

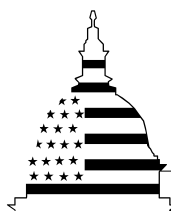
GAO

Report to the Subcommittee on Foreign
Operations, Export Financing, and
Related Programs, Committee on
Appropriations, House of
Representatives

May 2003

FOREIGN ASSISTANCE

USAID's Earthquake Recovery Program in El Salvador Has Made Progress, but Key Activities Are Behind Schedule



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Highlights

Highlights of [GAO-03-656](#), a report to Subcommittee on Foreign Operations, Export Financing, and Related Programs, Committee on Appropriations, House of Representatives

Why GAO Did This Study

In early 2001, two major earthquakes struck El Salvador, causing more than 1,100 deaths and \$1.7 billion in damage to property and infrastructure. GAO has been periodically monitoring the recovery program being implemented by the U.S. Agency for International Development (USAID), the lead U.S. agency. The House Appropriations Committee's Subcommittee on Foreign Operations, Export Financing, and Related Programs asked GAO to review USAID's (1) oversight and accountability measures, (2) progress and factors affecting progress, and (3) coordination with other donors and the government of El Salvador.

What GAO Recommends

To ensure that USAID achieves its goal of building over 26,000 houses by September 2004, we recommend that the USAID Administrator take action to accelerate construction activities and establish interim milestones to benchmark progress and determine whether construction will be completed as scheduled. Also, if warranted and to the extent possible under existing agreements, USAID should consider reducing the number of houses to be built by FONAVIPO and increasing the number of houses to be built by private voluntary organizations with a proven record of meeting construction goals.

www.gao.gov/cgi-bin/getrpt?GAO-03-656.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4268 or fordj@gao.gov.

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What GAO Found

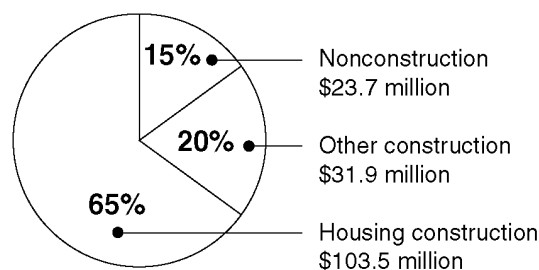
USAID is implementing a \$159 million recovery program to assist El Salvador in recovering from two earthquakes in 2001. Nearly two-thirds of the funding is allocated for the construction of approximately 26,000 houses for low-income families who lost homes in the earthquakes.

Because of concern that recovery funding could be susceptible to misuse or corruption, USAID established oversight measures, such as conducting concurrent audits of host country expenditures. USAID also applied lessons learned from its recovery program in Central America following Hurricane Mitch in 1998, including using implementing organizations with a proven record in accounting for funds and implementing disaster recovery activities.

USAID has made progress in implementing the recovery program but some activities are behind schedule or did not meet original target dates. As of March 31, 2003, USAID had expended \$58 million (36 percent) of its \$159 million in program funding and is making progress in implementing some activities. For example, USAID-funded private voluntary organizations had completed all of the houses scheduled during the first phase of the program. Other implementers had installed potable water systems for more than 70,000 recipients in rural areas and assisted micro- and small businesses that were damaged or destroyed. Due to a number of factors, however, some USAID construction activities, such as repairing and rebuilding schools, health facilities, municipal buildings, and local markets, are behind schedule. Also, as of March 31, 2003, El Salvador's housing agency (FONAVIPO) had completed less than two-thirds of the nearly 3,000 houses it was originally scheduled to complete by September 2002. USAID revised its agreement with FONAVIPO but the new agreement does not establish milestones to benchmark progress and determine whether housing construction will be completed as scheduled. At its current pace, it may be difficult for USAID to complete the recovery program by the end of September 2004, as planned.

USAID coordinated its earthquake recovery efforts with other donors at the international, national, and local levels; the government of El Salvador; and community members. During our review, we found no evidence that USAID was duplicating other donors' recovery efforts.

USAID's Earthquake Recovery Program Activities in El Salvador



Source: GAO analysis of USAID data.

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Abbreviations

CDC	Centers for Disease Control and Prevention
FONAVIPO	El Salvador's National Popular Housing Fund
ILP	El Salvador's Institute for Freedom and Progress
PVO	private voluntary organization
USACE	U.S. Army Corps of Engineers
USAID	U.S. Agency for International Development

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United States General Accounting Office
Washington, D.C. 20548

May 15, 2003

The Honorable Jim Kolbe
Chairman
The Honorable Nita M. Lowey
Ranking Minority Member
Subcommittee on Foreign Operations,
Export Financing, and Related Programs
Committee on Appropriations
House of Representatives

In January and February, 2001, two major earthquakes struck El Salvador, leaving over 1,100 persons dead and thousands more injured. Damages to infrastructure, houses, and other property were estimated at more than \$1.7 billion. The United States and other donors initially responded by providing emergency relief, such as food, water, medical supplies, and temporary shelter. In March 2001, the international donor community pledged \$1.3 billion to assist in the recovery and reconstruction of earthquake-affected areas of the country. The Congress and the administration made available approximately \$159 million for the U.S. Agency for International Development (USAID) to carry out earthquake-related disaster recovery activities—\$59 million and \$100 million in fiscal years 2001 and 2002, respectively. USAID, in coordination with several other U.S. departments and agencies, is currently implementing the recovery program. USAID officials have stated that the program will be completed and the funds expended by September 30, 2004.

Because of congressional concerns about potential corruption and prior misuse of foreign aid for relief and reconstruction, you asked us to monitor the delivery of the assistance through frequent visits to El Salvador. We agreed to review USAID's (1) oversight of, and accountability measures associated with, the recovery program; (2) progress in the recovery program and factors affecting its progress; and (3) coordination of recovery efforts with other donors and the government of El Salvador.

This is an interim report on the progress of the earthquake recovery program. To address these matters, we reviewed the objectives and oversight strategy of the program and made five trips to El Salvador between July 2001 and January 2003. On our trips, we visited numerous project sites, traveling to some of the most remote areas of the country, talking with many people affected by the earthquakes, and monitoring the progress of USAID projects across a wide range of sectors. We briefed

USAID officials on our findings during these trips so that they could take corrective actions, if needed. (For details of our scope and methodology, see app. I.)

Results in Brief

USAID established oversight measures for its earthquake recovery program, including concurrent audits of host country expenditures, to augment the standard financial controls that it requires for development assistance programs, and it applied lessons learned from its work after Hurricane Mitch. Specifically, the Court of Accounts, a government of El Salvador audit institution, is conducting concurrent audits of more than \$50 million in USAID funds for construction activities being implemented by the government. In addition, USAID's Regional Inspector General reviewed USAID's housing program and is conducting other audits. We reviewed numerous reports issued by the oversight organizations, and, to date, they have found no substantive problems except for delays in housing construction. Also, USAID applied lessons it had learned in carrying out the disaster recovery program following Hurricane Mitch in 1998. It contracted with implementing organizations it had worked with successfully after the hurricane and with four U.S. government agencies to provide technical assistance and quality control for various activities.

USAID has made progress in implementing the earthquake recovery program, but several activities are behind schedule and housing construction did not meet its initial target completion date. As of March 31, 2003, USAID had expended approximately \$58 million (36 percent) of its \$159 million in earthquake recovery funding, building houses, installing potable water systems for more than 70,000 beneficiaries in rural communities, and providing financial support to micro- and small businesses that were damaged or destroyed. For example, private voluntary organizations have completed all of the houses they were scheduled to complete during the initial construction phase. However, several USAID construction activities, including the rebuilding of schools, health facilities, municipal buildings, and local markets, are behind schedule. Also, housing construction by FONAVIPO (El Salvador's government housing agency) did not meet its original target completion date. Specifically, as of the end of March 2003, FONAVIPO had completed only about two-thirds of the houses it was originally scheduled to finish in September 2002. In November 2002, USAID approved a revised plan that established September 2003 as the new date for FONAVIPO to complete its Phase I houses. The revised plan includes some financial and other changes but does not establish interim milestones so that USAID will be able to

benchmark FONAVIPO's progress in building and completing houses. At current construction rates, it may be difficult for USAID to achieve its goal of completing the earthquake recovery program by September 30, 2004. Delays in housing construction resulted from several factors, including the lengthy process of ensuring that housing beneficiaries had clear title to their property and initial difficulties regarding payments to some contractors. In addition, the organizations implementing USAID's housing construction program have not consistently built houses completely and correctly, which has necessitated repeated inspections by U.S. Army Corps of Engineers personnel. USAID reports that implementers have been making slow but positive progress in improving the quality of houses.

