



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/PANAMA'S ENVIRONMENT ACTIVITIES

AUDIT REPORT NO. 1-525-10-008-P  
JULY 29, 2010

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

July 29, 2010

**MEMORANDUM**

**TO:** USAID/Panama Mission Director, Kenneth Ellis

**FROM:** Acting Regional Inspector General/San Salvador, Jon Chasson /s/

**SUBJECT:** Audit of USAID/Panama's Environment Activities (Report No. 1-525-10-008-P)

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

The report contains four recommendations intended to improve the effectiveness of USAID/Panama's environment activities. Management decisions have been reached for all four recommendations. M/CFO/APC will record final action on these recommendations when planned actions have been completed.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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# SUMMARY OF RESULTS

The Republic of Panama, with its strategic location and 80-kilometer canal between the Atlantic and Pacific Oceans, is an important hub for global commerce. As the largest user of the Panama Canal, the United States cannot underestimate the economic importance of this significant maritime thoroughfare. Of the more than 14,000 ships that transited the Panama Canal during 2009,<sup>1</sup> approximately 70 percent either departed from or were destined for ports in the United States. In addition to these economic benefits, the Panama Canal Watershed is home to notable terrestrial, aquatic, and avian biodiversity dependent on the availability of uncontaminated and reliable supplies of freshwater and steady hydrological cycles for survival.

To help the Government of Panama protect this critical economic and environmental resource, USAID/Panama has implemented its Conservation of Biodiversity in the Panama Canal Watershed (CBC) Program as a joint venture between International Resources Group and Tetra Tech (IRG/TT). The program's first phase ran from December 2006 to December 2009, and the second phase extended the program through November 2010. The program supports activities designed to improve the management of the Panama Canal Watershed and its buffer areas with high environmental and socioeconomic importance. The program intends to mitigate threats facing the ecosystems in the Panama Canal Watershed in order to maintain the hydrological functioning of the water system, protect biodiversity, and enhance development objectives. As of December 2009, USAID/Panama had obligated approximately \$7.7 million and expended more than \$6.1 million to support CBC activities.

As part of its fiscal year 2010 audit plan, the Regional Inspector General/San Salvador office carried out the audit of USAID/Panama's environmental activities. The audit was designed to answer the following question:

- Are USAID/Panama's environmental activities achieving their main goals?

USAID/Panama's CBC program has provided significant benefits to a limited number of individuals and organizations in the Panama Canal Watershed and buffer areas. However, the program achieved only limited documented progress toward its stated goal of improving the management of the Panama Canal Watershed and buffer areas with high environmental and socioeconomic importance.

USAID/Panama's implementing partner, IRG/TT, has generally performed as outlined in the contract and has accurately reported on its progress. However, despite several notable accomplishments, the CBC program's overall impact and progress were difficult to assess or verify. Overall project performance indicators lacked a connection to the field activities they were meant to measure. Also, the reporting on the implementation of program activities is generally not useful for program monitoring, management, or the communication of the impact the program's activities.

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<sup>1</sup> Fiscal year 2009 as determined by the Panama Canal Authority.

Therefore, the audit team recommends that USAID/Panama:

- Develop performance indicators that demonstrate that program results are clearly attributable to USAID efforts (page 5);
- Work with its implementing partner to develop a monitoring plan that includes some qualitative indicators that allow managers to assess the program's progress toward its overall goals and objectives (page 7);
- Complete a data quality assessment for all performance indicators within the 3 years before their submission to Washington, as required by Automated Directives System 203.3.5.2 (page 7); and
- Complete an independent technical evaluation of the CBC program to assess its progress and evaluate the potential for further activities in the watershed (page 8).

Detailed findings appear in the following section. The audit's scope and methodology are described in appendix I. A summary of our evaluation of management comments will appear here in the final audit report, and USAID/Panama's comments will be included in their entirety in appendix II.

