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**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/BOLIVIA'S  
ECONOMIC OPPORTUNITIES  
PROGRAM**

AUDIT REPORT NO. 1-511-08-002-P  
FEBRUARY 29, 2008

**SAN SALVADOR, EL SALVADOR**



**USAID**  
FROM THE AMERICAN PEOPLE  
*Office of Inspector General*

February 29, 2008

**MEMORANDUM**

**TO:** USAID/Bolivia Mission Director, Michael Yates

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

**SUBJECT:** Audit of USAID/Bolivia's Economic Opportunities Program (Report No. 1-511-08-002-P)

This memorandum transmits our report on the subject audit. In finalizing the report, we carefully considered USAID/Bolivia's comments on the draft report and have made changes to the report narrative and recommendations as appropriate.

This report includes nine recommendations for USAID/Bolivia's action. Management decisions have been reached for Recommendation Nos. 1, 3, 5, 7, and 8, and final action has been taken on Recommendation No. 3. M/CFO/APC will record final action on the other recommendations when planned actions have been completed.

Management decisions on Recommendation Nos. 2, 4, 6, and 9 be recorded when we have agreed with USAID/Bolivia on action plans and timeframes for implementing the recommendations. Please advise my office within 30 days of any further actions planned or taken to reach management decisions on these recommendations.

I appreciate the cooperation and courtesy extended to my staff throughout the audit, and I hope that this final audit report will be helpful to USAID/Bolivia in managing its economic opportunities program.

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# SUMMARY OF RESULTS

The overall objective of USAID/Bolivia's economic opportunities program is to increase the incomes of Bolivia's poor. The program includes four program elements: financial services, agricultural sector productivity, trade and investment capacity, and economic sustainability in food-insecure areas (page 4).

The Regional Inspector General/San Salvador performed an audit of USAID/Bolivia's economic opportunities program to answer the following questions (page 5):

- Did USAID/Bolivia's economic opportunities activities achieve planned results and what has been the impact?
- Did USAID/Bolivia's reporting on its economic opportunities activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

In FY 2007, USAID/Bolivia's economic opportunities activities achieved planned results with respect to 11 of 17 performance targets reviewed. However, actual results fell short of targets for commodity chains established or improved in the valleys region, production units receiving technological services in the altiplano region, number of new jobs created in nontraditional export industries, and the number of people trained under the trade and investment capacity program element. Also, the information that was reported for the average annual income of rural households receiving assistance in the valleys and altiplano regions was not comparable to established targets, so we could not evaluate progress against these two targets. Finally, for the number of commodity chains established or improved and the number of production units receiving technological services in the altiplano region, USAID's contractor was not able to provide documentation supporting the reported results, so we were not able to verify whether planned results were achieved for these performance indicators. Notwithstanding these exceptions, the results achieved under the program are significant given the size of the program and the difficult country environment in which it is implemented. These results are due in large part to selection of highly qualified contractors and recipients and active management and monitoring by USAID/Bolivia staff (page 6). Nonetheless, the economic opportunities strategy needs to be revised since the current strategy's assumptions have been overtaken by events. At the same time, there is an opportunity to refocus the strategy on achieving significant, national-level change: that is, on transformational development (page 11). There may also be opportunities to increase the effectiveness of the Market Access and Poverty Alleviation project by reengineering project activities and realigning project activities and targets (page 15). Finally, there is an opportunity to increase employment and training impacts and more formally replicate successes achieved through firm-level assistance (page 16).

While USAID/Bolivia staff approached their reporting responsibilities conscientiously, the mission's reporting on the economic opportunities program was not complete or accurate. In several cases, targets under the economic opportunities program were not defined precisely, were unrealistic, or were not consistent with targets defined by contractors. Also, in several cases, information on actual results was inaccurate or incomplete (page 18).

This report recommends that USAID/Bolivia:

- Reassess the strategy for the economic opportunities program to reflect current conditions (page 14).
- Expand opportunities within its current program to educate the public about economic issues and support the policymaking process (page 14).
- Adjust activities and performance targets under the Market Access and Poverty Alleviation to reflect the loss of foundation funding at the end of 2007 (page 16).
- Take steps to increase the employment impact of the trade and investment capacity program element and implement more formal means of replicating successes (page 18).
- Ensure that partner performance targets for the trade and investment capacity program element are consistent with the performance targets in the mission's performance management plan (page 21).
- In its performance management plan, correctly define the performance indicators for the "average annual income for rural households" and "number of new (full-time equivalent/permanent) jobs generated in non-traditional export" performance indicators (page 21).
- Report on all of its performance management plan performance indicators for the economic opportunities program in the next operational plan results report (page 21).
- Include narrative information in its next operational plan results report that conveys a complete and accurate picture of the economic opportunities program results (page 21).
- Revise its controls over performance planning and reporting to provide reasonable assurance that targets are correctly defined and set at appropriate levels and that reported results are complete and accurate (page 22).

USAID/Bolivia was in general agreement with most of the report recommendations, although it suggested changes to some of the recommendations. Management decisions have been reached on five of the recommendations and management decisions can be reached on the other four recommendations when we and USAID/Bolivia agree on firm plans of action and timeframes for implementing the recommendations. Our evaluation of USAID/Bolivia's comments is provided following each finding in the report, and USAID/Bolivia's comments in their entirety are reproduced in appendix 2 (page 26).

# BACKGROUND

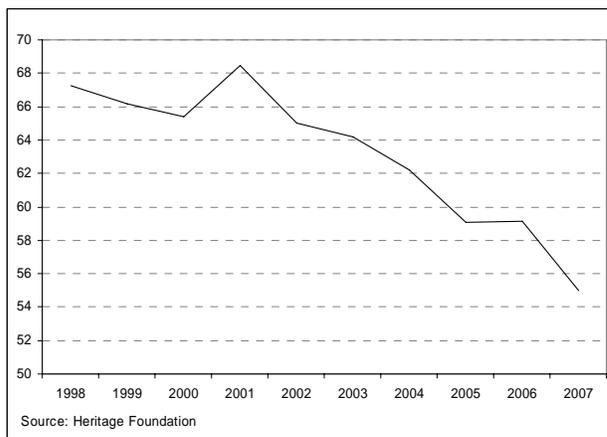
Bolivia is a poor, landlocked country with a high level of social conflict. The country has considerable natural resources, including natural gas, minerals, and agricultural resources. On the other hand, it is divided by numerous natural barriers, and the road network is poorly developed. With a population of 9.1 million (June 2007 estimate) and a per capita income of \$3,100 (2006, purchasing power parity basis), the domestic market is small.

After five years of flat or negative real per capita gross domestic product (GDP) growth from 1999 through 2003, real per capita GDP improved 1.9 percent in 2004, 1.8 percent in 2005, and 2.5 percent in 2006, in large part due to strong international commodity prices and especially hydrocarbon prices.

The majority of the population is of indigenous ancestry, and the country has three official languages: Spanish, Quechua, and Aymara. According to a 2002 study commissioned by USAID/Bolivia, Bolivia's most important problems are poverty and social exclusion.<sup>1</sup> Bolivia's stratified social structure and highly unequal distribution of income are paralleled by pronounced differences in urban and rural poverty rates. In urban areas, 51 percent of the population is below the national poverty line. In rural areas, where about 35 percent of the population lives, the poverty rate rises to 82 percent.

Political instability has been a recurring theme in Bolivia's development, and the country has had five presidents since August 2001. Current President Evo Morales, elected in December 2005, is committed to a state-led economic model. According to USAID/Bolivia, instability over the past decade has led to years of weak private investment, and the business environment, as measured by the Heritage Foundation's Index of Economic Freedom, is now the second worst in Latin America after Venezuela. Figure 1 shows the evolution of this index for Bolivia over the last 10 years.

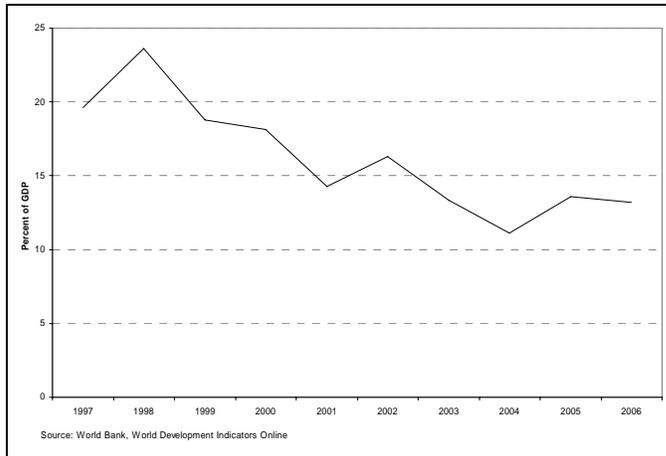
Figure 1. Index of Economic Freedom for Bolivia, 1998 – 2007



<sup>1</sup> Tironi Asociados Bolivia, "Analysis of the Trade and Business Environment in Bolivia."