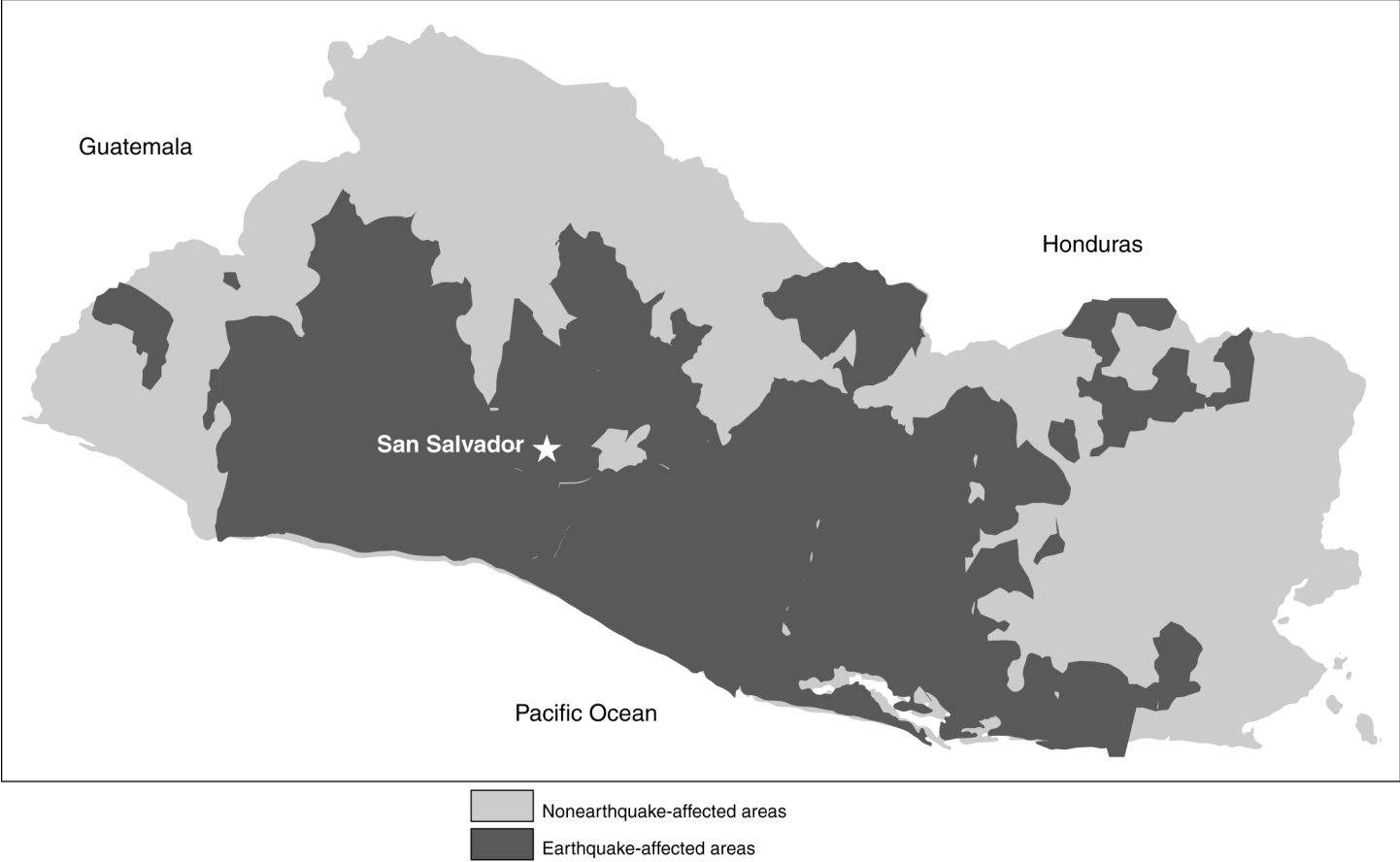
USAID is coordinating its earthquake recovery efforts with other donors and with the government of El Salvador. USAID has worked with donors at the international, national, and local levels to prevent duplication of recovery activities. USAID also has coordinated with government of El Salvador ministries, municipal officials, and community members. During our periodic visits to El Salvador, we found no evidence that USAID was duplicating the activities of others because, in part, the country's reconstruction needs exceed the amount of support that has been pledged and provided by other donors.

We are recommending that, to increase the likelihood of meeting USAID's housing construction goals, the USAID Administrator take action to accelerate the pace of construction activities and establish interim milestones to benchmark progress and determine whether construction will be completed as scheduled. Also, if warranted and to the extent possible under existing agreements, the USAID Administrator should consider reducing the number of houses to be built by FONAVIPO and increasing the number to be built by private voluntary organizations that have performed well to date. In commenting on a draft of this report, USAID agreed with our recommendation that it accelerate the pace of construction activities. On the basis of comments USAID provided on the draft, we modified our recommendation to state that USAID should establish interim milestones to benchmark progress and determine whether FONAVIPO and other housing implementers are making progress in meeting the overall goal of constructing 26,400 houses by September 30, 2004.

Background

On January 13, 2001, a severe earthquake measuring 7.6 on the Richter scale caused major loss of life, injuries, and damage in El Salvador. The earthquake was centered about 65 miles off the country’s Pacific coastline and particularly affected six of the country’s departments that border the ocean. One month later, on February 13, another devastating earthquake struck. It was centered about 20 miles east of the capitol of San Salvador and measured 6.6 on the Richter scale. Both earthquakes are estimated to have damaged the dwellings, economic livelihoods, and health conditions of about 1.5 million people, nearly a fourth of the country’s population. As shown in figure 1, these earthquakes affected much of the country.

Figure 1: Areas Affected by the January and February 2001 Earthquakes in El Salvador



Source: USAID.

U.S. relief efforts began immediately after the first earthquake, and USAID began providing some recovery assistance using redirected program funds and funds from other sources. The Congress and the administration, recognizing the need for longer term assistance for recovery and reconstruction, made available approximately \$159 million—\$137 million in newly appropriated funds and \$22 million in funds redirected from other sources.

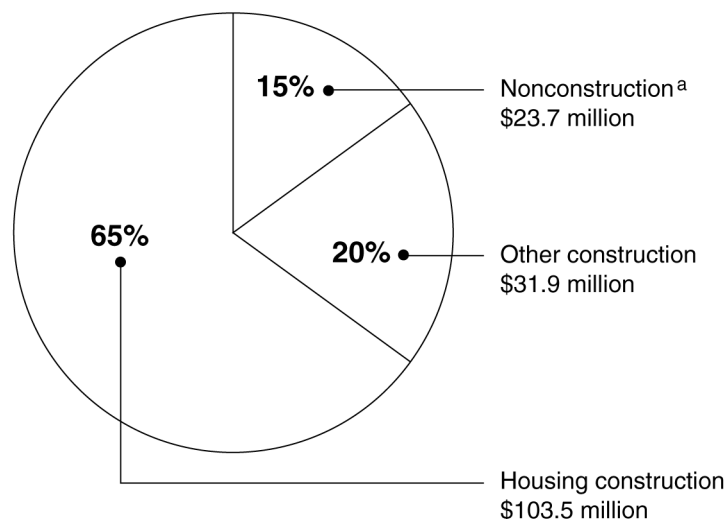
The overall objective of USAID’s earthquake recovery program is to improve the lives of earthquake victims, using the guiding principle of “building back better.” For example, houses built by USAID include reinforced construction designed to better withstand future seismic events. Specific efforts within USAID’s overall program include

- restoring community infrastructure and housing for the rural poor,
- reconstructing municipal government infrastructure,
- reactivating economic activities, and
- mitigating the effects of future natural disasters.

USAID’s recovery program also included an emphasis on ensuring the sustainability of its efforts. For example, USAID required that housing implementers include stone or block retaining walls, when needed, to ensure that houses are not affected by erosion. USAID also required that other implementers perform sustainability analyses to assess the financial viability of projects when USAID funding ends.

USAID’s program consists largely of construction activities. More than \$135 million (85 percent) of USAID funding is budgeted for construction, including about \$104 million (65 percent) allocated to build approximately 26,000 houses. Other planned construction activities include rebuilding approximately 35 schools, 30 child care centers, 6 health clinics, 40 municipal buildings, and 5 local markets and rehabilitating or repairing potable water systems. Nonconstruction activities, which account for more than \$20 million (15 percent) of USAID’s program, include providing training and equipment to micro- and small businesses; providing technical assistance to farmers; and working with communities to improve their disaster preparedness, mitigation, and response. Figure 2 shows earthquake recovery activities by amount and percentage of funds budgeted.