# AUDIT FINDINGS

On the Conservation of Biodiversity in the Panama Canal Watershed (CBC) Program, USAID/Panama's implementing partner, International Resources Group and Tetra Tech (IRG/TT) has generally performed as outlined in its contract and has accurately reported on its progress. Among the program's most significant accomplishments are the following:

- The completion of an assessment of illegal resource uses and their threat to biodiversity in targeted areas of the Panama Canal Watershed.
- The establishment of a number of public-private alliances that have provided materials, resources, and support for two national parks and at least one indigenous community in the Panama Canal Watershed.
- The implementation of 13 projects funded with small grants throughout the Panama Canal Watershed. These projects focused on applying environmentally sound, best management practices and creating new employment opportunities.
- The creation of two management councils that give local stakeholders a voice in the future management of their area of the Panama Canal Watershed.

Through these and other accomplishments, the program provided benefits to a number of individuals and organizations in the Panama Canal Watershed:

- The program instilled the importance of environmental conservation in residents throughout communities in the Panama Canal Watershed. Many of the program's beneficiaries expressed their commitment to continuing to protect the natural resources and wildlife found throughout the area.
- The program trained a number of beneficiaries in best management practices in fields as varied as agriculture, apiculture, cattle ranching, and horticulture. Many beneficiaries realized that the management practices would increase production and income. These beneficiaries are now proponents of the practices and are encouraging others to adopt them.
- The program helped generate new employment opportunities and supplementary income for beneficiaries throughout the Panama Canal Watershed. Apiculture, eco-tourism, and horticulture were leaders in the generation of new employment opportunities.
- The program helped establish a network of seven nurseries that produce a wide variety of organically grown plants and trees. Many of these plants and trees eventually will be used to reforest critical areas of the Panama Canal Watershed.

Despite these accomplishments, the CBC program's overall impact and progress toward meeting its primary goal—improving the management of the Panama Canal Watershed and buffer areas with high environmental and socioeconomic importance—were difficult

to assess or verify, and USAID/Panama should take action to better measure and evaluate the progress of its efforts to protect the environment. Specific concerns are detailed in the sections below.

## **Field Activities Do Not Correlate Well With Program Indicators**

USAID's Automated Directives System (ADS) 203.3.4.1 advises missions to select performance indicators, whether qualitative or quantitative, for a program's performance management plan (PMP) that are the most appropriate for the result being measured. Furthermore, according to ADS 203.3.4.2.e, the performance indicators selected for inclusion in the mission's PMP should measure changes that are clearly and reasonably attributable to USAID efforts. Changes can be attributed to USAID efforts when there is a logical and causal effect on the result(s) measured by a given performance indicator for the outputs of USAID-financed activities.

In its PMP for strategic objective 2, USAID/Panama includes the performance indicators "Water Quality Index in target sites in the Panama Canal Watershed," "Park Management Index," and "Park revenues increased for improved park management" as measures of the progress of the CBC program. However, the direct, logical, and causal relationship required under ADS 203 is not apparent in these indicators.

- **Water Quality Index in target sites in the Panama Canal Watershed** – Implementing partner officials measured and tracked the presence and amount of certain elements in four rivers in Soberanía National Park and in five rivers in Chagres National Park. During the first phase of the project, the Water Quality Index in these targeted areas increased from a baseline of 80 to a high of 81.50.<sup>2</sup> Although there was a slight improvement in this index, the CBC program was not directly working to improve the water quality in these areas. Instead, the CBC program focused on generating environmentally friendly economic opportunities and promoting environmentally sound best practices in agriculture and other areas. While human behavior does influence the presence of pollutants, and possibly the elements identified in these river systems, the reach of the CBC program among the residents of the Panama Canal Watershed is too limited to provide a direct link to claim any credit for the improved water quality.
- **Park Management Index** – The Government of Panama's National Authority for the Environment (ANAM) releases an annual report in which each of the parks in the country's national park system is rated on 37 indicators. For the purposes of USAID/Panama's performance reporting, the Park Management Index is a composite of 5 of the 37 indicators. However, two of the five indicators selected to be tracked by USAID/Panama—"Acquisition and use of equipment necessary for the management of protected areas" and "Adequate staffing of protected areas"—cannot be influenced by the program's activities. According to implementing partner officials, ANAM is the only entity responsible for providing equipment and adequate staffing for each national park. Furthermore, because

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<sup>2</sup> The Water Quality Index is a 100-point scale that summarizes the results of tests to determine the presence and levels of specified elements in water samples. A score of 81.50 falls into the range of "good," which includes scores from 70 to 90.

of the CBC program's lack of influence over these two indicators, implementing partner officials acknowledged that the program may not meet its target for this performance indicator for the second phase of the program. Therefore, the Park Management Index does not effectively measure the program's progress.