As a consequence of the deterioration of the business environment, gross fixed capital formation (a measure of investment) fell to 13.2 percent of GDP in 2006, the lowest level of any country in Latin America (Figure 2).

Figure 2. Bolivia Gross Fixed Capital Formation, 1997 – 2006



The overall objective of the USAID/Bolivia's economic opportunities program, which began in September 2005, is to increase the incomes of Bolivia's poor. The program includes four program elements:

- Financial Services – Under this program element, the World Council of Credit Unions, financed through a \$2.4 million, three-year cooperative agreement ending in September 2009, works to expand financial service points in underserved areas, introduce new financial products and services, engage in dialogue with financial institutions and the government on policy issues, provide training to financial institutions and their clients, and undertake economic policy analysis.
- Agricultural Sector Productivity – This program element is implemented by three organizations: the Center for the Promotion of Sustainable Technologies under a \$638,702, four-year cooperative agreement that supports a global development alliance and ends in September 2010, Chemonics International, under a \$9.4 million, five-year contract for the Market Access and Poverty Alleviation (MAPA 2) project that ends in September 2010, and the *Fundación para el Desarrollo Tecnológico Agropecuario-Valles* (FTDA-Valles), under a \$1 million, five-year cooperative agreement that ends in November 2010. The activities carried out by each entity are summarized below:
  - The Center for the Promotion of Sustainable Technologies and its alliance partners are undertaking activities to grow and process organic certified quinoa (a protein-rich, gluten-free grain) on an industrial scale.
  - Chemonics and FTDA-Valles work closely together to provide technical assistance and marketing services to farmer associations and strengthen local institutions. The approach focuses on developing commodity chains – that is, strategic alliances between producers, marketers, and others who add value to agricultural products.

- Trade and Investment Capacity – This program element is implemented by Chemonics International under a \$12.2 million, four-year contract for the Bolivian Trade and Business Competitiveness (BTBC 2) project ending in May 2009. Chemonics hires consultants who provide business advice and technical assistance to firms involved in nontraditional exports, mainly in the textile/apparel and wood sectors. Chemonics also operates two regional offices that identify and develop market opportunities and assist small and medium enterprises in production, management, and marketing. Chemonics provides training to the private and public sector and supports dialogue between the private and public sectors, advocacy, and public outreach activities. Finally, Chemonics facilitates access of small and medium enterprises to credit.
- Public Law (PL) 480 Title II/Economic Sustainability in Food Insecure Areas – USAID provides PL 480 Title II food commodities and Section 202 (e) grant funds to four cooperating sponsors (the Adventist Development and Relief Agency, CARE International, Food for the Hungry International, and Save the Children) to help carry out activities that increase rural incomes by providing infrastructure (roads, irrigation systems, silos, etc.) technical assistance, and marketing services. Activities to increase rural incomes are provided in an integrated fashion with maternal and child health and environmental activities, but only the rural income activities are part of USAID/Bolivia’s economic opportunities program which is the subject of this audit. The estimated amount of food and grant resources devoted to rural income activities by the four cooperating sponsors is \$6 million per year. The rural income activities will end in December 2008 (December 2007 for CARE).

During the first two years of the program, as of September 30, 2007, \$18.3 million had been obligated and \$10.6 million had been expended, in addition to an estimated \$12.0 million in PL 480 Title II commodities distributed and Section 202 (e) grant funds expended. Thus, total expenditures during the first two years of the program were approximately \$22.6 million.

## **Audit Objectives**

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed an audit of USAID/Bolivia’s economic opportunities program to answer the following questions:

- Did USAID/Bolivia’s economic opportunities activities achieve planned results and what has been the impact?
- Did USAID/Bolivia’s reporting on its economic opportunities activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

The audit scope and methodology are presented in appendix I.

# AUDIT FINDINGS

## Did USAID/Bolivia’s economic opportunities activities achieve planned results and what has been the impact?

In FY 2007, USAID/Bolivia’s economic opportunities activities achieved planned results with respect to 11 of 17 performance targets reviewed. However, actual results fell short of targets for commodity chains established or improved in the valleys region, production units receiving technological services in the altiplano region, number of new jobs created in nontraditional export industries, and the number of people trained under the trade and investment capacity program element. Also, the information that was reported for the average annual income of rural households receiving assistance in the valleys and altiplano regions was not comparable to the established targets, so we could not evaluate progress against these two targets. (In FY 2006, a similar level of performance was achieved. The following sections provide details.)

Notwithstanding the exceptions mentioned above, we believe that the results achieved under the program are significant given the size of the program and the difficult country environment in which it is implemented. These results are due in large part to selection of highly qualified contractors and recipients and active management and monitoring by USAID/Bolivia staff. However, there are opportunities to increase the program’s impact by revising the program strategy, reengineering activities under the Market Access and Poverty Alleviation (MAPA 2) project, and increasing the performance of the Bolivian Trade and Business Competitiveness (BTBC 2) program with respect to training, employment creation, and replication of successful innovations.

The following narrative describes some of the program’s accomplishments, and the sections beginning on page 11 describe opportunities to increase the program’s impact.

**Overall Economic Opportunities Program** – USAID/Bolivia used the increase in agricultural incomes of rural households participating in the MAPA 2 project as its performance indicator for the overall economic opportunities program. However, the information reported by USAID/Bolivia’s contractor for this performance indicator did not correspond to the established targets (a related finding begins on page 18).

Table 1. USAID/Bolivia’s Agricultural Income Increases for Participants in the MAPA 2 Program

Indicator	FY 2006		FY 2007	
	Target	Achieved	Target	Achieved
Average annual income increase for rural households – valleys	5%	Not available*	5%	Not available*
Average annual income increase for rural households - altiplano	5%	Not available*	5%	Not available*
* Neither USAID/Bolivia nor its contractor reported results that were comparable to these performance targets.				

**Financial Services** – As shown in the following table, in FY 2007 USAID/Bolivia achieved its planned result to open two new points of financial services in rural or previously unattended areas.

Table 2. Planned and Actual Results for Increased Access to Financial Services in Previously Unattended Areas

Indicator	FY 2006		FY 2007	
	Target	Achieved	Target	Achieved
Number of new points of service opened in previously unattended areas established with US Government assistance	N/A	N/A	2	2

The two new service points opened in FY 2007 provide savings, credit, and other financial services to previously underserved clientele in the cities of Mercado Los Pocitos and Mercado Ferretero in the eastern department of Santa Cruz. As of December 3, 2007, these two financial institutions had processed more than 2,800 savings transactions and more than 930 credit transactions.

USAID/Bolivia and the World Council of Credit Unions work with 19 of the country's 23 regulated credit unions. Within these credit unions, 67 points of service in 7 departments have been integrated with the World Council of Credit Unions' ServiRed system, which is designed to facilitate shared branching, national money transfers, and international remittances services. As of September 2007, ServiRed officials estimate that they have processed 9,000 transactions. In FY 2008, to further increase access to financial services, USAID/Bolivia and the World Council of Credit Unions will begin deploying 80 ATM machines that will use the ServiRed system.

**Agricultural Sector Productivity** – With USAID assistance, the quinoa alliance led by the Center for the Promotion of Sustainable Technologies has installed second-generation processing equipment in five factories (three were operational as of September 2007). Investigations of more efficient, environmentally sustainable quinoa production practices at the farm level are underway.

Under the MAPA 2 project, activities in the altiplano have lagged because the foundation that USAID/Bolivia planned to work with has limited capabilities and is dependent on other sources of operating funds which will soon cease entirely. In FY 2007, the number of commodity chains established or improved in the valleys region fell short of the target. According to USAID/Bolivia, it preferred to focus on current activities rather than expanding the number of commodity chains further since the *Fundación para el Desarrollo Tecnológico Agropecuario-Valles* (FDTA-Valles) was losing funding from other donors in FY 2007. Nonetheless, Table 3 shows significant accomplishments under the MAPA 2 project in both FY 2006 and FY 2007.

Table 3. Planned and Actual Results for Agricultural Sector Productivity

Indicator	FY 2006		FY 2007	
	Target	Achieved	Target	Achieved
Commodity chains established or	8	8	6	3

Indicator	FY 2006		FY 2007	
	Target	Achieved	Target	Achieved
improved – valleys				
Commodity chains established or improved – altiplano	0	0	1	3*
Production units receiving technological services – valleys	4,000	14,302	4,000	6,152
Production units receiving technological services - altiplano	1,000	235*	1,000	332*

\* These are the results reported by USAID/Bolivia’s contractor. As discussed in the finding beginning on page 18, the contractor for this activity could not provide documentation to substantiate these results. Nonetheless, based on our own observations during field visits, we concluded that the target for commodity chains in the altiplano was met in FY 2007 and that the target for production units receiving services was not met in either FY 2006 or FY 2007.

