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Auditor General

REVIEW
OF
AGENCY FOR INTERNATIONAL DEVELOPMENT ASSISTANCE
TO
THE CARIBBEAN DEVELOPMENT BANK
RDO/C

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REVIEW OF ASSISTANCE TO CARIBBEAN DEVELOPMENT BANK RDO/C

EXECUTIVE SUMMARY

Introduction

The Caribbean Development Bank (CDB) was established on January 26, 1970 as a regional development bank to promote the economic development of its member countries and the economic integration of the Caribbean region. During the 1970's, AID channeled development resources into the Caribbean area by using regional institutions such as CDB. Between December 18, 1970 and September 30, 1979, AID has channeled $88.1 million into the area by loans and grants through the CDB. The funds have been provided for agriculture and industrial credit, related public projects and housing.

The primary focus of this audit was on loan agreement no. 538-T-006 which was signed on June 30, 1976 for $10 million and was to be completed by October 31, 1980. The goal of the loan agreement is to increase the income and standard of living of small farmers This was to be accomplished through four components of the loan:

-- Agricultural Production Credit -- To make available short and medium term production credits to small farmers through Development Finance Corporations in the less developed countries in the CDB's area.

-- Agricultural Input Distribution -- To assist the development of regional and local agricultural input distribution systems.

-- Marketing -- To assist in motivating, mobilizing, and strengthening analysis and management capabilities.

-- Feeder Roads -- To provide easier and safer access to markets, stimulate land cultivation, and diversify cropping patterns.

Under project agreement no. 76-3 (as amended), AID granted $400,000 to CDB to finance technical assistance services relating to the planning, implementation and evaluation of activities financed under loan agreement no. 538-T-006.

Agricultural and small industrial activities (primarily credit) under five other loan agreements between AID and CDB are being implemented through Development Finance Corporations in the less developed countries (Exhibit A). We included a review of these activities in this audit.

AID monitorship of activities with CDB was centered in AID/Washington until 1976. Since that time, oversight responsibilities have gradually been transferred to the Regional Development Office, Caribbean (RDO/C).

Scope

This audit covers the period from June 1976 through September 30, 1979. We reviewed all activities under loan agreement no. 538-T-006 and project agreement no. 76-3 as well as cash advances and activities being implemented through Development Finance Corporations under the other five loans listed in Exhibit A. Disbursements for these activities were about $5.2 million as of September 30, 1979. Our audit was directed towards a review of the planning, coordination, implementation, and monitorship of activities.

We reviewed files and records maintained by RDO/C and CDB and held discussions with officials of these organizations. During visits to Development Finance Corporations in selected countries, we reviewed records and held discussions on the implementation of AID funded activities. In addition, we discussed program activities with host government officials and various loan recipients.

Conclusions and Recommendations

The small farmers' incomes and standard of living have been little affected by activities financed under loan no. 538-T-006. Even though more than 3-1/2 years have passed since the signing of the loan agreement, only $662,000 of the $10 million available had been disbursed. Problems with the design of the project, utilization of funds for activities not directly related to loan implementation and ineffective monitoring by AID representatives have all had an effect on the delayed implementation of the project. Unless and until these points are effectively addressed by AID management, significant improvement in the implementation of loan activities does not appear likely.

While little progress had been made under the agricultural production credit component, no effective progress had been made under the other three components of loan agreement no. 538-T-006. Limited credit periods (mostly 18 months or less), farm size (25 acres or less), loan amounts ($2,500 or less) and the exclusion of small fishermen and sea island cotton farmers have been deterrents to effective implementation of the agricultural production credit component.

Non allocation of funds by CDB, differing political positions, and lack of proper maintenance capabilities have delayed implementation of the other components. Most of these obstacles stem from the lack of consideration in the original planning of the project to the varied economic, geographical, and political characteristics of the countries involved.

We believe that the project must be redesigned for significant progress to be made. RDO/C has taken initial steps to redesign the project (page 5).