- **Park revenues increased for improved park management** – Revenues for each of the parks in Panama's national park system come from two sources: (1) funds dedicated to the park directly by ANAM, which cannot be directly influenced by USAID, and (2) tourists paying a variable admission fee based on nationality and age. The CBC program delivered an improved fee collection system to both the Chagres and Soberanía national parks, and both ANAM-generated data and the director of Soberanía National Park indicated that the number of visitors to the parks, especially international visitors, has increased in recent years. Therefore, the parks have collected more revenue. However, the collection of additional revenue may not translate into improved management of the parks.

In selecting performance indicators to include in its PMP for strategic objective 2, USAID/Panama focused on objective performance indicators. However, the indicators selected are not clearly attributable to USAID/Panama's efforts and offer minimal evidence of improvement. Overall, with the selected performance indicators, USAID/Panama cannot make any meaningful assessment of the impact of its environment program.

The second phase of the CBC program is expected to end in November 2010. For future environment programs, this audit makes the following recommendation:

*Recommendation 1: We recommend that USAID/Panama develop performance indicators that demonstrate that program results are clearly attributable to USAID efforts.*

## **Reported Results Are Not Useful for Program Management**

ADS 203.3.2.1.c acknowledges that, early in the implementation of a program, decisions are based largely on input and output data; however, as implementation proceeds, program managers need to focus their decisions more on whether intended results are being achieved. Also, ADS 203.3.5.1 states that for performance data to be useful in managing for results and credible for reporting, data quality standards should be met. To help ensure compliance with the data quality standards, ADS 203.3.5.2 requires that a data quality assessment be performed for all data reported to Washington for reporting purposes or for reporting externally on Agency performance within the 3 years before its submission.

As previously discussed, PMP indicators and performance data reported by USAID/Panama provide limited information regarding the overall program impact. Also, some indicators included in the CBC project's monitoring plan and used to measure the program's progress are not useful for monitoring or for making program management decisions. As an example, one indicator adopted in the CBC monitoring plan is "Number of grants implemented under the USAID-ACP Fund Agreement." The information



reported for this indicator shows that the program executed 13 small grant projects, exceeding its target of 12. However, several of these grant projects were underperforming and were not on track to meet some of their intended results:

- The program provided two grants to promote apiculture and honey production. As a part of these projects, the grantees trained their beneficiaries in apiculture best practices, provided the basic materials necessary to produce honey (bees, hives, etc.), and created several new employment opportunities for novice beekeepers. However, these projects had also hoped to establish several apiary schools or training centers, a distribution center, and banking partnerships. As of the close of the grant project, these extra tasks had not been completed.
- Another organization received a grant to train biodiversity monitors in Chagres National Park. Under this project, the grantee trained its beneficiaries to recognize the types of wildlife in the area and to record information regarding the number of animals, their habits, and observed behaviors. Initially, the project hoped that these community groups could serve as a resource to the national park. The information collected by the monitors could be useful for the park's administration, and the monitors could serve as tour guides to park visitors. However, beneficiaries from two community groups stated that, although they still occasionally continue to monitor the wildlife in the park, they have not submitted their information to the park's administration since June 2009, the end of the grant project.
- Another grantee provided training in best management practices for sustainable cattle ranching and creating a farm management plan. Ranchers from 32 farms in the Chagres National Park benefited from this project. Several of these ranchers implemented a monitoring system to observe the impact of the improved practices on their land and in their cattle. However, as an expected result of the project, presentations on at least 20 farm projects were to be made to financial institutions to obtain credit. Although the projects were completed and presented to financial institutions, none of the projects was deemed eligible for financing.