In addition to the performance indicators above, which appeared in USAID/Bolivia’s performance management plan, FDTA-Valles reported that the adoption rate for new agricultural technologies introduced under the program in FY 2007 was 69 percent.

During visits to several MAPA 2 projects, beneficiaries indicated that USAID/Bolivia’s assistance has made a significant difference in their incomes and future prospects. One of the project’s first and most successful interventions has been the introduction of organic sweet onions. Currently, Bolivia is the world’s sole producer and exporter of this crop. Farmers growing organic sweet onions near Oruro said, “We used to have the worst village in the municipality; now we have the best.” Beneficiaries participating in a cut flower activity in Quillacollo stated that they have achieved a marked improvement in the quality of their production. Although they had long been involved with the cut flower business, their flowers can now compete with those of larger companies in terms of quality. Near Tarija, farmers have seen their incomes increase by an estimated 20 to 25 percent with the introduction of berries (e.g., blackberries and raspberries) that have a strong demand on both the local and international markets.



Berries grown by MAPA 2 beneficiaries. Photo taken December 6, 2007, by an OIG auditor.

**Trade and Investment Capacity** – Table 4 shows that the BTBC 2 project achieved targets for exports and the number of small and medium enterprises participating in value chains, but did not meet targets for training or jobs created.

Table 4. Planned and Actual Results for Trade and Investment Capacity

Indicator	FY 2006		FY 2007	
	Target	Achieved	Target	Achieved
Total value of exports directly attributable to direct U.S. Government (USG) assistance to firms to increase exports (millions of U.S. dollars)	5.5	11	5.5	11.6
Number of new (full-time equivalent/permanent) jobs generated in nontraditional export	1,979	1,080	3,601	1,241
Number of people trained	3,562	2,659	6,213	2,982
Number of small and medium-sized enterprises (SMEs) participating in value-added chains	83	174	118	279



Construction of containers for liquefied natural gas, Santa Cruz, Bolivia. Photo provided by the beneficiary.

The BTBC 2 project has provided much-needed technical assistance to small and medium enterprises not only in the textile and wood sectors, which were identified as priority sectors, but also in other sectors, such as production of brake pads and highly engineered steel containers for delivering liquefied gas. Beneficiaries stated that their revenues and income have increased substantially due to BTBC 2 assistance and that competitors who did not receive assistance from USAID have tried to replicate their successes. This is clearly reflected in the number of businesses participating in value-added chains. Some entrepreneurs have also been assisted in obtaining credit to meet working capital needs.

However, as discussed in the section beginning on page 16, actions are needed to increase the employment and training impact of the project and more formally replicate successful innovations.

**PL 480 Title II/Economic Sustainability in Food Insecure Areas** – In FY 2007, the PL 480 program met all of the performance targets that were included in the operational plan (see Table 5).

Table 5. Planned and Actual Results for Economic Sustainability in Food Insecure Areas

Indicator	FY 2007	
	Target	Achieved
Number of additional hectares under improved technologies or management practices as a result of USG assistance	118	262
Number of rural households benefiting directly from USG interventions	10,820	12,292
Number of producer associations, water user associations, and trade and business associations assisted as a result of USG assistance	26	35
Number of individuals who have received short-term agricultural sector productivity training with USG assistance	9,192	12,364
Men	5,396	7,109
Women	3,796	5,255

The PL 480 program is notable for its integrated approach (combining maternal and child health, income generation, and environmental activities) and its focus on areas of extreme poverty. Interventions under the PL 480 Title II program have helped increase incomes through introduction of new crops, higher yields from improved horticultural practices and post-harvest practices, and improved access to markets. CARE reported an increase in participant households' gross agricultural incomes of \$441 in FY 2007, Food for the Hungry International reported an increase of \$232, and Save the Children reported an increase of \$431 (the Adventist Development and Relief Agency did not report on this performance indicator).

One example of a successful intervention is the introduction of maca (a highly nutritious root crop) by Food for the Hungry International to former potato and quinoa growers in the altiplano community of Challa Grande. After receiving technical assistance on the planting, harvesting, and processing of the crop, beneficiaries have participated in fairs and have made contacts that will help them sell maca in larger quantities. As another example, beneficiaries in the community of Kusilliri received a micro-irrigation system through Food for the Hungry International. The community currently has 2.5 hectares of land under irrigation, where beneficiaries are growing potatoes, alfalfa, and fava beans. Previously, local farmers could harvest only one crop per year but, with irrigation, two crops per year are possible. As another example, in the community of Tenería, a participant in a peach activity implemented by the Save the Children, who had attended classes on safe use of pesticides and herbicides, described the changes in outlook and attitudes that accompany success in a new activity: "Instead of using the rustic

techniques our fathers used, we are learning and growing.” A project implemented by CARE in the community of Tucumiya has increased the harvesting of potato seeds from one to three times per year. Another CARE project in Tarija helped the farmer association APROMAIS to improve its production and marketing practices. Association members were receiving \$11 per 25 pounds of chamomile, but, with CARE’s assistance, are now receiving \$28 per 25 pounds (using an exchange rate of 7.57 Bolivianos to \$1.00).

## **Economic Opportunities Strategy Needs to Be Reassessed**

Summary: The strategic plan for the economic opportunities program prepared in February 2005 incorporates two critical assumptions that have now been overtaken by events: that the Government of Bolivia (GOB) retains its authority and social unrest does not degenerate into violent conflict, and that the GOB remains committed to free trade and investment. USAID/Bolivia has not revised its strategy because it believes that the assumptions are still valid. As a result, the valuable microeconomic results of the economic opportunities program are at risk of being overshadowed by unfavorable developments in the macroeconomic and business environment. A related issue is that USAID/Bolivia’s economic opportunities program focuses on firm-level and to a lesser degree on sector-level assistance that is not likely to result in transformational development during any reasonably foreseeable timeframe.

**Critical Assumptions** – When critical assumptions underlying a development strategy lose their validity or are in danger of losing validity due to changed circumstances, the strategy may need to be revised.

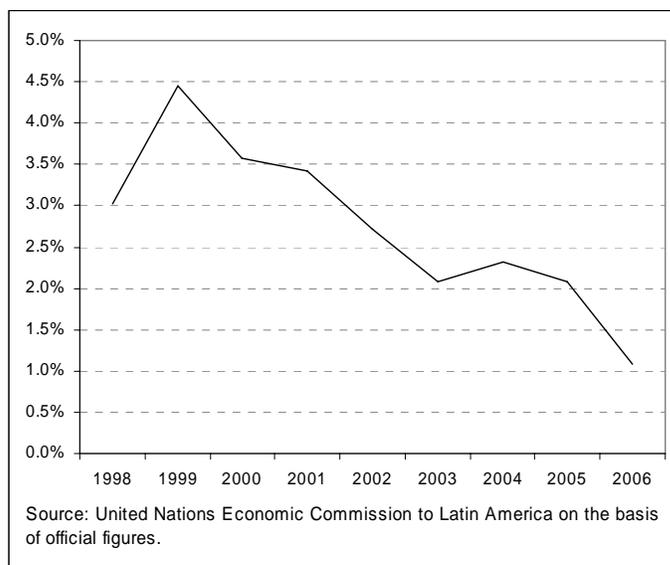
USAID/Bolivia’s FY 2005 – FY 2009 strategic plan for the economic opportunities program, prepared in February 2005, cites two critical assumptions that might prudently be reassessed at this juncture:

1. The GOB retains its authority and social unrest does not degenerate into violent conflict.
2. The GOB maintains its commitment to free trade and foreign investment.

The first assumption is still valid, in our judgment, but developments since the strategy was prepared in 2005 present an increased risk that the assumption may lose its validity. There is no indication that the GOB has lost its authority in the sense of having lost control over the public security apparatus, but Bolivian society is increasingly mobilized and divided along ethnic, geographical, economic, and ideological lines, all of which tend to coincide with one another. In recent weeks and months, steps to approve a new constitution through a controversial process have led to higher levels of political violence – as in Sucre, where approximately 430 people were injured and three people were killed in fighting on the weekend of November 24, 2007. Controversy over the process followed to approve the new constitution, and over certain provisions of the draft constitution, have led four eastern departments to pass statutes declaring their autonomy. These developments raise the possibility of a higher level of violent conflict and make it prudent for USAID/Bolivia to examine the effect this would have on its strategy for the economic opportunities program.