The lack of adequate inputs has been a major constraint to increased agriculture production in the countries served by CDB. To assist in the removal of this constraint, CDB was to provide $1.5 million to establish a regional input system. Because of non-acceptance by participating countries of the idea that regional organizations should be providing inputs, and non allocation of funds by CDB, the manner of how inputs will be provided is still in the discussion stages. It has been 3-1/2 years since the loan agreement was signed and the participating countries we visited still do not have adequate input systems to provide seeds, fertilizer, and chemicals on a timely and economical basis. For example, inputs are not available at support prices but must be bought in the open market at higher prices. Also, chemicals available through commercial outlets are higher priced and information on use is not available (pages 6 and 9).

To make improvements in existing projects and take advantage of past experiences on new projects, timely evaluations of projects must be made. This was not done on activities financed under loan no. 538-T-006. Thus, deficiencies were not identified or corrected at an early date (page 10).

Four hundred thousand dollars have been provided under project agreement no. 76-3 to finance technical assistance to assist in the planning implementation and evaluation of activities under loan no. 538-T-006. Projects financed thus far with over $330,000 of these grant funds do not appear to us to directly support loan no. 538-T-006 activities as was required by the project agreement. We believe the remaining $70,000 in grant funds should be more effectively utilized (page 13).

The CDB credit programs being assisted under several other AID loan agreements have not benefitted the number of small farmers and industries anticipated. Limited efforts, lack of adequately trained personnel, ridged application of subloan provisions, and other cumbersome, time-consuming and inconsistent procedures, have hindered the implementation of effective credit programs. RDO/C should work to reduce the effect of these hindrances (page 17).

Cash advances had been made and remained outstanding for long periods of time under several loan agreements between AID and CDB. RDO/C has taken action to improve its management of these cash advances by carefully scrutinizing requests for all new advances and reviewing outstanding advances on a monthly basis for turnover and continuing need (page 22).

AID's rights to audit project books, records, and other documents have not been clearly stated in loan agreements with CDB.

We believe these rights should be clarified to prevent conflicts in the future (page 23).

AID's monitoring of the activities being implemented by CDB has not been adequate. Although little, and in some cases no, implementation has taken place 3-1/2 years after the loan agreement was signed, AID representatives had not redesigned project activities, had not determined whether loan provisions were being complied with, and had not gotten CDB to assign agreed upon personnel. This is only an example. We believe that RDO/C must establish procedures and schedule field visits, as a minimum, in an effort to improve the monitoring of AID assisted activities being implemented by CDB (page 25).

BACKGROUND

U.S. interests in the Caribbean region stem from geographic proximity, ethnic ties, trade, tourism and U.S. commitment to democracy and human rights. Politically, the region is in a transitional status due to the emergence of several newly independent nations and indications are that manifestation of Cuban influence is continuing. It is in the U.S. interest that the Caribbean maintains viable and progressive economies and stability in governments.

The countries of the Caribbean have common economic and social problems, such as high rates of unemployment, insufficient food production, a growing rural to urban migration, and shortages of managerial and technical personnel. Poverty in the area is to a large extent a function of severe resource limitations, of geographic isolation and of under-development that is characterized by the lack of absorptive capacity, limited capital and inadequate infrastructure, public administration and economic management.

The less developed countries in the area include Antigua, Belize, British Virgin Islands, Caicos and Turks Islands, Cayman Islands, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent. (Barbados is considered by the Caribbean Development Bank to be a more developed country along with Bahamas, Guyana, Jamaica, and Trinidad and Tobago.) These small countries are scattered over 2,000 miles of ocean, they range in size between 102 and 23,000 square kilometers and have populations between 6,350 and 111,500 persons. Altogether, they have a population of about 700,000, and a land area of 26,547 square kilometers (23,000 of which is Belize).

Based on policy decisions, AID programs have been directed towards encouraging regional cooperation among the English-speaking Caribbean countries. During the last decade, AID has selected regional institutions, such as the CDB, to channel development resources into the Caribbean area, and in so doing, to foster the development of regional institutions. AID loans and grants to the CDB started December 18, 1970, and have continued to the present time. As of September 30, 1979, AID loans and grants of $88.1 million have been channeled through the CDB representing 78.4 percent of AID's assistance to the region. The funds have been provided for agriculture and industrial credit, related public projects and housing.