Also, although the performance data reported under the USAID/Panama CBC program were generally of good quality, the data reported for some performance indicators significantly overstated the number of persons trained. For example, the program reported that 833 individuals in and around protected areas received training conferring knowledge, skills, and abilities in sustainable economic activities. However, in many instances, the same individuals participated in more than one training session, albeit in different subjects. For each session, the program counted each trainee as a unique participant; this methodology overstates the number of people receiving training and the breadth of the training effort.

Furthermore, USAID/Panama did not perform a data quality assessment on the performance data reported for two indicators in the FY 2009 Performance Plan and Report: "Number of people with increased economic benefits derived from sustainable natural resource management and conservation as a result of U.S. Government assistance" and "Number of people receiving U.S. Government-supported training in natural resources management or biodiversity conservation."

Outcome-focused indicators do not allow for any valuable measure or evaluation of the impact of activities on the program's higher level goals and objectives. Furthermore, when data are not closely reviewed before reporting, program decisions may be made based on inaccurate or imprecise information.

With consideration for USAID/Panama's future environment programs, this audit makes the following recommendations:

*Recommendation 2: We recommend that USAID/Panama work with its implementing partners to develop a monitoring plan that includes additional qualitative indicators that allow managers to collect and report data relevant to the program's overall goals and objectives.*

*Recommendation 3: We recommend that USAID/Panama complete data quality assessments for all performance indicators within the 3 years before their submission to Washington, as required by Automated Directives System 203.3.5.2.*

## **An Evaluation May Help Determine Program Impact**

As defined in ADS 203.3.6, evaluations provide a systematic way to gain insight and reach conclusions about the effectiveness of specific activities, the validity of a development hypothesis, the utility of performance monitoring efforts, factors in the development context that may affect the achievement of results, and the types of actions that need to be taken to improve performance.

USAID/Panama may benefit from an independent technical assessment to determine the overall impact of the CBC program. The CBC program implemented many of its activities through 13 small grant projects. Some of these projects, including the biodiversity monitoring project mentioned earlier in this report and a management information system project at the administrative offices of the Chagres and Soberanía national parks, do not seem poised for long-term success.

- As previously stated, the two community groups interviewed under the biodiversity monitoring project effectively stopped their wildlife observation activities when the grantee's project ended in June 2009. Although the groups stated that they maintain their interest in the activity, neither group established contact with the administration of Chagres National Park to discuss the continuation of the project or to offer their members' services as tour guides within the park.
- Under another program, the grantee created a management information system to help improve the management of the Chagres and Soberanía national parks. Although park administration acknowledges the usefulness of improved data access for decision making, the system is not being used to its full capacity. Frequent changes in personnel and general understaffing in the national parks make it difficult to find adequate staff to run the system as intended. An official from Chagres National Park admitted that the park is relying on volunteers to

populate the system with information. However, for one component of the system, there is a several-month backlog of information to be entered. Officials from the grantee organization agreed that, without a full-time staff member dedicated to managing the system, its utility is diminished.

Other efforts sought to change environmental policies and practices and introduce more grassroots participation in the regulatory process. For example:

- As previously discussed, one grant project provided training in how to create a farm management plan that incorporated several best management practices for sustainable cattle ranching in Chagres National Park. Implementing the plans and the improved practices would help reduce the risk of further loss of biodiversity. To measure their progress, the ranchers monitored a series of indicators, including the surface area of improved pasture, the number of trees planted that survived for 1 year, and the number of new calves per herd per year. The expectation was that, after seeing the results of the plan, the ranchers would be able to impart their knowledge to other ranchers and encourage the widespread use of the improved practices in the park. However, the overall impact of this effort has not yet been fully evaluated.
- Another grant project established management councils made up of area residents that would guide the sustainable development of their sections of the Panama Canal Watershed. These councils have several subcommittees that are focused on 5-year action plans to advance health, education, agriculture, infrastructure, and economic activities in the area through sustainable means. However, the mission has not yet evaluated the sustainability and impact of these councils.