The second assumption – that the GOB maintains its commitment to free trade and foreign investment – also needs to be reexamined. The current administration is committed to a state-led economic model in which the state is extensively involved in allocating resources and limiting private economic activity. The GOB has nationalized hydrocarbon resources and reportedly plans to nationalize the mining sector, the telecommunications sector, and other key sectors of the economy. The GOB has made the state-owned hydrocarbon company the sole authorized importer of diesel fuel and has prohibited private diesel sales over 2,000 liters, leading to widespread shortages that have harmed agriculture and other economic sectors. The GOB has also created a new development bank to lend at subsidized interest rates. In response to sharply increased inflation in 2007, the GOB has employed unorthodox policies including export restrictions and subsidies for consumption items like wheat flour, potatoes, and beef. Finally, the GOB has worked to end funding for a system of public-private agricultural foundations (see the related audit finding beginning on page 15). In 2007, the Heritage Foundation reported the steepest decline for Bolivia since the Index of Economic Freedom has been published (see page 3), and Figure 3 below illustrates a rather precipitous decline in direct foreign investment over the last several years.

Figure 3. Bolivia Net Direct Foreign Investment, 1998 – 2006 (Percent of GDP)



Given the changed circumstances described above, including the deterioration in the investment climate and declines in investment, there is a risk that the important microeconomic results being achieved by USAID/Bolivia's economic opportunities program will be overwhelmed by deterioration of the macroeconomic and policy environment in Bolivia.

In discussing these issues, USAID/Bolivia officials pointed out that the strategy has helped preserve and create new market-driven income opportunities for thousands of families and individuals. Moreover, the program has provided opportunities for numerous public events and media contacts that have led to favorable media coverage of private sector economic activities. USAID/Bolivia officials are certain that the program has helped slow the deterioration of the business environment.

Note that we are not arguing that a program with a microeconomic focus can never be successful in a country where the investment climate is deteriorating. However, achieving significant national-level change through such a microeconomic approach would require a much higher level of funding than the current level of roughly \$11 million per year.

**Transformational Development** – A related issue is that the economic opportunities program is not designed to achieve transformational development. USAID’s programming policy emphasizes the role of foreign aid in promoting transformational development.<sup>2</sup> The State-USAID foreign assistance framework categorizes countries receiving U.S. Government assistance as rebuilding, developing, transforming, or sustaining partnership countries, and the intention is 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. Transformational development involves significant national-level change.

USAID/Bolivia’s economic opportunities program focuses on firm-level and to a lesser degree on sector-level change. It includes opportunities to engage in public education on economic issues and engage GOB officials in dialogue on economic policies, but these opportunities are not a major focus of the program. Even where opportunities for dialogue exist, USAID/Bolivia and its partners have found that their access to GOB officials is limited. There is no realistic possibility that current program activities can significantly help Bolivia, currently classified as a transforming country, become a sustaining partnership country during a foreseeable timeframe.<sup>3</sup> To illustrate this point, consider that in FY 2007, under the trade and investment capacity program element, USAID assistance contributed to the creation of 1,241 new jobs in nontraditional export industries. While representing a significant program accomplishment, given the modest level of funding for USAID’s program, these new jobs have no discernable national-level impact in a country of 9.1 million people, and USAID’s positive contribution to employment and economic growth is surely dwarfed by factors that USAID/Bolivia’s economic opportunities program has little or no influence over, such as changes in enforcement of property rights.

USAID/Bolivia officials have indicated that Bolivia’s classification as a transforming country is misleading, and they believe that Bolivia is more appropriately classified as a developing country. In this case, under the State-USAID foreign assistance framework, one would expect that assistance would focus on encouraging appropriate economic policies and strengthening institutional capacity to promote broad-based economic

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<sup>2</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.

<sup>3</sup> Transforming countries meet the eligibility criteria established by the Millennium Challenge Corporation, specifically including the criterion for political rights. Sustaining partnership countries meet the preceding requirements and have also reached upper middle income status. For Bolivia, currently a low-income country, to become a sustaining partnership country, it must become an upper middle-income country.

growth.

It will be challenging to find opportunities to do so, given the very different policy orientations of our respective governments. One approach would be to place more emphasis on public advocacy activities and strengthening those within the GOB who might be more disposed to adopt sound economic policies that will support transformational development. (This strategic approach is frequently used by donors when they want to address important development constraints but host government political will to address the constraints is weak or nonexistent.) It is also important to recognize that, while the GOB at the highest levels may be hostile to the types of free-market policies advocated by USAID, and thus is unlikely to be receptive to USAID-financed policy advice, the GOB is not monolithic. For example, there is reason to believe that elements within the GOB would be receptive to assistance in the areas of improving the legal framework for economic governance (e.g., bankruptcy law, land tenure, and regulation of anticompetitive behavior), product certification, and corporate social responsibility. Use of jointly programmed host country-owned local currency (e.g., from PL 480 Title II programs) may be more acceptable to these elements of the GOB than USAID appropriated funds, particularly for policy-oriented assistance.

*Recommendation No. 1 – We recommend that USAID/Bolivia reassess the strategy for the economic opportunities program to reflect the effect that changed circumstances have had on the strategy’s critical assumptions.*

*Recommendation No. 2 – We recommend that USAID/Bolivia expand opportunities within its current program to encourage appropriate economic policies and strengthen institutional capacity to promote broad-based economic growth.*

**Evaluation of Management Comments** – In its comments on our draft report, USAID/Bolivia suggested that Recommendation No. 1 be modified to require a reassessment of the strategy rather than a revision of the strategy. The mission plans to identify a group of acknowledged experts on the Bolivian economic and political environment, who will undertake a reassessment of the critical assumptions that underpin the strategy as well as a review of program activities. The mission expects to complete the review by September 2008. Given this planned course of action, the mission is not prepared at this point to conclude that the strategy needs to be revised. We have modified the report finding and recommendation accordingly. A management decision has been reached on this recommendation.

In response to Recommendation No. 2, USAID/Bolivia stated that it is not clear whether the mission will have opportunities to expand technical assistance in support of economic policymaking. If the strategy review referred to in the previous paragraph determines that a stronger focus on economic policy support is needed, the mission is prepared to refocus its activities. In light of these considerations, the mission suggested that Recommendation No. 2 be changed from “expand opportunities” to “explore opportunities.” We believe that the economic opportunities program is unlikely to contribute significantly to transformational development without a stronger focus on encouraging appropriate economic policies, so we have retained the original wording of the recommendation. If, however, the strategy review reaches a different conclusion, we would be willing to reconsider our position. A management decision for this recommendation can be recorded when USAID/Bolivia and we have agreed on a firm

plan of action with target dates for implementing this recommendation.

## **Opportunities May Exist to Increase the MAPA 2 Project's Effectiveness**

Summary: The MAPA 2 project has fallen short of performance targets for the number of new commodity chains<sup>4</sup> established or strengthened in the valleys region and the number of production units receiving technical assistance in the altiplano region. Because USAID/Bolivia is working with foundations that face funding cuts at the end of 2007, USAID/Bolivia preferred to consolidate existing assistance activities rather than begin new ones. However, Chemonics may be able to take responsibility for some of the activities currently implemented by the foundations. Thus, there may be opportunities to increase project effectiveness by reengineering and realigning project activities and performance targets.

In FY 2007, the MAPA 2 project fell short of the targets established for two of the four performance indicators in USAID/Bolivia's performance management plan. Specifically, in the valleys region, the project supported 3 new commodity chains, versus 6 planned, and in the altiplano region, the project provided technical assistance to 332 production units versus 1,000 planned.

According to USAID/Bolivia officials, these shortfalls were due to a retrenchment of activities carried out by two public-private foundations (*Fundación para el Desarrollo Tecnológico Agropecuario-Valles*, or FTDA-Valles, and *Fundación para el Desarrollo Tecnológico Agropecuario-Altiplano*, or FTDA-Altiplano) with USAID funding. We were told that the GOB no longer supports the work of these foundations, primarily because it disagrees with their focus on export crops instead of staple crops for local consumption. While the GOB cannot legally abolish the foundations, it controls a large part of their funding (32 percent in the case of FTDA-Valles, more in the case of FTDA-Altiplano), and GOB-controlled funding for the foundations will end on December 31, 2007. In light of this pending funding cut, USAID/Bolivia preferred to consolidate existing activities rather than expand the assistance activities implemented by the foundations.

However, it is possible that Chemonics could take over some of the foundations' current responsibilities. According to a Chemonics official, there is an imbalance between the level of staffing and other firm infrastructure that Chemonics has in place and the amount of funding available for subgrants to producer organizations under the MAPA 2 project. He estimated that Chemonics could effectively manage 75 percent more subgrant funds with its current staff. (At the same time, he maintained that, because of indivisibilities, Chemonics could not reduce its staff and still carry out its contract responsibilities.) When considered in conjunction with the issues discussed above – that is, constraints on the effectiveness of the foundations participating in the project – it appears that there may be scope for reallocating some responsibilities from the foundations to Chemonics.