Figure 2: Earthquake Recovery Activities, by Amount and Percentage of Funds Budgeted

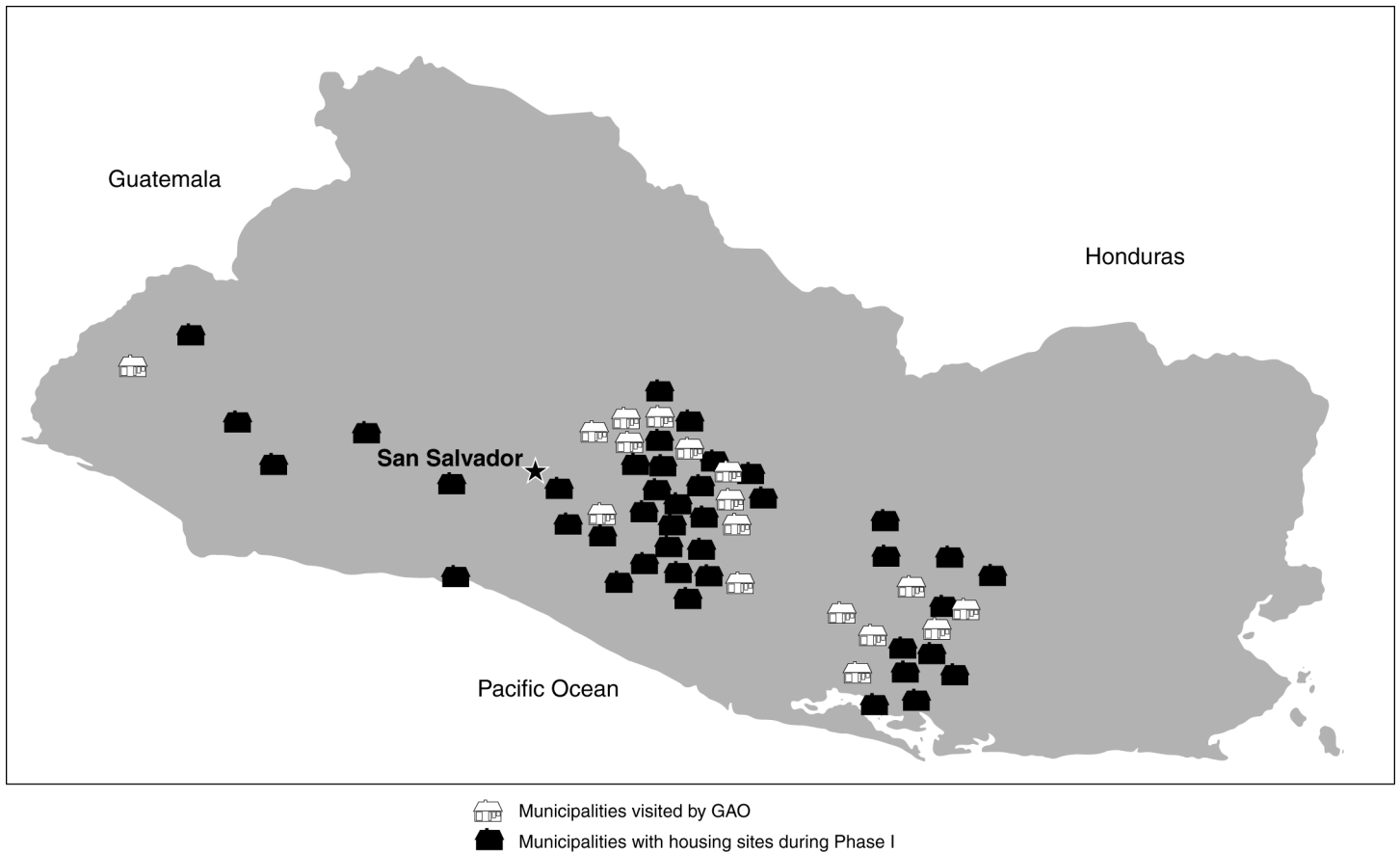


Source: GAO analysis of USAID data.

^aApproximately \$2.4 million for USAID program management is included in nonconstruction costs.

Nearly two-thirds of USAID's earthquake recovery funding is allocated to build new houses for low-income recipients in more than 300 communities in approximately 90 earthquake-affected municipalities. Many of the communities are in rural areas that are dispersed throughout the country. During our periodic visits to El Salvador, we visited numerous communities in 17 of the 50 municipalities in which USAID implementers were building houses during the initial phase of the program, as shown in figure 3. During the first and second phases of housing construction, work will take place in 90 municipalities, according to USAID.

Figure 3: Municipalities in El Salvador Where USAID Is Constructing Houses during Phase I, and Municipalities Visited by GAO

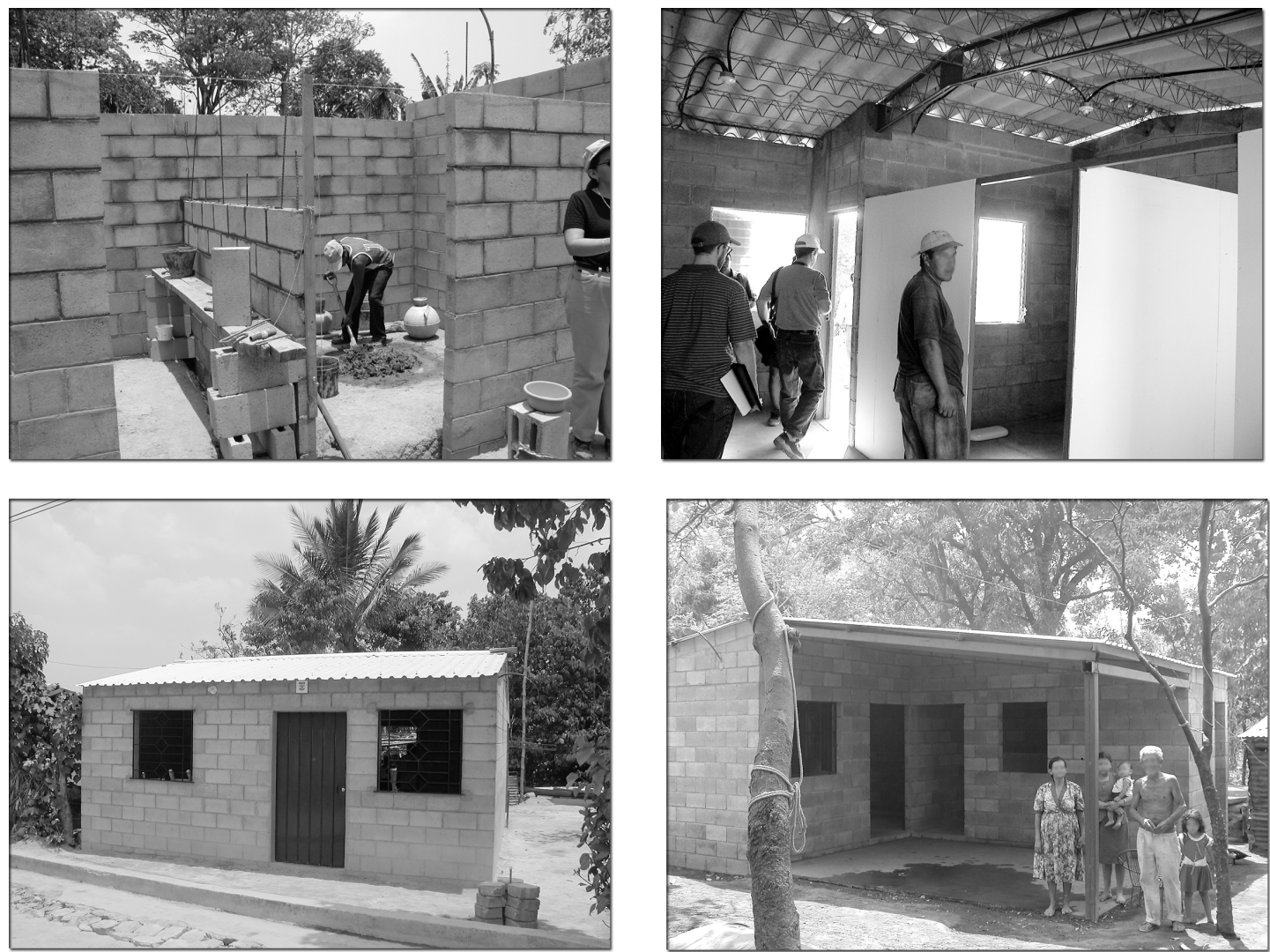


Sources: GAO and USAID.

To implement its housing activities, USAID signed agreements with FONAVIPO and eight private voluntary organizations (PVOs), some of which were implementing other USAID development activities in El Salvador prior to the earthquakes. Although housing layouts and construction techniques differ by housing implementer, all of the implementers are required to build basic structures that are a minimum of 40 square meters in size and are reinforced to minimize damage and bodily harm in the event of earthquakes. The houses typically have two bedrooms, a living room, a concrete porch, and a separate kitchen. For houses without access to municipal sewage connections, contractors must construct a latrine as well. USAID's program also requires that beneficiaries be provided with access to water and sanitation and that environmental and

disaster mitigation measures, such as stone or block retaining walls, be included, if necessary. The average cost of each house is approximately \$3,800. Figure 4 shows examples of typical USAID-funded houses under construction, being inspected, and completed.

Figure 4: Houses under Construction, Being Inspected, and Completed



Source: GAO.
Top left: House under construction. Top right: House being inspected.
Bottom left and right: Houses completed in Usulután Department.

The houses or housing sites undergo inspections at three intervals. Specifically, the U.S. Army Corps of Engineers (USACE)

1. inspects the site prior to construction to ensure that houses will not be built in disaster-prone areas, such as in flood plains or near steep hills;
2. performs a second inspection during construction to examine the quality of materials and workmanship and, if necessary, recommend corrective actions; and
3. conducts a final inspection to assess whether site mitigation measures were implemented correctly and completely and to detect problems with structural components (walls, roofs, doors, or windows).