The mission's monitoring efforts focused on the completion and achievement of tasks such as those listed above, instead of on the longer term impact of the project's activities. In its reporting, USAID/Panama and its implementing partner tracked only the number of beneficiaries using improved practices, the number of projects presented to financial institutions, and the number of councils created. To provide greater detail regarding the long-term impact of the program, we are making the following recommendation:

*Recommendation 4: We recommend that USAID/Panama complete an independent technical evaluation of the Conservation of Biodiversity in the Panama Canal Watershed Program to assess its progress and to evaluate the potential for further activities in the watershed.*

# EVALUATION OF MANAGEMENT COMMENTS

In response to the draft report, USAID/Panama agreed to implement and has developed specific plans to address recommendation nos. 1, 2, 3, and 4.

For recommendation 1, the mission stated that it will develop a new performance management plan (PMP) before the end of the first quarter of fiscal year (FY) 2011 that will take into account the recommendations of this audit.

For recommendation 2, the mission stated that it would develop a monitoring plan with the implementing partner to include indicators that assess the progress toward the program's overall goals and objectives. This plan will be developed in the second quarter of FY 2011.

For recommendation 3, USAID/Panama indicated that additional indicators will be included in an updated data quality assessment to be conducted once a new PMP is completed before the end of the first quarter of FY 2011 as part of the new mission strategy.

Finally, for recommendation 4, USAID/Panama stated that funds have been allocated for an external technical evaluation of the environmental activities, and that the evaluation will be completed by the end of FY10.

Based on these proposed actions and the stated timelines, we conclude that management decisions have been reached on all recommendations.

With regard to our finding that the mission had overstated the number of persons trained, USAID/Panama noted that the project's training activities were designed using a continuous training approach to ensure that individuals received a series of technical and administrative trainings. Therefore, in their view, it was appropriate to count and report the total attendance at all training sessions and not report the number of individuals receiving training (some of whom would attend multiple training sessions). However, in our view, the total number of individuals receiving training is an important indicator of the breadth of the training program. In response to the mission's comments, we have amended the text to better clarify this concern.

Mission comments in their entirety are presented in appendix II.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to determine whether USAID/Panama's environment activities have achieved their main goals.

In planning and performing the audit, we assessed the mission's controls related to its environmental program. The management controls identified included the mission performance management plan (PMP), mission data quality assessments, site visit reports by the contracting officer's technical representative (COTR), program progress reports, and e-mails and memos that documented decisions reached between mission staff and program implementers.

The audit covered the environment program's activities under the mission's economic growth program element, "Natural Resources and Biodiversity." The audit was conducted in Panama City and other communities located in the Panama Canal Watershed, from March 8 to March 26, 2010. Our audit focused on environment program activities performed under the 3-year contract and 1-year extension with the joint venture of International Resources Group and Tetra Tech, implemented from December 2006 to November 2010. As of December 31, 2009, USAID/Panama's environment program had fully obligated the nearly \$7.7 million dedicated to the Conversation of Biodiversity in the Panama Canal Watershed program. The audit scope included the total expenditures of USAID/Panama's environmental activities of more than \$6.1 million, as of December 31, 2009.

## Methodology

To answer the audit objective, we met with personnel from USAID/Panama and the implementing partner. We reviewed relevant documentation produced by USAID/Panama, such as the environment program's PMP, the operational plan, and award documents. We also reviewed partner-prepared documentation such as annual work plans, quarterly progress reports, and results-tracking reports.

To assess whether results were achieved, we considered the milestones set by the implementing partner in annual work plans, the performance indicators included in the project's monitoring plan and in the contract, and the results expected from the small grants program. We tested a judgmental sample of milestones and performance indicators under each program component and of small grant projects. We verified the program's reported progress during site visits and interviews with contractor staff and beneficiaries. We validated the cumulative reported results for the first phase of the CBC program, as of December 31, 2009, comparing mission- and contractor-reported

results with the records maintained at the implementing partner's office. Through verification, we determined the progress of each component and the general accuracy of the reported results.

We also determined what monitoring was done by the COTR and USAID/Panama by reviewing site visit reports and data quality assessments and interviewing officials of USAID/Panama and the implementing partner. To determine the impact of USAID/Panama's environment program, we interviewed officials from USAID/Panama, the implementing partner, beneficiaries, and the Government of Panama.

