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OFFICE OF INSPECTOR GENERAL

**AUDIT OF THE
USAID/HONDURAS TRADE,
INVESTMENT, AND
COMPETITIVENESS
PROGRAM**

AUDIT REPORT NO. 1-522-09-006-P
FEBRUARY 26, 2009

SAN SALVADOR, EL SALVADOR



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Office of Inspector General

February 26, 2009

MEMORANDUM

TO: USAID/Honduras Director, William Brands

FROM: RIG/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of the USAID/Honduras Trade, Investment, and Competitiveness Policy Program (Report No. 1-522-09-006-P)

This memorandum transmits our final report on the subject audit. We have carefully considered your comments on the draft report in finalizing the audit report and have included your response in appendix II of the report.

The report includes eight recommendations to improve accountability and implementation of the trade, investment, and competitiveness program in the future. Based on your comments, management decisions can be made on Recommendation Nos. 1, 2, 3, 4, 5, 6, and 8 once the mission provides target dates for completion of the planned actions. Based on the mission's comments and documents provided following the audit fieldwork, we have determined that final action has been made regarding Recommendation No. 7. Determination of final action on the remaining recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

I appreciate the mission's support assistance during this audit.

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SUMMARY OF RESULTS

Honduras, the second poorest country in Central America, signed the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA) with six other countries on August 5, 2004. Under DR-CAFTA, Honduras is required to undertake reforms to liberalize markets and provide greater transparency in customs administration, protection of intellectual property rights, investment, financial services, government procurement, and sanitary and phyto-sanitary requirements. (See page 3.)

As part of its fiscal year 2009 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question (page 4):

- Has the Foundation for Investment and Development of Exports (FIDE) achieved planned results and what has been the impact?

FIDE performed well in terms of conducting studies and analyses and presenting findings to interested parties. FIDE did not perform as well with respect to influencing actions by the Government of Honduras to make needed reforms to comply with DR-CAFTA requirements (page 5). USAID/Honduras officials and FIDE officials have markedly different understandings of the purpose of the FIDE program financed by USAID/Honduras. Current USAID/Honduras officials are frustrated that FIDE has not devoted more attention and energy to trying to influence the Government of Honduras to undertake needed reforms, but FIDE officials think that this would be unproductive or perhaps even counterproductive (page 7). Additionally, performance measurement and reporting need to be strengthened. Performance reporting was oriented toward lower-level outputs at the expense of reporting on higher-level impacts and outcomes, and much of the reported information could not be relied on as a basis for drawing conclusions regarding the program's performance (page 10).

The report recommends that USAID/Honduras:

- Ensure that future awards to support DR-CAFTA clearly describe the activities to be accomplished and the higher-level results they will contribute to (page 9).
- Under its new strategy, finance an assessment to develop a prioritized list of actions needed to fully implement DR-CAFTA (page 9).
- Develop a performance management plan in line with its new strategy that measures accomplishment of higher-level outcomes and lower-level outputs (page 12).
- Develop performance indicators to measure higher-level outcomes and lower-level outputs under its new strategy (page 12).
- Conduct data quality assessments for each indicator under its new strategy (page 12).
- Establish procedures that require program cognizant technical officers to periodically verify results reported by partners (page 13).

- Develop procedures to ensure compliance with USAID policy for portfolio reviews (page 13).
- Correct its reporting on the FY 2007 performance indicators for the Trade, Investment, and Competitiveness program (page 13).

While expressing some disagreement with the report conclusions, USAID/Honduras agreed with the recommendations and has developed plans to address the recommendations. Our evaluation of management comments is provided in the Evaluation of Management Comments section of this report (page 14), and USAID/Honduras' comments are included in appendix II.

BACKGROUND

Honduras, while classified as a transforming country under the Department of State-USAID foreign assistance framework, is the second poorest country in Central America. Its economy relies heavily on a narrow range of exports, notably bananas and coffee, making it vulnerable to natural disasters and shifts in commodity prices. Investment in the *maquila* (assembly industry) and non-traditional export sectors is slowly diversifying the economy. Growth is heavily dependent on economic developments in the United States, its largest trading partner, and new investment will depend on success in reducing the high crime rate.

The United States concluded free trade agreement negotiations with Honduras in December 2003. On August 5, 2004, the seven member countries signed the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA).¹ The agreement, which removes barriers to trade and investment in the region in order to strengthen regional economic integration, entered into force for Honduras on April 1, 2006. DR-CAFTA requires member countries to liberalize markets and increase transparency in customs administration, rules of origin, protection of intellectual property rights, investment, financial services, government procurement, and sanitary and phyto-sanitary measures. Under the trade agreement, Honduras committed to ensure greater procedural certainty and fairness in the administration of these procedures, and all DR-CAFTA countries agreed to share information to combat illegal transshipment of goods.

