



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ECUADOR'S ENVIRONMENT PROGRAM

AUDIT REPORT NO. 1-518-11-009-P
SEPTEMBER 26, 2011

SAN SALVADOR, EL SALVADOR



Office of Inspector General

September 26, 2011

MEMORANDUM

TO: USAID/Ecuador Mission Director, Beth Cypser
Biodiversity Team Leader for the EGAT Bureau, Cynthia Gill

FROM: Regional Inspector General/San Salvador, Catherine Trujillo /s/

SUBJECT: Audit of USAID/Ecuador's Environment Program
(Report No. 1-518-11-009-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft and have included the comments in their entirety in Appendix II.

The report includes nine recommendations. On the basis of actions proposed by the mission, we determined that management decisions have been reached on all recommendations. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

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

U.S. Agency for International Development
Embajada Americana
Urb. y Blvd Santa Elena
Antiguo Cuscatlan, Depto. La Libertad
San Salvador, El Salvador
Tel. (503) 2501-2999—Fax (503) 2228-5459
www.usaid.gov/oig

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOTR	agreement officer’s technical representative
EGAT	Economic Growth, Agriculture and Trade
FONAG	Fondo para la Conservación del Agua
FY	fiscal year
NRM	natural resources management
PMP	performance management plan
RIG	Regional Inspector General
WCS	Wildlife Conservation Society

SUMMARY OF RESULTS

Conserving biodiversity is a long-standing U.S. foreign assistance priority in Ecuador. The country's protected areas and indigenous territories are home to some of the world's richest biodiversity. However, Ecuador has one of the highest rates of deforestation in Latin America, and the country's economic development model exploits natural resources at an unsustainable rate. Impoverished, marginalized communities living near the protected areas have limited access to basic services, infrastructure, communication and transport. The results are increased pressure on the natural environment and degradation that increases the vulnerability of biodiverse areas.

USAID/Ecuador's environment program seeks to help conserve Ecuador's biodiverse areas while improving livelihoods in neighboring communities. Specifically, the program aims to increase the participation of Ecuador's citizens in the management of their natural resources, improve governance in national parks and indigenous territories, and reduce poverty by generating economic benefits for local residents through sustainable agroforestry practices, ecotourism, and environmentally friendly fisheries. USAID/Ecuador is also helping people qualify for benefits under the Government of Ecuador's Socio Bosque (Forest Partnership) conservation incentive program. This program offers a financial incentive to landowners who voluntarily commit to maintaining natural forest cover for at least 20 years.

To help protect threatened biodiverse areas while improving the livelihoods of the people living in and around these territories, USAID/Ecuador currently supports three projects. Descriptions identifying the implementing organizations follow.

- *Sustainable Coasts and Forests Project.* Under this \$13.3 million, 5-year contract starting in June 2009, Chemonics seeks to improve biodiversity conservation along the coast and in adjacent forests of Ecuador. The project seeks to strengthen biodiversity management in critical habitats by improving the livelihoods of those living in and around critical habitats, and by facilitating the formation of partnerships for ongoing support of biodiversity conservation.
- *Integrated Management of Indigenous Lands Project.* Under this \$6.1 million, 4-year cooperative agreement starting in August 2007, the Wildlife Conservation Society (WCS) responds to threats faced by lowland indigenous groups in northern Ecuador and in the Amazon Basin. Activities have helped groups secure and exercise their land rights; build the technical, financial, and administrative capacity of indigenous organizations to manage their lands effectively; increase economic benefits from conservation; promote the sustainability of conservation initiatives in indigenous territories; and assess the effects of infrastructure development and immigration on indigenous territories.
- *Protecting Water Resources to Conserve Biodiversity Project.* Under this \$3 million, 5-year cooperative agreement starting in September 2007, the Fondo para la Conservación del Agua (FONAG), an Ecuadorian institution responsible for managing the Quito water endowment fund, is generating institutional and financial support for watershed protection and biodiversity conservation in Ecuador, mainly in the central and southern Andean region. FONAG is doing this through a variety of training and outreach activities.

The Regional Inspector General/San Salvador (RIG/San Salvador) conducted this audit to determine whether USAID/Ecuador's environment program was achieving its primary goals: conserving biodiverse habitats and improving livelihoods in and around protected areas and indigenous territories.

The audit found that the three projects were making positive contributions to the conservation and protection of Ecuador's diverse habitats. For example, Chemonics had provided effective technical assistance to Ecuador's Ministry of Environment in park and forest management and was working to implement a system of monitoring and surveillance in threatened marine areas. WCS had helped indigenous groups obtain titles and joint management agreements for their lands, was making some progress with institutional strengthening of indigenous leadership, and was helping indigenous communities qualify for Socio Bosque benefits. FONAG was implementing several unique environmental education and training programs and supporting the development of water funds in other parts of the country.

However, the audit disclosed areas for improvement:

- USAID and USAID/Ecuador have not fully developed standards for determining hectares under improved management (page 4).
- USAID/Ecuador has not fully developed a method for determining economic benefits derived from program activities (page 6).
- USAID/Ecuador has not evaluated the success and sustainability of coalitions and alliances (page 8).
- WCS activities have demonstrated limited potential for sustainability (page 9).
- FONAG has not provided data on improvement in water quality (page 11).
- FONAG has not documented lessons learned from one problematic water fund (page 12).
- USAID/Ecuador has not verified cost-sharing data (page 12).

In addition to the above issues, the audit found that USAID/Ecuador's administration and oversight costs for its biodiversity activities were higher than the global norm for USAID biodiversity programs. Costs were high because USAID/Washington withheld funding for two staff positions, and the mission had to use program funds to pay staff salaries. Had this not occurred, the mission would have been able to spend about \$657,000 more of the program funding on biodiversity activities (page 13).

To help USAID/Ecuador improve the efficiency and effectiveness of its environment program and improve the quality of its reporting, RIG/San Salvador makes the following recommendations:

1. USAID/Ecuador should develop and implement procedures requiring independent assessments of the impact of its activities and use the results of the assessments, along with the observations by USAID's technical experts and the regular reporting by the implementers, when reporting annually on its biodiversity projects (page 5).

2. The Economic Growth, Agriculture and Trade (EGAT) Bureau should develop comprehensive guidelines to assist missions and regional programs in developing a common methodology for determining the number of hectares under improved natural resources management (page 6).
3. USAID/Ecuador should develop a standard methodology for identifying beneficiaries receiving economic benefits that are clearly linked to sustainable natural resource management or conservation efforts (page 7).
4. Economic Growth, Agriculture and Trade Bureau should develop and implement a plan for improving the methodology missions and regional programs use in determining increased economic benefits derived from sustainable natural resource management and conservation (page 7).
5. USAID/Ecuador should include a requirement for the periodic evaluation of coalition and alliance success and sustainability in the Chemonics performance management plan (page 8).
6. USAID/Ecuador should develop a transition plan for sustaining and furthering the achievements of the Integrated Management of Indigenous Lands Project. The plan should incorporate to the extent possible the recommendations in recently completed assessments. (page 10).
7. USAID/Ecuador should require FONAG to submit a water quality impact assessment as part of its 2012 closeout report (page 11).
8. USAID/Ecuador should require FONAG to report on lessons learned from the problems it had with the Zamora water fund (page 12).
9. USAID/Ecuador should require agreement officer's technical representatives (AOTRs) to review the cost-sharing contributions required under the agreements, and the mission should conduct training for program staff on cost sharing (page 13).