CDB was established in Bridgetown, Barbados on January 26, 1970, as a regional development bank to promote the economic development of its member countries and the economic integration of the Caribbean region. Initial capitalization consisted of equity contributions by member governments (states and territories of the Caribbean area), Canada and the United Kingdom.

The CDB is authorized to establish and maintain special fund resources for making or guarantying loans of high development priority with longer maturities, longer grace periods, and lower interest rates than those applied to ordinary resource operations. AID loans and grants are included in these special funds.

At the start of the AID/CDB relationship, AID assisted programs were developed and monitored by AID/Washington. This continued until mid-1976 when the AID's Regional Development Office/Caribbean (RDO/C) was established in Bridgetown, Barbados. The two-person RDO/C was established to assist in day-to-day monitoring of programs and to assist in resolving implementation problems which might arise.

Since 1976, AID program oversight responsibilities have gradually been transferred from AID/Washington to the RDO/C. The American staff was increased to three in March 1978 and consisted of the AID Representative, a Program Officer and a Loan Officer. A Capital Resources Development Officer was added in April 1978. During June and July 1978, four more technicians came on board (Capital Projects Development Officer, Agricultural Economist, Program Economist, Health and Population Officer). Five more positions (Agriculture Rural Development Chief, Education Officer, Regional Legal Officer, General Agriculturist) were added in September 1978. Currently, the number of positions is fifteen (including a Controller, a Budget & Accounts Officer and an Engineer) of which all but the General Agriculturist were on board as of December 1979. On October 9, 1979, the RDO/C was upgraded to a full Mission.

Most of AID's assistance through September 30, 1979, has been provided to CDB under loan agreements primarily to support agricultural and small industrial activities. CDB implements these activities through agreements it makes with Development Finance Corporations (DFC's) in the countries being assisted. Although the primary emphasis of this audit was on loan agreement no. 538-T-006, we expanded the audit to include activities of five other loans being implemented through DFC's (Exhibit A). The overall purposes of the six loans are as follows:

-- To support CDB's Special Development Fund for promoting development of agricultural and small industry credit, industrial estates, infrastructure, and tourism (Loans 538-L-001 and 538-L-003 Special Development Fund).

-- To establish a Small Farmer Development Program at CDB for financing short and medium term agricultural production credit, agricultural input distribution, marketing and feeder road subprojects. This is for the benefit of small farmers residing in the CDB's less developed member countries (Loan 538-T-006, Integrated Agricultural Development).

-- To address major institutional constraints affecting investment in agribusiness and labor intensive industries (Loan 538-T-007, Regional Agribusiness Development).

-- To provide supplementary economic assistance to countries undergoing strenuous economic adjustments. Subprojects will address basic needs of the poor by developing infrastructure, and increasing services, inputs and employment in urban areas. Also, programs in education and population will be developed (Loans 538-T-008/011, Caribbean Development Facilities).

-- To provide medium and long term credit to small and medium industry and for industrial estates development (Loan 538-W-012, Employment Investment Promotion).

Loan agreement no. 538-T-006 was signed on June 30, 1976 and was to be completed by October 31, 1980. The goal of the project is to increase the income and standard of living of the small farm subsector by stimulating small farmer (one with land holdings, either owned or rented, of less than 25 acres) production and productivity. The loan has four components to be implemented to accomplish the goal of this Integrated Agricultural Development project. The Agricultural Production Credit component is to make available short and medium term production credits to small farmers through DFC's in the less developed countries of CDB's area. The Agricultural Input Distribution component calls for the development of a regional agricultural input distribution project to be financed with $1.5 million of CDB's own funds and the development of local agricultural input distribution systems to be financed with loan funds. The third component, Marketing, is to assist the CDB in motivating, mobilizing, and strengthening its own marketing analysis and management capabilities as well as those of the DFC's and other public and private institutions. The Feeder Road component is to provide the small farmer and his produce with easier and safer access to markets, stimulate land cultivation, and help small farmers diversify cropping patterns.

