



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/HONDURAS' DEMOCRACY AND GOVERNANCE PROGRAM

AUDIT REPORT NO. 1-522-09-009-P  
JUNE 4, 2009

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

June 4, 2009

**MEMORANDUM**

**TO:** USAID/Honduras Mission Director, William Brands  
USAID/EI Salvador Contracting Officer, Wanda M. Henry

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

**SUBJECT:** Audit of USAID/Honduras' Democracy and Governance Program (Audit Report No. 1-522-09-009-P)

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

The report includes ten recommendations for your action. Based on your comments, management decisions have been reached for Recommendation Nos. 4 and 7. A management decision can be recorded for Recommendation Nos. 1, 2, 3, 5, 8, 9 and 10 when USAID/Honduras establishes target dates for completing the planned actions, and a management decision can be recorded for Recommendation No. 6 can be reached when the agreement officer has reached a final decision on the amount, if any, to be recovered from the Federation of Honduran Nongovernmental Organizations.

Determination of final action on the recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

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

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# SUMMARY OF RESULTS

USAID/Honduras' democracy and governance program is designed to strengthen the rule of law through activities that improve the legal framework, increase the justice sector's capacity, expand access to justice by traditionally marginalized groups, and decentralize government resources and authority (page 5).

USAID/Honduras spent \$18 million under its democracy and governance program from October 1, 2004 through September 30, 2008. USAID/Honduras implemented its democracy and governance program mainly through five contracts and agreements with Florida International University, Management Systems International, Federation of Honduran Nongovernmental Organizations (FOPRIDEH), Honduran Association of Municipalities, and the Consortium for Electoral and Political Processes (page 6).

As part of its fiscal year 2009 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions (page 6):

- Did USAID/Honduras' democracy and governance program achieve planned results and what has been the impact?
- Did USAID/Honduras' reporting on its democracy and governance program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

There were gaps in available information on accomplishment of results, but USAID/Honduras and its partners have helped increase the efficiency of criminal court procedure, helped strengthen the formal legal framework for the justice system and citizen access to government information, and helped increase audit coverage of municipal governments (page 7). The program has been less successful in increasing self-generated municipal revenues and municipal services (page 12). Also, while nearly 28,000 people have reportedly been trained under the program, training effectiveness has not been systematically evaluated, and many government employees who received training will be replaced after the upcoming elections in November 2009 (page 15). Moreover, program accomplishments have not achieved sufficient scale or magnitude to positively influence citizen perceptions of the quality of governance (pages 7 and 10).

With respect to the second question, USAID/Honduras provided stakeholders with complete and accurate information on the progress of the activities and the results achieved for 32 of 45 items tested from the FY 2007 and FY 2008 performance reports. The reported information for the remaining 13 items was either inaccurate (11 items) or did not correspond to the performance indicator definitions (2 items). In addition, USAID/Honduras did not establish performance targets for the last three years of the program for three of the six performance indicators in the performance management plan (PMP), and the PMP had not been updated to incorporate information on actual results achieved (page 19).

The report recommends that USAID/Honduras:

- Extend the current democracy and governance program to provide an opportunity to

negotiate the scope of the follow-on program with the administration that will take office in January 2010 (page 11).

- Focus the follow-on program on reforms that have the potential to accomplish transformational change in the quality of governance (page 11).
- Include assistance to improve municipal services in its follow-on program if the program includes efforts to increase municipal revenues (page 13).
- Include support for passage and implementation of the Municipal Civil Service Law in its follow-on program (page 14).
- Ask MSI to make electronic copies of manuals, procedures, and records developed in each assisted municipality to be presented to each municipality's incoming mayor after the 2009 election to promote continuity and an orderly transition (page 14).
- Determine the allowability of \$376,856 in unsupported cost-sharing contributions and recover from FOPRIDEH any amounts determined to be unallowable (page 15).
- Verify that FOPRIDEH has a viable plan for meeting required cost-sharing contributions during the last year of the program (page 15).
- Establish procedures for systematically following up with training participants to assess the impact and effectiveness of training (page 16).
- Develop and implement a system to reasonably ensure that reported information is accurate (page 19).
- Develop a performance management plan for the democracy and governance program (page 20).

Although USAID/Honduras raised some issues with the findings in our draft report, the mission generally agreed with the report recommendations. An evaluation of management comments is provided on page 20, and USAID/Honduras' comments in their entirety are included in appendix II.

# BACKGROUND

Honduras is one of the poorest countries in Central America, whether poverty is measured against the local poverty line (51 percent, second highest in the region), the \$2/day poverty line (35 percent, highest in the region), or the \$1.25/day extreme poverty line (22 percent, highest in the region). Social indicators are low, with male/female life expectancy at birth of 66/73 years, the lowest in the Central American region; the second highest percentage of the population in the region not using an improved water source; and the second highest percentage of underweight children under the age of 5 in the region.<sup>1</sup> Crime is also a serious issue: a recent study found that security costs and losses due to crime absorbed nearly 10 percent of gross domestic product (GDP) in Honduras.<sup>2</sup>

The country is an electoral democracy, but it faces serious challenges with respect to the quality of governance. Honduras is expected to hold its eighth consecutive presidential, congressional, and municipal elections in November 2009. An electoral reform approved in 2004, with USAID assistance, allows citizens to vote for individual congressional candidates and split their votes between parties, rather than simply voting for a party list of candidates. This reform is thought to make members of Congress more accountable to constituents and less dependent on party leaders.

On the other hand, government corruption and inefficiency are serious problems. Honduras is currently ranked 126<sup>th</sup> out of 180 countries included in Transparency International's Corruption Perceptions Index. In 2006, Honduras fell below the median for all low-income countries on the World Bank's control of corruption indicator, thus failing to meet one of the criteria for eligibility for assistance from the Millennium Challenge Corporation, which has signed a compact with the Government of Honduras. Although in 2007 Honduras rose above the median, and the Government of Honduras implemented a remediation plan negotiated with the Millennium Challenge Corporation, Honduras fell below the median again in 2008. Still, according to surveys by the Latin American Public Opinion Project, the percentage of Hondurans who think that their government is fighting corruption declined from 40 percent in 2004 to 30 percent in 2008.

Beyond the corruption issue, government effectiveness is severely constrained by a lack of resources, low levels of educational attainment, and the absence of a professional civil service.<sup>3</sup>

In 2008, Honduras scored the third lowest of 20 countries in the Latin America and Caribbean region surveyed with respect to interpersonal trust, a measure of social capital, according to the Latin American Public Opinion Project. Public support for democracy was lower in Honduras than in any other country surveyed, and Honduras was the third lowest country with respect to political tolerance.

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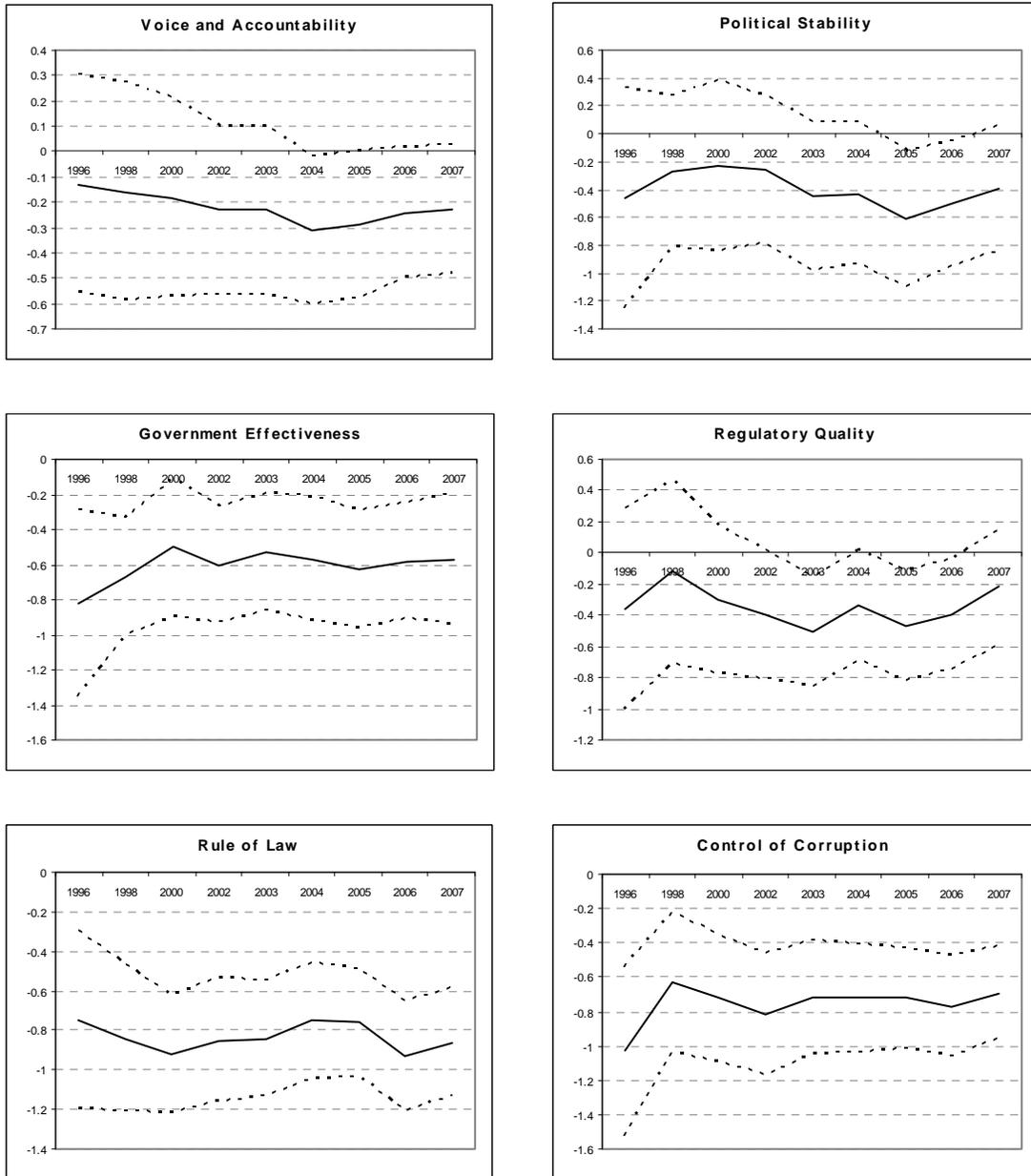
<sup>1</sup> These data are from the United Nations Development Program, "Human Development Indices: A Statistical Update 2008" and the World Bank's EdStats database.