As a result of the issues described above, there may be opportunities to increase the

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<sup>4</sup> Commodity chains are strategic alliances between suppliers and customers, sometimes spanning many levels, who cooperate with one another in order to compete successfully with others.

effectiveness of the MAPA 2 project by reengineering project activities and realigning project activities and targets.

*Recommendation No. 3 – We recommend that USAID/Bolivia adjust Market Access and Poverty Alleviation (MAPA 2) project activities, responsibilities, and performance targets, including the subgrants and other activities managed by Chemonics International, to reflect the loss of foundation funding at the end of 2007.*

**Evaluation of Management Comments** – USAID/Bolivia has obtained commitments for increased levels of funding by municipalities and departments and has determined that this funding, together with trust funds, will be sufficient to support the planned level of effort. Therefore, it has concluded that no adjustment of targets will be needed. Based on this determination, a management decision for Recommendation No. 3 has been made and final action on the recommendation has been taken.

## **Impact of the Trade and Investment Capacity Activity Can Be Increased**

Summary: Providing grant assistance to individual firms under the trade and investment capacity program element is not an end in itself but rather is an instrument used to provide training and increase employment, and thus increase the incomes of Bolivia's poor. However, the number of individuals trained and the number of jobs created have fallen short of performance targets. In addition, replication of successful experiences, while occurring to some degree, can be reinforced by introducing more formal mechanisms for sharing new knowledge. These conditions occurred, for the most part, because of budget reductions or changed conditions in Bolivia that were not anticipated at the time that the performance targets were established. Strengthening strategies for these activities should increase the program's impact.

The purpose of providing grant assistance to private firms under the BTBC 2 contract with Chemonics is not to assist the owners of firms per se but rather to raise the incomes of the poor and stimulate economic growth through training, employment and multiplier effects.

However, employment generation under the BTBC 2 program has fallen short of targets: in FY 2006 the program reportedly created 1,080 full-time permanent jobs, 55 percent of the target of 1,979, and in FY 2007 the program reported creation of 1,241 jobs, 34 percent of the target of 3,601 jobs. There are three main reasons why employment generation has fallen short of planned levels. The first is that textile and apparel producers are reluctant to make long-term commitments – like employing additional workers – when Bolivia's preferential access to the U.S. market under the Andean Trade Promotion and Drug Eradication Act is renewed for only a few months at a time. For example, one program beneficiary would have hired additional workers if not for this uncertainty but instead had stopped accepting orders from the United States, as the risk of higher tariffs was too much for him to bear. In addition, we were told that the approval of a free trade agreement between the United States and Peru in December 2007 puts Bolivian textile firms at a competitive disadvantage with their counterparts in Peru, as textile firms in Peru will have more permanent preferential access to the U.S. market. The second reason why employment gains have been limited is the unfavourable

business environment and uncertainty created by tension between the Morales administration and the private sector. Many program beneficiaries told us that they constantly had to reassure overseas clients of their ability to fill orders, despite news of instability in Bolivia. The third reason for limited employment gains is large-scale emigration of skilled Bolivian workers to Spain, Argentina, and other countries. Given these circumstances, it might be worthwhile to help textile manufacturers find export markets outside the United States. It might also be advisable to place somewhat less emphasis on the textile and wood sectors – identified as priority sectors in Chemonics' contract – and look for other sectors that have higher employment potential. It should be noted that BTBC 2 is already pursuing some these strategies.

The number of individuals trained under the BTBC 2 program has also fallen short of targets: in FY 2006 2,659 were reportedly trained, 75 percent of the targeted 3,562, while in FY 2007 BTBC 2 reported training 2,982, or 48 percent of the target of 6,213. This occurred, at least in part, because a contract modification signed in September 2006 decreased the training budget, but the training targets were not adjusted. Another reason why training has fallen short of targets is the GOB's reluctance to attend training on free trade and related matters. USAID/Bolivia should consider whether the content and planned audiences for training courses under the BTBC 2 program need to be adjusted. Given the reduced resources available, it might also be appropriate to adjust the performance targets for training activities.



Textile worker from Santa Cruz, Bolivia, employed under the BTBC 2 project. Photo taken on December 6, 2007, by an OIG auditor.

Another area that deserves attention is replication of successful innovations from firms that have received direct assistance under the program to firms that have not. There is considerable anecdotal evidence that replication is taking place to some degree. On the other hand, it is unrealistic to expect that most firms that have innovated successfully will willingly share knowledge with competitors. Given the level of investment in firm-level assistance under the BTBC 2 activity – \$5.2 million over four years – it is important to find ways to formally share knowledge developed through subgrants, perhaps by working with associations of businesses, chambers of commerce, or some other level above the level of individual firms.

Strengthening program strategies for employment generation, training, and replicating

successful innovations should increase the impact of the BTBC 2 activity in terms of increasing the incomes of the poor and stimulating economic growth.

*Recommendation No. 4 – We recommend that USAID/Bolivia take steps to increase the employment and training impact of the trade and investment capacity program element and implement more formal means of replicating successes.*

**Evaluation of Management Comments** – In response to this recommendation, USAID/Bolivia provided a copy of its contractor’s FY 2008 work plan. In reviewing the work plan, we noted that it targets lower levels of job creation and training, not higher levels, so the work plan is not responsive to our recommendation in this sense. With respect to implementing more formal means of replicating successes, while there are passages in the work plan that make some reference to this subject, it is unclear to us what actions, if any, are planned to implement Recommendation No. 4. A management decision for Recommendation No. 4 can be recorded when we agree with USAID/Bolivia on a firm plan of action with timeframes for implementing the recommendation.

### **Did USAID/Bolivia’s reporting on its economic opportunities activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?**

While USAID/Bolivia staff (and the mission’s contractors and recipients) put a great deal of effort into their reporting responsibilities, and approached them conscientiously, the mission’s reporting on the economic opportunities program was not complete or accurate. The performance planning and reporting issues found during the audit are discussed in the following section.

### **Performance Planning and Reporting Should Be Improved**

Summary: The Automated Directives System (ADS) and other USAID policies place considerable emphasis on establishing reasonable, well-defined performance indicators and targets, as well as on reporting accurate information on actual results achieved. However, in several cases, targets under the economic opportunities program were not defined precisely, were unrealistic, or were not consistent with targets defined by contactors. Also, in several cases, information on actual results was inaccurate or unsupported. These reporting issues were largely due to problems associated with the introduction of the new operational plan reporting format, as well as to weaknesses in mission controls over reporting. As a result, stakeholders may gain incorrect impressions of the progress of the economic opportunities program and its impact.

ADS 203.3.3.4.5 states that each indicator should include performance baselines and set performance targets that can optimistically but realistically be achieved within the stated timeframe and with the available resources. Beyond what is specifically stated in the ADS, it is obviously important to the success of any program that program performance indicators and targets be unambiguous and expressed consistently. In order to permit USAID staff to manage for results and produce credible reporting, ADS

203.3.5.1 requires performance data to be precise and reliable. USAID TIPS Number 12 emphasizes the importance of documentation, stating that proper documentation is a process that facilitates the maintenance of quality performance indicators and data. Such documentation should provide an opportunity for independent checks concerning the quality of the performance measurement system. Since information in the operational plan results report and congressional budget justification may be used to make decisions about the success of USAID's programs and the level of resources needed to implement the programs, it is vitally important to present complete and accurate information in these documents.

In reviewing USAID/Bolivia's reporting on results achieved under the economic opportunities program in FYs 2006 and 2007, several anomalies were found:

- Two of eight performance indicators were not correctly or precisely defined in the performance management plan:
  - The performance indicator for the overall economic opportunities program, "average annual income for rural households," is not correctly defined in the mission's performance management plan. In reporting on this performance indicator, Chemonics measured agricultural incomes of families participating in the MAPA 2 program rather than household income, which would include income from employment and other non-agricultural activities. This methodology contradicted the one described in the performance management plan, which referred to household income. A related issue is that the methodology used by Chemonics to report on this performance indicator was not well defined. We received several contradictory explanations of how the reported figures were compiled, and finally concluded that the reported information could not be compared to the targets established in the performance management plan, although we are still not certain what the reported figures represent.
  - Another indicator, "number of new (full-time equivalent/permanent) jobs generated in non-traditional export" was not precisely defined in the performance management plan. According to the contractor for the underlying activity, "nontraditional exports" include manufactures plus agriculture less soy beans. According to the CTO for the activity, non-traditional exports include manufactures plus soy beans.
- The performance targets for one of eight performance indicators in the performance management plan, "average annual income for rural households," were not set at a realistic level. The performance management plan set targets of a 5 percent increase for each program year but did not take inflation into account. Consumer price inflation was 4.9 percent in 2006 and will exceed 11 percent for 2007, effectively rendering the targets inapplicable.
- The four performance targets in the mission's performance management plan for the BTBC 2 project for FY 2006 were inconsistent with the performance targets maintained by the contractor. Two of the four performance targets for FY 2007 (for new jobs created and the number of small and medium enterprises participating in value chains) showed the same types of inconsistencies.