According to the Foundation for Investment and Development of Exports (FIDE), competitiveness is a determinate of economic growth and poverty reduction. As Table 1 below demonstrates, Honduras had significant advances in 2008 when compared to other countries in the region; however, it still remains poorly positioned to being competitive with the rest of the countries of the world.

Table 1: Competitiveness Rankings for Six DR-CAFTA Countries (Lower Scores Are Better)

Indicator	Honduras		Costa Rica		Dominican Republic		Guatemala		El Salvador		Nicaragua	
	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008
Global Competitiveness*	90	83	68	63	93	96	75	87	53	67	111	101
Business Competitiveness*	106	88	50	50	84	92	61	67	60	69	102	113
Macroeconomic Stability*	87	71	81	111	85	91	79	86	64	67	89	115
Human Development**	117	115	48	48	79	79	118	118	103	103	110	110

Source: FIDE (data are from World Economic Forum, *The Global Competitiveness Report 2007-2008* and the United Nations Development Program, *Human Development Report 2007/2008: Fighting Climate Change: Human Solidarity in a Divided World.*)

* Rank among 125 countries covered.

** Rank among 177 countries covered. Data are for 2004 and 2005.

¹ DR-CAFTA signatories include the United States, Guatemala, El Salvador, Nicaragua, Honduras, the Dominican Republic, and Costa Rica.

Several donors in addition to USAID support efforts to improve the trade and investment climate. The World Bank funds a \$30 million, 5-year program to facilitate business start-ups, trade, and productivity. The Inter-American Development Bank funds an \$11 million, 5-year program for trade capacity building, competitiveness, and trade enhancement. According to USAID, both of these programs focus primarily on enterprise development rather than on policy and regulatory reforms.

The Foundation for Investment and Development of Exports (FIDE) has implemented the Trade, Investment, and Competitiveness Policy (TIC) Program funded by USAID since 2005. The program has three interrelated components:

- Support for the Center for Economic and Social Research and Proposals (CIPRES), a think tank within FIDE.
- Direct support to the Government of Honduras in implementing free trade agreements—particularly DR-CAFTA.
- Support to a second think tank, the Economic and Social Research Center (CIES), within the Honduras National Business Council (COHEP).

USAID obligations and expenditures as of June 30, 2008 for the FIDE award total \$4.45 million and \$3.7 million, respectively.

AUDIT OBJECTIVE

As part of its FY 2009 audit plan, the Regional Inspector General/San Salvador performed an audit of the USAID/Honduras Trade, Investment, and Competitiveness Policy program. The purpose of the audit was to answer the following question:

- Has the Foundation for Investment and Development of Exports achieved planned results and what has been the impact?

The audit scope and methodology are described in Appendix I.

AUDIT FINDINGS

FIDE successfully completed a large number of studies dealing with trade, competitiveness, and general economic issues, and it publicized the results through well-attended presentations. However, the policy impact of these studies was very limited. FIDE also hired consultants to work directly with Government of Honduras agencies (the Secretariats of Finance, Industry and Commerce, Agriculture and Livestock, and Labor and Social Security). These consultants helped the Government weigh actions to increase competitiveness; helped it identify needed actions to comply with DR-CAFTA, especially in the area of labor rights; and drafted sanitary and phytosanitary regulations that were implemented by the Government.

USAID/Honduras used nine operational plan performance indicators to report on FIDE's performance with respect to activities and outputs.² During FY 2007 and FY 2008, FIDE (and its sub-recipient, COHEP—the Honduran National Business Council) performed well on six indicators that dealt with performing studies and holding events to discuss their results, and stakeholders and clients express satisfaction with the quality of FIDE's work on these studies and presentations. FIDE did not perform as well on two other indicators that measured success in influencing actions by the Government of Honduras to comply with its commitments under DR-CAFTA. Also, USAID/Honduras asked FIDE to report on a ninth indicator that measured the number of firms that received help to build their export capacity. This indicator was not really applicable to FIDE, since USAID did not finance any FIDE activities that would have helped build export capacity at the firm level. In reporting on this indicator, FIDE reported the number of firms that attended FIDE-sponsored events, but this was misleading since none of FIDE's studies or events focused on building export capacity at the firm level.

FIDE's performance with respect to the operational plan performance indicators for FY 2007 and FY 2008 is summarized in Table 2. (The differences between reported and audit amounts in Table 2 reflect inaccuracies revealed by audit testing of reported results; see the related finding beginning on p. 10.)

Table 2. FIDE's Performance in FY 2007 and FY 2008 as Measured by Operational Plan Indicators

Performance Indicator	FY 2007			FY 2008		
	Target	Reported	Verified by Auditors	Target	Reported	Verified by Auditors
Number of public and private sector standards setting bodies that have adopted internationally accepted guidelines for standards setting	2	2	2	3	2	0

² Outputs are the most immediate results of USAID-financed activities.