<sup>2</sup> Carlos Acevedo and the Consejo Nacional de Seguridad Publica, "Los costos económicos de la violencia en Centroamérica" (2008).

<sup>3</sup> Management Systems International and USAID, "Honduras Corruption Assessment Report (October 2008).

The World Bank's governance indicators for Honduras are presented in figure 1.

**Figure 1. World Bank Governance Indicators, 1996–2007<sup>4</sup>**

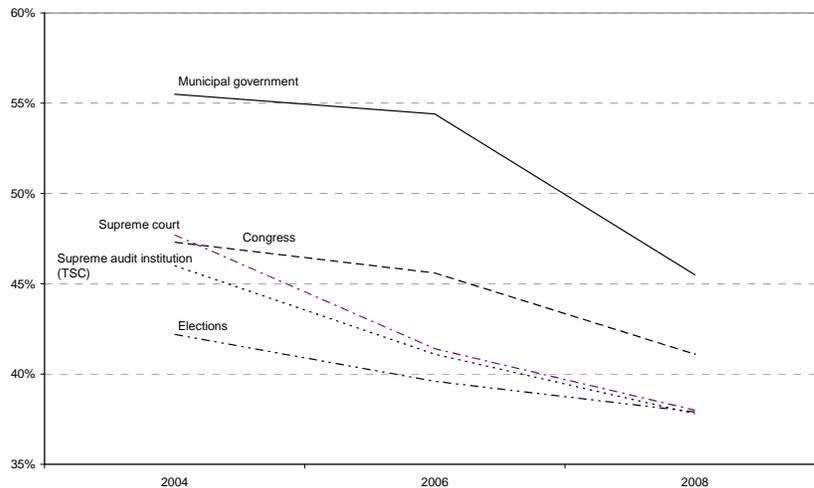


The point estimates above show mixed trends, with improvement in four indicators and deterioration in two indicators from 1996 through 2007. However, none of the changes from 1996 to 2007 are statistically significant.

<sup>4</sup> The World Bank scales these scores so that the median score for all countries is 0 and essentially all scores fall between 2.5 (best) and -2.5 (worst). The 95 percent confidence interval is indicated by dotted lines.

Surveys conducted by the Latin America Public Opinion Project from 2004 through 2008 show declining confidence in public institutions (Figure 2)

**Figure 2. Confidence in Public Institutions, 2004 – 2008**



Source: Americas Barometer surveys conducted by the Latin America Public Opinion Project.

The latest survey concludes that, because of the low legitimacy of public institutions and low political tolerance, Honduras is the democracy second most at risk, after Haiti, of 20 countries in the Latin America and Caribbean region.

USAID’s country strategy for FY 2003 – FY 2008, which is still in effect, expressed optimism that Honduras could build on a successful reconstruction experience after Hurricane Mitch in 1998 to undertake more profound political and economic transformations. The democracy and governance program focuses on (1) strengthening the rule of law through activities that improve the legal framework and (2) supporting decentralization of resources from the national government to municipal governments, along with improved transparency and accountability at the municipal level.

USAID/Honduras implemented its democracy and governance program mainly through five contracts and agreements:

- Management Systems International (MSI) was awarded a \$9.3 million contract that is in effect from October 1, 2004 to March 31, 2009. The program includes activities to promote transparency and citizen participation in targeted municipalities; to improve revenue collection, service coverage, and performance of municipal government core functions; and to assist the Association of Honduran Municipalities (AMHON), the Government of Honduras’ supreme audit institution, the *Tribunal Superior de Cuentas*, and chambers of commerce.
- The Federation of Honduran Nongovernmental Organizations (FOPRIDEH) was awarded a \$3.7 million cooperative agreement that runs from October 1, 2005 to September 30, 2009. The agreement provides resources to support five results: (1) sustained justice sector reform, (2) free, fair and credible elections, (3) increased pluralism in the electoral process, (4) strengthened public influence over national

anti-corruption policy, and (5) facilitation and consolidation of national networks of nongovernmental organizations involved in governance issues.

- A \$0.6 million cooperative agreement with Honduran Association of Municipalities (AMHON) in effect from August 13, 2007 and ending September 30, 2009. The purpose of the program is to strengthen local governments' capacity to meet citizen needs through fiscal, legal and administrative reforms.
- Florida International University (FIU) was awarded a \$4.2 million contract that was in effect from September 10, 2004 to November 30, 2007. The program was designed to accomplish five main objectives: (1) a new criminal procedures code effectively implemented; 2) an independent, apolitical and effective judiciary established; 3) an independent, apolitical, and effective Public Ministry established; 4) broader civil society participation in justice sector reforms and monitoring; and 5) a changed mind set regarding the rule of law in the courts, in universities, and elsewhere.
- The Consortium for Electoral and Political Processes (CEPPS) was awarded a \$1.8 million cooperative agreement that is in effect from September 30, 2008 to January 30, 2010. The purpose of the agreement is to provide technical assistance to (1) the *Tribunal Superior Electoral* (TSE) to effectively and transparently carry out its new decentralized vote management responsibilities and to mitigate allegations of fraud; and (2) and civil society organizations to provide oversight through campaign finance monitoring, domestic election observation, and parallel vote tabulation. CEPPS activities were not included in the scope of the audit because program activities did not begin until FY 2009.

As of September 30, 2008, USAID/Honduras has obligated \$23 million and disbursed \$18 million for its democracy and governance activities. The total estimated USAID contribution to the program is \$29.5 million.

## **AUDIT OBJECTIVES**

As part of its fiscal year 2009 annual plan, Regional Inspector General/San Salvador carried out an audit of USAID/Honduras' Democracy and Governance activities. The audit was designed to answer the following questions:

- Did USAID/Honduras' democracy and governance program achieve planned results and what has been the impact?
- Did USAID/Honduras' reporting on its democracy and governance program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

The audit's scope and methodology are described in Appendix I.

# AUDIT FINDINGS

## **Did USAID/Honduras' democracy and governance program achieve planned results and what has been the impact?**

There were gaps in available information on accomplishment of results, but USAID/Honduras and its partners have helped increase the efficiency of criminal court procedure, helped strengthen the formal legal framework for the justice system and citizen access to government information, and helped increase audit coverage of municipal governments. USAID/Honduras and its partners have had less success in increasing self-generated municipal revenues and municipal services. Also, while nearly 28,000 people have reportedly been trained under the program, training effectiveness has not been systematically tracked, and many government employees who received training will be replaced after the upcoming elections in November 2009. Moreover, program accomplishments have not achieved sufficient scale or magnitude to positively influence citizen perceptions of the quality of governance, as indicated by the results of surveys discussed in the background section above.

Appendix III presents the performance indicators from the strategic objective agreement with the Government of Honduras, performance targets where targets were established, and the actual results achieved. (Note that in six cases the latest available information is from FY 2006 or FY 2007. Also, 14 performance indicators were not tracked by the mission or its partners.)

Because information was not available for many of the performance indicators in the strategic objective agreement, we also examined results that were reported by USAID/Honduras through annual results reports and by individual implementing partners in their progress reports to USAID/Honduras. We also interviewed program participants and considered the results of previous evaluations and assessments in reaching conclusions about the quality of implementation and impact of program activities.

Under the operational plans and results reports for FY 2007 and FY 2008, USAID/Honduras set targets and reported on 13 output indicators. However, these indicators focused mainly on the level of activity under the democracy and governance program (e.g., numbers of people trained and numbers of organizations participating in program activities) and were not particularly well suited to be used to measure the program's effectiveness. The following sections present planned and actual outputs (and higher-level results where information was available) achieved in each area of the democracy and governance program, together with remarks on the program's impact where appropriate.

**Rule of Law Strengthening** – Assistance on rule of law activities was provided through a contract with Florida International University (FIU) and a cooperative agreement with the Federation of Honduran Nongovernmental Organizations (FOPRIDEH).

Through the contract with FIU, which ended in November 2007, USAID/Honduras helped implement a reformed criminal procedures code, supported training for a reported 3,068 people, and established seven alternative dispute resolution centers.

FIU also provided analysis and support for drafting of a new Civil Procedures Code, Judicial Council and Judicial Career Law, the Organic Law of the Judicial Branch, and a reform of the Criminal Process Code that provides for oral trials in appeals. Because FIU had left Honduras by the time of our audit, we did not audit the results it achieved, although we did discuss the FIU program with several stakeholders.

Through FOPRIDEH, FOPRIDEH's member organizations, and alliances like the *Alianza de Justicia* and *Movimiento Civico*, USAID/Honduras has influenced positive changes in the legal framework for elections and the court system:

- A reformed process for nominating Supreme Court magistrates. The reformed process, first used in 2002 and used for the second time in 2009, provides for a nominating committee, with civil society participation, that vets nominees to the Supreme Court. This reform vastly increases the transparency of the nomination process. Moreover, conclusion of a successful nomination and selection process in 2009 illustrated the positive impact of many other reforms supported by USAID and its partners in recent years, including the nomination process itself, direct election of members of Congress, and support to civil society organizations to defend against attempts to roll back reforms.
- Passage of a reformed civil procedure code in 2007 that will enter into effect in May 2009. FIU also contributed to passage of this law.
- Passage of a Transparency and Access to Public Information Law in November 2006.

FOPRIDEH also lobbied for a code of ethics for government employees that was adopted in 2007, a Judicial Council Law and an Organic Law for the Judicial Branch, and campaign finance reform.

FOPRIDEH prepares annual themed corruption reports that have described delays in processing corruption cases and other issues. Through the corruption report and other awareness activities, FOPRIDEH and its partners have helped harden public attitudes against corruption. While we are not aware of any polling that would demonstrate decreased tolerance of corruption, the previously mentioned successful nomination and selection process for Supreme Court magistrates was a strong indication of decreased tolerance, and FOPRIDEH's success in mobilizing civil society organizations might also be taken as an indication of decreased tolerance of corruption.