When USACE staff identify incomplete or incorrect work, implementing organizations must correct the problems before the houses can receive final approval.

USAID Established Additional Oversight and Applied Lessons Learned

In addition to the measures USAID normally uses to monitor its development programs, the agency established additional oversight measures to ensure accountability of recovery funds, and it applied lessons learned from its work after Hurricane Mitch. USAID's normal oversight measures include preaward surveys and audits of prospective awardees, standard audits as required by U.S. government acquisition regulations, and management and oversight of the program by USAID mission staff. To address concerns about funds' susceptibility to misuse or corruption, USAID also required concurrent audits of some activities. In addition, USAID's Office of the Regional Inspector General for Latin America performed risk assessments and conducted oversight of USAID's housing program. We reviewed numerous periodic reports issued by these oversight organizations and, to date, they have found no major weaknesses or misuse of funds, other than delays in housing construction. USAID applied lessons learned from its recently completed hurricane recovery program, such as working with organizations that had successfully administered USAID-funded projects and contracting with a few key U.S. government agencies that had previously worked on disaster reconstruction programs.

USAID Set Up Additional Oversight Measures

At the outset of the earthquake recovery program, USAID reached an agreement with the Salvadoran government's Corte de Cuentas (Court of

Accounts) to concurrently audit over \$50 million in funds provided to the government of El Salvador. USAID has certified that the Court of Accounts is qualified to perform audits of U.S. funds. The USAID Regional Inspector General is responsible for overseeing the audit work of the Court of Accounts and conducts on-site reviews and periodic visits to ensure quality. USAID officials told us that the quality of the work performed by the Court of Accounts has been satisfactory, and that they plan to continue to rely on the Court of Accounts for further financial oversight.¹

Other monitoring efforts are being conducted by USAID's Regional Inspector General for Latin America. The Inspector General conducted a review of USAID's housing activities from the outset of the program through July 2002 and issued a report in November 2002.² The Inspector General reported that USAID's housing implementing organizations were selecting beneficiaries appropriately, with no evidence of discrimination on the basis of religious or political affiliations. The Regional Inspector General is tentatively planning to begin a follow-on review of the housing program during late 2003.

USAID also required that a private accounting firm conduct a concurrent audit of a USAID-funded health clinic being implemented by AmeriCares, a U.S.-based PVO that provides medical supplies overseas. According to USAID officials, this was done because AmeriCares had no experience implementing a USAID-funded program and was working through a Salvadoran nongovernmental organization to carry out the construction.

USAID Applied Lessons Learned from Hurricane Recovery Program

When the two earthquakes struck El Salvador in early 2001, the USAID mission was winding down its recovery efforts associated with Hurricane Mitch, which struck Central America in November 1998. As it had done

¹According to USAID officials, the Court of Accounts has received USAID technical assistance and training for more than 7 years, and its capabilities improved substantially during that period.

²USAID Regional Inspector General, *Audit of USAID/El Salvador-Financed Housing Reconstruction Activities*, 1-519-03-001-P (San Salvador, El Salvador: Nov. 19, 2002).

for the hurricane recovery program,³ USAID contracted with numerous PVOs that had previously worked for the mission. USAID also contracted with fewer U.S. agencies to help implement the program than it had hired during the hurricane recovery program that began in 1999.

USAID contracted with at least five PVOs that it had previously worked with to implement earthquake recovery projects because, according to USAID officials, using organizations that have proven to be capable and reliable reduces the likelihood of misuse of funds and corruption. USAID had previous or ongoing agreements with some of these organizations under its regular development program. As a result, USAID was familiar with the capabilities and qualifications of staff that would be carrying out the projects.

Also on the basis of its hurricane recovery program experience, USAID signed agreements totaling about \$5.8 million with four U.S. government agencies (see table 1). These agencies provide technical assistance, training, disaster mitigation, and quality control for numerous project activities. USAID officials told us that they selected these agencies because they had (1) experience working abroad; (2) staff that possessed Spanish-language skills; or (3) technical skills and expertise that supported USAID's program.

³For a discussion of hurricane recovery efforts, see U.S. General Accounting Office, *Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, [GAO-02-787](#) (Washington, D.C.: July 24, 2002).

USAID Has Made Progress in Some Activities, but Others Are Behind Schedule or Did Not Meet Original Target Completion Dates

Table 1: U.S. Agencies with Agreements to Assist with USAID's Earthquake Recovery Program and Budgeted Funding Amounts

Dollars in millions

U.S. agency	Funding	Program goal
Centers for Disease Control and Prevention (CDC)	\$2.2	Strengthen the National Health Surveillance System.
U.S. Army Corps of Engineers (USACE) ^a	2.1	Provide quality control of construction activities.
U.S. Geological Survey	1.3	Enhance disaster preparation and response capabilities with training, technical assistance, and equipment.
National Oceanic and Atmospheric Administration	0.2	Train Salvadoran technicians in disaster mitigation issues.
Total	\$5.8	

Source: USAID.

^aUSAID funding to USACE expires December 31, 2003. According to USAID officials, additional funding will be needed to enable USACE to continue its work through the end of the program because some construction projects are not scheduled to be completed until the end of September 2004.

USAID has spent a substantial amount of its funding for the earthquake recovery program and made progress in implementing a number of the program's components, but USAID did not meet its initial schedule for constructing houses and most of its other construction projects are behind schedule, including health facilities, municipal buildings, and local markets. As of March 31, 2003, USAID had expended about \$58 million (36 percent) of its \$159 million in earthquake recovery funding. USAID has made progress in several earthquake recovery construction projects, including housing, potable water systems, and child care centers. USAID also has made progress in some nonconstruction projects, such as supporting micro- and small businesses and assisting farmers. However, as of the end of March 2003, FONAVIPO, the government housing implementer responsible for building the largest number of houses, had completed only about two-thirds of the houses it was initially scheduled to finish by September 2002. In November 2002, USAID revised FONAVIPO's scheduled completion date for the initial building phase to September 2003. Several factors have affected USAID's implementation of some program activities, particularly housing construction. At the start of the program, for example, USAID encountered difficulties certifying land titles, getting approval for locations of building sites, and attracting qualified contractors to build small numbers of houses in remote communities that were widely

dispersed throughout the earthquake-affected areas. Later, USACE inspectors found that housing implementers consistently had problems constructing houses completely and correctly.

USAID faces challenges that may lead to increased health and security risks at a particular housing site as well as difficulties sustaining the operations of a USAID-funded health clinic that AmeriCares is implementing. USAID is aware of these challenges and has taken some actions to address them. USAID is coordinating with local government and nongovernment officials in an effort to assist families at the housing project to pay for water and electricity services through monthly installments. Additionally, in recognizing the potential sustainability challenge of the health clinic, USAID required that the implementing organization conduct extensive analyses during its planning and design phases so that a solution can be reached prior to the cessation of USAID support.

USAID's earthquake recovery program consists of about \$159 million that it plans to expend by September 30, 2004. USAID was able to begin some recovery activities soon after the earthquakes struck by redirecting ongoing project funding into earthquake recovery projects.⁴ Expenditures vary considerably by activity. Table 2 explains the earthquake recovery activities, funds budgeted, and funds expended as of March 31, 2003.

⁴Redirected funds total \$22 million (14 percent) of USAID's overall \$159 million in recovery program funding and are comprised of \$12 million and \$10 million for fiscal years 2001 and 2002, respectively.

Table 2: USAID Earthquake Recovery Assistance Budgeted and Expended, as of March 31, 2003

Dollars in millions

Recovery program activity	Budgeted	Expended	Percentage expended
Construction activities			
Housing	\$103.5	\$37.4	36
Potable water systems	9.5	7.3	76
Schools	7.5	0.2	3
Municipal infrastructure	5.0	0.0	0
Public health facilities	4.7	0.8	16
Local markets	3.0	0.0	0
Small infrastructure projects	1.2	0.4	34
Child care centers	0.9	0.3	30
Subtotal	\$135.4	\$46.4	34
Nonconstruction activities			
Micro- and small business	\$7.0	\$2.3	33
Disaster mitigation	6.6	1.5	23
Agriculture	3.9	2.6	67
Other ^a	3.8	3.8	100
Subtotal	\$21.3	\$10.2	48
USAID program management	2.4	0.9	38
Total	\$159.1	\$57.6	36

Source: USAID.

Note: Figures do not add to total due to rounding.

^aIncludes various funding for training, technical assistance, purchases of computers and other equipment, and operating costs for some health activities.

USAID Has Made Progress in Some Projects

USAID has made progress in several earthquake recovery construction projects, including housing, potable water systems, and child care centers. As of the end of March 2003, about 7,500 houses had been completed and 27 potable water systems, serving nearly 70,000 persons in rural communities, had been built. The water systems, some of which include wells and underground pipes that are particularly vulnerable to earthquakes, are crucial in maintaining health standards and controlling diseases. USAID also has made progress in repairing and reequipping 11 child care centers serving poor families. USAID plans to complete 30 of these centers, which allow low-income mothers to work outside the home

and school age girls, who otherwise might have to stay home and care for younger siblings, to attend school. As of the end of March 2003, USAID had expended about \$267,000 (30 percent) of the \$900,000 budgeted for the centers.