- Two of the four targets included in the FY 2007 operational plan results report for the program element “economic sustainability in food insecure areas” were taken from an earlier version of the operational plan rather than the current version.
- The mission’s contractor could not provide supporting documentation to substantiate results reported for two performance indicators under the MAPA 2 project: the number of commodity chains established or improved and the number of production units receiving technological services in the altiplano region.
- The results reported in the FY 2007 operational plan results report were incomplete in the sense that the results report only included two of the eight performance indicators defined by USAID/Bolivia in its FY 2007 performance management plan. While there is no formal requirement that all – or even any – performance management plan indicators be included in the results report, we believe that the results report needs to present the most complete account of program performance that is possible within the constraints of the results report format, so that decision-makers in USAID/Washington and the F Bureau have a reasonable basis for judging program performance.
- The results reported in the FY 2007 operational plan results report for the “economic sustainability in food insecure areas” program element were reportedly calculated by USAID/Bolivia staff by adding results achieved by the PL 480 Title II cooperating sponsors and results achieved under the agricultural productivity program element. However, no documentation was available to show how the results were calculated or where they were taken from.
- Testing of two of the five factual results reported in the FY 2007 congressional presentation indicated that both overstated the program’s impact:
  - USAID/Bolivia reported that “USAID has contributed significantly to a \$203 million (24%) increase in nontraditional Bolivian exports, which reached \$1.07 billion in FY 2005.” In fact, GOB statistics provided by the mission indicate that nontraditional exports fell 2 percent in FY 2005, to \$856 million.
  - The mission reported that “USAID assistance ... improved the business environment.” Given the level of funding for the economic opportunities program, and the fact that most program resources are directed toward firm-level activities, it is questionable whether the program could ever impact the overall business environment in Bolivia.
- The FY 2007 operational plan results report included more than four pages of narrative describing program accomplishments but included almost no information on constraints, negative developments affecting the program, or development needs that have not been funded. In addition, the narrative opened with a sentence that overstated the program’s impact: “In FY 2007, USG assistance contributed to increased economic growth and an improved business environment in Bolivia through the creation of sustainable jobs and promoting exports of high value-added products.” In fact, the program was too small and too focused on firm-level assistance to have any discernable effect on economic growth or the business

environment for the country as a whole. In addition, the business environment in Bolivia did not improve but rather deteriorated in FY 2007.

The performance planning and reporting issues described above were, in part, a result of using a new reporting system (the operational plan and the underlying database – the Foreign Assistance Coordination and Tracking System) that was implemented on a very aggressive timetable.<sup>5</sup> According to mission staff, the guidance for the operational report changed frequently and emphasized reporting on standardized output indicators over providing a complete picture of program results. While missions were permitted to add custom indicators to the operational plan – and USAID/Bolivia did in fact add three custom indicators for the economic opportunities program – the message received by mission staff was that what was really wanted in the operational plan results report was reporting on the standard indicators established in the Foreign Assistance Coordination and Tracking System and nothing more. These issues also reflect weaknesses in mission controls over performance planning and reporting. The key control that is needed is to have an independent person, perhaps in the Program Office, verify the information provided by the technical offices. While the mission spent a great deal of time and effort trying to conscientiously report on program accomplishments, relatively little effort was put into independently checking reported results. In addition, in its narrative reporting on the program, the mission may have assumed too much knowledge on the part of its readers and so neglected to provide contextual information that was needed to correctly interpret some statements.

As a result of the performance planning and reporting issues discussed above, stakeholders may gain an incorrect impression of the progress of the economic opportunities program and its impact. This could lead to decisions being made that are not based on a correct understanding of actual conditions in Bolivia. This might also lead to dissatisfaction with the mission's economic opportunities program if stakeholders believe that actual program impacts are less than those reported.

*Recommendation No. 5 – We recommend that USAID/Bolivia obtain evidence that partner performance targets for the Bolivian Trade and Business Competitiveness project have been revised to be consistent with the performance targets in the mission's program management plan.*

*Recommendation No. 6 – We recommend that USAID/Bolivia correctly define the performance indicators in its performance management plan for the "average annual income for rural households" and "number of new (full-time equivalent/permanent) jobs generated in non-traditional export" indicators.*

*Recommendation No. 7 – We recommend that USAID/Bolivia report on all of its performance management plan performance indicators for the economic opportunities program in the next operational plan results report.*

*Recommendation No. 8 – We recommend that USAID/Bolivia include narrative information in its next operational plan results report that conveys a complete and accurate picture of the economic opportunities program results.*

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<sup>5</sup> OIG, *Audit of USAID's Capital Planning and Investment Control for the Foreign Assistance Coordination and Tracking System (FACTS)*, Audit Report No. A-000-07-006-P dated September 14, 2007.

*Recommendation No. 9 – We recommend that USAID/Bolivia revise its controls over performance planning and reporting to provide reasonable assurance that targets are correctly defined and set at appropriate levels and that reported results are complete, accurate, and documented appropriately.*

**Evaluation of Management Comments** – USAID/Bolivia agreed with Recommendation No. 5 and planned to complete a review and harmonize the performance targets by August 2008. We agree with the proposed course of action and, therefore, a management decision has been reached for this recommendation.

Recommendation No. 6 dealt with differences between the way USAID/Bolivia and its contractors defined two performance indicators: “average annual income for rural households” and “number of new (full-time equivalent/permanent) jobs generated in non-traditional export.” The mission’s response regarding the first indicator was not responsive as it did not address any of the substantive differences between the way the indicator was described in the mission’s performance management plan and the way the mission’s contractor reported on the indicator. The mission’s response regarding the second indicator stated that a review will be conducted and all required actions will be completed by November 2008. A management decision for this recommendation can be recorded when we agree with the mission on a firm plan of action with timeframes for addressing the substantive issues with the first performance indicator.

In response to Recommendation No. 7, the mission will revise its performance management plans for all of its strategic objectives, indicating which performance indicators will be included in operational plan results reports as standard and custom indicators. This will be accomplished in conjunction with the FY 2008 operational plan process and will be completed by the time the FY 2008 operational plan results report is completed later this year. We agree with this course of action and accordingly a management decision has been reached for this recommendation.

Regarding Recommendation No. 8, USAID/Bolivia agreed to include narrative information that would provide a more balanced picture of accomplishments under the economic opportunities program in its next operational plan results report due in November 2008. We agree with the mission’s planned action and, accordingly, a management decision has been reached for this recommendation.

In response to Recommendation No. 9, USAID/Bolivia planned to update its performance management plans (see the discussion of Recommendation No. 7 above) and planned to appoint a monitoring and evaluation officer to oversee the process. While USAID/Bolivia’s comments were partially responsive to the intent of this recommendation, they did not identify any specific internal controls that would be established to provide reasonable assurance that performance targets are correctly defined and set at appropriate levels and that reported results are complete, accurate, and documented appropriately. A management decision for Recommendation No. 9 can be recorded when we agree with the mission on a firm plan of action with timeframes for implementing this recommendation.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine (1) whether activities under USAID/Bolivia's economic opportunities program achieved planned results and assess their impact and (2) whether reporting 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 internal controls related to its economic opportunities activities. The internal controls identified included the mission performance management plan, mission semi-annual reviews, mission data quality assessments, cognizant technical officer (CTO) 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 covered activities under the mission's second strategic objective, "Increased Income for Bolivia's Poor." The audit was conducted in Bolivia from November 26, 2007 to December 13, 2007. Our audit focused on FYs 2006 and 2007.

## Methodology

To answer the audit objectives, we met with CTOs and implementing partners. We reviewed relevant documentation produced by USAID/Bolivia such as the mission performance management plan, operating plans, award documents, correspondence, and field visit reports. We also reviewed contractor-prepared documentation such as annual work plans and quarterly progress reports.

In order to assess whether results were achieved, we focused on the eight performance indicators included in the mission's FY 2007 performance management plan as well as on four indicators for the PL 480 Title II income generation program that were included in the mission's operating plan results report for FY 2007. (These 12 performance indicators were disaggregated for specific groups of beneficiaries, so they included a total of 17 performance targets.) We conducted interviews with implementing partners and a sample of beneficiaries at their places of business. We also reviewed progress reports and visited 31 field activities as discussed below. In selecting field activities for visits, we judgmentally selected sites, trying to reach the largest range of activities and geographical areas possible within the six days we allocated for field visits.

In order to determine whether accurate and complete information was reported, we performed the following steps:

- For the financial services program element, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the number of new points of service opened in previously

unattended areas. We then visited the new points of services in Santa Cruz and ServiRed's main offices in Cochabamba in order to verify their physical existence and operation.