# MANAGEMENT COMMENTS

## MEMORANDUM

To: Acting Regional Inspector General/San Salvador, Jon Chasson

From: Stephanie Acosta-Mikulasek, USAID/Panama, Acting Mission Director

Date: July 2, 2010

Ref: Responses to the OIG Audit of USAID/Panama's Environmental Activities

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The following are USAID/Panama responses to the OIG's audit recommendations for the Conservation of Biodiversity in the Panama Canal Watershed activity.

USAID/Panama thanks the audit team for their efforts and agrees with the overall recommendations of the audit. However, we would like to present additional information on some of the specific findings of the OIG team regarding recommendations 1, 2 and 3.

The activity being audited was simultaneously and directly supporting three distinct objectives under regional, bilateral and biodiversity strategies. This activity was expected to contribute to the achievement of the Intermediate Result No. 4 "Improved Management and Conservation of Critical Watersheds" in the CAM Regional Strategy. The four Second-Level Regional Intermediate Results necessary to achieve the Regional Strategic Objective to be supported by this activity were: 4.1) Improved end-use management of critical watersheds, 4.2) Increased market access for environmentally-friendly products and services, 4.3) Increased harmonization and enforcement of environmental laws and regulations, and 4.4) Increased use of clean production technologies. This activity was implemented with funding from a congressional biodiversity earmark, which defined the type of activities that could be implemented within a regional framework.

Although funding came from the biodiversity earmark, there is a direct correlation between biodiversity conservation and sustainable land-use and improved water quality. USAID/Panama focused its investments on mitigating key threats currently facing ecosystems in the Panama Canal Watershed in order to maintain the hydrological functioning of the system, protect biodiversity, and enhance development objectives. The activity was specifically targeted to reduce illegal and unsustainable land-uses and improve protected areas management vis-à-vis greater local participation in watershed decision-making.

The activity's approach addressed both improved water quality and biodiversity conservation based on a hypothesis that people degrade natural resources when they have no alternative income to sustain them. When presented with options that are economically and environmentally viable, behavior can change toward protecting the

environment. Environmentally-friendly businesses and sustainable economic activities generate employment and incomes to the inhabitants of the target sub-watersheds. Through this process, beneficiaries increasingly recognize the value of biodiversity and natural resources as “commodities” to protect, and gain an improved knowledge of their environment. This process is part of a well-known equation related to sustainable use and conservation of biodiversity.

With the Conservation of Biodiversity in the Panama Canal Watershed activity, USAID laid the foundation for addressing water quality issues; unsustainable land-use; improved communication between watershed residents and authorities; and, new sustainable economic activities that with support from the Government of Panama and other donors, can be continued and expanded after the activity is completed. For example, the Panama Canal Authority (ACP for its acronym in Spanish) has established an environmental incentive program in other sub-watersheds modeled on a scheme proposed under this activity. The ACP has also embraced the concept of watershed management councils implemented by USAID, and will continue to support strengthening existing and establishing new councils.

#### Findings and Recommendations

#### **FINDING 1: Field Activities Do Not Correlate Well with High level Program Indicators**

Recommendation 1. We recommend that USAID/Panama should develop high-level performance indicators that demonstrate that program results are clearly attributable to USAID efforts.

USAID/Panama agrees with this recommendation. When the activity was in design, Washington requested missions to select high level indicators from the Agency’s environmental common indicators that best applied to the type of activity implemented. USAID/Panama agrees that additional and tailored program level indicators should have been identified to better show the links between activities on the ground and other indicators selected to demonstrate that program results are clearly attributable to USAID efforts. The Mission will develop a new PMP before the end of the first quarter of FY 2011 and the recommendations of this audit will be taken into consideration during this process.

We would like to clarify some findings regarding the different indicators of our PMP:

- **Water quality in Target sites in the Panama Canal Watershed.** *“Although there was limited improvement in this index [Water Quality Index], the CBC program was not directly working to improve the water quality in these areas. Instead, the CBC program focused on the generation of environmentally friendly economic opportunities and the promotion of environmentally-conscious best practices in agriculture and other areas..... The reach of the CBC program among residents of the Panama Canal watershed is too limited to provide a direct link to claim any influence on the improved water quality.”*



USAID/Panama agrees with this recommendation, but would like to make some comments. The water quality indicator was identified as a robust source of information for assessing the overall health of the Panama Canal Watershed. This indicator is monitored by the ACP, and data becomes available after a three year lag.