Project agreement no. 76-3 was signed on June 25, 1976 and, as amended, provided $400,000 in grant funds to complement the funds provided under loan agreement no. 538-T-006. The grant funds were to be used to finance the costs of technical assistance services related to the planning, implementation and evaluation of CDB's Small Farmer Development Program. As amended, activities under the project are to be completed by October 30, 1980. Technical assistance was to be provided in credit, marketing, evaluation and systems analysis.

Scope

The primary focus of our audit was to review the activities being financed under loan agreement no. 538-T-006 and a related technical assistance grant project agreement no. 76-3. The audit covered the period from inception of the loan in June 1976 through September 30, 1979. We also included credit activities of five other loans being implemented by CDB through DFC's (Exhibit A). Our audit was directed toward determining whether:

-- Progress in the implementation of activities was reasonable in comparison with stated objectives.

-- Planning and coordination of activities were adequate.

-- RDO/C monitorship was adequate.

-- CDB monitoring and implementing procedures were adequate.

-- AID-provided resources were being utilized in accordance with terms and conditions of the loan agreement and applicable AID regulations.

-- AID-financed commercial subloans were being administered in an efficient manner and proceeds were being used for established purposes.

Our examination was made in accordance with generally accepted auditing standards applicable to foreign assistance programs, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary. RDO/C project records and correspondence were reviewed, and discussions were held with RDO/C officials and technicians. Also, we reviewed CDB's project records and files and had discussions with bank officials and technicians directly responsible for managing and implementing project activities. During our visit to the DFC's, we reviewed their accounting records and procedures applicable to the administration of AID-funded subloans. Also, we discussed with DFC officials and staff the various projects and problem areas affecting implementation. In addition, we discussed program activities with host government officials and held interviews with subloan recipients (farmers and entrepreneurs) and visited places of business to verify disposition of subloan proceeds.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Project Design of AID Loan No. 538-T-006

The design of the Integrated Agricultural Development project did not give appropriate consideration to the varied economic, geographical, and political characteristics of the countries that were to benefit from loan proceeds.

The project was designed under the premise that all countries in the region were similar and any differences were not significant. In actuality, there are major differences between the countries, institutions and people being served. The socio-economic structure of the countries are significantly different, and different terms were needed to accomplish the overall goal of the project. Because the project design did not recognize these differences, progress has been impeded, and substantially fewer small farmers have received benefits than was originally planned.

Implementation problems which stem from the design of the project are discussed in the following paragraphs.

Agricultural Production Credit Component

Activity under the agricultural production credit component has been limited. As of September 30, 1979, only five agreements had been executed by CDB with DFC's for about 55 percent of the funds allocated for credit. Only $412,000, or 10 percent of funds allocated, had been disbursed. We believe that the restrictions incorporated in the loan agreement, and subsequently included in underlying implementing agreements with the DFC's, have significantly restricted activities. Examples of restrictions:

-- No more than 20 percent of the value of DFC subloans under this credit element can have amortization periods exceeding 18 months. This is not a realistic condition for countries requiring funds for sugar cane and banana production. Credit periods required for these crops are generally 18 to 36 months. For example, in St. Lucia 73 percent of the approved subloans were for banana production and 58 percent of the approved subloans were for periods over 18 months.

-- The farm size limitation (up to 25 acres) may be realistic in countries such as Antigua or Grenada where the average size of a small farm is less than 12 acres, but in Belize where the average size is over 30 acres, this condition is a constraint. In Belize we were told that the farming system -- plot rotating method -- requires that most small farmers own or lease more than 25 acres. However, these farmers normally cultivate less than 25 acres because of the annual rotation of plots. This method maximizes the use of the soil and minimizes the use of fertilizer. The DFC's Manager in Belize believes this restriction should be modified to

include a limitation on the amount of land cultivated and not on the amount of land owned or leased. As further evidence that many more of the participating farmers in the program could benefit by changing this requirement, he showed us that only 228 of an estimated 10,000 farmers were participating in the program.