In addition, USAID has made progress in some nonconstruction projects, which typically can be started more quickly because they do not require lengthy design, procurement, and construction phases. These projects provide loan programs, training, and technical assistance. Specifically, to assist micro- and small businesses recover from earthquake damages, USAID provided grants that have helped more than 2,500 persons, including nearly 2,000 women, in earthquake-affected departments. We interviewed microentrepreneurs who were able to restart their home-based businesses, including bakers whose ovens were destroyed and seamstresses whose sewing machines were no longer usable. Progress also has been made in assisting farmers in earthquake-affected areas, including providing technical assistance to broaden the farmers' opportunities to export agricultural products.

USAID Construction Projects Have Not Progressed as Planned

Despite some progress, USAID construction activities, notably housing, have not progressed as originally planned and many are currently behind schedule. In particular, by the end of March 2003, after about 15 months of construction, FONAVIPO had completed fewer than 2,000 of approximately 3,000 houses it was originally scheduled to finish in September 2002. Construction projects involving schools and health facilities also are behind schedule, in part because USAID and the government of El Salvador had differing positions regarding facility designs and items to be included in the projects. Construction of municipal buildings and local markets has not started because the selection, design, and contracting processes took longer than originally anticipated.

Housing Activities Did Not Meet Original Target Dates

USAID's housing construction program did not meet its original completion dates, as planned. Overall, approximately 26,400 houses are scheduled to be completed in two phases, including about 7,500 during Phase I and 18,900 during Phase II. Table 3 provides a detailed breakdown of progress in meeting Phase I of the housing construction program.

Table 3: USAID-Funded Houses to Be Built and Completed during Phase I, as of March 31, 2003

Housing implementer	Houses to be built during Phase I	Phase I houses completed ^a as of March 31, 2003	Percentage completed
FONAVIPO (government of El Salvador's housing agency)	3,050	1,973	65
Private voluntary organizations			
Cooperative Housing Foundation	1,315	1,315	100
Samaritan's Purse	1,248	1,248	100
CARE	1,009	1,009	100
World Vision	325	325	100
Catholic Relief Services	300	300	100
Save the Children	300	300	100
Subtotal	4,497	4,497	100
Total	7,547	6,470^b	86

Source: USAID.

^aCompleted houses are those that implementing organizations have submitted to USAID for inspection; some may not have been inspected or given final approval.

^bAs of March 31, 2003, PVOs had also completed an additional 1,014 houses under Phase II. Thus, the total houses completed for the entire program was 7,484.

The PVOs' Phase I deadlines for completing houses varied between June and October 2002. Some of the PVOs completed their Phase I houses on time but others did not. As of the end of February 2003, PVOs had completed all 4,500 of the Phase I houses they were responsible for building. In contrast, FONAVIPO was initially scheduled to complete over 3,000 houses by September 2002 but, at that time, had only completed 600, less than 20 percent.⁵ Recognizing that FONAVIPO had experienced problems in meeting its original September 2002 completion date for completing its Phase I houses, USAID met with FONAVIPO in November 2002. On the basis of these discussions, USAID approved a revised plan that established September 2003 as the date when FONAVIPO is to complete its Phase I houses. The revised plan includes additional financial requirements and other minor modifications. However, the revised plan does not include

⁵As shown in table 3, as of March 31, 2003, FONAVIPO had still completed fewer than 2,000 houses.

interim milestones for USAID to benchmark FONAVIPO's progress in building and completing houses.

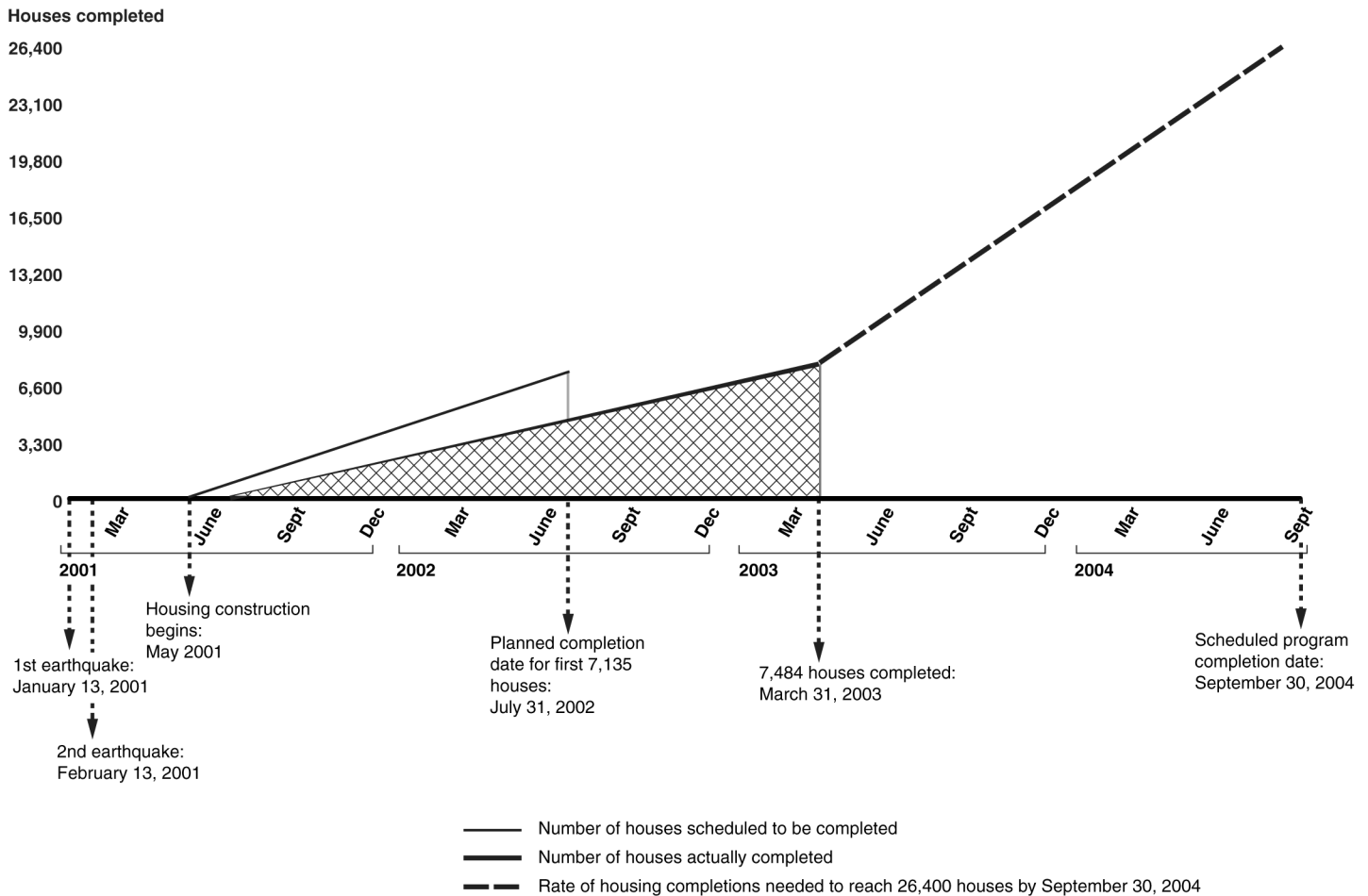
FONAVIPO did not complete its construction of Phase I houses as initially scheduled for several reasons. Specifically, its housing construction process involved more planning and coordination than did the PVOs' process. Unlike the PVOs, FONAVIPO was required to plan and coordinate its program with a local nongovernmental organization, which involved more time than PVOs needed for similar activities. According to USAID officials, FONAVIPO's planning and coordination has improved as the program has evolved.

USAID's Regional Inspector General reported that FONAVIPO fell behind schedule because it had inflexible payment procedures that caused liquidity problems for some of its contractors. FONAVIPO initially did not pay its contractors until houses had been inspected by USACE and approved by USAID. As a result, the contractors lacked the resources to continue to work. USAID worked with FONAVIPO to develop a system that provided contractors with incremental payments. In addition, FONAVIPO was slow in assigning supervisors to monitor the performance of its contractors. USACE inspectors identified the problem, and USAID officials immediately discussed the issue with FONAVIPO. The situation improved when FONAVIPO increased supervisors' accountability by establishing a list of supervisors assigned to each work site.