The OIG acknowledges that human activity contributes to poor water quality and environmental degradation. To improve water quality, interventions must address those activities causing pollution, unsustainable economic endeavors and poor agricultural practices. Noting the rural nature of the targeted sub-watersheds, watershed management and biodiversity conservation are tools and mechanisms to improve water quality.

USAID/Panama recognizes other interventions contribute to the level of water quality in the Panama Canal Watershed, which are outside the control of USAID. Given the costs and scope of the interventions needed to have more control on water quality vs. the communities where USAID/Panama conducts programs, USAID/Panama had decided to drop this indicator from the PMP.

- Park Management Index.** For the purposes of USAID/Panama's performance reporting, *"the Park Management Index is a composite of 5 of the 37 indicators. However, 2 of the 5 indicators 5 selected to be tracked by USAID/Panama, (1) the acquisition and use of equipment necessary for the management of protected areas, and (2) the adequate staffing of protected areas, cannot be influenced by the program's activities. According to implementing partner officials, ANAM is the only entity responsible for providing equipment and adequate staffing for each national park. Furthermore, due to the CBC program's lack of influence over these two indicators, implementing partner officials acknowledged that, despite their efforts, the program may not meet its target for this performance indicator for the second phase of the program. Therefore, the Park Management Index does not effectively measure the program's progress."*

USAID/Panama partially agrees with the finding regarding the Parks Management Index. While two of the indicators were not under USAID control, three of the five indicators were impacted by USAID's interventions in both parks as shown through annual exercises by Panama's National Environmental Authority (ANAM for its acronym in Spanish) to monitor the park management index. These exercises are conducted by external stakeholders who base their ratings on evidence provided by the park administration and their direct interaction with the protected area. Summarily, we believe the Park Management Index was partially effective in measuring the program's progress.

- Park Revenues Increased.** The OIG commented that, *"the CBC program's limited tourism promotion activities would not be able to account for the increased visitors. Furthermore, the collection of additional revenue does not translate into the improved management of the parks."*

Regarding this finding, the new revenue collection system established by the project has been one significant reason why the parks have collected higher fees. The parks now have a fee collection system to capture more revenues, which has also been enhanced by better administration of park entrances. All revenue collected is placed in ANAM's

Wildlife Fund, which is reinvested exclusively for the improvement of park management, including the two targeted protected areas under the project. It should also be noted that at the time when the activity was designed, ANAM was working on a policy within the Wildlife Fund to reinvest a higher percentage of the funds collected in the same protected areas that had generated the revenues. This change in ANAM's policy did not go through as planned according to Implementation Letter No. 8 signed with the GOP in 2008. This indicator provided information on revenues segregated by source and activity not only to USAID but ANAM to better identify additional investments in the protected areas.

## **FINDING 2: Reported Results Are Not Useful for Program Management**

*Recommendation 2. We recommend that USAID/Panama work with its implementing partner to develop a monitoring plan that includes indicators that will assess the progress toward the program's overall goals and objectives.*

USAID/Panama agrees with the recommendation that "number of grants implemented" was not a good indicator to measure impact. USAID/Panama decided to use this indicator to monitor the Task Order, given that grant activities were not identified at the time of the procurement (it required additional assessments and work on the ground in the communities) and impact indicators were not possible to identify. In future activities, USAID will develop a monitoring plan with the implementing partner to include indicators that assess the progress toward the program's overall goals and objectives. Below are comments on the findings of the OIG team regarding specific grant activities:

**Apiculture grant.** The program provided two grants to promote apiculture (i.e., beekeeping) and honey production. For the apiculture grant, the last sentence of the paragraph states: *"However, these projects has also hoped to establish several apiary schools or training centers, a distribution Center, and banking partnerships. As of the close of the grant, these extra tasks had not been completed."*