-- Limiting the maximum amount of a subloan to $2,500, subject to review, but not making adequate provisions for such review, has driven several potential participants to seek credit elsewhere, since their needs exceeded the maximum allowable. For instance, in Belize we were told that qualified applicants had to go to private banking institutions where they can get up to $5,000 at the same interest rate and with less restrictions. On the other hand, limiting the minimum amount of a subloan to $200 has left many small farmers out of the program. For instance, between January 1, and November 16, 1979, the Belize DFC made 38 crop subloans which were financed with non-AID funds, ranging from $40 to $195 and totalling $5,455. This limitation is not geared to help the poorest of the poor. The DFC General Manager believes, and we agree, that this requirement sould be reviewed since the limitation is not geared to help the most needy. Each DFC should be given flexibility in establishing this minimum amount commensurate with its management capabilities.

-- The provision of setting the interest rate "at least equivalent to the effective commercial bank prime lending rates", an AID policy, has left many farmers out of the program. It has been the overriding factor in at least one country, St. Vincent, causing them not to participate in the program. However, there are no statistics available to show the numbers of farmers left out of the program and to indicate how these farmers have satisfied their credit needs.

-- The small fishermen and sea island cotton farmers were excluded from the program. Thus, a segment of the population, which is important to the local economies and is interrelated with the agricultural sector, has not been permitted to participate in loan funded activities. The General Manager of the Antigua DFC told us that small fishing projects and sea island cotton are basic activities in Antigua. The exclusion of these activities precluded over 100 individuals from participating in the program. Also, the Permanent Secretary of the Ministry of Agriculture of the Government of Antigua told us that it was unfortunate the agricultural production credit program could not complement a small fishing project being implemented by the Government. The sea island cotton issue was resolved favorably on August 14, 1979.

Agricultural Input Distribution Component

The agricultural input distribution component called for the development of a regional agricultural input distribution project to be financed with non-AID funds, and the development of local agricultural inputs distribution to be financed with AID

resources. The loan agreement includes a requirement that satisfactory arrangements for the distribution of inputs in each less developed country must be made before disbursement of agricultural production credit loan funds. The implementation of this requirement was dependent on the completion of a regional agricultural input distribution project to make bulk purchases of fertilizers and chemicals for distribution in the less developed countries on a timely and economical basis. In signing agricultural production credit agreements with DFC's in less developed countries and in disbursing funds under this credit program, CDB has not enforced the requirement that satisfactory input distribution systems be available. In the countries visited, we were advised that only inadequate input distribution systems were available. For example, seeds, fertilizers, and chemicals were not available at support prices but had to be purchased from the open market when available at higher prices. The regional project did not materialize because the regional concept has not been fully accepted by the participating countries. The project is still being discussed to decide how to proceed 3-1/2 years after the loan agreement was signed.

Marketing Component

The marketing component was to assist the CDB in motivating, mobilizing, and institutionally strengthening its marketing analysis and management capabilities as well as those of the DFC's and other public and private institutions.

Although 3-1/2 years have passed since the signing of the loan agreement, no disbursements have been made for activities under the marketing component. This is due to various constraints which are national in nature and almost impossible to overcome. For example, there is a reluctance on the part of local marketing boards to allow a regional institution to take over their functions because regional policies might be in conflict with local government policies. Also, there is a desire in each country to have within its boundaries the home of the regional institution as a matter of prestige and influence within the region. Thus, nothing has been done to improve the weak marketing institutions.

Feeder Road Component

The feeder road component was to provide the small farmer and his produce with easier and safer access to markets, stimulate increases in land cultivated, and help the small farmer diversify cropping patterns. To this end, this component contemplates the construction of all-weather minimum standard feeder roads which connect already existing all-weather roads providing links to markets. Feeder road construction was expected to be done in five countries. Only two feeder road subprojects (St. Vincent and Antigua) had been approved at the time of our audit but construction work had not been started.

A requirement of the feeder road component "that proper maintenance capability is installed for specific application to rural feeder roads" is an unrealistic requirement that cannot be met by most, if not all, of the less developed countries, since the resources available are very scarce and limited. This requirement in itself has, to a considerable degree, limited participation. Since local governments lack technical and financial resources to meet this requirement, consideration should be given to relaxing it so that implementation of this activity can be expedited.