To Achieve Overall Housing Goal, USAID Must More Than Double Output

To achieve USAID's goal of completing more than 26,400 houses by the end of September 2004, USAID housing implementers will need to complete over 1,000 houses per month. However, for the 1-year period ending in February 2003, an average of only about 410 houses per month were completed by all of the housing implementers combined. As previously shown in table 3, FONAVIPO had completed fewer than 2,000 houses after about 15 months of construction, averaging about 130 houses per month. However, FONAVIPO is scheduled to complete nearly 7,000 more houses in the upcoming 1-1/2 year period, an average of nearly 400 houses per month. USAID Mission officials told us they are confident that FONAVIPO can meet its goal as scheduled because they expect the pace of housing construction to increase substantially during 2003 and to continue more quickly throughout the remainder of the program. Nevertheless, it may be difficult for USAID to reach its goal by September 30, 2004, given the limited progress it has made to date. Figure 5 shows a timeline of USAID's housing program, with the number of houses scheduled and completed.

Figure 5: Timeline of USAID's Housing Program and the Number of Houses Scheduled and Completed



Source: USAID.

Several Factors Have Slowed Housing Construction

USAID housing implementers have experienced difficulties in their housing construction efforts because of several factors. At the start of the program, the difficulties included certifying land titles, getting approval for locations of building sites, and attracting qualified contractors to build small numbers of houses in remote communities that were widely dispersed throughout the earthquake-affected areas. As Phase I neared completion, USACE found that housing implementers have consistently had problems constructing houses completely and correctly. Also, implementers have not

consistently applied environmental and disaster mitigation measures in the communities we visited, provided health and sustainability training to beneficiaries, or ensured that beneficiaries build retaining walls and perform other environmental and disaster mitigation measures, as required.

Title Certification Caused Delays

USAID experienced initial delays in its housing program because of its requirement that houses be built only for beneficiaries with clear title to their property. Many Salvadorans whose houses were destroyed in the earthquakes had no legal proof that they owned the property on which their house had stood. Many other potential beneficiaries who had documentation provided incomplete or incorrect information to the Institute for Freedom and Progress (ILP), a Salvadoran government agency responsible for investigating and certifying land titles and other legal documents. Further, at the outset of the program, ILP was burdened with a large number of applications as many implementers tried to start their programs. Housing starts were delayed because implementers had to wait weeks for approval to begin construction. As the program moved forward, USAID, its housing implementers, applicants, and ILP improved their processes and coordination. According to USAID officials, the processes for identifying potential beneficiaries, submitting applications, and approving land titles has improved substantially. USAID officials stated that, because ILP has expedited its processes, it currently has little or no backlog.

Establishing a USACE Office in El Salvador Took Time

USAID housing construction activities also did not proceed as quickly as USAID had planned because of delays in USACE's establishing a full-time, in-country presence and hiring staff. As a result, some implementing organizations were not able to begin construction as planned because they had to wait for USACE site inspections and approvals.

USAID officials told us that they had expected USACE to hire a program manager and at least three staff engineers soon after the two agencies signed an agreement in July 2001. However, although temporary USACE personnel visited El Salvador frequently, the permanent manager and staff were not hired until November 2001, and USACE's El Salvador office was not fully staffed until March 2002. USAID officials added that, during the period when the USACE office was not fully established and staffed, the backlog of site inspection requests grew. According to USACE officials, an interim manager temporarily managed USACE's efforts until the permanent position was advertised and filled. USACE officials added that the delays in

establishing the office and staff resulted from administrative processes required by the U.S. embassy.

Housing Implementers Have Had Difficulty Ensuring Houses Are Built Completely and Correctly

USAID has had difficulty getting housing implementers to ensure that contractors build houses correctly and completely. In our review of USACE inspection reports and our periodic visits to housing sites, we found few indications of major problems with materials used to build USAID houses (e.g., cracked floors or walls made from poorly manufactured blocks). However, we frequently found substantial problems, such as roof supports that were improperly connected to walls, and other problems, such as metal windows and doors that were not functioning properly. Also, USACE inspectors have frequently found houses (1) in which some key elements had not been painted completely; (2) where sinks and latrines had not been installed; (3) where retaining walls had not been completed; and (4) with adjacent older damaged buildings that had not been destroyed, as required. In addition, on follow-up visits, USACE inspectors have repeatedly found that problems they had previously pointed out to implementers had not been corrected. During our visits to housing sites, we noted instances in which the implementer had failed to provide required components, such as latrines, washbasins, and retaining walls to protect houses from erosion. We also visited a community in which the housing implementer had sealed the wastewater collection pits, preventing beneficiaries from adhering to the requirement that the pits be periodically cleaned to minimize environmental impact. (USAID did not renew its contract with this implementer for Phase II housing construction.) Despite such problems, however, during our site visits, beneficiaries expressed satisfaction with the new houses and stated that the houses were better than the ones they lived in prior to the earthquakes.

USAID and USACE officials have taken actions to improve the quality of houses that implementers are building. During our October 2002 visit to El Salvador, we raised concerns about USACE's methodology for selecting houses for inspection and then submitting them to USAID for final approval. Following our visit, USAID issued detailed procedures that USACE and the implementers are required to follow in their work. USAID also conducted additional quality control training that implementers were required to attend. USAID officials stated that the training was useful in reinforcing the principle of "building back better" and that, since this training was given, the quality of construction by all implementers has improved.

USAID's housing implementing organizations have sometimes neglected their responsibilities to ensure that beneficiaries comply with USAID disaster mitigation guidelines. Beneficiaries of the housing program agree to (1) build retaining walls, if needed, to keep rainwater from causing site erosion and (2) demolish damaged structures near new houses that may present danger in the event of another tremor or earthquake. During our site visits, we found communities in which three PVO housing implementers had not enforced requirements. We discussed this issue with several officials of housing implementing organizations who told us they had informed the beneficiaries of the requirements but that it was the beneficiaries' responsibility to do the work. Many of the beneficiaries told us that they had not destroyed the damaged structures, particularly ones that were still partially intact, because the structures were useful for storing food, tools, and equipment.

Implementers' training of housing beneficiaries has been inconsistent. Soon after the program started, some beneficiaries told us that the implementers had not provided the required health and sanitation training. Also, during our visits to five different implementers' housing sites, some beneficiaries told us that they had never cleaned their wastewater collection pits and did not know how often they should do so. In contrast, beneficiaries in numerous other communities told us they had been trained in, and were complying with, all other requirements, such as periodically cleaning the pits. We discussed this issue with USAID officials, who reminded the implementers of their training responsibilities. During our subsequent discussions with housing recipients, we found that the training had improved substantially.

Four Nonhousing Construction Activities Did Not Begin on Schedule

Besides housing, four other construction activities did not start as USAID had scheduled. These projects, which are budgeted to receive approximately \$29 million, include rebuilding schools, health facilities, municipal buildings, and local markets. Reconstruction for all four of these activities was scheduled to begin from July to November 2002. However, as of March 31, 2003, reconstruction of seven schools had just started and the other three activities had not begun, as shown in table 4.

Table 4: Status of Other Construction Activities and Key Dates

Construction activity	Scheduled start date	Status and comments
35 schools to be rebuilt and reequipped	July 2002	Status: Started February 2003. Comments: • USAID found that some schools not affected by the earthquakes had been submitted for reconstruction. • USAID and the government of El Salvador had differing viewpoints on the designs. • USACE rejected some proposed designs.
5 public health facilities to be rebuilt	August 2002	Status: Not yet started. Comments: • Four facilities are in the bidding process and one is being designed. • USAID and the government of El Salvador had differing viewpoints on the designs.
5 local markets to be rebuilt	October 2002	Status: Not yet started. Comments: • A bid protest involving one market is currently under review by the El Salvador Supreme Court. • Four markets are still being designed.
22 municipal buildings to be rebuilt or repaired	November 2002	Status: Not yet started. Comments: • USAID originally planned to rebuild 40 municipal buildings. • Some municipalities rebuilt the buildings on their own. • Some funds will be reprogrammed to other activities.

Source: GAO synthesis of USAID information.

USAID's program to reconstruct and reequip approximately 35 schools, originally scheduled to begin during late 2002, did not start on schedule. USAID officials stated that the process for planning and designing school buildings was more lengthy than anticipated because they had difficulty reaching agreement with the Salvadoran government's Ministry of Education on some of the designs and building specifications. Specifically, the Ministry submitted some schools for reconstruction that had not experienced earthquake damage, and its designs for school buildings did not include the handicap access ramps that USAID required. In contrast, according to Salvadoran government officials, USAID's designs did not include certain recreational and community-oriented facilities that the government wanted to enhance the schools' function as a center for

community activities. These issues were resolved and in early February 2003 school construction started.

Construction of health facilities has not begun as scheduled. As previously shown in table 4, USAID planned to begin repairing or rebuilding five clinics in August 2002. The process of designing the facilities and hiring contractors has been lengthy, and, as of March 2003, work had not begun.⁶

As noted in table 4, USAID's plan to reconstruct five local markets also has not proceeded as planned, in part because of delays resulting from USAID's preconstruction requirements. The requirements for the markets included hiring supervisory firms; awarding contracts for designs; and soliciting, reviewing, and awarding bids for construction. Construction of one market was delayed because of a bid protest and is currently being reviewed by El Salvador's Supreme Court.