Performance Indicator	FY 2007			FY 2008		
	Target	Reported	Verified by Auditors	Target	Reported	Verified by Auditors
as a result of United States Government (USG) assistance.						
Number of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from USG assisted organizations.	8	17	17	8	5	0
Number of USG-supported training events held that related to improving the trade and investment environment.	7	18	18	7	18	18
Number of participants in trade and investment environment trainings.	170	327	514	245	440	430
Number of trade and investment environment diagnostics conducted.	7	34	30	15	15	9
Number of firms receiving capacity building assistance to export.	50	223	0	75	62	0
Number of USG-supported training events on topics related to investment capacity building and improving trade.	7	36	38	15	8	8
Number of participants in USG supported trade and investment capacity building trainings.	170	3,737	1,797	1,000	284	284

Performance Indicator	FY 2007			FY 2008		
	Target	Reported	Verified by Auditors	Target	Reported	Verified by Auditors
Number of trade and investment capacity building diagnostics conducted.	2	3	5	2	4	8

USAID/Honduras did not systematically report on the impact of FIDE's efforts on higher-level results or outcomes, mainly because the performance management plan (PMP) has not been updated since 2005, and the PMP did not include any higher-level performance indicators that could reasonably be attributed to FIDE's efforts.

However, USAID/Honduras officials have informally expressed disappointment that FIDE did not put more effort into advocacy efforts to persuade the Government of Honduras to adopt reforms to comply with DR-CAFTA and take advantage of the new opportunities it provides. From their point of view, FIDE was too concerned with performing studies and not sufficiently concerned with persuading the Government of Honduras to implement needed policy reforms that were identified by the studies. FIDE officials offer a contrasting point of view. They say that the purpose of USAID's assistance to FIDE was to support establishment of a think tank within FIDE. They do not think that FIDE is well positioned to engage in extensive lobbying of Government officials, although they do hope to influence the Government through their studies, and they do convene high-level audiences to discuss the results of each study when it is completed.

Another factor that limited accomplishments under the program was a budget cut in FY 2006 that reduced the estimated amount of the cooperative agreement with FIDE by half, from \$8.8 million to \$4.3 million (later, the estimated amount was increased slightly to \$4.45 million). Among other impacts, the budget cut meant that FIDE could not hire expatriate resident advisors that were originally planned to assist FIDE and the Government of Honduras. Instead, FIDE relied on short-term assistance from international consultants, both to prepare studies for FIDE and to provide direct assistance to the Government of Honduras.

USAID/Honduras and FIDE Had Different Expectations for the Program

Summary: USAID awards are intended to formalize a mutual understanding between USAID and its partners, and USAID often uses annual work plans and other management tools to formalize subsidiary understandings. However, USAID/Honduras officials and FIDE officials have markedly different understandings of the purpose of the FIDE program financed by USAID/Honduras. Current USAID/Honduras officials are frustrated that FIDE has not devoted more attention and energy to trying to influence the Government of Honduras to undertake needed reforms, but FIDE officials think that this would be unproductive or perhaps even counterproductive. FIDE's interpretation of the purpose of the agreement is supported by the agreement itself, and is also supported by the USAID/Honduras' former acting director. As a result, the program did not produce the outcomes desired by current USAID/Honduras officials.

USAID's Automated Directives System (ADS) Section 303.3.14 states that USAID must ensure that awards reflect a mutual understanding between the parties to the award (i.e., in this case, a mutual understanding between FIDE and USAID/Honduras). It further states that the program description must have clearly established goals that are realistic and measurable, and represent the highest objective that the recipient can expect to materially affect and for which it will be held accountable. The cooperative agreement with FIDE incorporated a "continuous application" process in which FIDE was required to reapply for assistance each year, and required submission of annual work plans, providing additional opportunities to strengthen the mutual understanding between FIDE and USAID/Honduras on the activities to be undertaken and the higher-level results or outcomes these activities were expected to contribute to.

Despite these requirements and terms of the cooperative agreement, rather pronounced differences exist between the visions that FIDE and USAID/Honduras have for the program supported by the cooperative agreement. Under component 1, which supports the operations of CIPRES, FIDE understands that the program is to support a think tank. While FIDE held discussion events at the conclusion of each study it completed, where the results and any recommendations were presented to the public, FIDE officials do not think it would be appropriate or wise for FIDE to engage in extensive lobbying activities or try to pressure the Government of Honduras to undertake specific policy reforms.

In contrast, USAID/Honduras expected that FIDE would actively influence the Government to undertake reforms that would bring the Government into closer compliance with its obligations under DR-CAFTA and help leverage the opportunities provided by DR-CAFTA to reduce poverty and increase economic growth.

The written understandings between FIDE and USAID/Honduras, contained in the cooperative agreement and in FIDE's annual work plans, in our opinion, tend more to support FIDE's understanding of the purpose of the agreement: that is, the written understandings focus heavily on studies and presentations with relatively little emphasis on influencing policy.³ FIDE's understanding of the purpose of the program is also supported by USAID/Honduras' former acting director, who managed or helped oversee the program from 2005 until mid-2008. His position is that the program was designed to make better analysis and information available to the Government of Honduras, not to pressure the Government into undertaking specific reforms.