The St. Vincent feeder road subproject at a cost of $1.6 million was approved by the RDO/C on February 27, 1979. At the time of our audit, the Government was advertising for the hiring of the consultant services and was in the process of drawing the bids. Construction work is expected to start by mid-1980.

The Antigua feeder road subproject, estimated to cost $688,700, had not progressed beyond the approval stage. Nothing has been accomplished on the subproject since it was approved on August 4, 1978. The subloan agreement between CDB and the Government of Antigua calls for the construction of the road to be performed by contract. However, the Government wants to have the work done by force account to reduce unemployment. Between approval in August 1978 and our review in October - November 1979, RDO/C, CDB, and Antiguan officials have met at various times to resolve the issue without success. CDB has not yielded to the Government's request because in CDB's opinion the Government of Antigua is not adequately geared up to do the work by force account. Also, CDB argues that the reason (reducing unemployment) given by the Antigua Government is not too valid because the construction work could be given to a local contractor. This impasse was to be discussed in a January 1980 (after our departure from Barbados) Board of Directors' meeting and a final decision was to be made at that time.

RDO/C, in response to a draft of this report, advised us that discussions had been completed with CDB which resulted in the issuance of implementation letters regarding the redesign of the project. According to RDO/C, the redesign takes into account the concerns discussed in this section of the report. RDO/C also stated that it has been advised that basically all funds under this loan have been allocated and draw-down will be at a fairly rapid rate.

We have not received the implementation letters revising the project and; therefore, cannot comment on them. Further it is not exactly clear to us how the loan funds have been allocated or how they can be drawn-down at a fairly rapid rate. Therefore, we retain our recommendation.

If CDB does not make its $1.5 million contribution, and the participating countries do not contribute their 10 percent, it will reduce the availability of inputs thus delaying implementation and benefits. RDO/C advised us in its comments on a draft of this report that it will request the detailed status from CDB in respect to participating countries' contributions and will take any necessary follow-up action in compliance with the loan agreement. Since these actions are pending, we have retained the recommendation.

Recommendation No. 2

RDO/C should ensure that the agreed upon counterpart contributions under loan no. 538-T-006 are made.

Evaluation of Loan No. 538-T-006 Activities

Periodic joint evaluations have not been made by RDO/C and CDB as required by governing agreements. Timely evaluations of activities under loan no. 538-T-006 have not been conducted because of limited funds and staff. Consequently, the RDO/C has not benefitted from implementation experiences to improve program operations.

The main purpose of periodic evaluations is to appraise program progress and to see how well the Borrower has met its obligations. These reviews permit early identification and resolution of implementation problems affecting the project. Loan agreement no. 538-T-006 was signed on June 30, 1976 and the first joint evaluation was to be made in November 1977. Even though this program has been beset with multiple implementation problems, the first evaluation was not made until August - October 1979, about two years after it was due.

The August - October 1979 evaluation was conducted by an AID-contracted consulting firm at a cost of $71,000. RDO/C and CDB participation in the evaluation was minimal due to staff limitations. However, the RDO/C and the CDB developed and approved the scope of work of the contract. Also, they reviewed the consultant's draft evaluation report before it was published.

The consultants found serious implementation problems which have been in existence since the inception of the program. The major findings discussed by the consultants are digested below:

-- Program goals will never be achieved under the present framework.

-- AID did less than a thorough job of implementation planning. Basic issues were not identified before loan approval, much less resolved.

-- After project initiation, issues were allowed to go unresolved longer than necessary (e.g. force account construction of the feeder road in Antigua).

-- CDB did not appoint Farm Improvement Officers (FIOs) to the agricultural production credit program.

-- CDB did not comply with the agreed upon counterpart contribution of $1.5 million for the agriculture input distribution component.

-- There was little integration among the four components in the execution of the project. The marketing and input components have not been addressed at all.