Detailed findings follow. Our evaluation of management comments is on page 15. The audit scope and methodology are described in Appendix I, and management comments are presented in Appendix II.

AUDIT FINDINGS

USAID and USAID/Ecuador Have Not Fully Developed Standards for Determining Hectares Under Improved Management

According to USAID's Automated Directives System (ADS) 203.3.4.2, performance indicators should be unambiguous about what they measure. Furthermore, performance indicators selected for inclusion in the performance management plan (PMP) should be useful for decision making and should measure changes that are clearly and reasonably attributable to USAID efforts. Additionally, to ensure objective evaluation of these changes, a new USAID policy requires that evaluations be undertaken so that they are not subject to biased measurement or reporting due to conflict of interest or other factors. In most cases, the evaluations are to be conducted by independent third parties. Finally, according to USAID's general biodiversity guidelines, indicators that measure the effects of an activity on biodiversity—for example, the change in status of a certain species or change in quality of habitat—should be as direct as possible.

The *Number of hectares [of land] under improved natural resource management as a result of U.S. Government assistance* is the basic performance indicator used by the Agency to measure the impact of interventions related to natural resource management. The definition of "improved natural resource management" is broad: natural resources management refers to activities that enhance management of natural resources for mitigating climate change or promoting sustainable agriculture; "improved" management "as defined by implementation of best practices and approaches demonstrates progress and results across a wide range of development programs ... disaggregated according to ecosystem."¹ USAID missions receiving biodiversity funding report to Washington the number of hectares under improved management using mission-specific or partner-specific methodologies, with varying levels of rigor.

In fiscal year (FY) 2010, USAID/Ecuador standardized this indicator across the three projects by adapting a model developed by The Nature Conservancy. All three projects now use a formula based on the following factors:

- *Biodiversity viability*—natural vegetation cover and other mapping data. This value remains constant as the data is only available periodically.
- *Threat level*—a score indicating the severity of concerns specific to each ecosystem, such as oil activity, logging activity, cattle expansion, and urban expansion.
- *Conservation management status*—scored according to factors such as whether an area has been formally declared protected, is under a management plan, or is the subject of environmental education activities.

¹ U.S. Department of State, Economic Growth Indicator Handbook FY 2008, Handbook Guidance Annex 5, "Economic Growth Indicators and Definitions."

In addition to the above criteria, Chemonics considers the effectiveness of interventions in a given area under the Sustainable Coasts and Forests Project. Initially, Chemonics staff themselves assigned an effectiveness rating after conducting an evaluation; during the second year of the project, Chemonics invited project staff, Ministry of Environment officials, local officials, and private sector representatives to participate in the evaluation process and assign a rating. Since then, the multiparty evaluation has taken place every 6 months. This practice is consistent with the USAID Administrator's desire that major projects receive independent performance evaluations, not evaluations conducted by the implementing partners themselves. According to the Administrator, objective analysis of results on indicators ultimately will lead to better monitoring and measurement of program success. However, the other WCS and FONAG projects do not use independent assessments of the impact of their biodiversity projects.

USAID/Ecuador recognized the inconsistency in its own environment portfolio and made the effort to standardize this measure across the mission's three projects. Chemonics took the additional step of involving outside parties to determine year-to-year impact more objectively. To ensure that all environment projects benefit from consistent use of objective analysis, this audit makes the following recommendation.

Recommendation 1. *We recommend that USAID/Ecuador develop and implement procedures requiring independent assessments of the impact of its activities and use the results of the assessments, along with the observations by USAID's technical experts and the regular reporting by the implementers, when reporting annually on its biodiversity projects.*

Still, further improvements could be made in USAID/Ecuador's methodology. Year after year, the number of hectares under improved management that each project reports has stayed the same, making it difficult in some cases to determine what has actually improved as a result of USAID assistance versus what has been maintained. Moreover, because scores for biodiversity viability and threat level have remained fairly constant, the only part of the formula that has changed year to year is management status, which is an indirect measure of biodiversity improvement.

The follow-up audit of USAID/Brazil's environment program also identified this weakness:

Despite the mission's attempts to make the process more objective, the partners' interpretation of the guidance has not been consistent. For example, one partner reported 68,000 hectares of land under improved management although the activity completed was simply the development of maps indicating the areas most vulnerable to deforestation and biodiversity loss ... [another] partner reported that 60,000 hectares had been improved, although there was no direct evidence of any improvement; the partner had simply provided courses and workshops that may or may not have led to improvements. (<http://www.usaid.gov/oig/public/fy10rpts/1-512-10-006-p.pdf>)

USAID does not have a clear and unambiguous indicator that meets ADS requirements because there is no comprehensive USAID guidance, either regional or global, for standardizing or determining best practices for measuring hectares under improved management.

Since current methods for calculating the number of hectares under improved management vary widely from mission to mission and program to program, and many times are indirect measures

at best of biodiversity improvement (e.g., offering environmental courses and workshops in a particular area without determining their impact), this indicator is currently of limited use to the Agency or to lawmakers. USAID should improve the methods by which it tracks biodiversity improvements to determine the true impact of the Agency's natural resource management interventions. Therefore, this audit makes the following recommendation.

Recommendation 2. *We recommend that the Economic Growth, Agriculture and Trade Bureau develop comprehensive guidelines to assist missions and regional programs in developing a common methodology for determining the number of hectares under improved natural resources management.*

USAID/Ecuador Has Not Fully Developed a Method for Determining Economic Benefits Derived From Program Activities

Under ADS 203.3.4.2, performance indicators should be unambiguous about what they measure and be useful for management. One of USAID's standard measures for natural resource and biodiversity programs is the economic benefit derived from project activities. This measure presupposes that the sustainability of interventions relies on local populations being able to support themselves in an environmentally responsible manner. This standard indicator is *Number of people with increased economic benefits derived from sustainable natural resource management and conservation as a result of USG [U.S. Government] assistance.*

Because of the lack of a standard method to determine actual benefits derived, the reported data regarding economic benefits is of limited usefulness. In its FY 2010 Full Performance Plan and Report, USAID/Ecuador reported 8,691 people obtained economic benefits from conservation through the three environment projects. Each of the three implementers used a different approach to determine numbers of beneficiaries under this indicator, and the actual livelihoods support received is highly variable, ranging from subsistence-level assistance, such as community gardens, to actual increases in income through higher park guard salaries and improvements in crab production. Although the park guard programs are clearly linked to conservation goals, some of the other agricultural, tourism, and handicraft activities are not as clearly linked. Also included in this indicator are recipients of conservation incentives—e.g., Socio Bosque benefits—that support conservation goals but are not necessarily linked to sustainable job creation or income growth. The following examples highlight inconsistencies and problems with reported data.

- In FY 2010, the mission reported that WCS and FONAG helped increase economic benefits for 5,721 people (4,370 and 1,351, respectively), yet neither FONAG nor WCS had a clear methodology for determining or verifying economic benefits from the project's activities. Both FONAG and WCS included as beneficiaries anyone receiving an input or training for productive or economic activities, without evaluating the outcome of these interventions. Beneficiaries included park guards who received salaries funded by the project, as well as students who took part in community school productive projects (such as planting small orchards or composting) and their families. The reason FONAG gave for including students was that they will "replicate the knowledge acquired in the schools and ... improve the livelihoods of their families" by helping them save money through water conservation, improved health and sanitation practices, etc. In the case of WCS, its monitoring and evaluation plan states that the project "does not focus strongly on the generation of

economic benefits” but that WCS will develop collaborative relationships with partners who specialize in promoting productive activities.