A second, less important, difference in vision between FIDE and USAID/Honduras had to do with the relationship between FIDE, the prime recipient of assistance under the cooperative agreement, and COHEP, FIDE's sub-recipient. FIDE officials state that they were primarily interested in assistance to help establish a think tank in FIDE (CIPRES), and that they only agreed to administer the sub-award with COHEP because this was a condition imposed by USAID/Honduras. FIDE officials maintain that they have never

³ This is not to say that FIDE had no influence on policy. Under component 1, FIDE helped draft a telecommunications law and helped garner support for the law. However, the law was subsequently tabled and its prospects are uncertain. Under component 2 of the cooperative agreement, in which FIDE hired consultants to work directly with Government of Honduras counterparts, USAID-financed consultants helped the Government weigh actions to increase competitiveness; helped it identify needed actions to comply with DR-CAFTA, especially in the area of labor rights; and drafted sanitary and phyto-sanitary regulations that were implemented by the Government.

attempted to manage or supervise the sub-award with COHEP from a programmatic perspective because most communication on programmatic issues took place directly between USAID/Honduras and COHEP. FIDE officials envisioned their role as one of an administrator, simply ensuring that COHEP followed USAID administrative requirements that were applicable to the sub-award. In contrast, USAID/Honduras' cognizant technical officer for the program placed much more emphasis on FIDE's responsibility to manage COHEP's activities to ensure that planned results were achieved. He noted that USAID/Honduras has no direct legal relationship with COHEP and thus cannot direct COHEP's activities. In this case, the written understandings between USAID/Honduras and FIDE support USAID's interpretation.

Why wasn't USAID/Honduras able to use the annual work plan approval process to harmonize FIDE's activities with USAID's wishes? USAID/Honduras officials say that the process of approving the annual work plans was time consuming and somewhat difficult, requiring a great deal of discussion with FIDE. They also make reference to the close relationship that FIDE's leadership maintained with senior U.S. Government officials in Honduras, which they say made it difficult for them to press FIDE to undertake activities that FIDE did not want to take responsibility for. From FIDE's perspective, the annual approval process was lengthy but not particularly difficult or contentious. They say that they responded almost immediately to questions or clarifications requested by USAID, and that they cannot explain why the process took so long because they are not involved in USAID's internal deliberations or approval processes. The different expectations that USAID/Honduras and FIDE had for the program can also be traced to weaknesses in performance measurement and reporting, as discussed in the following section.

As a result of these issues, FIDE's work under the cooperative agreement did not produce the outcomes that current USAID/Honduras officials wanted. While FIDE prepared a large number of studies that were competently prepared and well received, the studies had a very limited impact on policy. In addition, opportunities to more closely coordinate the work done by FIDE and COHEP were missed. While coordination did occur, all parties agree that closer coordination would have been desirable, given the similarity in the work done by the think tanks within FIDE and COHEP.

The current agreement with FIDE is expected to end in March 2009, but USAID/Honduras expects to continue providing support for DR-CAFTA implementation under a new country assistance strategy that is currently under review. No firm decisions have been made about the form that this assistance will take or the organizations that will receive assistance. Under the new strategy, it will be important to reach clear mutual understandings with partners on the activities to be undertaken and the higher-level results that the activities will contribute to. Since DR-CAFTA implementation is an important objective of the assistance approach contemplated under the new strategy, it will be important to establish what actions are needed to fully implement DR-CAFTA and prioritize them.

Recommendation No. 1: We recommend that USAID/Honduras ensure that awards to support DR-CAFTA implementation under the new strategy clearly describe the activities to be supported and the higher-level results they will contribute to.

Recommendation No. 2: We recommend that USAID/Honduras, under its new

strategy, finance an assessment or study to develop a prioritized list of actions needed to implement DR-CAFTA.

Performance Measurement and Reporting Need Improvement

Summary: USAID has a carefully defined system, described in ADS Chapter 203 and other USAID guidance, for measuring and reporting on program performance. However, USAID/Honduras has not fully defined appropriate performance indicators or verified that accurate information on actual results is reported for the trade and investment program. These issues arose because relatively little attention was focused on performance measurement and reporting issues. As a result, performance reporting was oriented toward lower-level outputs at the expense of reporting on higher-level impacts and outcomes, and much of the reported information could not be relied on as a basis for drawing conclusions regarding the program's performance.

Ten of the 18 results that FIDE reported for FY 2007 and FY 2008 for the operational plan were misstated by 12 to 100 percent (see Table 2 on page 5), making it unwise to rely on the information to draw conclusions about the degree of success achieved under the program. In addition, a sound monitoring, reporting, and evaluation system would have helped ensure that the different expectations that USAID/Honduras and FIDE had for the program were resolved at an earlier stage. The following sections of the report discuss improvements that are needed in the PMP, one of the performance indicators that has been used to measure accomplishment of outputs, data quality assessments, periodic verification of reported results, and annual portfolio reviews.