The evaluation team concluded that the terminal disbursement date for loan disbursements of October 30, 1980, should be extended for 2 or 3 years. However, a new detailed schedule and implementation plan should be negotiated with the CDB before an extension is granted. The project should be redesigned along the general lines of the original program, but with some redefinition of concept and design. The new plan should focus on those few components, in those few countries where considerable spade work has been done and prospects for expeditious implementation are most favorable. On the other hand, the team also concluded that in the event current AID policy will not permit this substantial extension, limited progress toward meeting program objectives will be accomplished.

The findings, conclusions and recommendations of the evaluation report were to be discussed in a January 1980 meeting between the RDO/C and the CDB to delineate a course of action. The RDO/C as well as the CDB expect to have the terminal disbursement date extended to implement a revised set of objectives for the loan.

We believe the joint effort concept in evaluation is an important criteria that should be adhered to, considering the regional program concept. Joint effort will not only afford RDO/C with an opportunity to have more participation in the implementation of activities but will also help to bridge the existing gap in working with CDB staff and host country officials.

Had loan activities been evaluated as scheduled, some of the deficiencies would have been identified and corrected at an early stage, thus facilitating more efficient implementation. Experience gained in the implementation and evaluation of loan no. 538-T-006 activities should serve as an incentive to RDO/C to take affirmative action to establish joint evaluation procedures and conduct evaluations on a timely basis.

Two other evaluations had been sponsored by the RDO/C and the CDB. The DFC evaluation in Selected Caribbean LDC's completed by a U.S. consultant in February 1979; and the evaluation of Industrial

Estate Loans provided by the CDB conducted by a consulting firm in May 1979. These evaluations reviewed all DFC functions relating to small industrial credit and industrial estate activities. The evaluation reports made numerous observations and recommendations for improving DFC's operations. These evaluations were the basis for subsequently designing and approving the Employment/Investment Promotion II project which provides loan and grant funds for capital and technical assistance activities which addresses the constraints affecting DFC's lending process.

RDO/C officials reasons for not conducting timely joint-evaluations of loan no. 538-T-006 activities were:

-- Grant or loan funds had not been provided for consultant services.

-- TDY assistance from AID/W has been limited.

-- Responsibility for conducting evaluations rested with AID/Washington until November 1977.

-- RDO/C and CDB staff had been insufficient to cope with additional workload.

-- AID/Washington pressure to obligate new projects has left little time to be dedicated for evaluation activities.

We sympathize with RDO/C's problems and find some of its arguments valid. However, we feel that due consideration should be given to the fact that provision must be made to adequately allocate time and staff to oversee and evaluate ongoing projects. This way problems can be identified and resolved at an early stage, thus, facilitating expeditious implementation. The continuance of the present policy of emphasizing the initiation and obligation of new projects, while giving only minimum attention to ongoing programs, will result in a cluster of projects which flounder along with implementation problems and may turn out to be unsuccessful. For example, 75 percent of the originally established implementation time has elapsed and slightly over 4 percent of the funds have been disbursed on loan no. 538-T-006. We believe that staff limitation should not be the overriding factor in limiting the conduct of timely evaluations especially for projects beset with implementation problems as was the case with loan no. 538-T-006.

Recommendation No. 3

RDO/C should establish procedures for conducting joint evaluations on a timely basis.

Use of Grant Funds for Technical Assistance

Grant funds provided for technical assistance activities have not been appropriately and effectively utilized. CDB did not adhere to, and AID did not require adherence to, the criteria established in the grant agreement for the design, selection and implementation of technical assistance projects. Thus, the benefits to be derived from the expenditure of grant funds have not materialized.

Project agreement no. 76-3 was initiated June 25, 1976, and provided that grant funds would be made available to finance the costs of technical assistance services. These services were to have a direct relationship to the planning, implementation and evaluation of CDB's Small Farmer Development Program being assisted by funds from loan no. 538-L-006. The direct relationship between technical assistance services and loan activities was one of the criteria CDB was to follow in determining the technical assistance needed (Section IV of the project agreement).