Finally, USAID's original plan to repair and reconstruct up to 40 municipal buildings, scheduled to begin in November 2002, is behind schedule, and the planned number of buildings has been reduced. Under the original plan, the Salvadoran government was to construct 10 buildings and PVOs were to construct 30 buildings. Several municipalities performed their own reconstruction work, and some buildings were found to have suffered less damage than was initially assessed. Therefore, USAID has scaled back its plans to repair or reconstruct 22 buildings. Eight buildings that suffered more severe damage will be rebuilt by the government, and 14 buildings requiring fewer repairs will be contracted out through local nongovernmental organizations. According to USAID officials, work was expected to begin in March 2003.

USAID Faces Potential Sustainability Challenges in Two Projects

USAID faces challenges regarding the long-term sustainability of two of its recovery activities. In one community where USAID built houses, the residents may experience increased health and security risks because they cannot afford the cost of potable water and electricity. In another area, a health clinic that AmeriCares is building with recovery program funds may not be able to sustain its operations after September 2004, when USAID

⁶The Centers for Disease Control and Prevention (CDC), a U.S. agency, is implementing a nonconstruction health-related activity that also did not start as USAID planned. As of March 2003, CDC's \$2 million project to strengthen the National Health Surveillance System was just getting under way.

Housing Settlement Could Face Increased Health and Security Risks

funding ends. USAID officials told us that they are aware of these challenges and have been reviewing potential solutions.

The residents of El Guarumal, a newly created resettlement community comprising 270 houses, may face future health and security problems because of a lack of electricity and water. The houses in this community, built for some of the poorest victims of the earthquakes, have indoor flushing toilets and hookups for electricity and potable water. (Fig. 6 shows USAID-funded houses in El Guarumal.)

Figure 6: USAID-Funded Houses in the Community of El Guarumal



Source: GAO.

In January 2003, we found that most of the houses had been completed and that some of the beneficiaries had already moved in. However, according to USAID, only 34 percent of the residents had connected to the electricity and none had connected to the potable water system because the costs of connecting to the electricity and water are roughly \$90 and \$300 per

household, respectively. These costs are prohibitive for poor families because they had to earn less than \$288 per month to qualify for the program. Without electricity, residents face potential safety risks, particularly at night. Without water, residents also face increased health risks due to unsanitary living conditions. We discussed these concerns with USAID officials, who told us that they had contacted government and nongovernment organizations and were currently coordinating with them to find a solution to the problem, including making financing arrangements so that residents could make monthly installments to pay for the connecting costs.

Health Clinic Could Face Sustainability Challenge

USAID provided AmeriCares with \$2 million to build a new health clinic in the city of Santiago de Maria, provide the clinic with equipment and supplies, and help operate the facility through September 2004. However, after that date, USAID assistance ends. The clinic is currently under construction and scheduled to be completed and equipped by June 2003. USAID and AmeriCares both acknowledged that the clinic is likely to require additional funding to continue operating at its planned level, in large part because the fees it will charge for services are not likely to generate sufficient revenues to cover operating costs. They also stated that raising fees would likely make the facility unaffordable for many of the clients it is intended to serve.

USAID recognized the sustainability problem from the project's outset. As a result, USAID required AmeriCares to include detailed sustainability analyses in its project proposal before the project began. In the analyses, AmeriCares examined various demographic aspects of the community, such as the income level of clients, the existence of other health facilities in the area, and other relevant data. As of March 31, 2003, however, no additional sources of funding had been identified. Without such funding, the clinic will likely face difficulties operating with the planned level of services after September 2004.

USAID Coordinated with Other Donors and the Government of El Salvador

USAID coordinated with other international donor organizations at various levels and with various El Salvador government ministries and institutions to assist with disaster preparation, mitigation, and response. USAID coordinated its program activities in an effort to ensure that it was not duplicating others' projects. During our periodic visits to El Salvador, we met with numerous government and nongovernment organizations and

community members and found no evidence that USAID was duplicating the efforts of other donors.

USAID participated in the international response and coordination of earthquake recovery efforts. In March 2001, the international donor community, including USAID, met in Madrid, Spain, to discuss how to assist El Salvador in recovering from the estimated \$1.7 billion in damages caused by the two earthquakes. The meeting, chaired by the Inter-American Development Bank, provided a forum for the government of El Salvador to present a comprehensive list of damages and estimated recovery costs. At the meeting, the United States and other bilateral and multilateral donors pledged \$1.3 billion in assistance, consisting of \$300 million in funds redirected from existing programs and \$1 billion in pledges of new funds. Approximately \$700 million of the new funds pledged consists of loans and \$300 million consists of donations. Also, USAID periodically meets with other key donors, including the European Community and Spain. USAID officials told us that these meetings enhance their understanding of others' activities and prevent duplication of effort.

In El Salvador, USAID mission officials at various levels have coordinated with the government of El Salvador and with other donors. USAID has routinely participated in periodic meetings hosted by the government's Ministry of Foreign Affairs, the lead agency for donor coordination. These meetings provide a forum to discuss ongoing and planned earthquake recovery projects. In addition to these higher level meetings, USAID staff routinely meets with leaders and residents of communities and municipalities to discuss needs and concerns in earthquake-affected areas.

During our periodic visits to El Salvador, we met with numerous government and nongovernment organizations and community members and found no evidence that USAID was duplicating the efforts of other donors. USAID's recovery program has not duplicated others' efforts due, in part, to the overwhelming reconstruction needs of El Salvador, many of which remain unmet. Following the earthquakes, an assessment undertaken to determine the extent of damages had found that over 300,000 houses, 1,200 schools, and 150 health facilities were damaged or destroyed. Prior assessments had shown that, even before the earthquakes, El Salvador had a serious housing shortage for low-income people. During our periodic visits to El Salvador, we visited numerous communities where USAID projects were under way and met with community leaders and members. During these visits and discussions, we found no evidence that

USAID was duplicating the recovery efforts of the government of El Salvador or other donors.

Conclusions

Although USAID's earthquake recovery program in El Salvador has made some progress, several key efforts are currently behind schedule or did not meet their original completion dates. As of the end of March 2003, reconstruction of local markets and municipal buildings had not started, as planned, and school reconstruction had just gotten under way. In addition, housing construction—the largest activity in terms of scope and budget—did not meet its initial target completion dates. Much of the delay in housing construction is with the Salvadoran government housing agency, FONAVIPO, which is responsible for building the largest number of USAID-funded homes. In November 2002, USAID extended the Phase I target completion date for FONAVIPO to September 2003. However, USAID's revised agreement did not establish interim milestones to benchmark FONAVIPO's progress in building and completing houses. Over the past 12 months, FONAVIPO and the PVO implementers hired to do this work had completed about 400 houses per month. Implementers will have to significantly accelerate the pace of their efforts and complete more than 1,000 houses a month if USAID is to meet its overall goal of constructing nearly 26,400 houses by September 30, 2004. Thus, it may be difficult for USAID to complete its recovery program within this time frame, as planned.

Recommendation for Executive Action

To ensure that USAID achieves its goal of constructing over 26,000 houses by September 30, 2004, we recommend that the USAID Administrator take action to accelerate construction activities and establish interim milestones to benchmark its progress and determine whether program goals will be met. Also, if warranted and to the extent possible under existing agreements, USAID should consider reducing the number of houses to be built by the government of El Salvador's housing agency (FONAVIPO) and increasing the number of houses to be built by private voluntary organizations with a proven record of meeting construction goals.

Agency Comments and Our Evaluation

USAID provided written comments on a draft of this report (see app. II). USAID concurred with the report's findings regarding its oversight and accountability measures and its coordination efforts. USAID agreed with

our recommendation that it take action to accelerate construction activities and indicated that it has already taken corrective action to accelerate the pace of FONAVIPO's housing construction. USAID said that its current revised plan will permit completion of the housing program within the overall time frames. In reviewing the November 2002 agreement between USAID and FONAVIPO, we found that no interim milestones had been established against which to measure progress. Accordingly, we modified our recommendation to state that USAID should establish interim milestones to determine whether FONAVIPO and other housing implementers are making progress in meeting the overall goal of constructing 26,400 houses by September 30, 2004. USAID also provided technical suggestions and clarifications that we have incorporated into this report where appropriate.

In addition to USAID, we requested comments from the U.S. Army Corps of Engineers. Although the Corps did not provide written comments, they provided technical suggestions and clarifications that we have incorporated into this report as appropriate.

We will send copies of this report to interested congressional committees as well as the Administrator, USAID; Commander, U.S. Army Corps of Engineers; and the heads of other agencies participating in the recovery assistance program in El Salvador. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4268 or at fordj@gao.gov. Other contacts and staff acknowledgments are listed in appendix III.

A handwritten signature in black ink, reading "Jess T. Ford". The signature is written in a cursive style with a large, looping "J" and "F".

Jess T. Ford
Director, International Affairs
and Trade Issues

Scope and Methodology

To determine whether the program and projects funded by the U.S. Agency for International Development (USAID) and the other U.S. departments and agencies addressed the intended purposes of disaster recovery and reconstruction, we conducted work at the headquarters offices of USAID and the U.S. Army Corps of Engineers (USACE).¹ We also made five trips to El Salvador between July 2001 and January 2003.