PMP Needs Updating – A PMP is a performance management instrument used to help plan and manage the process of assessing and reporting progress toward achieving a strategic objective. It is a critical tool for planning, managing, and documenting how performance data is collected and used. USAID's ADS section 203.3.4.6 requires that missions update PMPs regularly with new performance information, usually as part of the annual portfolio review process. However, the PMP for the TIC program did not include any performance indicators that would be significantly influenced by FIDE's efforts, and it had not been updated since January 2005. Mission staff explained that the cooperative agreement with FIDE had not been awarded at the time that they prepared the PMP, and that they were not familiar with the requirement to periodically update the PMP.

An Inappropriate Performance Indicator Was Used – According to USAID's *Performance Management Toolkit*, after the PMP results framework is designed, performance indicators should be developed and chosen. The performance indicators should be selected to help show whether a program is progressing toward its objective.

The mission chose to use nine standard performance indicators to report on the TIC program in the operational plan results report, as shown in Table 2. However, one of the nine indicators ("number of firms receiving capacity-building assistance to export") was not applicable to FIDE's program. In reporting on this indicator, FIDE reported the number of firms that attended FIDE-sponsored events, but this left an incorrect impression since none of FIDE's studies or events focused on building export capacity at the firm level.

FIDE officials stated that they were not provided with the detailed definitions of the performance indicators, which would have indicated to them that this particular performance indicator was inappropriate. However, the CTO for the trade and investment program stated that FIDE was provided with the detailed definitions. At any rate, the process of gathering and reporting information on the nine standard indicators for the operational plan results report had the appearance of an ad hoc exercise that was undertaken in haste, rather than an integral part of the program's monitoring, reporting, and evaluation system.

Data Quality Assessments Should Be Strengthened – ADS section 203.3.5 states that performance data should be as complete, accurate, and consistent as management needs and resources permit. To be useful in managing for results and credible for reporting, performance data should meet reasonable standards of validity, integrity, precision, reliability, timeliness. Additionally, USAID's *Performance Management Toolkit* suggests that missions should build data quality assessment into normal work processes, including ongoing reviews and site visits. Verifying and validating performance information to ensure that data are of reasonable quality – including a review of data collection, maintenance, and processing procedures to ensure that they are consistently applied and continue to be adequate – should be part of these assessments.

While USAID/Honduras completed data quality assessments for the nine indicators used for operational plan results reporting, the assessments did not reflect the degree of analytical rigor that would have been required to identify potential data quality issues. For example, as noted in the previous section, the mission asked FIDE to report on the “number of firms receiving capacity-building assistance to export,” when in fact the USAID-financed program FIDE does not provide this type of assistance. However, the data quality assessment for this indicator did not disclose this issue. The assessment asked “do data clearly and directly measure what we intend to measure?” but the assessment simply noted that “‘F’ has chosen this output level indicator as a measure of progress under the operational plan.” This statement was incorrect: in reality, the F Bureau provided missions with a list of standard indicators and the mission, not the F Bureau, chose the indicators that it thought were applicable to its programs.⁴

There is no indication in the documentation on the data quality assessments that the assessments included any verification of data quality. While the assessments asked if the margin of error in the data was acceptable, given the types of management decisions to be made based on the data, the question was answered in every case with the notation “n/a.”

Overall, the data quality assessments were conducted at a level of generality that made them less than useful as a guide to data quality. As shown in Table 2, incorrect information was reported for more than half of the indicators in FY 2007 and FY 2008.

⁴ The Office of the Director of U.S. Foreign Assistance (F) was created in January 2006 to ensure that foreign assistance is used as effectively as possible to meet broad foreign policy objectives and to more fully align foreign assistance activities carried out by the State Department and USAID. The F Bureau has authority over State Department and USAID foreign assistance funding and programs and directs consolidated policy, planning, budget and implementation mechanisms.

Had the assessments included a verification of reported information (e.g., by comparing reported numbers of participants in FIDE events with the participant lists), it is likely that at least some of the errors we found would have been identified prior to reporting.

Periodic Verification of Reported Results Is Needed – ADS 203.3.5.2 states that missions should be aware of the strengths and weaknesses of their data and to what extent the data can be trusted to influence management decisions. Additionally, USAID's *Performance Management Toolkit* states that a practical approach to planning data quality assessments includes an initial data quality assessment and periodic quality reviews for completeness, accuracy, and consistency. USAID's *Monitoring and Evaluation Guidebook* indicates that data reliability can be confirmed by checking project records, through spot checks during site visits, and by means of interviews with project staff and beneficiaries.

Mission staff stated, and the implementing partner confirmed, that they did not verify the performance results data being provided to them and which they reported. Periodic verification by mission staff could have identified the erroneous reporting discussed above.

Portfolio Reviews Need to Be More Thorough – As defined in ADS 203.3.7, a portfolio review is a systematic analysis of the progress of a strategic objective, to examine strategic and operational issues and to determine whether USAID-supported activities are leading to accomplishment of planned results.