- The Chemonics Sustainable Coasts and Forests Project reported 2,970 people receiving economic benefits in FY 2010. These included 1,815 beneficiaries of the Socio Bosque incentive program, 1,005 beneficiaries of improved agricultural practices, 120 beneficiaries of fish packing employment, and 30 beneficiaries of ecotourism efforts. The project surveys beneficiaries to ascertain their perception of benefits and conducts case studies to verify actual benefits and economic impact. Chemonics defines the indicator in its project PMP as the *Number of households with increased economic benefits promoted or supported by the project*. Because this definition lacks the mission indicator’s link to sustainable natural resource management and conservation, reported results are not necessarily linked to sustainable natural resource management. Chemonics also has not established a threshold for economic benefits; its self-evaluation revealed that many crab-packing beneficiaries received a minimal (2–4 percent) increase in income, while none of the five cacao farmers in the study received economic benefits from their participation in the program.

Further context for the total number of beneficiaries is not provided; therefore, the percentage of the needy population in the program operating areas that the 8,691 people represent is unknown.

USAID/Ecuador has not tried, as it did with the hectares under improved management indicator, to establish common guidelines for this indicator across the three projects. The three implementers are working with different populations in different regions of Ecuador. Therefore, the mission believes that standardization would be difficult. In the case of indigenous groups in particular, a proxy measure, may be needed given the unique economic situation of that population. Furthermore, this is a global indicator and was developed by USAID/Washington to help capture information on the number of people USAID is impacting in the world. EGAT recently completed a limited worldwide survey of biodiversity indicators that are currently in use and thus far has not reached consensus on the most appropriate and cost-effective way to document these benefits.

Because economic development activities under the framework of conservation programs have had limited success in Ecuador, establishing clear guidelines and understanding the outcomes of those activities are especially important. The program cannot provide unambiguous information about program results without standardized mechanisms for determining economic benefits derived from conservation. Without improved methodology for documenting the level of benefits, the data reported is of limited use to USAID/Ecuador’s management, the Agency, or lawmakers in future programming.

Recommendation 3. *We recommend that USAID/Ecuador develop a standard methodology for identifying beneficiaries receiving economic benefits that are clearly linked to sustainable natural resource management or conservation efforts.*

Recommendation 4. *We recommend that the Economic Growth, Agriculture and Trade Bureau develop and implement a plan for improving the methodology missions and regional programs use in determining increased economic benefits derived from sustainable natural resource management and conservation.*

USAID/Ecuador Has Not Evaluated the Success and Sustainability of Coalitions and Alliances

According to the Sustainable Coasts and Forests Project's initial plans, Chemonics was expected to form strong conservation coalitions in each project site committed to leveraging additional resources for and implementing conservation and livelihood activities in the project sites. As initially envisioned, these conservation coalitions would have a significant economic component. For example, with the participation of leading public officials, community leaders, and members of the scientific community, coalitions would guide development and attract public and private sector investment, ensuring the sustainability of project activities. Chemonics also was expected to strengthen alliances among local actors, such as management committees for reserves.

As of March 2011, Chemonics reported that two coalitions and four alliances had been formed and an additional coalition was under development. However, the audit found limited evidence that these groups were working as planned to attract public and private investment and ensure the replication of project activities. Project staff and coalition reports suggested that the groups were acting as coordinating bodies, ensuring that development and conservation efforts were complementary and not duplicative. Although coalitions were publishing periodic newsletters, these newsletters were issued by the coalition secretary, who was also a member of Chemonics' paid staff, not by active group members. Furthermore, whereas coalition newsletters emphasized the work of individual organizations in the coalition, they did not report on coordinated activity by the coalition or mention a specific agenda.

USAID/Ecuador has received limited useful information about the status of coalitions and alliances because the approved PMP requires Chemonics to report only the *Number of coalitions and alliances formed or strengthened for ongoing support to biodiversity conservation in the areas of intervention of the project, demonstrated by the number of memorandums of understanding signed*. Reporting only the number of alliances/coalitions formed provides no indication of the strength, value, or sustainability of the groups formed. In its final technical proposal, Chemonics had proposed using an institutional index to evaluate the strength of coalitions and alliances. Such an index could have included various measures of success, including active participation, clarity of goals, and group financial stability. However, this methodology was not incorporated into the project's PMP, and benchmarks for group success and sustainability were not measured or reported on.

Without specific benchmarks for and an ongoing assessment of the strength and value of coalitions and alliances, the project may not be able to intervene effectively to ensure coalition sustainability. Therefore, this audit makes the following recommendation.

Recommendation 5. *We recommend that USAID/Ecuador include a requirement for the periodic evaluation of coalition and alliance success and sustainability in the Chemonics performance management plan.*

Wildlife Conservation Society Activities Have Demonstrated Limited Potential for Sustainability

ADS 201.3.8 states that USAID missions should devise foreign assistance programs and activities to have the greatest possible development impact. Furthermore, this impact should be sustainable. USAID defines this concept in its *Strategy for Sustainable Development* as that which will permanently enhance the capacity of a society to improve its quality of life. In this vein, WCS stresses the importance of sustainable results with its Integrated Management of Indigenous Lands Project. The cooperative agreement with WCS states that the project will help indigenous organizations build the technical and administrative capacities needed to realize the visions of indigenous people for their territories.

USAID/Ecuador planned to cease bilateral programming with indigenous groups with the close of the WCS project in September 2011. Although WCS and USAID/Ecuador have made progress in some areas, without follow-on efforts, the sustainability of the project's interventions is in question.

WCS acknowledged that its indigenous partners have reached varying levels of sophistication in their organizations' technical and administrative capacities and governance structures. Frequent changes in indigenous leadership, as often as every 2 to 3 years, have increased the challenge of working effectively with these groups. While some organizations have developed advanced capacities, other organizations continue to develop. Without further USAID funding, these efforts might be stalled. One representative from an indigenous tribe doubted her organization's ability after the close of the WCS project to design and manage a macrolevel program because the organization lacked qualified personnel.

Furthermore, a surveillance system of community park guards implemented by several indigenous organizations may not continue. These guards, some paid through the WCS project, patrol and monitor their territory and report on animal and human activities. Indigenous leaders from some organizations stated that when USAID/Ecuador funding ceases, park guard positions likely will become voluntary, reducing the incentive to perform this important monitoring function.

Finally, WCS has encouraged community tourism activities in some river communities as a source of alternative economic benefits. Two activities visited by the audit team and described below have had limited success; have not generated much, if any, revenue; and may require ongoing USAID support to become sustainable.

- The Secoya community built an ecolodge facility under the USAID-Ecuadorian Sustainable Tourism Alliance, part of USAID's larger Global Sustainable Tourism Alliance. USAID stated in October 2009 that the Secoya Lodge generated jobs and income that financed and promoted conservation and local health and education initiatives. Yet after the USAID-Ecuadorian program ended in November of 2009, the Secoya Lodge was not profitable enough to remain in operation. WCS subsequently inherited the project, and at the time of the audit team's visit, the available infrastructure (shown in the following photos) remained insufficient to attract the desired tourist base.



The Secoya Lodge (bath facilities pictured at left) and guest house (right) do not attract enough tourists. (Photos by RIG/San Salvador, April 2011)

- The Kichwa community in Nueva Providencia built an interpretive center to teach visitors to the Yasuní National Park and Biosphere Reserve about the marine life found in the nearby Napo River. However, the center does not yet have any strong tourism alliances to attract visitors and currently depends on a small artisanal shop as the main source of income.

