully answer the third audit objective because USAID/Peru did not establish what its intended results were for two of its three GDAs. This constituted a scope limit upon the audit. While we could not render a complete conclusion to this objective without such information, the lack of such did not prevent us from reporting on problem areas that came to our attention.

The audit was limited to USAID/Peru GDAs, as defined by the GDA Secretariat in USAID/Washington, which had funding for fiscal year 2003. USAID/Peru reported three GDAs which had funding. USAID/Peru committed amounts of \$140,000, \$5.25 million, and \$250,000 to each GDA for a total of approximately \$5.7 million. We did not include GDAs which had activity in Peru but whose funding authority originated from USAID/Washington, nor did we include regional GDAs. USAID/Peru was selected for the audit due to the relatively large number of GDAs compared to other missions in the Latin America and Caribbean bureau.

In planning and performing the audit, we assessed the effectiveness of internal control as related to GDAs. Management controls we tested included management's self-assessment as reported in its 2003 Federal Managers' Financial Integrity Act (FMFIA) review and its methodology for reporting GDA information to the GDA Secretariat in USAID/Washington. We also reviewed management controls related to reporting GDA information in its Annual Report. Relevant criteria included Automated Directives System 200 through 203, TIPS, the GDA Secretariat's *Tools for Alliances Builders*, and *A Practical Framework: 10 Steps for Analyzing and Integrating Public-Private Alliances into USAID Strategic Planning*.

We conducted the audit at USAID/Peru and at various GDA partner offices located in Lima. The audit fieldwork in Lima was conducted from November 2 through November 19, 2004, and additional analysis was conducted in El Salvador until November 26, 2004.

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## **Methodology**

In answering the audit objectives, we examined the Mission's Strategic Plan for Years 2002 through 2006, its Fiscal Year 2004 Annual Report, and the Mission's GDA information that was reported in the GDA Secretariat's database. We also examined memorandums of understanding and cooperative agreements between the Mission and its GDA partners, as well as program descriptions, work plans, and progress reports from alliance partners. We conducted interviews with both Mission and alliance partner personnel at USAID/Peru and at local offices managed by alliance partners.

We did not establish materiality thresholds for the first two audit objectives regarding whether the Mission considered utilizing GDAs in planning its activities and whether the Mission reported its GDAs accurately and completely because these two objectives were descriptive in nature.

To determine whether GDAs achieved their intended results (or planned outputs), we had planned to verify reported actual results which had met or exceeded intended levels of results as of the date of our audit scope. However, since the Mission had not established what its intended results were for two of its three GDAs, we had no results to verify and therefore could not fully answer the audit objective. For the third GDA which did have planned outputs identified, we answered the objective negatively because the GDA had achieved less than 80 percent of its intended results.

## Management Comments

**DATE:** January 28, 2005

**FROM:** Hilda Arellano, USAID/Peru Mission Director

**TO:** Steven H. Bernstein, Regional Inspector General, San Salvador

**SUBJECT:** Comments on the Draft Report of the Audit of USAID/Peru's Global Development Alliances (GDAs)

USAID/Peru appreciates the time and effort your staff took in conducting the audit of the Mission's GDAs. We have reviewed the draft audit report, and we agree with the two RIG recommendations, both of which we find very useful. We believe that implementation of these recommendations will help us manage our GDAs better to achieve the expected results.

The Mission has some specific comments to make regarding the draft audit report. First, the Mission would prefer to use the terms "performance indicators" and "performance targets" instead of "targeted outputs," to be consistent with the terminology used in the Mission. Second, there are some factual corrections to make to the report. Both types of changes have been noted in the attached version of the draft report.

In addition, the Mission is offering additional information on the analysis that led to the recommendations. This is included as comments, which follow the Mission's management decisions and actions taken/planned:

**Recommendation No. 1: We recommend that USAID/Peru develop targeted performance indicators for its Lesser Known Species and Cordillera Azul National Park Global Development Alliances, with specified intermediate goals and dates demonstrating by when planned results will be achieved over the projects' lives.**

### Lesser Known Species

#### Actions taken/Planned

- The Mission is working with the Alliance partners to establish more specific performance indicators and targets for the GDA portion of the Cooperative Agreement (CA) with World Wildlife Fund (WWF). New performance indicators with specific intermediate targets over the project's life will be incorporated in the modification of the CA that is being renegotiated. The Mission plans to have

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an approved revised set of performance indicators and targets for the CA with WWF, including for the GDA portion, by March 30th.

Comments:

The Mission offers the following additional information to clarify the scope of the CA with World Wildlife Fund (WWF).