The performance indicators from the cooperative agreement with FOPRIDEH and the actual results achieved by FOPRIDEH are compared in appendix IV. No performance targets (expected levels of performance) were set for eight of the performance indicators, and FOPRIDEH did not carry out any activities related to most of the indicators. Instead, USAID/Honduras informally agreed with FOPRIDEH's management that FOPRIDEH should devote most of its efforts to monitoring the process for Supreme Court nominations and other topical issues.

**Decentralization Assistance** – Management Sciences International (MSI) and the Honduran Association of Municipalities (AMHON) are implementing decentralization activities.

MSI has achieved significant results in assisted municipalities by introducing transparency commissions and other practices to promote transparency, opportunities for citizen participation, and improved administration and financial management. The opening of deliberative processes to citizen participation is perhaps the greatest accomplishment in the assisted municipalities. The contract performance indicators, targets, and results are provided in appendix V.

During the first year of its agreement with USAID/Honduras, AMHON has taken significant steps to decentralize resources and authorities to municipalities:

- AMHON has begun providing training to municipalities to strengthen administration in areas like budgeting, accounting, land titling, and taxation.
- AMHON drafted a new Municipal Law that would increase mandated transfers to municipalities from 5 percent to 12.5 percent of the national budget, better define municipal authorities, institutionalize municipal transparency commissions, and make other changes. AMHON presented the draft law to Congress and supported the bill in meetings with a congressional commission that has reviewed the legislation and is preparing a report for the consideration of the Congress in plenary session.
- AMHON also drafted a Civil Service Law for Municipalities that would provide for a more professional corps of municipal employees and establish continuity. By establishing continuity, passage of this law or a similar one should assist efforts to build institutions and increase skills over time at the municipal level.
- AMHON has worked with the *Tribunal Superior de Cuentas* to ensure that municipalities present required financial reports to the Tribunal. Prior to the signing of the current agreement with USAID/Honduras, AMHON also worked with the *Tribunal* to reach agreements on procedures and criteria to be used in audits of municipal governments.

AMHON performance indicators, targets, and results are provided in appendix VI.

**Assistance to the *Tribunal Superior de Cuentas*** – USAID/Honduras has helped the *Tribunal Superior de Cuentas* greatly expand its audit coverage of municipal governments, reportedly reducing the audit cycle from 13 years to 3 years. USAID assistance helped equip the Directorate of Municipal Audits and a second office in the Tribunal that audits programs with external financing. The mission also helped develop and pilot test training materials that were later used by the *Tribunal* to train municipal governments in fraud prevention and other administrative and accounting matters.

While USAID/Honduras' democracy and governance program has made progress in several important areas, management actions by USAID/Honduras are needed to help resolve several issues. These issues are discussed in the following sections.

## **The Program's Transformational Impact Was Eroded by a Budget Cut and Other Factors**

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| Summary: USAID programs, in conjunction with other donor programs and host countries' own efforts, are expected to help countries move through transformational |
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developmental processes during foreseeable timeframes. The strategy for the democracy and governance program clearly communicated an intention to influence transformational change but, during implementation of the program, a budget reduction and other factors led the mission to scale back the scope of the program and the results it was intended to influence. Thus, rule of law activities shifted away from application of the law toward improving the laws themselves, and decentralization activities were more tightly focused on administration and transparency issues rather than also including improvements to municipal services.

The State-USAID foreign assistance framework establishes an expectation that USAID programs will support transformational diplomacy: that is, USAID programs, in conjunction with other donor programs and host countries' own efforts, will help move countries through a development process that ultimately leads to their graduation from the U.S. foreign assistance program.<sup>5</sup> While transformational changes are not expected to take place in the short term, they are expected to take place within some foreseeable time horizon.

USAID/Honduras' strategy for the democracy and governance program, which predated the foreign assistance framework by several years, had a clear transformational intent. It stated that "This is a critical transition period for Honduras, which is moving from hurricane reconstruction to a fundamental transformation of its economic and political policies and institutions. This transformation is essential for Honduras to fully participate in the global economy and improve its chances to attract the trade and international investment it needs for sustained economic growth." The strategy expected to influence "major reforms" that would reduce corruption, increase security, and increase delivery of public services.

Since the strategy was developed in 2003, however, the intention to influence transformational change has been moderated somewhat by changed circumstances. In the rule of law area, the emphasis shifted slightly away from making the court system work more efficiently to improving the formal legal framework. In the decentralization area, the original intent was to increase the resources available to municipalities, improve municipal administration, and increase the level of services provided by municipal governments. However, the scope of this assistance was subsequently narrowed to exclude the objective of improving service delivery.

The scope of the program was reduced because of budget reductions and difficulties encountered during implementation of the program. Budget cuts of \$5.6 million (about 19 percent of the planned USAID contribution to the program, or 14 percent of total program resources) were a tangible and immediate influence on mission decisions to reduce the scope of the rule of law activities. Budget cuts may also have influenced the decision to reduce the scope of assistance to municipalities, but this decision was primarily based on a judgment by the contractor that significantly improving municipal services would not be feasible in some cases and in other cases would require a more expensive and sustained effort than it could provide. Parallel to these developments,

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<sup>5</sup> The foreign assistance framework describes a development continuum that includes rebuilding countries, developing countries, transforming countries, and sustaining partnership countries. Honduras is classified as a transforming country: it is a low income country that meets the criteria for eligibility for assistance from the Millennium Challenge Corporation (MCC), and it specifically meets the MCC criterion for political rights.

political will to improve the quality of governance has arguably weakened.

Because rule of law activities were curtailed in 2006, program activities have shifted from implementing improved legal procedures (i.e., complying with laws) to improving the formal institutional framework (i.e., passing new laws). This is not to say that the program had no impacts in the former area. FIU reportedly trained 2,804 lawyers, professors, law students, and court employees, in addition to “training for trainers” that reached another 264 people. However, with the exception of the number of oral trials, which increased from 481 in FY 2005 to 1,149 in FY 2006, available caseload and case disposition statistics do not show large improvements in efficiency. FIU also provided assistance to establish alternative dispute resolution centers in seven municipalities, helping make the justice system more accessible.

Because the scope of assistance to municipalities was reduced, essentially no efforts have been made to help improve municipal services and there is no evidence that municipal services have in fact improved as a result of USAID assistance. While polling by the Latin American Public Opinion Project shows that citizen satisfaction with municipal governments is slightly higher than satisfaction with central government institutions, satisfaction with municipal governments is low and actually decreased from 2004 through 2008.

The budget picture has since improved, according to a USAID/Honduras official, with a Congressional Budget Justification level for FY 2009 of \$9.6 million representing nearly a threefold increase over the FY 2008 level.<sup>6</sup> However, with Honduran presidential elections scheduled for November 2009, this is not a particularly opportune time to negotiate a new program or a significant expansion of the current program.

*Recommendation No 1: We recommend that USAID/Honduras extend the current democracy and governance program to provide an opportunity to negotiate the scope of the follow-on program with the administration that will take office in January 2010.*

*Recommendation No 2: We recommend that USAID/Honduras explicitly focus the follow-on program on reforms that have the potential to accomplish transformational change in the quality of governance.*

## **Increasing Municipal Revenues Without Improving Services Will Not Sustainably Improve Governance**

Summary: One of the 14 performance indicators under MSI’s contract dealt with assisting 10 smaller municipalities in improving tax revenues and services. Although MSI was successful in increasing tax revenues, at least in 2007, MSI did little work to improve services and acknowledged as much. This was because, in MSI’s judgment, the increased revenues for the smaller municipalities were not large enough to support improved services. Without a corresponding increase or improvement in services, increased local tax

<sup>6</sup> In its comments on our draft audit report, USAID/Honduras stated that the anticipated FY 2009 budget level of \$9.6 million has since been reduced to \$4.5 million. The mission’s planning budget for FY 2010 is \$11.9 million, with a similar amount for FY 2011, but these amounts have not been approved.

revenues are unlikely to improve the quality of governance or confidence in municipal governments.

One of the 14 performance indicators in under MSI's contract dealt with assisting ten smaller municipal governments in increasing local revenue collection according its agreement. This was to be accompanied by increased transparency and an increase in services. Municipalities were to show measurable improvements in the capacity to deliver services effectively and efficiently by the end of the performance period.

MSI was able to help all 10 municipalities increase tax revenues in 2007, but revenues fell for 8 of the 10 municipalities in 2008. (We were told that tax compliance deteriorates before an election as citizens calculate that mayors cannot afford to offend voters by rigorously enforcing tax laws.)

**Table 1: Increase in Local Tax Revenue<sup>7</sup>**

| <b>Municipality</b>    | <b>2007 Local Tax Revenue Increase (Decrease)</b> | <b>2008 Local Tax Revenue Increase (Decrease)</b> |
|------------------------|---|---|
| La Masica              | 4%  | 6%  |
| Traulabe               | 18%   | 10%   |
| San Nicolas            | 13%   | (2%)  |
| Pimienta               | 29%   | (16%)   |
| San Francisco de Yojoa | 13%   | (7%)  |
| Sabanagrande           | 2%  | (11%)   |
| Villa de San Francisco | 36%   | (9%)  |
| Naranjito              | 45%   | (15%)   |
| San Agustin            | 58%   | (14%)   |
| Yamaranguila           | 36%   | (22%)   |

However, little or nothing was done to improve services in these municipalities (or in any of the municipalities assisted by MSI).

Without a corresponding increase or improvement in services, increased local tax revenues are unlikely to improve the quality of governance or confidence in municipal governments. (As previously indicated, polling by the Latin American Public Opinion Project shows that confidence in municipal governments in Honduras has actually decreased during the program.) In the extreme, increased revenues in the absence of increased services may amount to nothing more than an income transfer from citizens to government officials. During the project, MSI officials and a chamber of commerce official indicated that one municipality proposed a \$3,000 per year salary increase for the members of the municipal council. In this municipality, civil society officials indicated that 70 percent of the municipal budget went to pay salaries. In addition, MSI officials believe that gains in tax collection are unlikely to be sustainable without a commensurate improvement in services.