Visit to a new financial services location in an underserved area near Santa Cruz, Bolivia. The photo was taken by an OIG auditor on December 3, 2007.

- For agricultural activities, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the average annual income for rural households, the number of commodity chains established or improved, and the number of families receiving technological services. Additionally, we visited two field sites of the Center for the Promotion of Sustainable Technologies in the department of La Paz and seven projects in the departments of Cochabamba, Oruro, and Tarija under the Market Access and Poverty Alleviation (MAPA 2) program.
- For trade and investment capacity activities, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the total value of exports directly attributable to direct U.S. Government (USG) assistance to firms to increase exports, the number of new jobs generated in nontraditional export areas, the number of people trained, and the number of small and medium-sized enterprises participating in value-added chains. We visited eight businesses in Santa Cruz that have been assisted by the Bolivian Trade and Business Competitiveness program.
- For PL 480 Title II activities, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the number of additional hectares under improved technologies or management practices as a result of USG assistance, the number of rural households benefiting directly from USG interventions, the number of producer, water user, trade and business, and community based organizations receiving USG assistance, and the number of individuals receiving USG-supported short-term agricultural sector productivity training. We visited three CARE projects, six Food for the Hungry projects, and five Save the Children projects that have received assistance under the PL 480 program.

The field activities selected for visits are compared with the populations we drew the

samples from in Table 6:

Table 6. Sample of Field Activities Visited

Activity	Sample	Population
Financial services – new points of service	2	2
MAPA 2 – commodity chains established or improved	7	14
BTBC 2 – enterprises participating in value chains	8	453
PL 480 Title II – income generation activities	14	Not available

# MANAGEMENT COMMENTS

DATE: February 15, 2008

REPLY TO: Michael Yates, Mission Director, USAID/Bolivia

TO: Timothy E. Cox, RIG/San Salvador

SUBJECT: USAID/Bolivia's response to the draft audit report on the Economic Opportunities Program

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Under cover of this memorandum, USAID/Bolivia transmits its response to the subject draft audit report, as requested by Tim Cox by email on January 11, 2007. We appreciate the opportunity to review and comment on the draft report before it is formally issued.

USAID/Bolivia congratulates the RIG team that undertook this audit. In general, we are pleased with the results and acknowledge that the set of recommendations provided by the auditors will help us to improve the impact of the program in the future. We appreciate that the audit team has worked with us to clarify several issues in the draft report. The recommendations will guide USAID/Bolivia's Economic Opportunities program in rectifying inconsistencies in reporting and strengthening the monitoring and evaluation of the program.

The EOSOT believes that several comments in the summary of results need to be modified. We refer in particular to the comment that the contractors were not able to provide backup documentation on reporting. We have addressed our concerns in our responses to the recommendation. If you need additional information, please let us know.

We also appreciate the RIG's conclusion that "Notwithstanding these exceptions [the inconsistencies noted in audit recommendations], the results achieved under the program are significant given the size of the program and the difficult country environment in which it is implemented. These results are due in large part to selection of highly qualified contractors and recipients and active management and monitoring by USAID/Bolivia staff." (pg 1 of Jan 11 2008 Draft Audit Report)

Please find our responses to each of the recommendation below.

As requested, we are providing an original signed copy of this memorandum as well as an electronic version.

Proposed actions to close specific audit recommendations

USAID/Bolivia has developed a plan to implement a series of actions in order to address each of the audit recommendations. The actions are described below.

**Recommendation No. 1** – We recommend that USAID/Bolivia revise the strategy for the economic opportunities program to reflect the effect that changed circumstances have had on the strategy’s critical assumptions.

USAID Bolivia fully embraces the suggestion that a thorough examination of the critical assumptions underlying the strategy for the economic opportunities program would be prudent at this juncture. ADS 201.3.9.5 specifically encourages assessments for sectors in which conditions have changed significantly.

The auditors’ observations prompted USAID/Bolivia to begin to identify acknowledged experts on the Bolivian economic and political environment who could assist the Mission to reassess the critical assumptions underpinning our Economic Opportunity Strategy. At the same time these experts would be asked to review the current portfolio of economic growth activities, and make recommendations regarding the future direction of our program and any necessary changes, including possible support in the areas of national economic policy and strengthened institutional capacity to promote broad-based economic growth. (See recommendation No. 2). We expect the assessment to be completed by September 2008.

USAID Bolivia would argue that high-level technical analysis is needed before arriving at a conclusion that the current strategy should be revised or that activities should be re-designed. In that sense, the Mission requests that the auditors consider restating Recommendation No.1 to more precisely direct the Mission to undertake an analysis of the critical assumptions underlying the strategy for the economic opportunities program.

**Recommendation No. 2** – We recommend that USAID/Bolivia expand opportunities within its current programs to encourage appropriate economic policies and strengthen institutional capacity to promote broad-based economic growth.

We fully agree that working with the government to improve public economic policy and strengthen host country institutional capacity is beneficial in promoting broad-based economic growth. It is important to note that technical assistance to improve public economic policy was a central part of the Economic Opportunities Strategic Objective’s activities during many prior host country governments, and while the opportunities for this type of support are reduced, they remain ongoing. Increasing the level of effort dedicated to economic policy and institutional strengthening is an open possibility in the event that the current host country government requests additional assistance. Should we receive a request for assistance, the EO programs are well placed and have the expertise to respond. We believe that the level of economic policy support currently being provided by the on-going activities of the Economic Opportunities Strategic Objective is appropriate in the context of change occurring in Bolivia, as expressed by Deputy Chief of Mission Mr. Krishna Urs:

“President Evo Morales Ayma came into office in January 2006 with a new set of policy objectives that represent a break with Bolivia’s recent past. In contrast to the free-market policies of the past two decades, the economic policies of the current administration actively pursue a greatly increased state role in the production and distribution of goods and services. The transition from prior market based economic policies to a new state-centric or “mixed” public-private model will take some time for the GOB to complete, under the best of circumstances, and it is still uncertain how far it will go.

During this time of change the US Mission in Bolivia has worked hard to align development activities to support new GOB initiatives, where possible, while also ensuring that these fall clearly within the scope of the FY2007-2012 joint Dept. of State/USAID Strategic Plan. It is difficult to estimate when this stage of flux will end, and likewise difficult to predict future GOB policy in certain sectors. Within this context, the Mission believes that in the short term technical assistance to the GOB to support economic policy improvements is far less likely to achieve development results than working directly with private sector partners to help them improve their processes to produce more efficiently, generate new jobs and increase incomes. In that manner these entrepreneurs (small and large) will be able to emphasize that the private sector is a key partner in poverty alleviation and economic growth, and this is a truly vital message. Nevertheless, the Mission remains poised to offer additional economic policy assistance to the GOB if and when the Bolivian government requests such assistance and consistent with sound economic development principles.”

One example of the consistency of the Mission’s approach with emerging GOB policy is shown in the position of the new Minister of Production and Microenterprise, who says “Now we can start to talk about instruments and mechanisms to help the private sector, that is large in Bolivia but small and poor in regional and international terms. We need to strengthen [the private sector]. And the large private sector, far from being marginalized, is challenged to become a true engine of economic and productive development.” (Minister Hurtado in an interview published in the national newspaper *La Razon*, February 10 2008).

We suggest that several prior steps are necessary before economic policy activities and institutional strengthening can be reinforced. If the technical analysis provides recommendations to improve the implementation of the existing strategy, we will take immediate action to implement their recommendations. If the analysis in response to Recommendation 1 results in either a confirmation of the existing strategy, or a proposed change to the existing strategy, the Mission will take appropriate action. If a new strategy is the suggested course of action, a second phase of work will be undertaken to delve deeper into the design of activities coherent with this vision of the Bolivian development context.

Therefore, we request that the auditors rephrase Recommendation 2 to change the

word expand to explore. USAID's analysis of the existing strategy and critical assumptions will also be accomplished by September 2008.

**Recommendation No. 3** – We recommend that USAID/Bolivia adjust MAPA 2 project activities, responsibilities, and performance targets, including the subgrants and other activities managed by Chemonics International, to reflect the loss of foundation funding at the end of 2007.

The MAPA program has recently met with the municipalities and departmental governments, and they agreed to provide additional funding for the next crop season, compensating for the lost funding in 2007. For the two final years of MAPA 2 implementation (FY09 and FY10), the Mission has determined that trust fund resources will be sufficient to fund the expected level of effort of the foundation. In light of this analysis, we do not anticipate a need to adjust targets in response to funding changes. For these reasons, the Mission requests that the auditors close this recommendation at the issuance of the final report.

**Recommendation No. 4** – We recommend that USAID/Bolivia take steps to increase the employment and training impact of the trade and investment capacity program element and implement more formal means of replicating successes.