The documents provided by the mission for its FY 2007 portfolio review of the TIC program included a presentation of program accomplishments but, judging from the written record, did not include any discussion of issues or problems affecting the program. A more searching, in-depth portfolio review process could have surfaced and potentially resolved many of the issues discussed in this report – such as the different expectations that the mission and FIDE had for the program – in a more timely fashion.

Mission staff explained that the focus of the portfolio reviews tended to be on the information that the mission expected to report in the operational plan results report, not on higher-level programmatic issues. Mission officials believed that there was further documentation that described the full extent of the discussion during the TIC program portfolio review, but they could not find it during the audit.

In sum, many of the issues that limited the effectiveness of the trade and investment program were in part attributable to performance measurement and reporting issues. To address these issues, we offer the following recommendations:

Recommendation No. 3: We recommend that USAID/Honduras develop a performance management plan for its Trade, Investment, and Competitiveness program in line with its new strategy.

Recommendation No. 4: We recommend that USAID/Honduras develop performance indicators to measure accomplishment of higher-level outcomes and lower-level outputs under its new strategy plan for its Trade, Investment, and Competitiveness program.

Recommendation No. 5: We recommend that USAID/Honduras review USAID

directives and guidance regarding data quality assessments and conduct data quality assessments of each indicator under the new strategy plan for its Trade, Investment, and Competitiveness program in accordance with these directives and guidance.

Recommendation No. 6: We recommend that USAID/Honduras establish procedures requiring cognizant technical officers to periodically verify results reported by partners under the Trade, Investment, and Competitiveness program.

Recommendation No. 7: We recommend that USAID/Honduras review USAID directives and guidance and develop mission procedures to ensure that portfolio review requirements are met.

Recommendation No. 8: We recommend that USAID/Honduras correct its reporting on the FY 2007 performance indicators for the Trade, Investment, and Competitiveness program.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Honduras agreed to implement the recommendations and has developed specific plans to address Recommendation Nos. 1, 2, 3, 4, 5, 6, and 8 and management decisions can be made once target dates to complete the planned actions have been provided. With regard to Recommendation Nos. 1, 2, 3, and 4, the mission stated that, under its new strategy, it will develop a prioritized list of actions needed to support the implementation of DR-CAFTA, clearly describe the activities to be supported and the higher-level results they will contribute to, and develop a performance management plan that is in line with this new strategy. For Recommendation Nos. 5, 6, and 8, the mission plans to perform data quality assessments, periodically verify reported information, and correct information that was reported incorrectly. The mission has taken final action on Recommendation No. 7 as it provided evidence that the FY 2008 portfolio review process was performed in accordance with USAID policy requirements.

In response to our audit finding that USAID/Honduras and FIDE had different expectations for the program, the mission stated that language in the cooperative agreement supports its position that component 1 of the program was designed to influence Government of Honduras policy actions, not simply support establishment of a think tank within FIDE. The cooperative agreement is a lengthy document with many modifications: for example, the original application for assistance, incorporated into the cooperative agreement as the program description, is 26 pages long without its annexes. These passages include high-level statements of the overall purpose of the activity as well as lists of specific activities that FIDE was expected to accomplish. Within these passages, there is language that tends to support the mission's viewpoint and other language that tends to support FIDE's viewpoint. In our view, however, it would be very hard to make a case that FIDE has not complied with the terms of its agreement with USAID, even though mission officials would have liked FIDE to try harder to influence policy. We have modified our report to make it clearer that there are passages in the cooperative agreement that support the mission's viewpoint on this matter.

In responding to the report finding on performance measurement and reporting issues, the mission stated that the new "F process," which placed emphasis on reporting on lower-level output indicators, led mission staff to focus on these new reporting requirements. To some degree, this was done at the expense of other performance measurement and reporting tools, like the performance management plan, that were retained for internal program management purposes.

The mission's comments in their entirety are included 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. These 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of the audit was to determine if USAID/Honduras' Trade, Investment, and Competitiveness (TIC) program being conducted by the Foundation for Investment and Development of Exports (FIDE) achieved planned results and what the impact has been.

In planning and performing the audit, we assessed management controls related to the TIC program. The management controls identified included the mission performance management plan (PMP), mission data quality assessments, program strategy documents, program progress reports, the day-to-day interaction between mission staff and program implementers, mission portfolio reviews, and the mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982. As part of the audit, we applied various criteria that are applicable to U.S. Government-funded programs through USAID. These standards and requirements are designed to assist missions in managing programs to be more effective and more results oriented; they included various USAID Automated Directive System sections, handbooks, TIPS supplementary program advice from USAID's Center for Development Information and Evaluation, and other guidelines.

The audit covered the TIC program activities under the FIDE award, which falls under one of the three intermediate results designed under the mission's strategic objective, "Economic Freedom: Open, Diversified, Expanding Economies." The audit was conducted in Tegucigalpa, Honduras from October 28 through November 14, 2008. Our audit primarily focused on TIC program activities performed during fiscal years 2007 and 2008.