In addition to the observations detailed above, recent evaluations that the mission commissioned examined the impact of the program and made recommendations for future directions. For example, the Economic Sustainability Within Biodiversity Programs Evaluation (2011) suggested developing the skill sets necessary to implement economically sustainable activities; planning longer timelines to reach sustainability; and recommending that USAID be practical about what its goals can be for any activity, given the types of interventions that are possible in highly biodiverse, fragile areas. The Evaluation of Conservation and Development Strategies with Lowland Indigenous Groups (2010) recommended shifting the emphasis of the project to institutional strengthening of the weaker indigenous organizations and finding financing to support these indigenous organizations over a period of at least 5 years. This evaluation also recommended concentrating resources on tourism in indigenous territories.

After the end of this project, the mission will rely on USAID's regional Initiative for Conservation in the Andean Amazon to deliver assistance to indigenous groups living in targeted areas. However, USAID/Peru will manage this regional program, and the activities to be completed will depend on the proposals received from interested bidders. Therefore, the regional program likely will not extend to all the groups currently receiving assistance through USAID/Ecuador.

As USAID/Ecuador ends its direct involvement with indigenous groups under the WCS project, current interventions may prove unsustainable. USAID/Ecuador risks weakening its relationships with the leaders of these indigenous groups. Once lost, these relationships take time to reestablish. Therefore, this audit makes the following recommendation.

Recommendation 6. *We recommend that USAID/Ecuador develop a transition plan for sustaining and furthering the achievements of the Integrated Management of Indigenous Lands Project. The plan should incorporate to the extent possible the recommendations in the recently completed assessments mentioned in this finding.*

Local Partner Has Not Provided Data on Improvement in Water Quality

The purpose of USAID/Ecuador's cooperative agreement with FONAG is to provide economic incentives that result in maintained, protected, or improved water resources and overall watershed conservation. The cooperative agreement noted that FONAG was building a pilot monitoring system to measure the maintenance and improvement of water quality and quantity. After testing the hypothesis and tools and building a baseline and indicators, FONAG was to apply this approach to the entire watershed. In addition, the agreement proposed an indicator for the periodic measurement and reporting on biodiversity and water quality and quantity conservation.

USAID assistance to FONAG began in 2007; however, FONAG has been carrying out activities since 2004. Although FONAG has expanded environmental education efforts, trained beneficiaries in natural resources management, and raised significant capital for the water fund, it has provided USAID with little verifiable data related to improvements in water quality and quantity. According to FONAG, it has completed a water resources geographic information system, and several organizations are contributing information to the system. In the 2010 annual report, FONAG also reported that it had implemented a strategy for community biomonitoring, which entailed park rangers and communities selecting specific streams and defining strategies to improve the parameters of water quality in those streams (in some cases just to avoid more pollution). However, FONAG has not provided the results of these monitoring activities to USAID, and it was not apparent whether the data collected reflected improved water quality or quantity.

FONAG has not provided USAID with verifiable data related to improvements in water quality and quantity because FONAG's final performance monitoring plan does not call for collection of such data. Comprehensive hydrological monitoring can be costly and requires several consecutive years of data to determine impact. The indicators reported to USAID are biodiversity measures, and neither water quality monitoring nor a proxy measure are explicitly part of the methodology developed for the project's indicators.

The FONAG model is being replicated in Ecuador and used as a basis for developing water funds in neighboring countries as well. It is important to know what impact this project has had on water quality and quantity in order to market this model to the rest of the world. Because FONAG has not demonstrated to USAID an overall improvement in water quality or quantity as a result of its activities, the impact that this project has had in terms of maintained, protected, or improved water resources is unclear. Therefore, this audit makes the following recommendation.

Recommendation 7. *We recommend that USAID/Ecuador require the Fondo para la Conservación del Agua to submit a water quality impact assessment as part of its 2012 closeout report.*

Local Partner Has Not Documented Lessons Learned From One Problematic Water Fund

The Protecting Water Resources to Conserve Biodiversity Project agreement requires FONAG to support replication of its approach to watershed conservation activities in five new sites: Paute, Tunguragua, Zamora, Espindola, and Riobamba. FONAG is expected to strengthen these water funds and provide technical assistance for the implementation of field conservation activities. The budget for the replication activities accounts for the largest amount of USAID funding over the life of the project—\$1,238,704 of a total budget of \$3,002,000.

The water fund in Zamora, Fondo Procuencas, has performed below expectations. FONAG reported 12,477 hectares under improved management in the Zamora region (for Limon and Bombuscaro) in 2008 and 19,845 hectares in 2009, but it reported no results in 2010. According to FONAG officials, changes in political leadership and a lack of local understanding of water fund operations resulted in the termination of FONAG assistance to Fondo Procuencas.

The FONAG model is being replicated in Ecuador and used as a basis for developing water funds in neighboring countries as well. Therefore, establishing FONAG's best practices and lessons learned are critical to the successful development of subsequent funds. However, despite requests from USAID/Ecuador, FONAG did not sufficiently document its problems with Fondo Procuencas in its quarterly reporting, submitting only a general summary of the situation in the 2010 annual report. This deficiency occurred because the information was not specifically required in quarterly or annual reports, and FONAG felt that the verbal updates it provided to the agreement officer's technical representative (AOTR) were sufficient.

As stated in USAID's Operational and Procurement Improvement Plan, (<http://forward.usaid.gov/node/316>), USAID "seeks to create the conditions whereby aid will no longer be necessary in the countries where we work. That goal can only be realized if the assistance we deliver strengthens the local actors and institutions that are ultimately responsible for transforming their countries." Because FONAG represents the type of local institution that USAID strives to support, USAID must learn from the challenges described above and incorporate the information into future programming. Unless FONAG documents this process in detail, from selection of this particular fund for assistance through the problems encountered during implementation and subsequent termination of the assistance, the lessons learned will not benefit others. Therefore, this audit makes the following recommendation.

Recommendation 8. *We recommend that USAID/Ecuador require the Fondo para la Conservación del Agua to report on lessons learned from the problems it had with the Zamora water fund.*

USAID/Ecuador Has Not Verified Cost-Sharing Data

USAID/Ecuador delegates authorities to AOTRs by issuing them designation letters. AOTR designation letters specify that AOTRs are responsible for monitoring the recipient's (the implementing partner's) progress in achieving the objectives of the award and for verifying that the recipient's activities being funded by USAID under the award conform to the terms and

conditions of that award. This includes ensuring the partner's conformity with cost-sharing² requirements. ADS 303.3.10.4 explains that cost sharing applies throughout the life of an agreement, and the technical representatives should monitor the recipient's financial reports to ensure that the recipient is making progress toward meeting the required cost sharing.

Both FONAG and WCS have large cost-sharing requirements, 55.5 and 48.6 percent (\$1,665,736 and \$2,960,574), respectively. USAID/Ecuador included the cost-sharing requirements to establish local buy-in and ensure sustainability. The reported cost-sharing amounts are tracked in the mission's PMP worksheets, and some totals are mentioned in the performance plan and report narrative, but the mission is not required to report on cost-sharing amounts to Washington. Accordingly, the mission was not verifying the information provided by the partners in their general reports. For example, in its 2009 annual report FONAG reported \$892,089 as cost sharing under the wrong line item, and it went unnoticed and uncorrected.