Program participants and beneficiaries agree that it is harder to improve services than it is to increase revenues. In smaller municipalities even an increased level of local tax revenues may not permit a high level of service delivery. In larger municipalities, MSI

<sup>7</sup> The percentages shown are real (after inflation) increases or decreases.

and municipal officials said that improving services would require a more sustained effort than they were able to provide. However, other individuals in chambers of commerce and civil society indicated that certain services such as issuance of business permits or other licenses can be improved and increased without a large amount of money or technical assistance. This can be seen with the example of the development of a single service window in Villanueva that has decreased the time it takes for a business permit to be issued from over a month to 1 week. According to MSI's Chief of Party, other services that can be improved in municipalities with relatively little effort include clinics, public markets, and facilities for slaughtering livestock.

*Recommendation No. 3: We recommend that USAID/Honduras include assistance to improve municipal services in its follow-on program if the program includes efforts to increase municipal revenues.*

## **Sustainability of Assistance to Municipalities Is Not Assured**

Summary: According to USAID policy, sustainable development requires building lasting capacity to respond to changing circumstances, new needs, and evolving opportunities. However, the value of much of the training and technical assistance provided by MSI to municipalities will be lost after the November 2009 elections. This will occur because Honduras does not have a civil service law to insulate municipal employees from partisan pressures. The lack of employment security for trained municipal employees compromises the long-term benefits of USAID's programs.

According to USAID's Strategy for Sustainable Development, development is sustainable when it permanently enhances the capacity of a society to improve its quality of life. According to USAID's Guidelines for Strategic Plans, sustainable development requires building lasting capacity to respond to changing circumstances, new needs, and evolving opportunities. USAID strategies must show how results can be sustained, including human capacities and prospects for institutional, political, and financial sustainability over the long term.

The value of much of the training and technical assistance provided by MSI to municipalities will be lost after the November 2009 elections, because municipal employees are typically replaced by incoming mayors. According to MSI survey, 52 percent of municipal employees were replaced after the 2005 elections.<sup>8</sup>

AMHON is currently working with Honduras government officials, mayors, and civil society organizations and has drafted a municipal civil service law, although this activity is not specified in the cooperative agreement. MSI has, however, taken some steps to make assistance more sustainable and replicable by preparing a series of procedure manuals, some of which will be published by AMHON and distributed to municipalities that have not been assisted directly by MSI.

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<sup>8</sup> According to MSI officials, municipalities assisted by MSI that were included in the sample, only 38 percent of employees were replaced. However, this lower percentage was not related to MSI assistance activities, as MSI had not provided significant services to the municipalities at the time of the survey.

Municipal employees have no civil service protections and serve essentially at the pleasure of the mayors who appoint them. The resulting lack of sustainability of improved practices impedes achievement of the program's objectives. Since the follow-on program will include support to municipal governments, probably focusing on expansion of municipal services, the problem will in all likelihood affect the follow-on program as well.

*Recommendation No. 4: We recommend that USAID include steps to support passage and implementation of the Municipal Civil Service Law in its follow-on program.*

*Recommendation No. 5: We recommend that USAID/Honduras ask Management Systems International to make electronic copies of manuals, procedures, and records developed in each assisted municipality to be presented to each municipality's incoming mayor after the 2009 election to promote continuity and an orderly transition.*

## **FOPRIDEH Cost Sharing Is Not Supported**

Summary: The Federation of Honduran Nongovernmental Organizations (FOPRIDEH) is required to provide at least \$932,458 as cost-sharing contributions to the program supported by USAID. However, FOPRIDEH's reported contributions of \$376,856 as of September 2008 can not be verified from FOPRIDEH's records, and given that 3 years of the 4-year program have already passed, it is unclear whether FOPRIDEH will meet the required cost-sharing contribution. While USAID/Honduras had arranged to have the cost-sharing contributions reviewed by a public accounting firm, the most recent report completed by the firm covered 2006, so the mission did not have timely information to help it monitor cost sharing contributions. The program's objective will likely be adversely affected without the required FOPRIDEH contributions.

According to FOPRIDEH's cooperative agreement with USAID, the organization was to expend \$932,458 as cost sharing. According to 22 CFR § 226.23, which was incorporated by reference into FOPRIDEH's agreement, cost sharing must be verifiable from the recipient's records and must be necessary and reasonable for proper accomplishment of the project or program objectives.

FOPRIDEH's reported cost-sharing contributions as of the end of FY 2008, totaling \$376,856,<sup>9</sup> were not verifiable from its records. While FOPRIDEH maintained spreadsheets detailing estimates used to report cost sharing, mostly from third parties, there was essentially no supporting documentation to substantiate contributions consisting of expenses such as salaries, per diem expenses, refreshments, and rental of meeting rooms. In addition, in some cases, the available information was insufficient to determine whether the expenses were eligible as cost-sharing contributions.

Moreover, reported contributions as of September 30, 2008 totaled 40 percent of the required amount, while 75 percent of the 4-year program period had passed. To meet its required cost sharing contribution, FOPRIDEH will have to contribute \$555,602 in the final

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<sup>9</sup> Based on an exchange rate of 18.9 Honduran Lempiras to \$1.

year of the project.

Although mission personnel did track the implementing partners' total cost-share contributions, and the mission and FOPRIDEH arranged to have the contributions reviewed by a public accounting firm, the most recent report the firm had completed at the time of our audit covered 2006. Thus, the mission did not have timely information to help it monitor FOPRIDEH's contributions.

If required contributions are not made, achievement of the program's objectives will likely be adversely affected, as 25 percent of total program resources come from FOPRIDEH's contributions.

*Recommendation No. 6: We recommend that USAID/Honduras determine the allowability of \$376,856 in unsupported cost-sharing contributions and recover from the Federation of Honduran Nongovernmental Organizations any amounts determined to be unallowable.*

*Recommendation No. 7: We recommend that USAID/Honduras verify that the Federation of Honduran Nongovernmental Organizations has a viable plan for meeting required cost-sharing contributions during the last year of the program.*

## **Partners Should Assess Effectiveness of Training**

Summary: Automated Directives System (ADS) 203.3.2 states that USAID operating units are responsible for establishing systems to measure progress towards intended objectives. However, USAID/Honduras' implementing partners, MSI and FOPRIDEH, have not developed systems for evaluating the effectiveness of the training they provide to participants. This was not done because the development of a formal training evaluation system was not considered during the design stage of the training. Without some type of assessment of the effectiveness of training, USAID and its partners do not know if the training programs are having the desired impact or could be better tailored to the needs of the participants.

Training is a major part of the assistance provided through USAID/Honduras' democracy and governance program. According to ADS 203.3.2, operating units are responsible for establishing systems to measure progress toward intended objectives. According to ADS 253, Training for Development, training sponsors are encouraged to consider the broader operational context in which the participant's newly acquired skills, knowledge, and attitudes will be applied. It is common practice to use participant questionnaires, pre-tests and post-tests, or similar instruments to assess the effectiveness of shorter training classes and presentations. For more expensive longer-term training, more sustained follow-up may be justified to ensure that training is being applied on the job and that any obstacles can be addressed in future training classes.

In FY 2007 and FY 2008, MSI and FOPRIDEH reported training 27,869 people in the areas of elections, political processes, anti-corruption, management skills, fiscal management, decentralization, and legislative functions and processes. However, MSI and FOPRIDEH have not developed systems for evaluating the effectiveness of the training they provide to participants.

The impact of training was not formally assessed because the development of a formal training evaluation system was not considered by USAID/Honduras or its implementing partners during the design stage of the training.

As a result, USAID/Honduras and its partners do not know if their training programs are having the desired impact or could be better tailored to the needs of the participants. Assessing the impact of training may yield greater returns on training investments and provide management better information to determine future training needs.

*Recommendation No. 8: We recommend that USAID/Honduras, in coordination with its implementing partners, establish procedures for systematically following up with training participants to assess the impact and effectiveness of training.*

## **Did USAID/Honduras' reporting on its democracy and governance program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?**

For 32 of 45 items tested from the FY 2007 and FY 2008 performance reports, USAID/Honduras' reporting on its democracy and governance program provided stakeholders with complete and accurate information on the progress of the activities and the results achieved. For the remaining 13 items, the reported information was either inaccurate (11 items) or did not correspond to the performance indicator definitions (2 items).

The reporting problems we found are discussed in the following section.

### **Data Reporting Needs to Be Strengthened**

Summary: ADS 203.3.5.1 requires that performance data meet the five data quality standards of validity, integrity, precision, reliability, and timeliness. USAID/Honduras did not accurately reflect the program's performance and enable management to make appropriate decisions. These inaccuracies occurred because the data reported by the implementing partners were not verified by USAID/Honduras, and the mission does not maintain an "audit trail" between reported information and source documents. Therefore, some inaccuracies in reporting went unnoticed by USAID/Honduras. When data is not verified, there is a risk that inaccurate information will be used to inform or make decisions about the program.

USAID policy on performance reporting is extensive and includes the following provisions:

- ADS 203.3.5.1 requires that performance data meet the five data quality standards of validity, integrity, precision, reliability, and timeliness. Behind these standards is the idea that data should accurately reflect the program's performance and enable management to make appropriate decisions based on the reported data. Some of

the results reported by USAID/Honduras and its implementing partners did not accurately reflect actual performance.

- USAID guidance, TIPS 12, Guidelines for Indicator and Data Quality, states that even valid indicators have little value if the data collected do not correctly measure the variable or characteristic encompassed by the indicator. TIPS 12 also emphasizes the importance of documentation to maintenance of quality performance indicators and data.
- Additional guidance is provided in USAID's Guidebook for Managers and Cognizant Technical Officers (CTOs) on USAID Acquisition and Assistance, which states that CTOs are responsible for ensuring the accuracy of all reports submitted by their implementing partners.