Methodology

To answer the audit objective, we met with personnel from USAID/Honduras, the main implementing partner, the sub-award recipient under the program, and various Government officials who participate, directly or indirectly, in the activities under the program. We reviewed relevant program and management control documents produced by USAID/Honduras; such as the program's performance management plan, the operational plan, award documents, and the mission's results reporting documentation. We also reviewed documents prepared by the partner such as annual work plans and progress reports.

To assess whether planned results were achieved, we focused on nine performance indicators included in the fiscal year 2007 operational plan. We conducted interviews with mission and partner staff regarding processes for collecting, verifying, and reporting

of performance results.

We validated reported program performance results for fiscal years 2007 and 2008 by tracing mission-reported results back to the records maintained at the offices of the implementing partner in order to support the existence and applicability of the results claimed.

MANAGEMENT COMMENTS

January 30, 2009

Timothy E. Cox
Regional Inspector General
San Salvador, El Salvador

Subject: Comments on the Draft Report of the Audit of USAID/Honduras' Trade, Investment, and Competitiveness Policy Program (Report No. 1-522-09-00X-P)

Dear Mr. Cox:

Thank you for allowing us to review the subject draft report and for the professional and cooperative way in which this audit was conducted. Following are our comments on the results of the audit and on the report's recommendations.

Audit Findings:

The two main audit findings included in the report warrant the following clarification:

1. USAID Honduras and FIDE had Different Expectations for the Program

The report includes the assertion put forth by FIDE that USAID/Honduras's expectation that the program was designed to achieve direct, meaningful impacts on Government of Honduras (GoH) trade, investment and competitiveness policy and its capacity to implement trade agreements is inconsistent with the cooperative agreement as written. But FIDE's original accepted proposal states in its Goal and Objectives section (p. 7) that:

The TIC program will contribute to create an enhanced policy framework and better business environment for greater private investment, employment and exports in Honduras and provide support to the implementation of FTAs, complementing other ongoing efforts.

The TIC program will also "directly support the achievement of Strategic Objective 2, 'Economic Freedom: Open Diversified Expanding Economies' under USAID's Honduras Country Plan in support of the USAID's Central America And Mexico (CAM) Regional Strategy 2003-2008. Those *activities are aimed at achieving the intermediate results such as improving Laws and Policies to promote and facilitate trade and investment, as well as to improve the countries capacity to negotiate and carry out FTA's.*"

This language is repeated in their continuing applications for 2006, 2007 and 2008. It is the Mission's view that this language (and the activity design document from which it originated) is quite explicit in its expectation that this program's work should have a direct impact on Honduran policy and GoH institutional capacity.

As well, the report includes FIDE's assertion "that the purpose of USAID assistance to FIDE was to support establishment of a think tank within FIDE (p. 7)." However, in the original agreement's Goals and Objectives section, the Program had three primary objectives. Objective/Component 2 established the expectation that FIDE would be working directly with the GoH Secretaries of Agriculture and Trade to improve their institutional capacity to implement trade agreements. Objective/Component 3 established the expectation that FIDE would work directly with the private sector and its institutions to improve and enhance their capacity for "policy formation." There is no indication in the Goals and Objectives section that one of these objectives supersedes or takes priority over the others. The Mission takes exception to FIDE's statement cited in the report that, "they only agreed to administer the sub-award with COHEP because this was a condition imposed by USAID/Honduras," since FIDE submitted the proposal that outlines the goals and objectives cited above, committing their organization to work in good faith towards their achievement.

2. Performance Measurement and Reporting Need Improvement

The audit tried to answer the question whether FIDE achieved planned results and what has been the impact. While we recognize the importance of this type of outcome/high-level impact evaluation (as reflected in the Mission's request to have the RIG evaluate our FIDE-TIC program), we ask that the Agency-wide impact that the F process reforms have had on Agency policy regarding program design, performance reporting and impact evaluation be taken into account. We recognize that much of the ADS guidance cited in the report has yet to be updated to take into account these reforms and so may have led to the conclusion that the Mission was not fully complying with this Agency guidance.

For example, the new "F process" required that Missions begin using output indicators related to the "Foreign Assistance Standardized Program Structure and Definitions" for all reporting through the Operational Plan and Performance Report. The FY 2007 Operational Plan guidance, dated October 27, 2006, on page 5 states:

"Now, the Framework and associated standardized definitions will provide the fundamental structure by which funds will be programmed and progress tracked, with all foreign assistance resources allocated according to those common definitions and related standard indicators."

This same citation goes on to say that "the indicators that will be included in the Operational Plan for targeting by Operating Units are only those at the program level which are attributable to USG resources" (i.e., the output indicators inserted into the Operational Plan by F). F would independently collect data on outcome and impact indicators from secondary sources. Section B of "Guidance on F Indicators", dated December 26, 2006 states:

"Data for the indicators at the objective and area level are usually available from secondary sources; they will be gathered by F and entered into the FACTS database."