USAID/Ecuador was not verifying the cost-sharing data submitted in partner reports because management had not clarified expectations regarding verification of cost-sharing provisions.

USAID/Ecuador cannot be certain using current monitoring procedures that the cost-sharing contributions for the two agreements are eligible or supported. Therefore, this audit makes the following recommendation.

Recommendation 9. *We recommend that USAID/Ecuador require agreement officer's technical representatives to review the cost-sharing contributions required under the agreements and that the mission conduct training for program staff on cost sharing.*

Other Matter

In FY 2010, USAID/Ecuador received earmarked funding³ totaling \$5,070,000 for biodiversity projects. The mission used \$1,157,000—23 percent of the total—for project administration and oversight. This percentage exceeds the global USAID norm for administration and oversight costs for biodiversity programs, which is 10 to 15 percent.

USAID/Ecuador's administration and oversight expenses were high because the mission used program funds to pay the salaries of two key mission officials, in addition to those of the technical and administrative staff. These two positions are (1) the environment team leader and (2) the director of the Economic Development, Growth and Environment Office. Normally, these salaries are paid from funds for operating expenses, not program funds. However, according to mission officials, USAID/Washington withheld funding for the two positions due to a realignment of USAID staff. As a result, the mission paid for these positions using earmarked biodiversity funds.

² Cost-sharing represents the portion of a funded project that the grantee must contribute in order to share the costs of meeting the objectives of the project outlined in the grant agreement. This contribution may be in cash, goods, or services.

³ An earmark is a provision in legislation allocating a specified amount of money for a specific project, program, or organization. The Agency's "Biodiversity Code" (see "USAID's Definition of Biodiversity Programs," http://www.usaid.gov/our_work/environment/biodiversity/code.html) guides the Agency in determining which programs are covered by the biodiversity earmark.

Had these positions been paid using operating expense funds, USAID/Ecuador's administration and oversight costs for biodiversity activities would have been about 10 percent during FY 2010, in line with USAID's Agency-wide averages. Furthermore, the mission would have been able to spend about \$657,000 more of the earmarked funding on biodiversity activities instead of on program staff salaries.

In addition, USAID/Washington's decision to eliminate funding for the two positions occurred at a critical time for USAID/Ecuador's environment program. The mission was in the process of drafting its strategic plan for FYs 2012–17, and had to do so without an environment team leader. This position was vacant from January 2010 through July 2011. Mission staff, EGAT Bureau officials, and Latin America and the Caribbean Bureau staff all expressed concern regarding the lack of a qualified U.S. direct-hire environment team leader at the mission during this critical period.

Use of program funds instead of operating-expense funds to pay staff reduces the earmarked funds available for program activities, diminishing program impact. USAID will need to find a balance between competing global staffing priorities and ongoing program needs in Latin American and Caribbean missions.

EVALUATION OF MANAGEMENT COMMENTS

The EGAT Bureau's Natural Resources Management (EGAT/NRM) forestry team leader and acting biodiversity team leader, as well as USAID/Ecuador's mission director, responded to the recommendations included in our draft audit report. In several instances, the officials requested adjustments to the recommendations, and we incorporated their suggestions where appropriate.

After reviewing the comments and the actions proposed by the mission and the EGAT Bureau, we determined that management decisions have been reached on all recommendations in the final report. Our evaluation of management comments follows.

Recommendation 1. *We recommend that USAID/Ecuador develop and implement procedures requiring independent assessments of the impact of its activities and use the results of the assessments, along with the observations by USAID's technical experts and the regular reporting by the implementers, when reporting annually on its biodiversity projects.*

USAID/Ecuador agreed with the recommendation overall and stated that an independent midterm evaluation is planned to review the effectiveness, both direct and indirect, of the management practices promoted by the program. USAID/Ecuador will conduct an independent evaluation of FONAG in the coming year. The mission did, however, request that we modify the wording of the recommendation to clarify that independent assessments should be incorporated as part of the existing reporting on program results, which includes regular observations by USAID's technical experts and the reporting by the implementers. We have modified the recommendation accordingly. On the basis of the mission's planned actions, we consider that a management decision has been reached on Recommendation 1.

Recommendation 2. *We recommend that the Economic Growth, Agriculture and Trade Bureau develop comprehensive guidelines to assist missions and regional programs in developing a common methodology for determining the number of hectares under improved natural resources management.*

EGAT/NRM agreed with this recommendation and reported that the bureau, having already identified this need, has begun conducting analysis and obtaining support for improving this indicator. The bureau plans to issue the methodology for the indicator (or an improved version of it) within a year, when new indicator guidance is circulated. In view of EGAT/NRM's planned actions, we consider that a management decision has been reached on Recommendation 2.

Recommendation 3. *We recommend that USAID/Ecuador develop a standard methodology for identifying beneficiaries receiving economic benefits that are clearly linked to sustainable natural resource management or conservation efforts.*

USAID/Ecuador agreed with this recommendation. The team will use the Sustainable Forests and Coasts Project methodology as the foundation for establishing baselines and tracking data for all new activities. And the team will work with all the mission's partners to develop a process for identifying beneficiaries that is implementable, transparent, and appropriately targeted to

respond to the specific project objectives and planned geographic coverage. By September 30, 2012 the USAID/Ecuador environment team will expand the systematic approach that it applies to data collected and reported to Washington as part of the mission's PMP. On the basis of the mission's planned actions, we consider that a management decision has been reached on Recommendation 3.

Recommendation 4. *We recommend that the Economic Growth, Agriculture and Trade Bureau develop and implement a plan for improving the methodology that missions and regional programs use in determining increased economic benefits derived from sustainable natural resource management and conservation.*

The mission expressed concerns that using a proxy indicator for earnings cannot provide a better measure of impact unless projects invest in considerable technical research and testing to verify conclusions. Consequently, we revised the draft report's recommendation.

As previously noted, the USAID/Ecuador environment team will expand the systematic approach that it applies to the collection of data and indicators it reports to Washington as part of the mission's PMP. The team will use the Sustainable Forests and Coasts Project methodology as the foundation for establishing baselines and tracking data for all new activities. USAID/Ecuador believes that the more practical approach to developing a better indicator is to work with the EGAT Bureau in addressing this indicator globally.

The EGAT Bureau's biodiversity team recently completed a survey of indicators used in USAID biodiversity programs, and initial analysis shows no indicator that would meet this need. The conservation community (with active participation from USAID) has explored how best to document these benefits; however, the community has not reached a consensus. However, the EGAT Bureau has agreed to implement a plan to improve the methodology for determining increased economic benefits derived from sustainable natural resource management and conservation, and the bureau will have a technical assistance contract in place by September 30, 2012, to focus on this issue.

On the basis of these planned actions, we consider that a management decision has been reached on Recommendation 4.

Recommendation 5. *We recommend that USAID/Ecuador include a requirement for the periodic evaluation of coalition and alliance success and sustainability in the Chemonics performance management plan.*

USAID/Ecuador agreed with this recommendation. Through a contract modification, USAID/Ecuador will update the Chemonics PMP to require evaluating and reporting on the sustainability of coalitions and alliances and any joint activities implemented. USAID/Ecuador will also work with USAID/Washington to determine whether a methodology for tracking progress on coalitions exists and could be incorporated in the PMP. The contract modification will be done in September 2011, and the requirement will be effective with the first reporting period in FY 2012. USAID/Ecuador expects to address this recommendation by September 30, 2012. On the basis of the mission's planned actions, we consider that a management decision has been reached on Recommendation 5.