Eleven items in the performance reports for FY 2007 and FY 2008 were inaccurate. Some examples include the following:

- USAID/Honduras reported in its FY 2007 Performance Report that technical assistance was provided to three municipalities and local chambers of commerce to help reduce red tape and petty corruption in applications for business licenses and construction permits. According to USAID, this reduced the processing time in one municipality from 3 months to 3 days. However, the implementing partner was only working with two municipalities, and as of the end of FY 2007, no results were achieved. During FY 2008 only one of the municipalities was able to reduce the processing time for business or construction permits.
- USAID/Honduras reported in its FY 2007 Performance Report that it provided technical assistance to 31 of Honduras' 298 municipal governments, enabling local authorities to improve basic administration and finance, planning, budgeting, tax management. However, the implementing partner's records shows that only 19 municipalities received technical assistance in FY 2007. In addition, several of the municipalities were not trained in all of the areas listed.
- In its FY 2008 performance report, USAID/Honduras reported that it helped strengthen the capacity of all 298 municipalities in Honduras to act in a more responsive, transparent manner. However, USAID/Honduras and its partner (MSI) only provided direct assistance to 31 municipalities. USAID/Honduras did fund the publication of a transparency booklet through MSI, and these booklets were given to AMHON for distribution to all of the municipalities. Still, it is not correct to equate the publication of a booklet with capacity building activities.
- USAID/Honduras reported in its FY 2008 performance report that technical assistance and training were provided directly to 24 local governments and indirectly to 34 local governments through associations of municipalities. However, according to the implementing partner's records a total of 38 municipalities were assisted, 20 received direct assistance and only 18 municipalities received indirect assistance, and there is no supporting documentation to show that even these 18 municipalities were reached.

- USAID/Honduras reported that 56 anti-corruption measures were implemented in FY 2008. However, the implementing partner's supporting documentation shows that only 26 measures were implemented by the end of FY 2008.

For two results reported in the performance reports for FY 2007 and FY 2008, the results reported did not meet the definition of the indicator provided by the State Department's F Bureau. These were the following:

- Number of sub-national government entities receiving U.S. Government (USG) assistance to improve their performance - According to the definition of this indicator, performance is measured by the quality of delivery of services. USAID/Honduras reported that 19 and 58 local governments received USG assistance to improve their performance in FY2007 and FY 2008, respectively. While all of the municipalities reported under this indicator received technical assistance in administration, only 4 out of 19 municipalities in FY 2007 and no municipalities in FY 2008 received technical assistance to improve service delivery.
- Number of people affiliated with non-governmental organizations (NGOs) receiving USG supported anti-corruption training - The mission reported that 500 and 1,170 individuals received anti-corruption training in FY 2007 and FY 2008, respectively. According to the implementing partner's records, the training provided was aimed at citizens of the targeted municipalities, and there is no evidence that these citizens are affiliated with an NGO as the indicator definition requires.

The cases above deal with inaccuracies or ambiguities in USAID/Honduras' reporting to its stakeholders. In addition, two inconsistencies were found at a lower level, in partners' reporting to USAID/Honduras:

- MSI used prior year data to report on municipal tax revenue but did not disclose that the data were from the previous year. For example, in reporting on revenue increases for 2007, MSI used 2006 information, and a similar situation existed in 2008. MSI used prior year information because current information was not available when it sent its reports to USAID/Honduras, but it would have been appropriate to disclose that the data were for an earlier period.
- FOPRIDEH reported identical training results for FY 2007 and FY 2008. It could not be readily determined which reported result was accurate and which was in error.

These inaccuracies occurred because the data reported by implementing partners was not verified by USAID/Honduras, and the mission does not maintain an "audit trail" between reported information and source documents.

When data are not verified, a risk exists that managers or stakeholders will reach conclusions about the program based on inaccurate information.

*Recommendation No. 9: We recommend that USAID/Honduras, in conjunction with its implementing partners, develop and implement a system to reasonably ensure that reported information is accurate.*

## Performance Management Plan Needs to Be Improved

Summary: ADS 203.3.3 establishes a requirement for USAID missions to develop performance monitoring plans (PMP). Also, ADS section 203.3.4.6 requires that missions update PMPs regularly with new performance information. USAID/Honduras has not established performance targets for the last three years of the program for three of the six performance indicators in the PMP, and the PMP has not been updated with actual performance information since the program began. This occurred because the emphasis on reporting on standardized performance indicators that accompanied the introduction of the “F process” led the mission to place somewhat less emphasis on monitoring of some of the performance indicators that had already been established under the democracy and governance program. As a result, the PMP plan was not as useful a monitoring tool as it could have been.

USAID policies establish several requirements applicable to performance management plans. ADS 203.3.3 states that operating units must prepare a complete performance management plan for each strategic objective. ADS Section 203.3.4.5 states that each indicator should include a performance baseline and set performance targets that can optimistically but realistically be achieved within the stated timeframe and with the available resources. According to USAID TIPS No. 8, program performance targets should be based on careful analysis of what is realistic to achieve, given the conditions within the country and other factors. 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, USAID/Honduras has not established performance targets for the last three years of the program for three of the six performance indicators in the PMP, and the PMP has not been updated with actual performance information since the program began. Similar issues exist at lower levels within the democracy and governance program. For example, as indicated on page 7, 14 performance indicators from the strategic objective agreement were not tracked by the mission. Also, as indicated on page 8, no performance targets were set for eight of the performance indicators in the cooperative agreement with FOPRIDEH.

The introduction of the new operational plan and the associated emphasis on reporting lower-level output indicators to the F Bureau distracted mission officials, to some degree, from setting targets and reporting on higher-level results indicators such as those found in the PMP.

As a result, the PMP was not as useful a monitoring tool as is envisioned by USAID policy.

*Recommendation No. 10: We recommend that USAID/Honduras, in conjunction with its implementing partners, develop a performance management plan for the follow-on democracy and governance program that meets USAID policy requirements.*

# EVALUATION OF MANAGEMENT COMMENTS

Although USAID/Honduras raised some issues with the report findings in our draft report, the mission generally agreed with the report recommendations. The most significant issues raised by the mission are summarized below, together with our responses:

- The mission agreed with our finding that assistance to raise municipal revenues without improving municipal services is unlikely to result in sustainable governance improvements, but it noted that the finding in our draft report did not provide adequate context for the finding. We agree with this observation and we have added a clarification to indicate that only 1 of the 14 performance measures in the contract dealt with increasing municipal revenues and service coverage.
- While the mission was aware of deficiencies in accounting for cost-sharing contributions by the Federation of Honduran Nongovernmental Organizations (FOPRIDEH), it expressed some disagreement with our finding and one of our recommendations on this issue. The mission noted that non-federal auditors have disclosed related issues and that the relevant audit recommendations have been closed with the concurrence of our office. In response, we would like to point out that the non-federal auditors reviewed but did not audit the cost-sharing schedules. The scope of a review is more limited than the scope of an audit, and reviews are based primarily on inquiry and application of analytical procedures. Moreover, addressing previous observations by non-federal auditors in no way implies that required cost-sharing contributions have been made or properly accounted for. In fact, the results of our current audit indicate that FOPRIDEH reported contributions of \$376,856 cannot be verified from its records. In addition, there is some doubt whether FOPRIDEH can make all of the required contributions, since to meet the requirement FOPRIDEH will have to contribute \$555,602 in the last year of the project, much more than it contributed during the first three years of the project combined.
- In commenting on appendices III, IV, and V, which compare planned and actual results for the strategic objective agreement, FOPRIDEH, and Management Sciences International (MSI), the mission stated that these appendices contained inaccurate information. The mission also provided some information in accomplishments after the period covered by these appendices; i.e., after the end of FY 2008. After reviewing the mission's comments on appendices III and IV, we have satisfied ourselves that the information they contain is accurate. In reviewing appendix V, we found several inaccuracies in our draft report related to FY 2007 performance targets, and have corrected the errors in this final report.
- The mission pointed out that our finding on the performance management plan (PMP) incorrectly stated that the mission had not established performance targets for any of the PMP performance indicators. In fact, all of the performance indicators had performance targets, although three of the six indicators did not have performance

targets for the last three years of the program.<sup>10</sup> Furthermore, the mission provided some background information indicating that the emphasis on standardized performance indicators that accompanied the introduction of the “F process” led the mission to place somewhat less emphasis on monitoring of some of the performance indicators that had already been established under the democracy and governance program.

- USAID/Honduras also asked for clarification on what is meant by “transformational change.” The concept of transformational development, which underlies the foreign assistance framework and USAID’s programming policy, is not defined in writing in USAID’s ADS glossary or in any other USAID document that we are aware of. The State-USAID foreign assistance framework categorizes countries receiving U.S. Government assistance as rebuilding, developing, transforming, or sustaining partnership countries, and our understanding is that transformational development means that USAID’s programs, in conjunction with other donor programs and host countries’ own efforts, will help countries move up through this progression during some foreseeable timeframe. In other words, transformational development involves significant national-level change.<sup>11</sup>

While the most important issues raised by the mission are summarized above, the mission’s comments include many other significant observations and clarifications, and the comments in their entirety are presented in appendix II.

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<sup>10</sup> The mission stated that targets were not established for the full program period because the indicators were dropped after a partial termination due to budget reductions. We are not certain that this explanation is correct, since the PMP is dated January 2005 and the partial terminations did not occur until the latter part of FY 2006.

<sup>11</sup> USAID’s focus on transformational development perhaps began with the white paper that was presented at an October 2003 mission director’s conference (“U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century”), and the intention to accomplish transformational development has been formalized more recently in USAID’s “Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy Through Development” (January 2006), the foreign assistance framework, and the Joint State-USAID Strategic Plans for Fiscal Years 2004 – 2009 and 2007 – 2012.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to (1) determine if USAID/Honduras' democracy and governance program achieved planned results and assess its impact and (2) determine whether USAID/Honduras' reporting on the program provided stakeholders with complete and accurate information on the progress of the activities and the results achieved.

In planning and performing the audit, we assessed the mission's controls related to its democracy and governance activities. The management controls identified included the mission performance management plan, mission data quality assessments, cognizant technical officer, site visits, program progress reports, day-to-day interaction between mission staff and program implementers, and the mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982.

The audit was conducted in Honduras, in the cities of Tegucigalpa, Tela, Masica, Puerto Cortes, Villanueva, San Francisco, Naranjito, and La Entrada, from January 9 to January 30, 2009. Our audit primarily focused on democracy and governance program activities during fiscal years 2007 and 2008.