- In May 2002, USAID/Peru signed a CA for approximately \$2.1 million with WWF, procured through a Leader with Associates mechanism, by which WWF agreed to implement a forest sector project. This agreement was modified in September 2002, to increase USAID's contribution by \$550,000 in support of the newly approved GDA, Sustainable Forest Global Alliance, involving USAID, WWF and Metafore. Of this amount, \$250,000 was obligated from USAID/Peru's program funds and the remaining \$300,000 through the GDA Secretariat in USAID/Washington. Also involved in this GDA were Exportimo/South Cone Trading Company, a Los Angeles-based furniture manufacturer, and Magensa, a Peruvian furniture manufacturer. These two companies and WWF agreed in the aggregate to match USAID's contribution of \$550,000. The modification allowed the parties to promote Lesser Known Species of wood for furniture manufacturing. Funds were allocated to the furniture companies, so that both could manufacture, promote and sell furniture manufactured from alternatives to the traditional species of wood, such as mahogany and oak.
- In March 2003, another amendment to the WWF CA increased USAID's contribution by almost \$9.9 million (bringing the new total up to \$12.5 million, including the GDA project), to implement the CEDEFOR project, the design of which was called for in the original CA signed in 2002 to promote the reform of Peru's forest sector.
- In April 2003, a new CA was signed with WWF, for a total of \$3.5 million, to show rapid results in terms of income and job opportunities resulting from the sustainable use of forest resources. This new CA was called Aguaytía-Von Humboldt and was signed making use of the LWA competed in USAID/Washington. Because of the evolution and complexity of the program, in May 2004, USAID began the process of merging all these activities into one single cooperative agreement, and refine results and performance indicators. A modification of the CA will include these changes.

**Cordillera Azul National Park**

Actions Taken/Planned:

- In January 2005, the Field Museum of Chicago (FMC) submitted the final draft Performance Monitoring Plan (PMP) for comment. USAID has reviewed and commented on this version and expects changes and final approval to take place by mid-February.

Comments:

The Mission concurs with the RIG finding that the Cordillera Azul GDA did not identify performance indicators and targets. At the same time, the Mission believes the reason for the lack of such performance indicators was not, as stated on p. 12 and described on p. 13 of the draft report, a lack of



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guidance, but rather the complexity of the program and the delays in reaching agreement between this non-traditional implementing partner and the Mission on the performance monitoring system. The Mission offers the following information:

- In April 2003, the Field Museum of Chicago (FMC) signed a CA with USAID for the integrated management of the Cordillera Azul National Park and its buffer zone, to support the generation of economic opportunities and reduce cultivation of illicit crops (coca and poppy). Funding for this activity came from the Andean Counter-Narcotics Initiative (ACI) account.
- FMC was a new partner for USAID, this being the first agreement signed between USAID and FMC. FMC faced a steep learning curve to absorb all the unique requirements of USAID, in addition to the standard start-up issues in a difficult area of the country. Significant time was needed on the part of both FMC and USAID staff to explain and discuss financial management guidance and programmatic requirements. FMC is an environmental conservation organization and is primarily interested in conservation results, while USAID, with the use of ACI funding, required results related more to alternative development. As a result, there was an adjustment period during which both organizations worked to synchronize their expectations and define objectives, results and methods of measurement.
- The agreement states the overall expected results for the four-year program, while the Program Description of the Agreement indicates that the monitoring and evaluation system was expected to be put in place during the first year of activities (Agreement pages B13, B14 B19). During the first six months, FMC worked to establish field offices and teams and made adjustments for the specific needs of field operations. In addition, FMC contracted the firm of ARD to assist it in the elaboration of the PMP. At the same time, the Mission was developing indicators for all USAID/Peru programs financed with ACI funds.
- As scheduled, FMC submitted a first PMP draft in November 2003. USAID reviewed the PMP and found it too complex and focused on processes rather than results. Additionally, results and indicators needed to be improved to better respond to Mission priorities, that is, contributions toward preventing coca cultivation in protected areas and more tangible indicators regarding promotion of economic benefits, given that the award was financed through ACI funds. During this process USAID coordination and input was continuous.
- FMC submitted a revised PMP in April 2004. FMC stopped working with ARD, since the guidance and training provided on monitoring and project performance management were not deemed adequate. As a new USAID partner, FMC required high levels of information sharing and coordination with USAID, and the project CTO actively engaged in the process of developing the PMP.
- In July 2004 and subsequently in September 2004, the performance monitoring system was revised by FMC into a practical, useful and visual planning tool that expresses annual targets within the context of long-term goals. It focuses on the area of manageable influence -- the Cordillera Azul National Park and the Buffer Zones in prioritized areas -- and it uses only one type of measuring unit: hectares that are compatible with conservation. This facilitates results measurement.

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- In January 2005, the Field Museum of Chicago delivered the final draft of the PMP. USAID revised and commented on the draft and plans to approve it by mid-February, once final changes are made.

**Recommendation No. 2: We recommend that USAID/Peru revise the planned levels of intermediate annual targeted results for the Huancavelica Economic Service Center such that the annual target levels more closely reflect the slow implementation due to the challenging circumstances within the Huancavelica valley of Peru.**

Actions Planned

- The Strategic Objective team will assess the feasibility of the Huancavelica Economic Service Center to achieve the expected results within the required time frame.
- Based on the assessment, USAID will propose an extension of the life of the GDA activity and revise the annual interim targets. The Mission expects to have revised annual targets negotiated with Buenaventura by June 30, 2005.