Recommendation 6. *We recommend that USAID/Ecuador develop a transition plan for sustaining and furthering the achievements of the Integrated Management of Indigenous Lands Project. The plan should incorporate to the extent possible the recommendations in*

the recently completed assessments mentioned in this finding.

Rather than conducting an additional assessment as originally recommended, USAID/Ecuador proposed sharing the recommendations in its three recently completed evaluations with other U.S. Government agencies to optimize efforts with indigenous people being implemented by all parties in the Amazon region. The mission further indicated that (1) USAID's regional Initiative for Conservation in the Andean Amazon program should use these recommendations to inform its upcoming evaluation of indigenous issues in each country in the region and (2) USAID/Ecuador's environment team will draw on the assessments in developing its long-term strategy for addressing climate change and conserving biodiversity.

We modified the recommendation to incorporate USAID/Ecuador's suggestion about sharing the recommendations in recently completed assessments. However, in addition to the three cited general assessments, USAID/Ecuador should incorporate the program sustainability concerns detailed in this audit report. USAID/Ecuador expects to complete this transition work by March 31, 2012. On the basis of the mission's planned actions we consider that a management decision has been reached on Recommendation 6.

Recommendation 7. *We recommend that USAID/Ecuador require the Fondo para la Conservación del Agua to submit a water quality impact assessment as part of its 2012 closeout report.*

USAID/Ecuador agreed with this recommendation and will require FONAG, as part of its final report on its current program, to provide information on the water quality in the watershed where actions have been implemented. USAID/Ecuador expects to receive the final report by March 31, 2013. On the basis of the mission's planned actions, we consider that a management decision has been reached on Recommendation 7.

Recommendation 8. *We recommend that USAID/Ecuador require the Fondo para la Conservación del Agua to report on lessons learned from the problems it had with the Zamora water fund.*

USAID/Ecuador agreed with this recommendation and will require FONAG to include in its final report a section on lessons learned in and recommendations for creating water funds. In addition, USAID/Ecuador will include a review of the lessons learned as part of the external evaluation of FONAG that is planned for early 2012. USAID/Ecuador expects to receive the final report by March 31, 2013. On the basis of the mission's planned actions we consider that a management decision has been reached on Recommendation 8.

Recommendation 9. *We recommend that USAID/Ecuador require agreement officer's technical representatives to review the cost-sharing contributions required under the agreements and that the mission conduct training for program staff on cost sharing.*

The mission expressed concerns that a detailed review of cost-sharing documentation is the responsibility of the recipient-contracted annual audits. We agree that the AOTR's scope of responsibility does not include making a determination on the eligibility of the claimed cost-sharing amounts. However, AOTRs should monitor cost-sharing reporting and activities to determine whether progress has been made toward the agreement goals. Therefore, we revised our recommendation. USAID/Ecuador expects to address this recommendation by March 31, 2012. On the basis of the mission's planned actions, we consider that a management decision has been reached on Recommendation 9.

SCOPE AND METHODOLOGY

Scope

RIG/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards.⁴ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis.

The purpose of the audit was to determine whether USAID/Ecuador's environment program was achieving its primary goals of conserving biodiverse habitats and improving livelihoods in and around protected areas and indigenous territories. RIG/San Salvador conducted audit fieldwork at USAID/Ecuador in Quito and at field locations in and around Cuenca, El Coca, Guayaquil, Lago Agrio, Nueva Providencia, Puerto López, and Yasuní National Park from March 28 to April 15, 2011.

The audit focused on the environmental activities implemented by USAID/Ecuador from October 1, 2009, to March 31, 2011. In planning and performing this audit, we included in the audit scope a review of management activities and controls put in place by USAID/Ecuador and its partners related to their environmental activities. Management controls assessed included those related to the agreement process, program planning, data quality management, reporting procedures, monitoring procedures, and portfolio reviews.

The audit covered the activities implemented under three awards: Chemonics' 5-year, \$13.3 million Sustainable Coasts and Forests Project, which is expected to run from June 2009 to June 2014; WCS's 4-year, \$6.1 million project, Integrated Management of Indigenous Lands, to run from August 2007 to September 2011; and FONAG's 5-year, \$3 million project, Protecting Water Resources to Conserve Biodiversity: Financial Mechanisms for Watersheds Protection in Ecuador, which will run from September 2007 to September 2012. As of February 1, 2011, USAID/Ecuador had obligated \$13.7 million and had expended \$9.9 million for its environmental activities.

Methodology

To answer the audit objective, we obtained an understanding of what the mission intended to accomplish through its three environmental awards and its expected results as of the end of the audit period. We interviewed officials from USAID/Ecuador, including the technical officers responsible for overseeing the program's activities and the program officer assigned to the environment program, as well as from USAID/Washington's EGAT Bureau. We also interviewed officials from Chemonics, FONAG, WCS, and the Government of Ecuador's Ministry of Environment, as well as program beneficiaries. We reviewed the award documents for the audit period to obtain an understanding of the programs' design, principal activities to be undertaken, monitoring and evaluation requirements, and measurement of program results. On the basis of the collective results, we determined the progress of the mission's environmental activities toward the goals of the program.

⁴ *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

We further assessed USAID/Ecuador's management effectiveness by reviewing strategic plans, work plans, progress reports, and other project documents and comparing expected results with actual results. We performed site visits to observe and discuss the progress of the activities. To determine the impact and sustainability of activities, we interviewed program beneficiaries from each project.

MANAGEMENT COMMENTS

August 5, 2011

MEMORANDUM

TO: Regional Inspector General/San Salvador, Catherine Trujillo

FROM: EGAT/NRM Forestry Team Leader and Acting Biodiversity Team Leader,
Cynthia Gill

SUBJECT: Audit of USAID/Ecuador's Environment Program (Report No. 1-518-11-00X-P)

Thank you for the opportunity to review the draft Ecuador Environment Program Audit. I am responding to two of the recommendations listed in the report.

Recommendation 2. *We recommend that the Economic Growth, Agriculture and Trade Bureau develop comprehensive guidelines to assist missions and regional programs in developing a common methodology for determining the number of hectares under improved natural resources management.* USAID/EGAT/NRM/Biodiversity agrees that it is appropriate to review the standards for determining hectares under improved management. In fact, we have already identified this as a need, and have begun the process of analysis and obtaining support for improving (or possibly changing) this indicator. We plan to have a sound review of the indicator, with either an improved indicator or a methodology for this indicator within a year (when new indicator guidance is circulated).

Recommendation 4. *We recommend that USAID/Ecuador report on the estimated value of the economic benefits that are linked to sustainable natural resource management or conservation efforts, or establish a proxy for this, particularly in the case of indigenous groups.* It is not clear to me how USAID/Ecuador can respond to this recommendation. EGAT has recently completed a survey of indicators used in USAID biodiversity programs, and our initial analysis shows no indicator that would meet this need. The conservation community (with active participation from USAID) has explored how best to document these benefits, however, there is no consensus at this time on the most appropriate and cost-effective way to document these benefits.

USAID/EGAT is exploring improved indicators for the Agency at both the standard and custom indicator level, and we are happy to work with USAID/Ecuador on this issue, however, I am not certain that the answer to this particular recommendation will be found in the immediate future.