## Methodology

In order to assess whether results were achieved, we made use of the performance indicators included in the strategic objective agreement and individual contracts and cooperative agreements. We interviewed officials from USAID/Honduras, the three lead organizations under the original cooperative agreements, seven sub-partners, the U.S. Embassy, the Millennium Challenge Corporation, the World Bank, and the European Union. We reviewed relevant documentation produced by USAID/Honduras, such as the performance management plan, the operational plan and performance reports, and award documents. We also reviewed partner documentation such as annual work plans and progress reports. We reviewed partner and sub-partner documentation, such as participant training lists and materials, to substantiate reported accomplishments.

In order to determine whether accurate and complete information was reported, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the selected indicators. We validated the reported results for fiscal years 2007 and 2008 by comparing reported results with the records maintained at the offices of the implementing and sub-partners and the auditors' observations during field visits.

# MANAGEMENT COMMENTS

April 29, 2009

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

Subject: Comments on the Draft Report of the Audit of USAID/Honduras's Democracy and Governance Program (Report No. 1-522-09-XXX-P)

Dear Mr. Cox:

Thank you for allowing us the opportunity 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 seven main audit findings included in the report warrant the following clarification.

### **1. *The Program's Transformational Impact Was Eroded by a Budget Cut and Other Factors***

The narrative attached to this audit finding reasonably describes the difficult budgetary and strategic decisions confronted by the Mission since the development of the previous strategy, and how original expectations were adjusted to changing circumstances. While the Mission always aspires to have a significant impact with its programs, budgetary uncertainty, shifting priorities, and political issues often qualify expectations. For example, until just recently, the Mission expected to receive approximately \$9.6 million in FY 2009 funds to support democracy and governance initiatives (this figure is anticipated in the audit report), however the actual amount was \$4.5 million. The Mission has a planning budget for FY 2010 of \$11.9 million for democracy and governance (and a similar level for FY 2011), and we will be obliged to plan for this level until the budget is finalized, likely more than halfway through the fiscal year. This does not mean we cannot hope to achieve something significant with the funds we receive, but it does highlight the difficulty of guaranteeing any sort of transformational change.

### **2. *Increasing Municipal Revenues Without Improving Services Will Not Sustainably Improve Governance***

While the Mission agrees with the premise of this finding, the accompanying audit narrative misrepresents the focus of USAID's task order with MSI, the focus of which was transparency and oversight and not increased local revenues and service delivery. On March 28, 2006 the GTAG task order was decreased from \$13,801,958 to \$9,185,585. In doing so, both parties agreed to revise the scope of work to accurately reflect the change in the budget. In the revised scope of work there were seven results

proposed under section A.4.11. The actual scope of GTAG focused on greater transparency and accountability in local government, which is demonstrated through the objectives of the seven proposed results. Only Result 1: *Increased capacity by government entities to fulfill their roles effectively and transparently and to engage organized civil society in advancing common development goals* had an indicator that focused on tax revenue. Indicator 1 of Result 1 focused on increasing municipal tax revenue to demonstrate annual achievement of performance targets. However, all of the other indicators for Result 1 and the subsequent Results focus on transparency in local government and civil society, good governance, government oversight and accountability, transparent transitions between local government administrations, etc.

### **3. Sustainability of Assistance to Municipalities is not Assured.**

While the sustainability of technical capacity established through assistance provided to municipalities is not assured through the transition after each election cycle, the Mission has taken several steps to mitigate the loss of technical capacity.

During the 2005 to 2006 electoral cycles, USAID implemented an electoral transition program for 31 pre-selected municipalities in Honduras that had previously demonstrated political will and a commitment to municipal development. The three-part program incorporated civil society oversight into every aspect of the program in order to improve the accountability and transparency of the transition process between outgoing and incoming administrations.

The first phase included having all mayors and mayoral candidates sign pacts committing themselves to the program's guidelines. Trusted members of local civil society also signed the pacts as witnesses. After the elections, the second phase began with the transfer of all relevant municipal information to newly elected officials. These officials then drafted and signed municipal work plans for the early stages of their terms. Finally, in the last stage of the transition process, civil society monitored and evaluated the general performance during the first months of the new administrations, especially in the area of basic public services.

The results of the electoral transition process were very positive. In the past, basic services were interrupted and public information was not readily turned over to the new administration. Under the new program, these issues were overcome. Approximately 65 percent of municipal technicians kept their jobs after the transfer of authorities (compared with 48 percent in non-participating municipalities). The program developed a political transition manual, which became a national standard approved and used by the government in all municipalities nationwide. Additionally, local citizens for the first time played a critical role in the transfer of authority in the 31 participating municipalities.

At the national level USAID has supported and strengthened the ability of the Honduran Municipal Association (AMHON) to advocate for and to promote reforms to the Honduran legal framework needed to strengthen municipal autonomy and capacity. Important legal reforms to address retention of municipal technical staff have been promoted, such as the Civil Municipal Service Law. In addition, AMHON will continue to provide support in activities related to political transition in local governments before and after the 2009 general election.

#### **4. FOPRIDEH Cost Sharing is Not Supported**

The Mission is aware of this issue. Cost-share has been addressed in the last two audits of FOPRIDEH's cooperative agreement through findings regarding percentage of cost share and tracking/support documentation concerns. To date, only two audits have been performed of the four year agreement; however, both audits have had all their recommendations closed with RIG's concurrence.

The first audit covered FY06 and identified a 25% shortfall of the annual target. Given that the cooperative agreement established the cost share for the entire life of the program, FOPRIDEH is responsible for the full amount until the end of the 4-year agreement in September 30, 2009. The second audit, which covered a 15-month period ending in December 2007, established that FOPRIDEH exceeded the expected cost-share by 11.6%, however there were short-comings in how FOPRIDEH was documenting these costs. FOPRIDEH subsequently changed its tracking method and the finding was closed. The next audit is currently underway for calendar year 2008 which includes a follow-up of FOPRIDEH's record-keeping practices regarding cost-share based on the previous audit recommendation.

#### **5. Partners Should Assess Effectiveness of Training**

No comment.

#### **6. Data Reporting Needs to be Strengthened**

Appendices III, IV, and V of the audit report do not accurately convey information regarding indicator information collected by the DG Office's implementing partners and subsequently reported to USAID/DG. For the audit fieldwork the Mission provided all requested and relevant documentation. However, it does not appear that data reporting that is included in this documentation is accurately and completely reflected in the Annexes to the audit report. For example, Appendix III reflects "not available" for several indicators which were included in FIU's final report consolidated data by indicator as per the contract requirements. Below an excerpt from page 29 of said report:

Table 13  
Number of solved cases reaching the Trial Courts 2004- 2007

| Type  | October - September |            |            |
|---|---------------------|------------|------------|
|   | 2004- 2005          | 2005- 2006 | 2006- 2007 |
| Number of cases brought before Trial Courts             | 6,892               | 6,824      | 7,765      |
| Number of cases brought to trial                        | 909                 | 956        | 780        |
| Number of cases resolved using alternative measures     | 3,262               | 3,627      | 3,122      |
| Percentage of cases brought to trial                    | 13%                 | 14%        | 10%        |
| Percentage of cases resolved using alternative measures | 47%                 | 53%        | 44%        |

Similarly, in Appendix IV the report mentions “FOPRIDEH did not undertake any specific activities related to this indicator” for areas pertaining to electoral issues which began in FY09 given that the Honduran Primaries took place in November 2009. For example, for the indicator “Percentage of new TSE Magistrates and RNP Directors selected in compliance with the Electoral Law” refers to an activity that will take place in May 2009. Other election-related activities have been deleted due to a 50% budget reduction to the final year of implementation. FOPRIDEH is also implementing activities in other areas that are still underway and must be completed by the end of the agreement; therefore the indicator stating “90 percent of regional and interest-based commissions support the activities of the Democratic Process Strengthening Project” would be reported in September 2009 as the work plan indicates.

Also, with regard to the indicators selected in Appendix III, which come from the Amplified Description of the SOAG, MSI was not instructed to specifically report on these illustrative indicators. However, through USAID funds, the DG program has achieved results. For example, in the indicator *Sub-IR 2.4 Increased management capacity to deliver local government services*, USAID through its contract with MSI has completed five water and sanitation systems, and using project designs provided by MSI, five additional systems are currently being implemented by FHIS using local currency funds. Furthermore, MSI has also provided seven additional project designs, and currently USAID is evaluating the possibility of funding these activities under local currency. With regard to Appendix V, many targets and results have been reported inaccurately. We recommend that the auditors refer to the following MSI documents: Modifications #5 and #8 to the MSI contract dated June 29, 2006 and February 28, 2008, and Semi Annual Report #8 dated January 30, 2009.

## **7. Performance Management Plan Needs To Be Improved**

The Mission takes exception to the statement on page 19 of the report, “USAID Honduras has not established performance targets for any of PMP performance indicators.” The Mission would like to clarify that all six of the DG program PMP indicators contained established targets. Three of the six PMP indicators contained targets through FY 2006, while the remaining three contained targets through FY 2009. Targets for the former were not established beyond FY 2006 because the indicators were dropped as a result of the partial termination of the contracts due to budget cuts. Also, while the physical PMP Performance Indicator Reference Sheets were not updated, the Mission continued to monitor progress via the annual portfolio review process.

The audit tried to answer the question of whether the USAID/Honduras’ Democracy and Governance program achieved planned results and what has been the impact. While we recognize the importance of this type of outcome/high-level impact evaluation, 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.

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](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 retrofitting 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 extend the current democracy and governance program to provide an opportunity to negotiate the scope of the follow-on program with the administration that will take office in January 2010.***

The Mission concurs with this recommendation. The Mission has already submitted a request to extend its current strategy through FY 2010. That request is pending in USAID/LAC. If granted, the extension would facilitate negotiation of the follow-on program with the incoming government. Also, the DG SOAG has been extended for one year through FY 2010 to allow for completion of ongoing activities and sufficient overlap with activities under the new Assistance Agreement.