The specific details of our work and visits are discussed below.

- In Washington, D.C., we met with officials of USAID's Bureau for Latin America and the Caribbean and with USACE officials to discuss program oversight and the status of their activities.
- In San Salvador, El Salvador, we coordinated with USAID's Office of the Regional Inspector General to minimize duplication of effort and share information.
- In El Salvador, we reviewed USAID's strategies, work plans, and applicable contracts, grants, and cooperative agreements and discussed with USAID and other U.S. officials how their respective programs addressed reconstruction needs. During our visits, we monitored USAID's activities in all sectors of the earthquake-affected areas. In many instances, we visited and photographed sites before the projects began, during implementation, and after completion to provide a basis for comparison.

During these trips, we interviewed representatives of contractors, nongovernmental organizations, El Salvador government ministries and other organizations, and other entities responsible for day-to-day project implementation. Our Spanish-speaking staff interviewed the intended recipients of U.S. assistance. We asked how their homes, livelihoods, and communities had been affected by the earthquakes and how the U.S.-funded projects were helping them rebuild their infrastructure, restore their livelihoods, and provide basic services.

We also reviewed USAID's procedures for oversight and financial controls and met regularly with the firms and organizations hired by USAID to provide program oversight. We followed up with USAID mission staff and

¹USACE's Mobile, Alabama, office is responsible for programs in Central America.

USACE staff to determine whether concerns raised by us and others were being addressed.

To determine whether USAID had coordinated with other U.S. departments and agencies and other international donors, we met with USAID officials in Washington, D.C., and at its mission in El Salvador to discuss USAID's procedures for incorporating the activities of the other agencies into USAID's programs and coordinating with multilateral and other bilateral donors. Finally, we met with host government officials, including mayors and other local officials, to discuss their procedures for ensuring that donor activities did not conflict or overlap and their views on donor coordination.

Comments from the U.S. Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAY 1 2003

Mr. Jess T. Ford
Director
International Affairs and Trade
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Ford:

I am pleased to provide the U.S. Agency for International Development's (USAID) response on the draft GAO report entitled "Foreign Assistance: USAID's Earthquake Recovery Program in El Salvador Has Made Progress, but Key Activities Are Behind Schedule" dated April 15, 2003.

We found the report positive and well documented. We were also pleased with GAO's recognition of USAID's successful oversight and accountability measures for the recovery program and USAID's coordination of recovery efforts with other donors and the Government of El Salvador.

The report further recognizes that progress has been made in the implementation of this high profile \$159 million program, (\$170 million when you include USDA FY 2001 funding) but expresses concern that several infrastructure activities--in particular, the FONAVIPO housing program--are behind schedule. It is important to recognize that when considering the overall program schedule, that USAID El Salvador received \$100 million of the \$159 million over a three month period from April to July 2002, less than one year ago. The final obligation of these funds was made in September 2002. Current progress of the program must be evaluated in terms of when the program funding was made available to the mission. Given these facts, we think that substantial progress has been made.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

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In the latter part of 2002, the FONAVIPO housing program was behind initial schedules, for several of the reasons described in the draft report. By November of 2002, the Mission had carried out a major review with FONAVIPO of the various causes of delays in construction and took corrective measures to put the program back on track. FONAVIPO then developed a new construction schedule based on the program redesign and USAID approved this plan in November (which has been acknowledged by USAID's Inspector General). The program plan still permits completion of the housing program within the overall timeframe of the program. FONAVIPO's construction program has been underway only since January 2002, that is, around 14 months. As of March 31, 2003, FONAVIPO's construction under the revised action plan is on schedule, having completed almost 2,000 houses. The Mission will continue to closely monitor the pace of construction under this program and will take corrective action, as it is required.

The report recommends, with respect to FONAVIPO, that the Administrator take action to accelerate the construction of housing, and that if warranted, the number of houses to be constructed by FONAVIPO should be reduced and that these houses be assigned to US PVOs. As indicated above, the Mission has already taken corrective action to accelerate FONAVIPO's housing construction; and as of March 31, 2003, FONAVIPO was on the revised schedule. As USAID has already indicated to the GAO, the Mission will closely monitor FONAVIPO's construction, and if for some reason it should fall seriously behind schedule, USAID will then consider other alternatives, including transferring some housing construction to PVOs. However, we do not believe that to be necessary at this time. As stated before, USAID believes that the earthquake recovery program, including housing, will be completed by September, 2004.

The report also raises a concern about the sustainability of the health clinic (not a hospital) being built by the NGO AmeriCares, and notes that this concern was identified by USAID early on in the program when this Congressionally-mandated activity was starting. AmeriCares is working on a plan, requested by USAID, for sustainability of the clinic after USAID assistance ends. USAID management has discussed the importance of this plan and follow on action with the President of AmeriCares. AmeriCares is a responsible NGO, with a demonstrated record

See comment 1.

3

of fund raising. They fully expect to combine the results of its sustainability plan with its proven record for fundraising to ensure the long-term sustainability of this important health clinic by September 2004. USAID does not anticipate the need to provide any additional resources for this project.

To update the information provided by the GAO in the draft report, USAID is pleased to provide additional infrastructure results through March 31, 2003: 7,484 low cost houses have been completed, 1,115 more than what was noted in the draft report as of February 28th. 27 water systems have been completed serving 70,000 rural poor; seven schools were under construction; one rural market construction contract and one design contract have been signed and 11 child care centers have been completed and fully equipped.

We would appreciate it, if your report would incorporate the following factual points:

1. Page 2: FONAVIPO was not expected to complete the Phase I construction program by July 2002 as their initial action plan only went into effect in September 2001. FONAVIPO originally projected a one year Phase 1 housing construction schedule which would have ended in September 2002. Based on actual construction implementation and experience, the action plan that was approved by USAID in late 2002, that incorporates FY 2002 funding, commits FONAVIPO to complete Phase I construction by September 2003.
2. Page 3-4: It would be more accurate to say that the \$159 million of funding was made available from the FY 2001 and 2002 budgets of USAID and the State Department, including \$22 million from USAID El Salvador's budget. Congress did not provide funding for the program.
3. Page 5: The earthquake housing construction activity is working in more than 90 municipalities, not 50 as stated.
4. Page 6: The housing construction program requires that beneficiaries have access to water, sanitation, and environmental and disaster mitigation measures, but not electricity. A requirement that the houses

4

must have access to electricity would exclude large areas of the rural sector from being eligible for housing reconstruction.

5. Page 10: One of the factors affecting program implementation that should be mentioned here is the late date at which USAID El Salvador received its FY 2002 budget.

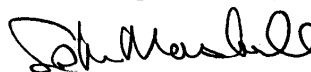
6. Page 11: Twenty seven water systems benefiting approximately 70,000 people have been built, rather than the 23 systems cited.

7. Page 12: FONAVIPO's construction program has been in effect since January 2002, less than 15 months and not 1 1/2 years as mentioned in the report. Construction of municipal buildings is behind initial plans because resources were made available to USAID in June 2002 and, given progress achieved by different municipalities, the program had to be redesigned and a new action plan developed.

8. Page 17: As of March 31, 2003, seven schools were under construction. The report indicated only one school as of 2/28/03.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



John Marshall
Assistant Administrator
Bureau for Management

The following are GAO's comments on USAID's letter dated May 1, 2003.

GAO Comments

1. We revised the text on pages 17 and 18 to note that, in November 2002, USAID extended El Salvador's housing agency (FONAVIPO) Phase I housing construction completion date from the end of September 2002 to September 30, 2003. In reviewing the November 2002 agreement between USAID and FONAVIPO, we found that no interim milestones had been established against which to measure progress. Accordingly, we modified our recommendation to state that USAID should establish interim milestones to determine whether FONAVIPO and other housing implementers are making progress in meeting the overall goal of constructing 26,400 houses by September 30, 2004. We also noted that, as of March 31, 2003, FONAVIPO had completed less than 2,000 (about two-thirds) of the nearly 3,000 houses it was scheduled to complete by July 2002.
2. We added a footnote to table 3 on page 17 indicating that 1,014 houses have been built by private voluntary organizations during Phase II of the housing construction program. We also revised the text on page 15 to reflect other updated information.
3. We modified the text on page 5.
4. We revised the text on page 6 to reflect that USAID was implementing housing activities in 50 municipalities during Phase I and will expand its work to more than 90 municipalities in Phase II of its construction program.
5. We modified the text on page 7.
6. We modified the text on pages 2 and 15.
7. We modified the text on page 18 to reflect this updated information.
8. We modified the text on pages 22, 23, and 24 to reflect this updated information.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Phillip Herr (202) 512-8509
George Taylor (202) 512-9632

Staff Acknowledgments

In addition to the above-named individuals, Reid Lowe and Steve Rossman made key contributions to this report. Other contributors included Christian Cabanilla, Lyric Clark, Jeanette Espinola, Daniel Gage, Jeff Goebel, Al Huntington, and Norman Thorpe.

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