UNITED STATES GOVERNMENT

Memorandum

DATE: August 11, 2011

TO: Catherine M. Trujillo, Regional Inspector General/San Salvador

FROM: Beth Cypser, USAID/Ecuador Mission Director

SUBJECT: Comments to USAID/Ecuador's Environment Program - Draft Audit Report No. 1-518-11-00X-P, dated July 8, 2011

Thank you for giving USAID/Ecuador the opportunity to respond to the draft report of the Audit of USAID/Ecuador's Environment Program, dated July 8, 2011. USAID/Ecuador appreciates the time and consideration that the audit team invested in preparing this report. We have gained insight from both the process and the report about key areas we can address that will allow us to better capture the successes of our program's primary objective to conserve Ecuador's outstanding biodiversity. We understand from the overall tenor of the introduction that the audit team agreed that USAID's work in Ecuador had been quite successful in meeting its overall goal of conserving Ecuador's outstanding biodiversity even if there were some specific issues that could be improved. We believe that the report would be greatly improved by a concrete statement responding to the objective statement that specifically confirms the success of the Mission's programs in achieving their overall conservation goals.

Below we have listed each of the main recommendations and findings of the audit. Following each recommendation are USAID/Ecuador's comments and suggestions on the draft audit report for your consideration.

Recommendation 1: We recommend that USAID/Ecuador develop and implement procedures requiring independent assessments of the impact of its activities and use the results of the assessments when reporting on its biodiversity projects.

USAID/Ecuador appreciates the positive recognition of the efforts by The Sustainable Forests and Coast Program to incorporate regular, independent evaluation as part of its monitoring protocol. In addition to the Program's monitoring efforts, an independent mid-term evaluation is planned that will review the effectiveness, both direct and indirect, of the management and better practices promoted by the program in support of the conservation of biodiversity. Similarly, USAID/Ecuador will conduct an independent evaluation of FONAG in the coming year.

Although the policy on assessments in USAID has evolved over the last 10 years, in the future USAID/Ecuador will continue to work with our Contract/Agreement officers and partners to determine an appropriate level of periodic, independent assessment for our future contracts and agreements that will complement our own technical officers' oversight of these programs.

In recognition of the importance of independent assessments of our Programs' impacts, USAID/Ecuador has also just completed the assessment of the state of Ecuador's biodiversity

that is required under Section 119 of the Foreign Assistance Act (Report on Biodiversity and Tropical Forests in Ecuador, 2011). This assessment included recommendations for future actions based on past program achievements that the Mission should consider in developing its country program. A similar assessment was conducted five years ago, just prior to the implementation of the Mission's last five year country plan. The outcomes of this document are being shared widely and will be included in our program reporting.

USAID/Ecuador requests that this recommendation be modified. As written, the recommendation could be interpreted to mean that independent assessments would replace the use of our normal program monitoring and reporting that are required in our awards. USAID/Ecuador requests that the auditors modify the wording of the recommendation to indicate that the independent assessments will be incorporated as part of the reporting on program results along with the observations by USAID's technical experts and the regular reporting by our partners.

Recommendation 2: We recommend that the Economic Growth, Agriculture and Trade Bureau develop comprehensive guidelines to assist missions and regional programs in developing a common methodology for determining the number of hectares under improved natural resources management.

USAID/Ecuador requests that this recommendation be removed from this audit report since there is no actionable response on the Mission's part.

USAID/Ecuador will continue to work with EGAT and our Mission colleagues around the world to better define the appropriate level of systematization for weighting the different interventions used by USAID to address identified critical threats to biodiversity conservation. USAID/Ecuador will also share with EGAT the methodology currently being used to report on "Hectares under improved management" in our biodiversity programs.

(Please also see attached response from EGAT/NRM)

Recommendation 3: We recommend that USAID/Ecuador develop a standard methodology for identifying beneficiaries receiving economic benefits that are clearly linked to sustainable natural resource management or conservation efforts.

USAID/Ecuador concurs with this recommendation. As part of implementation of the new country strategy, the Ecuador Environment team will expand the systematic approach that it applies to the collection of data and indicators it reports to Washington as part of the Mission's Performance Monitoring Plan (PMP). The team will use the Sustainable Forests and Coasts Project methodology (see Annex 1) as the foundation for baseline determination and data tracking that is designed prior to the implementation of an activity. The team will work with all of our partners to develop a process for identifying beneficiaries that is implementable, transparent, and appropriately targeted to respond to the specific project objectives and planned geographic coverage.

Recommendation 4: We recommend that USAID/Ecuador report on the estimated value of the economic benefits that are linked to sustainable natural resource management or conservation efforts, or establish a proxy for this, particularly in the case of indigenous groups.

USAID/Ecuador requests that this recommendation be removed.

USAID/Ecuador does not concur that calculating values rather than counting well targeted beneficiaries will provide a cost effective improvement to our understanding of the links between benefits and conservation impacts. USAID/Ecuador believes by implementing a systematic process for identifying beneficiaries and setting proper baselines as part of the programmatic PMP development that we will address the link to natural resource efforts and provide transparent and verifiable data to support reporting on our impact.

While we understand the concern that there is no direct quantitative accounting of the benefits, assigning proxy monetary values or even direct collection data about earnings cannot provide a better relative measure of impact between activities and/or projects unless we invest in considerable technical research and testing to verify conclusions. USAID/Ecuador believes that much more useful information would be gained by seeking to understand how our targeted beneficiaries perceive the assistance that we are supporting. Such information could be gathered, in part, through involving beneficiaries in our independent assessments that are proposed in response to Recommendation 1.

The economics benefits indicator used by the USAID/Ecuador was developed by USAID/Washington to help capture information on the number of people USAID is impacting in the world. EGAT's biodiversity team has recently completed a limited worldwide survey of indicators that are currently in use and, according to the Biodiversity Team Leader Cynthia Gill, has not found any that are adequate at this point. USAID/Ecuador believes that the more practical approach to developing a better indicator is to work with EGAT in addressing this indicator globally.

(Please also see attached response from EGAT/NRM)

Recommendation 5: We recommend that USAID/Ecuador include a requirement for the periodic evaluation of coalition and alliance success and sustainability in the Chemonics performance management plan.

USAID/Ecuador agrees with this recommendation. In addition to the number of coalitions/alliances and activities reported, the next Contract Modification will include a clause to update the Chemonics PMP to include the requirements of evaluating and reporting on the sustainability of the coalition alliances and any joint activities that have been implemented starting with the FY11 Annual Report to be submitted in October 2011, and in all future semi-annual reports. USAID/Ecuador will also work with our colleagues in AID/W to determine if there is an existing methodology for tracking progress on coalitions that could be incorporated in the PMP.

Recommendation 6: We recommend that USAID/Ecuador perform an assessment of the Integrated Management of Indigenous Lands Project to determine the sustainability of USAID's current interventions and evaluate the possibility for further activities under the regional program.

USAID/Ecuador requests that this recommendation be removed or modified. It is unclear what is meant by "sustainability of USAID's current interventions" given the scope and goals of the project. USAID has included the Integrated Management of Indigenous Lands (IMIL) project in three recent evaluations of our programs that looked at the impact of the program and made recommendations for future directions: Evaluation of Conservation and Development Strategies with Lowland Indigenous Groups (2010); Economic Sustainability within Biodiversity

Conservation Programs (2011); and the Report on Biodiversity and Tropical Forests in Ecuador (2011). Further, the strengths, weaknesses, and recommendation for interventions for this program were based on earlier evaluations that include: Indigenous Territorial Rights in Ecuador: Rapid Assessment of CAIMAN and Southern Borders Integration Program (2008); the Report on Tropical Forests and Biological Diversity Country Strategy Statement 2007-2012 (2006), and the Assessment of USAID/Ecuador's Strategy to Conserve Biodiversity on Indigenous Lands (2005).