USAID/Panama believes these extra tasks have been completed. (1) The apiary training centers were established and all training was conducted at "training apiaries". The training was a "learning-by-doing" program, at which each beekeeper established his/her hives and initiated the production cycle at the training centers. When the beehives were deemed healthy and producing honey, each participant took his/her beehive to their farms and the centers were dismantled. (2) The banking partnerships have been established. The Panamanian Agricultural Development Bank (BDA for its acronym in Spanish) has officially opened a new line of credit for beekeepers and apiaries. We expect for the upcoming honey *production* season, a number of beekeepers will take advantage of this credit line. (3) A processing and distribution center was planned and has now been opened; only in the 2010 season was honey production of sufficient quantity to allow for a centralized honey processing and distribution center to be established. Moving forward, we will better document how we are meeting the various tasks under this activity.

- **Biodiversity monitoring in Chagres National Park.** The OIG team stated that *"However, beneficiaries from two community groups stated that although they still occasionally continue to monitor the wildlife in the park, they have not submitted their information to the park's administration since June 2009, the end of the*

*grant project. Furthermore, these groups could not provide evidence that any monitoring forms had been completed since June 2009.”*

USAID/Panama agrees with the OIG’s finding and has been working to address this challenge. Unfortunately, the protected areas under the current GOP Administration were severely weakened, including a drastic reduction of personnel. USAID’s monitoring activity required continued support from the park staff. To address this challenge, USAID extended the Task Order and has recommended the monitoring activity be assumed by other initiatives. As part of the Strategic Plan of the Fund Chagres, a debt-for-nature swap (2010-2017), USAID/Panama and other members of the Board recently formulated and approved a six-year funding plan to support the monitoring of biodiversity in the Chagres Park. These funds also will strengthen the information system implemented in the parks and the monitoring of biodiversity activities.

- **Sustainable Farm Plans.** The OIG stated that *“Although the projects were completed and presented to financial institutions, none of the projects were deemed eligible for credit.”*

This conclusion is incorrect; all projects were submitted for commercial financing and were under review when the audit was undertaken. The process for the formulation and presentation of the loan projects was completed as planned. The agility of the disbursement process and the negotiation between the ranchers and the bank are beyond the scope of this activity. Our indicator was *“Number of bankable sustainable cattle ranching production projects in the target sub-watersheds presented to credit provider”* and this indicator was completed. The farmers are continuing with the long process. None of the projects have been rejected to date. Two were approved. We recommend that this comment be removed from the report.

- **Duplicate names in training course rosters** – *The OIG states that: “Also, the attendance lists for each training session were not reviewed by implementing partner officials in order to identify and to remove any duplicate names appearing on the rosters.”*

The project’s training activities were designed using a continuous training approach to ensure that individuals received a series of technical and administrative training in all aspects of improved natural resources management and small enterprise development and administration. We therefore do not see duplicate names as an issue of quality control, but rather the attendance lists reflected the training of individuals in differing aspects of the program. We did not find that within a specific course any individual signed the attendance list twice. We recommend that this finding be modified.

**Recommendation 3.** *We recommend that USAID/Panama complete data quality assessments for all performance indicators three years prior to their submission to Washington, as required by Automated Directives System 203.3.5.2*

Regarding the OIG’s second recommendation on the data quality assessment, USAID/Panama agrees with this recommendation to include additional indicators in the data quality assessment. USAID/Panama conducted its last DQA within the previous 3 years, but it did not cover all indicators reported in the PMP. Some additional indicators were requested by Washington after our official PMP was prepared. Our next DQA is

due this coming July. However, because the development of our 5-year strategy has been postponed to FY2011, we will request that our DQA be conducted once a new PMP is completed as part of the new strategy.

### **Finding 3: An Evaluation is Needed to Determine Program Impact**

**Recommendation 4.** *We recommend that USAID/Panama complete an independent, technical evaluation of the Conservation of Biodiversity in the Panama Canal watershed program to assess its progress and to evaluate the potential for further activities in the watershed.*

USAID/Panama agrees with the recommendation and believes that many of the recommendations and findings of the OIG team may be summarized by this recommendation. Last year, USAID allocated funds for an external technical evaluation of this activity. The evaluation is in procurement phase and will be completed by the end of FY10.

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