[Note: Current guidance on OP indicators can be found in the "Guidance Annex for FY 2008 Operational Plan, Phase II", which can be accessed at: http://inside.usaid.gov/A/F/docs/plan/guidance/2008OPAnnexes_UPDATED_FINAL.pdf.]

During this initial transition to the new F process, the future of PMPs (and much of the

rest of existing ADS guidance) remained in doubt. However, while the Mission continued using many of the outcome indicators shown in our Performance Monitoring Plans as an internal tool for program management purposes, the primary emphasis of the Mission's efforts understandably became focused on monitoring and reporting to Washington on the dozens of output indicators contained in the Operational Plan and Performance Report. Some of the discrepancies found between the Program's reported results and those that the Auditors could verify is reflective of how retro-fitting the common Operational Plan indicators onto an existing program did not always result in a perfect match between what the implementer was trying to achieve and the definition of the best available common indicator.

Audit Recommendations:

While we have raised some issues with the main findings of the report, we do generally concur with the specific recommendations made in the report. They are a timely reminder to revisit and reinforce our Mission's performance management processes as we enter into a new strategy cycle.

Recommendation No. 1: We recommend that USAID/Honduras ensure that awards to support DR-CAFTA implementation under the new strategy clearly describe the activities to be supported and the higher-level results they will contribute to.

The Mission concurs with this recommendation. The Mission will ensure that future awards to support DR-CAFTA implementation clearly describe the activities to be supported and the higher-level results that they will contribute to. This will be documented through our new activity design documents under our new strategy.

Recommendation No. 2: We recommend that USAID/Honduras, under its new strategy, finance an assessment or study to develop a prioritized list of actions needed to implement DR-CAFTA.

The Mission concurs with this recommendation. Our current plans are to design a new Trade & Investment program to replace FIDE-TIC (when and if sufficient economic growth funds become available) and we will make the investment to finance a study to develop a prioritized list of actions needed to implement DR-CAFTA and/or other trade agreements to be supported by this new program.

Recommendation No. 3: We recommend that USAID/Honduras develop a performance management plan for its Trade, Investment, and Competitiveness program in line with its new strategy.

The Mission concurs with this recommendation. We will develop a PMP for any new Trade & Investment program(s) developed under our new Country Assistance Strategy (CAS). Once completed, this documentation will be available through the TEA office.

Recommendation No. 4: We recommend that USAID/Honduras develop performance indicators to measure accomplishment of higher-level outcomes and lower-level outputs under its new strategy plan for its Trade, Investment, and Competitiveness program.

The Mission concurs with this recommendation. We will develop these indicators for any

new programs developed under our new Country Assistance Strategy (CAS). These indicators will be reflected in any new Trade & Investment program's PMP and implementing mechanisms awards.

Recommendation No. 5: We recommend that USAID/Honduras review USAID directives and guidance regarding data quality assessments and conduct data quality assessments of each indicator under the new strategy plan for its Trade, Investment, and Competitiveness program in accordance with these directives and guidance.

The Mission concurs with this recommendation. We will review USAID directives and guidance regarding data quality assessments and conduct data quality assessments for new Trade & Investment program indicators developed under our new Country Assistance Strategy (CAS), in accordance with ADS and Operational Plan guidance. All required assessments will be kept on file by the respective program's CTO and updated as required.

Recommendation No. 6: We recommend that USAID/Honduras establish procedures requiring cognizant technical officers to periodically verify results reported by partners under the Trade, Investment, and Competitiveness program.

The Mission concurs with this recommendation. The Mission will establish and/or reinforce existing procedures requiring CTOs to periodically verify results reported by partners for Trade & Investment programs under our new Country Assistance Strategy (CAS). The results of these revisions will be documented and kept in the CTO's program files.

Recommendation No. 7: We recommend that USAID/Honduras review USAID directives and guidance and develop mission procedures to ensure that portfolio review requirements are met.

The Mission concurs with this recommendation. Based on a preliminary recommendation to this effect provided by the audit team at the end of their audit visit, the Mission's Program Office proceeded to plan for our FY 2008 Annual Portfolio Review ensuring that it conformed with Agency directives and guidance on this subject. Thus, this Portfolio Review, including that for the TEA Office, were conducted in a manner that met these requirements. The outcomes of the review were documented and made available to the RIG for their review. Additionally, the Mission has instituted a semi-annual portfolio review process to more effectively monitor and manage program performance. Thus, this recommendation should be closed upon report issuance.

Recommendation No. 8: We recommend that USAID/Honduras correct its reporting on the FY 2007 performance indicators for the Trade, Investment, and Competitiveness program.

The Mission concurs with this recommendation. We will update the 2007 results reporting to reflect the findings of the Audit at our next available window of opportunity to go into to FACTS to make such changes.

/s/
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