The goal of USAID's environmental programs is to sustain the biodiversity of Ecuador; the evaluations done over that past several years have consistently found that USAID's work with indigenous groups has been successful in conserving biodiversity. They have also concluded that the threats to the vast and highly biodiverse lands controlled by the indigenous groups will continue to evolve, especially in areas where there are mineral and oil resources:

- The independent review of the indigenous programs in 2010 recommended that strengthening indigenous organizations and establishing territorial rights be the initial priorities when working with indigenous groups because these form a critical foundation for establishing resource management, finance and income generating options. It noted that the different levels of the groups with which USAID worked made "one size fits all" programming difficult. The review also recommended that work with indigenous groups should reach beyond the environment sector.
- Based on an analysis of the conservation priority actions identified and USAID's comparative strengths to address these priorities, two of the top seven recommendations for USAID in the Report on Biodiversity and Tropical Forests in Ecuador (2011) involved working with indigenous groups: targeting forests under indigenous control and working to strengthen indigenous organizations.
- The Economic Sustainability within Biodiversity Programs Evaluation (2011) found that actions implemented under the IMIL project were mostly small scale and subsistence agriculture activities designed to create locally focused alternatives rather than being truly "productive" activities. The evaluation positively noted that inclusiveness in decision-making in an activity and strengthening productive activities that had existed prior to the project resulted in the best potential for economic sustainability. The report made several suggestions, including developing the type of skill sets necessary to implement economically sustainable activities, planning longer timelines in order to reach sustainability, and recommending that USAID be practical about what its goals can be for any activity, given the types of interventions that are possible in highly biodiverse, fragile areas.

Rather than a recommendation to conduct another general assessment of the program, USAID/Ecuador would suggest that the audit team urge USAID/Ecuador to share the outcomes of these recent evaluations with our USG colleagues to optimize efforts with indigenous people being implemented by all parties in the Amazon region. These outcomes should be used to inform the evaluation of indigenous issues that USAID's regional ICAA program is planning to conduct in each country in the near future. Because of the central role that the indigenous lands have in both conservation of biodiversity and the capture of carbon in Ecuador, this input should also be used by the USAID/Ecuador's Environment Team in the development of its long-term strategy for future activities to address climate change and conserve biodiversity.

Recommendation 7: We recommend that USAID/Ecuador require Fondo para la Conservación del Agua to submit a water quality impact assessment as part of its 2012 closeout report.

USAID/Ecuador concurs with this recommendation. FONAG will be required to provide information on the status of the water quality in the watershed where actions have been implemented as part of the final report on its current program.

Recommendation 8: We recommend that USAID/Ecuador require the Fondo para la Conservación del Agua to report on lessons learned from the problems it had with the Zamora water fund.

USAID/Ecuador concurs with this recommendation. FONAG will be requested to develop a section in the final report on lessons learned and recommendations when creating water funds.

In addition, USAID/Ecuador will include a review of the lessons learned from the successes and the difficulties encountered in launching water funds as part of the external evaluation of FONAG that is planned for early 2012.

Recommendation 9: We recommend that USAID/Ecuador develop formal requirements for periodically evaluating and verifying partner compliance with cost-sharing requirements.

USAID/Ecuador requests that this recommendation be removed or modified. This recommendation is not actionable as written. Additionally, USAID/Ecuador recommends that all references to “leverage” be removed or included in a separate recommendation. Leverage is not part of the negotiated budget of our agreements, is not reported on the projects financial reports, and should not be confused with cost sharing.

As outlined in the AOTR Designation letters and ADS 303.3.10.4, AOTRs are responsible for monitoring the recipient’s progress towards meeting the stated agreement goals, which includes those for cost sharing. The Mission examines cost sharing contributions via the reports produced by partners, as required by the terms of the agreement. The financial reporting received by the AOTR is not highly detailed and the terms of the agreements do not specify how or under which general line item cost sharing must be reported. Such detail is verified by the annual audits (as described in Sections 3.4 and 4.8 through 4.13 in the *Guidelines*) and it is at this step that the eligibility of the claimed cost sharing contributions can be, and is, verified.

USAID/Ecuador would accept a recommendation that AOTRs specifically review the required cost sharing contributions in their agreements and that the Mission conduct a specific training session for program staff on cost sharing.

Other Matters:

USAID concurs with the analysis of the audit team that the anomaly in the staffing cost ratio can be attributed to the need to identify program-funded staffing solutions to mitigate the adverse impact of Washington decisions that resulted in frozen/unfilled USDH OE-funded positions. These Washington actions targeted the Environment positions just at a time when the Mission’s Environment portfolio is expanding. If these positions had not been financed with ENV funds (but rather filled with Washington-assigned USDH staff), staffing costs borne by the Mission would have been around 10% of the total FY 2010 ENV funds. This issue was noted and

discussed in the last Management, Control and Review Committee (MCRC) meeting, where the Mission evaluated the internal controls in effect during FY 2011, as mandated by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Even though this was not considered a significant internal control deficiency, the Mission decided to include it in the certification letter sent to USAID/Washington, in order to elevate the concern to a higher level.

In order to make the audit report clearer, the Mission suggests that the auditors make the following minor changes to the second paragraph of this section:

USAID/Ecuador's administration and oversight expenses were high because the Mission used program funds to pay the salaries and benefits of two key mission officials, in addition to the technical and administrative staff. These two positions are: (1) the environment team leader and (2) the director of the Economic Development, Growth and Environment Office. Normally, these costs are paid from funds for operating expenses, not program funds. However, according to Mission officials, USAID/Washington withheld funding for the two positions. As a result, the Mission paid for these positions using earmarked biodiversity funds.

DATE: September 2, 2011

TO: Katherine Swanson, Audit Team Leader, RIG/San Salvador

FROM: USAID/Ecuador

SUBJECT: Audit of USAID/Ecuador's Environment Program-Response to Questions from August 24, 2011

Below we respond to the request made in your correspondence from August 24th to clarify target dates for completion of several of the recommendations from the Audit Report.

Recommendation 3 – We will include our Biodiversity and new Climate Change activities under the new Programmatic Performance Monitoring Plan. The target date for completion of this document is September 30, 2012.

Recommendation 5 – The modification of the Forest and Coast contract to include this recommended action will be done in September, 2011 and the requirement will be effective with reporting period in FY 2012. The target for completion of this recommendation is September 30, 2012.

Recommendation 6 - USAID/Ecuador is developing a transition plan for the Integrated Management of Indigenous Lands Project that includes sharing the outcomes of assessments and the recommendations of the program's final report with USAID, US Government, and other international donors to enhance the sustainability of ongoing efforts with indigenous people in Ecuador. The target date for completing this transition work is March 31, 2012.

Recommendation 7 – An assessment of the impact of FONAG's program on water quality will be included as part of FONAG's final report. The target date for completion of this recommended action is March 31, 2013.

Recommendation 8 - FONAG will be requested to develop a section in the final report on lessons learned and recommendations when creating water funds. The target date for completion of this recommended action is March 31, 2013.

Recommendation 9 - USAID/Ecuador will conduct training with AOTRs to specifically address cost sharing, and each AOTR will review the required cost-sharing contributions included as part of the agreements that they manage. The target date for completion of this recommendation is March 31, 2012.

**U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
www.usaid.gov/oig**