In order to increase program impact on employment and training, the program indicates in its 2007-2008 Work Plan that the strategy to be followed will target high level impacts in training together with employment generation, emphasizing the support to businesses with growth potential, incorporating more new businesses under productive chains, working more closely with chambers and other private and public institutions, and prioritizing the assistance to small businesses that are interested in diversifying and have alliances with larger companies.

The FY08 work plan (see the attached) also includes promotion and prioritization of labor-intensive projects, widening the scope of technical assistance to include artisan and rural production; and increasing strategic alliances with local training institutions to reach a much greater number of trainees. More formal means of replicating successful activities and methodologies are being intensified by working directly and establishing strategic alliances with trade associations and financial institutions. Also, under this work plan more attention will be given to training initiatives to improve curricula of courses developed by training institutions. As the actions to resolve this concern are already being implemented, the Mission requests that the auditors close this recommendation at the issuance of the final report.

**Recommendation No. 5** – We recommend that USAID/Bolivia ensure that partner performance targets for the Bolivian Trade and Business Competitiveness project are consistent with the performance targets in the mission's program management plan.

USAID/Bolivia recognizes that the performance targets under the Economic Opportunities Performance Management Plan (PMP) for the trade and investment

capacity program have not been updated for fiscal year 2007. The EOSOT-PMP targets for fiscal year 2007 did not reflect the changes made at the contract level in response to the 33% budget reduction in October 2006. Therefore, USAID/Bolivia will revise the EOSOT-PMP for the trade and investment capacity program for FY 2008 and FY 2009 to be consistent with the partner performance targets. In addition, the definition and target of the employment indicator will be reviewed to show the real impact achieved by the project, since only direct employment was reported and not the indirect employment generated. The review process has started. The EOSOT will complete this action by August 2008, at which time we will request closure of the recommendation.

**Recommendation No. 6** – We recommend that USAID/Bolivia correctly define the performance indicators in its program management plan for the “average annual income for rural households” and “number of new (full-time equivalent/permanent) jobs generated in non-traditional export” indicators.

We agree with the auditors that we should apply the same terminology for this indicator, using “average annual income for rural households” instead of the one used by MAPA, “average annual income for rural families”. The EOSOT will instruct both the contractor and grantee to use ‘rural household’ for the terminology in their indicators.

For the indicator ‘number of new jobs generated in non-traditional exports’, as mentioned previously in the response to Recommendation No. 4, the definition and target of the employment indicator will be reviewed to show the real impact achieved by the project, since only direct employment was reported and not the indirect employment generated. The review will be completed by July 2008, and all necessary actions will be completed by November 2008.

**Recommendation No. 7** – We recommend that USAID/Bolivia report on all of its program management plan performance indicators for the economic opportunities program in the next operational plan results report.

For the next Operational Plan Performance Report (OPPR), USAID/Bolivia will report on all F-approved standard and custom indicators identified in the Mission’s most currently approved Performance Monitoring Plan for the Economic Opportunities Strategic Objective. Please see the detailed response to Recommendation No. 9 for a description of the steps the Mission will take to determine and align these indicators for the 2008 OP due in November of this year.

**Recommendation No. 8** – We recommend that USAID/Bolivia include narrative information in its next operational plan results report that conveys a complete and accurate picture of the economic opportunities program results.

Current guidance for Foreign Assistance Coordination and Tracking System (FACTS) reporting is being closely followed by the Mission and we have made great efforts to report results fully and accurately within the limited space provided. The text of the draft audit states on page 20 that “The FY 2007 operational plan results report included more

than four pages of narrative describing program accomplishments but included almost no information on constraints, negative developments affecting the program, or development needs that have not been funded.” We concur that these needs and limitations have not been emphasized in past reporting, and will include such considerations within the space provided in our 2008 OP performance report due in November of this year.

USAID/Bolivia will continue to follow Operational Plan guidance to ensure that program results are reported in the most complete and accurate manner consistent with the numerical results provided in the FACTS Results table. Current guidelines allow for this discussion in 2 areas – the element performance narratives in the Economic Growth objective, and at the bottom of FACTS tables for the standard indicators under each element.

**Recommendation No. 9** – We recommend that USAID/Bolivia revise its controls over performance planning and reporting to provide reasonable assurance that targets are correctly defined and set at appropriate levels and that reported results are complete, accurate, and documented appropriately.

During FY 2008, USAID/Bolivia plans to update the PMPs for all active programs under the F framework. The PMPs for each Strategic Objective (SO) or F Objective will clearly identify all “Standard F Indicators” and “Custom Indicators” that are approved by F for inclusion in future Operational Plans and OP Performance Reports. The PMP will also identify other Mission indicators deemed necessary for Mission monitoring of its active portfolio. The complete PMP list for each SO approved by Mission management will be reviewed and revised during each Mission semi-annual activity review (SAAR) and will serve as a data base for reporting on standard and custom indicators in annual OPs and OP Performance Reports.

The process to update the Mission’s five SO PMPs will occur in phases, with certain benchmarks: 1) Mission identification and approval of all Standard F and Custom indicators for FY 08 and 09 will be completed in conjunction with the FY 08 Operational Plan process as F provides the most recent, revised list of standard indicators; 2) Revision of implementing partners’ work plans and contracts/grant agreements as appropriate to coincide with timing of and types of required indicator reporting under the F framework and to identify additional indicators required to be reported to USAID/Bolivia for internal mission monitoring of USAID-funded activities; and 3) Preparation of a complete PMP for each SO for use during the end-of-FY08 Mission SAAR reviews and for inclusion in the FY 08 OP Performance Report.

To ensure compliance with SO Team indicator definition, setting of appropriate target levels, and target reporting of the approved PMPs, and once our Strategy and Operations Services Office (SOS) is fully staffed, a Mission-wide Monitoring and Evaluation (M&E) Officer will be identified within the SOS Office to coordinate the development and updating of all PMPs. This will be completed by November 2008.

**Other comments:**

1. On the performance indicator “Average annual income for rural households”, the definition of the indicator was not expressed correctly. A more appropriate definition of the measurement is as follows -

Measurement of “Average annual income for rural households”: This household income will be compared with the income of non beneficiaries living within the same geographic boundaries and under comparable conditions. The household income will not be compared with incomes generated the previous year.

2. We would like to take this opportunity to provide copies of the documentation for the information reported on the results for ‘average annual income for rural households’ and ‘commodity chains established or improved’ for both Valles and Altiplano.

**Indicator 2a: Average annual income for rural households**

Average annual household income increase – Valleys								
Year	Targets				Actual Results			
	No. of beneficiaries		Estimated household income	5% annual increase	No. of beneficiaries		Average household Income	Percent increased
	Absolute	Cumulative			Absolute	Cumulative		
<b>2005-2006</b>	<b>4,000</b>	<b>4,000</b>	<b>10,907</b>	<b>5%</b>	<b>14,302</b>	<b>14,302</b>	<b>16,109</b>	<b>48%</b>
2006-2007	4,000	8,000	11,128	5%	4,387	18,682	13,217	19%
2007-2008	4,000	12,000	11,751	5%				
2008-2009	2,000	14,000	12,080	5%				
2009-2010	2,000	16,000	12,419	5%				

The target for “Average annual household increase’ was 5%, the results of ‘Income increase on the Valleys region’ for the agriculture season 2005-2006 reached 48%.

The target for “Average annual household increase was 5%, the results of Income increase on the Altiplano region for the agriculture season 2005-2006 reached 23%. In both cases, Valleys and Altiplano MAPA and FDTA/Valles achieved results.

**Indicator 2.2a: Commodity chains established or improved**

Average annual household income increase – <u>Altiplano</u>								
Year	Targets				Actual Results			
	No. of beneficiaries		Estimated household income	5% annual increase	No. of beneficiaries		Average household Income	Percent increased
	Absolute	Cumulative			Absolute	Cumulative		
<b>2005-2006</b>	<b>1,000</b>	<b>1,000</b>	<b>6,607</b>	<b>5%</b>	<b>355</b>	<b>355</b>	<b>7,216</b>	<b>23%</b>
2006-2007	1,000	2,000	6,871	5%	18	373	7,854	16%
2007-2008	1,000	3,000	6,982	5%				
2008-2009	600	3,600	7,178	5%				
2009-2010	400	4,000	7,379	5%				

Commodity chains include: Onions, Oregano, Hot Peppers, Tomatoes, Table Grapes, Peanuts, Peaches, Berries, Dairy, and Flowers

Number of commodity chains established or improved – Valleys				
Year	Targets		Actual Results	
	Absolute	Cumulative	Absolute	Cumulative
Baseline		8		
<b>2005-2006</b>	<b>2</b>	<b>10</b>	<b>2</b>	<b>10</b>
2006-2007	2	12	0	10
2007-2008	1	13		
2008-2009	1	14		
2009-2010	1	15		

Commodity chains include: Sweet Organic Onions

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