***Recommendation No. 2: We recommend that USAID/Honduras explicitly focus the follow-on program on reforms that have the potential to accomplish transformational change in the quality of governance.***

The Mission requests clarification on the meaning of transformational change in the USAID context and the timeframe during which this change should be achieved. This clarification will assist us as we design a new Democracy and Governance program, through which we hope to help Honduras progress in its democratic development. While the Mission always strives to achieve a significant impact with the assistance provided, a really profound development change may be achieved only over decades and is dependent on funding, strategy, foreign policy considerations, and political will. For example, only a decade ago Honduran citizens did not voice publicly allegations of corruption and demand reforms for more transparency and accountability. Today, citizens, whether individually or collectively, can openly voice such opinions and demands. This change, achieved in part with USAID assistance, represents important progress for Honduras. Looking ahead to the new strategy period, the DG Office conducted a number of assessments and evaluations in the last couple of years that have informed the Mission of areas in which we should focus and will assist us in the design of new activities under the new program.

***Recommendation No. 3: We recommend that USAID/Honduras include assistance to improve municipal services in its follow-on program if the program includes efforts to increase municipal revenues.***

The Mission concurs with this recommendation. We are currently designing a new local government and decentralization activity that will focus more on improved services. The goal of the program will be to strengthen Honduran democracy in targeted municipalities or service areas by increasing citizen satisfaction with and participation in decentralized, democratic government-provided or -regulated services through improved service delivery; increased local government capacity to oversee decentralized services and respond to citizen feedback; and an improved national framework for the decentralization of authority and resources.

***Recommendation No. 4: We recommend that USAID/Honduras include steps to support passage and implementation of the Municipal Civil Service Law in its follow-on program.***

The Mission concurs with this recommendation. Currently, AMHON with USAID support is promoting efforts to pass a Municipal Civil Service Law. The current cooperative agreement with AMHON is expected to be extended to allow for additional activities, including promotion and implementation of the Municipal Civil Service Law. Target date for the extension is September 30, 2009.

***Recommendation No. 5: We recommend that USAID/Honduras ask Management Systems International to make electronic copies of manuals, procedures, and records developed in each assisted municipality to be presented to each municipality's incoming mayor after the 2009 election to promote continuity and an orderly transition.***

The Mission concurs with this recommendation. MSI has already provided printed and electronic copies of manuals, procedures, and records to AMHON for distribution to all

298 municipalities in Honduras and relevant Ministry of Governance and Justice officials after the political transition in January 2010. Thus, this recommendation should be closed upon report issuance.

***Recommendation No. 6: We recommend that USAID/Honduras determine the allowability of \$376,856 in unsupported cost sharing contributions and recover from the Federation of Honduran Nongovernmental Organizations any amounts determined to be unallowable.***

The Mission does not concur with this recommendation. As mentioned before, there have been two audits under the FOPRIDEH agreement which addressed cost-sharing issues; however all recommendations have been addressed by the grantee, and the Mission has closed the findings with RIG's concurrence. No financial audits have identified unsupported cost findings for the amount stated in the audit report, and the findings regarding weak supporting documentation have been subsequently closed.

The Mission has committed itself to work with FOPRIDEH to ensure that adequate support documentation and proper record-keeping is maintained for the remainder of the cost share schedule through the life of the program. It is important to note that the total estimated cost of the agreement was reduced from \$4.2 M to \$3.7 M in the last modification, and therefore the cost share amount has also been reduced to a total of \$932,548 for the entire four years. To date, FOPRIDEH has already accounted for \$658,485 (70%) with the balance of \$274,063 to be completed between 2008 and the first nine months of 2009. The audit for 2008 is underway and will be subject to Mission and RIG approval, which would then provide an opportunity to determine if FOPRIDEH has complied with the recommendations from previous year audits and identify any potential risks in the case that FOPRIDEH could not comply with the total amount.

***Recommendation No. 7: We recommend that USAID/Honduras verify that the Federation of Honduran Nongovernmental Organizations has a viable plan for meeting required cost sharing contributions during the last year of the program.***

The Mission concurs with this recommendation. We will verify that the Federation of Honduran Nongovernmental Organizations implements a plan for meeting required cost sharing contributions by September 30, 2009.

***Recommendation No. 8: We recommend that USAID/Honduras, in coordination with its implementing partners, establish procedures for systematically following up with training participants to assess the impact and effectiveness of training.***

The Mission concurs with this recommendation. During the design stage of new activities, we will establish procedures for following up with training participants to assess the impact and effectiveness of training.

***Recommendation No.9: We recommend that USAID/Honduras, in conjunction with its implementing partners, develop and implement a system to reasonably ensure that reported information is accurate.***

The Mission concurs with this recommendation. The Mission will establish and/or reinforce existing procedures requiring AOTR/COTRs to periodically verify results reported by partners under our new Country Assistance Strategy (CAS). The results of

these revisions will be documented and kept in the AOTR/COTR's program files.

***Recommendation No.10: We recommend that USAID/Honduras, in conjunction with its implementing partners, develop a performance management plan for the follow-on democracy and governance program.***

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

William Brands,  
Mission Director

### Strategic Objective Agreement Indicators and Results

| Indicator   | Target  | Achieved Through FY 2008  |
|---|---|---|
| <p><i>Strategic Objective: More responsive, transparent governance.</i></p> <p>Trial court performance:</p> <ul style="list-style-type: none"> <li>• Percentage of cases reaching trial that are concluded.</li> <li>• Percentage of cases that are concluded within stipulated time period.</li> <li>• Percentage of cases resulting in guilty verdicts.</li> </ul> <p>Changes in user assessments of responsiveness/service quality of key government agencies.</p> | <ul style="list-style-type: none"> <li>• Four percentage point increase by FY 2006.</li> <li>• No target established.</li> <li>• No target established.</li> </ul> <p>Four percentage point improvement by FY 2006.</p> | <ul style="list-style-type: none"> <li>• From 55 percent in FY 2005, the percentage of cases concluded fell to 49 percent in FY 2006, then rose to 64 percent in FY 2007.</li> <li>• Not available.</li> <li>• From 55 percent in FY 2005, the percentage of cases resulting in guilty verdicts rose to 63 percent in FY 2006, then fell to 61 percent in FY 2007</li> </ul> <p>Citizen confidence in key government agencies has fallen from 2004 to 2006 and from 2006 to 2008.</p> |
| <p><i>Intermediate Result (IR) 1 Strengthened Rule of Law</i></p> <p>Efficiency of judicial sector (e.g., case processing time)</p> <p>Percentage of corruption cases brought to trial</p> <p>Percentage of corruption cases with verdict rendered.</p>   | <p>No target established.</p> <p>No target established.</p> <p>No target established.</p>   | <p>Not available.</p> <p>Not available.</p> <p>Increased from 4 percent in FY 2005 to 18 percent in FY 2006.</p>  |
| <p><i>Sub-IR 1.1 Legal framework for fair trials before independent and impartial courts implemented</i></p> <p>American Bar Association Judicial Reform Index</p> <p>Index/indicators showing progress toward</p>  | <p>Score of "positive" on 15 of 30 indicators by FY 2006.</p> <p>No target established.</p>   | <p>Not available.</p> <p>The Civil Procedures Code was passed in January 2007</p>   |

| Indicator  | Target  | Achieved Through FY 2008  |
|--|---|---|
| implementation of new Civil Procedures Code.   |   | but implementation will not begin until May 2009.   |
| <p data-bbox="235 317 594 470"><i>Sub-IR 1.2 Increased fairness and efficiency of the administration of justice through more effective legal personnel and processes</i></p> <p data-bbox="235 485 542 548">American Bar Association Judicial Reform Index</p> <p data-bbox="235 575 586 638">Increased number of persons and person-days of training.</p> <p data-bbox="235 695 586 758">Increased number of oral criminal trials under the CPC.</p> <p data-bbox="235 848 586 942">Increased number of criminal cases closed through prosecutorial discretion.</p> | <p data-bbox="613 499 943 562">Score of “positive” on 15 of 30 indicators by FY 2006.</p> <p data-bbox="613 590 967 684">4,646 people trained and 2,850 person-days of training during life of project.</p> <p data-bbox="613 711 967 743">700 oral trials by March 2006.</p> <p data-bbox="613 863 967 957">6,000 cases closed by March 2006, 10,000 cases closed by September 2007.</p> | <p data-bbox="995 499 1162 531">Not available.</p> <p data-bbox="995 590 1252 621">3,086 people trained.</p> <p data-bbox="995 711 1333 827">481 oral trials were completed in FY 2005 and 1,149 were completed in FY 2006.</p> <p data-bbox="995 863 1349 1041">4,574 cases were closed in FY 2005, a cumulative 9,073 cases were closed by FY 2006, and a cumulative 13,168 cases were closed by FY 2007.</p> |
| <p data-bbox="235 1052 594 1199"><b><i>Sub-IR 1.3 Access to justice expanded for marginalized groups, especially women and the poor.</i></b></p> <p data-bbox="235 1220 586 1367">Index/indicator demonstrating benchmarks towards implementation of alternative-dispute resolution in one to two pilot courts.</p> <p data-bbox="235 1402 542 1486">American Bar Association Legal Profession Reform Index.</p>   | <p data-bbox="613 1230 878 1262">No target established.</p> <p data-bbox="613 1415 927 1478">Positive score on 12 of 24 indicators by March 2007.</p>   | <p data-bbox="995 1230 1341 1356">Not available, but alternative dispute resolution centers were established in seven municipalities.</p> <p data-bbox="995 1415 1162 1446">Not available.</p>  |
| <p data-bbox="235 1493 586 1587"><i>Sub-IR 1.4 Strengthened advocacy and participation in legal reform.</i></p> <p data-bbox="235 1612 537 1738">Increased number of civil society organizations engaged in programs to promote legal reform.</p> <p data-bbox="235 1766 594 1881">Number of policies/laws passed or changed consistent with agenda of justice-sector civil society organizations (or</p>  | <p data-bbox="613 1612 967 1675">Two civil society organizations by March 2007.</p> <p data-bbox="613 1766 902 1829">Four laws passed by FY 2006.</p>   | <p data-bbox="995 1612 1284 1707">Four civil society organizations reportedly promoted legal reform.</p> <p data-bbox="995 1766 1349 1881">Two laws, the new Civil Procedures Code and the Transparency Law, were passed. In addition, USAID’s</p>  |

| Indicator   | Target  | Achieved Through FY 2008   |
|---|---|--|
| <p>proposed negative changes defeated).</p> <p>Index/indicator demonstrating benchmarks towards implementation of electoral reform based on democratic principles.</p> <p>American Bar Association Legal Profession Reform Index.</p>   | <p>No target established.</p> <p>Positive score on two indicators by November 2005.</p> | <p>partners helped defend against a reversal of electoral reforms.</p> <p>Not available.</p> <p>Not available.</p>   |
| <p><i>IR 1.2 Greater transparency and accountability of governments</i></p> <p>Total resources managed by local government as percentage of total public resources.</p>   | <p>No target established.</p>   | <p>Not available.</p>  |
| <p><i>Sub-IR 2.1 More transparent systems for management of public resources by selected government entities</i></p> <p>Number of audits published by the Tribunal Superior de Cuentas' Directorate of Municipal Audits (DASM) and the Unit for Audits of Programs of International Organizations (UAPOI).</p>                                  | <p>No target established.</p>   | <p>DASM published 59 audits in 2005, 78 in 2006, 138 in 2007, and 121 in 2008. UAPOI published 5 audits in 2005, 4 audits in 2006, 2 audits in 2007, and 4 audits in 2008.</p> |
| <p><i>Sub-IR 2.2 Increased devolution of responsibilities and resources to the local level, resulting in greater responsiveness by local governments to citizens' needs</i></p> <p><i>Percentage of the national budget that is transferred to municipalities.</i></p> <p><i>Average stage on decentralization process milestone scale.</i></p> | <p>No target established.</p> <p>No target established.</p>                             | <p>Not available, but stakeholders report that 5 percent of the national budget is transferred to municipalities.</p> <p>Not available.</p>                                    |
| <p><i>Sub-IR 2.3 More effective advocacy, oversight and participation in local government decision-making.</i></p>  |   |  |

| Indicator  | Target   | Achieved Through FY 2008  |
|--|--|---|
| <p>Citizen perception survey on government effectiveness and transparency.</p>   | <p>Two percentage point improvement during life of project.</p>  | <p>Polling shows declines in citizen confidence in municipal governments from 56 percent in 2004 to 46 percent in 2008, while citizens that have had contact with municipal governments report an increase in bribery of municipal officials over the same period, from 10 percent of respondents in 2004 to 17 percent of respondents in 2008.</p>             |
| <p><i>Sub-IR 2.4 Increased management capacity to deliver local government services.</i></p> <p>Percentage of citizens with access to basic municipal services (household water and sanitation, and solid waste removal).</p> <p>Percentage of total local revenue generated by local governments.</p> <p>Number of municipalities in compliance with financial requirements established in the Municipal Law.</p> | <p>No target established.</p> <p>Two percent real increase during the life of the project.</p> <p>No target established.</p> | <p>Access to potable water increased 4 percent and access to trash collection increased by 17 percent in assisted municipalities in FY 2007. (These increases were not a result of USAID-financed assistance.)</p> <p>For assisted municipalities, the percentage was 47 percent in 2006, 41 percent in 2007, and 42 percent in 2008.</p> <p>Not available.</p> |

**Planned and Reported Results for FOPRIDEH for FY 2007 and FY 2008.**

| <b>Indicators</b>  | <b>Results</b>   |
|--|--|
| Percentage of constitutional issues upheld according to international standards.   | No specific activities related to this indicator were undertaken by FOPRIDEH, although FOPRIDEH was closely involved in monitoring the nomination process for supreme court magistrates in 2008 and 2009, an important constitutional issue. |
| Percentage of the CSO's legislative agenda, i.e., new laws/bylaws or reforms to existing laws/bylaws, enacted.   | FOPRIDEH influenced passage of the Civil Procedures Code in January 2007 and the Transparency and Access to Public Information Law in November 2006. FOPRIDEH also helped draft the Organic Law for the Judicial Branch.                     |
| Monitoring of the performance of the Supreme Electoral Tribunal (TSE) and National Registry of Persons (RNP) has been carried out 100% (according to the monitoring plan) to verify the fulfillment of legal responsibilities. | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Percentage of new TSE Magistrates and RNP Directors selected in compliance with the Electoral Law.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Percentage of Civil Society recommendations generated from previous elections enacted.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| At least 50 percent of voting booths have been covered by national observers.  | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| At least 80 percent of voting centers have been covered by national observers.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Monitoring of the primary and general elections to determine true effectiveness of the electoral reforms through the application of the application of the new electoral law.  | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Percentage of registered voters that vote.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Number of non-partisan volunteers participating in the electoral process to ensure a free, fair, and credible outcome.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Increased representation of small political parties in Congress and local governments.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Increased representation of small political parties in Congress and local governments.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |
| Increased satisfaction with GOH as measured by the CAM regional DG survey.   | FOPRIDEH did not undertake any specific activities related to this indicator.  |

| <b>Indicators</b>  | <b>Results</b>  |
|--|---|
| 85 percent of the Unity and Strategic Strengthening Plan designed by Management Systems International (MSI) has been executed. | FOPRIDEH did not undertake any specific activities related to this indicator. |
| 90 percent of regional and interest-based commissions support the activities of the Democratic Process Strengthening Project.  | FOPRIDEH did not undertake any specific activities related to this indicator. |

### Planned and Reported Results for Decentralization Assistance through MSI

| Indicator  | FY 2007 Target | FY 2007 Reported | FY 2007 Verified | FY 2008 Target | FY 2008 Reported | FY 2008 Verified |
|--|----------------|------------------|------------------|----------------|------------------|------------------|
| Number of larger <sup>12</sup> municipalities able to demonstrate annual achievement of performance targets to administer/manage municipal programs (cumulative).    | NA             | 13               | 13               | NA             | 12               | 12               |
| Number of smaller municipalities able to demonstrate annual achievement of performance targets to administer/manage municipal programs (cumulative).                 | NA             | 13               | 13               | NA             | 13               | 13               |
| Number of smaller municipalities able to demonstrate annual achievement of performance targets to increase municipal tax revenue and coverage of municipal services. | 30             | 7                | 9                | NA             | 9                | 0                |
| Number of smaller municipalities in targeted municipal associations meeting performance targets in public administration practices.                                  | 30             | 0                | 0                | 10             | 10               | 10               |
| Number of larger municipalities meeting their performance goals in the procurement of works, goods, and services.  | 10             | 15               | 15               | 10             | 15               | 15               |
| Number of smaller municipalities meeting their performance goals in the procurement of works, goods, and services.   | 10             | 13               | 13               | 10             | 13               | 13               |
| Number of municipal associations meeting their performance goals   | 10             | 5                | 5                | 5              | 5                | 5                |

<sup>12</sup> In this report, "larger" municipalities are those classified by the Ministry of Governance and Justice as A municipalities (annual budget above \$317,000) or B municipalities (annual budget between \$79,000 and \$317,000). "Smaller" municipalities are those classified as C municipalities (annual budget between \$21,000 and \$79,000) or D municipalities (annual budget below \$21,000). Based on an exchange rate of 18.9 Honduran Lempiras to \$1.

| <b>Indicator</b>  | <b>FY 2007 Target</b> | <b>FY 2007 Reported</b> | <b>FY 2007 Verified</b> | <b>FY 2008 Target</b> | <b>FY 2008 Reported</b> | <b>FY 2008 Verified</b> |
|---|-----------------------|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| in the procurement of works, goods, and services.   |                       |                         |                         |                       |                         |                         |
| AMHON board decisions implemented by the technical team and documented back to the board.   | 75%                   | 89%                     | 89%                     | NA                    | NA                      | NA                      |
| Amount of resources (cash or in-kind) leveraged from private sector for increasing good governance and ethical business practices.              | \$75,000              | 0                       | 0                       | \$25,000              | \$6,542                 | \$6,542                 |
| Number of decisions in larger municipalities with impact on local development where participation of broad-based coalitions can be documented.  | 90                    | 82                      | 82                      | 60                    | 141                     | 141                     |
| Number of decisions in smaller municipalities with impact on local development where participation of broad-based coalitions can be documented. | 90                    | 117                     | 117                     | 60                    | 147                     | 147                     |
| Number of larger municipalities where broad-based coalitions are annually monitoring performance of their local governments.                    | 15                    | 10                      | 10                      | 10                    | 11                      | 11                      |
| Number of smaller municipalities where broad-based coalitions are annually monitoring performance of their local governments.                   | 15                    | 13                      | 13                      | 10                    | 13                      | 13                      |
| Small infrastructure projects.  | 50-80                 | 0                       | 0                       | 40-55                 | 17                      | 0                       |

**Planned Life of Agreement Results and Reported Results for FY 2008 for Decentralization Assistance Through AMHON**

| Indicator  | FY 2008 Results  |
|--|--|
| Political advocacy strategy disseminated and discussed with stakeholders.  | A strategy was developed that incorporates input from municipalities in 16 of 18 departments of Honduras.  |
| AMHON, Congress and Ministry of Governance and Justice establish a forum to review and propose reform of the Municipal Law.      | Numerous discussions were held between AMHON and Congressional representatives on the proposed Municipal Law and the proposed Municipal Civil Service Law.   |
| Proposal to reform the Municipal Law submitted to Congress.  | A draft of the proposed reform to the Municipal Law was submitted to Congress.   |
| Registry of municipal income, expenses and investments of the 298 municipalities established.                                    | No activities directly related to this indicator have been undertaken, although AMHON has prepared some training materials that are designed to strengthen local management capabilities.  |
| Accreditation and reward system for municipal management implemented.  | No activities directly related to this indicator have been undertaken because other activities had higher priority.  |
| 30 municipalities and 10 municipal associations efficiently executing a decentralized project cycle for infrastructure projects. | A decentralization work plan was developed and discussed with stakeholders.  |
| Increased confidence and knowledge of membership regarding AMHON's activities and effectiveness.                                 | Work plans have been developed, plans have been discussed with government and civil society organizations, and AMHON has signed agreements with the National Autonomous University of Honduras to provide training to municipal employees. |

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