A total of $400,000 has been made available to finance technical assistance activities under project agreement 76-3. With these funds, advisors were to be provided and training was to take place in credit, marketing, evaluation, and system analysis. As of September 30, 1979, CDB had selected and contracted for five activities at a total cost of $330,585. AID approved all five projects. None of these five projects provided for advisors and little, if any, training was provided in the identified areas of concern. No explanation was provided by CDB or RDO/C officials for the significant change in planned and actual use of technical assistance grant funds.

CDB and AID did not adhere to the criteria established in the grant agreement for the selection and approval of technical assistance activities. Of the five projects selected and approved, all dealt with agricultural sector activities but only two were directly related to loan activities. Of the two projects directly related to loan activities, one project proved unworkable and was dropped when grant funds were exhausted, (Small Farm Recording Systems) and only one of the publications printed under the other project related to loan implementation (Communication and Publicity Program). In our opinion, AID's approval of projects unrelated to criteria established in the project agreement demonstrates a lack of adequate AID monitoring.

Small Farm Recording Systems - $20,000

This project was carried out by the Caribbean Agricultural Research Development Institute in conjunction with the ministries of agriculture and agricultural development banks of respective countries. The specific purpose of the project was not clearly defined but it appears to have been twofold: (1) to provide farmers with a management tool; and (2) to develop and provide data to the pertinent national institutions.

From its inception, the project was plagued with implementation problems requiring constant design modifications. Thus, the final design incorporated a duplicate notebook/diary to be kept by the farmers; periodic visits to farmers by government officials to collect duplicate sheets and to supplement data recorded by farmers; and recording forms to be maintained in a central office and completed from duplicate sheets and supplementary information. The system was not only cumbersome and difficult to maintain but its success rested heavily on the local government's ability to share their already scarce human resources; the farmers' ability to rapidly learn the system; and the farmers' willingness to furnish personal information never provided before. Consequently, after the available funds were exhausted, the project supervisor recommended the project be dropped altogether.

Communication and Publicity Program - $136,396

This project was designed to "assist the LDC's in monitoring a communication/publicity training program designed to assure widespread knowledge among officials and farmers of the existence of the Production Credit Scheme and the conditions of eligibility and to teach small farmers of the proper utilization of credit".

As of September 30, 1979, all $136,396, or 34 percent of the total grant funds, had been obligated for this project. However, the project had not accomplished what was expected.

During our review we were presented with four leaflets published under the program:

-- Control of rats and mice on poultry farms;

-- This is APC, a brief outline of the program;

-- The advantage of the travelling boar system; and

-- Crops for acid soils, a listing of crops suitable for this type of soil.

Of these publications, only one -- this is APC, a brief outline of the program -- addresses the purpose of the loan program.

We were also told that several publications and audio-visual materials were being prepared. However, these publications are technically oriented to crop cultivation and animal care and do not address the original objectives of the project, i.e., the mounting of a publicity campaign to introduce the APC Scheme to farmers and officials and to train farmers in the proper utilization of credit and farm management.

During our field trips we were told by local officials of the need to have a well-planned and sustained program that will not

only promote the AFC scheme but will also aid in the training of DFC's personnel and will train farmers in the proper utilization of credit and farm management. It was the general concensus that the present program is too fragmentated and of little help in having the program developed.

Aerial Cableway Transportation Study - $60,630

This project is being carried out by the Caribbean Agricultural Research Development Institute in cooperation with the Windward Islands Banana Growers Association. The main objective of this project is to make a comparative study of costs of transportation by "heading" (carrying items on a person's head) and by cableway for both outputs (bananas) and inputs (fertilizer, seeds, etc.) and to compare the quality of the bananas arriving at the packing station. The project calls for construction of cableway systems in the Windward Islands of Dominica, Grenada, St. Lucia, and St. Vincent. After delays in getting started, the project is expected to be completed on schedule with the exception of Dominica, where post-hurricane conditions delayed completion.

Trickle Irrigation System - $88,259

The purpose of this project is to design a package of appropriate trickle irrigation systems for use in banana crops by small farmers in the Windward Islands. Three small farmers were selected in St. Lucia. Water used for this system is obtained by gravity feed, thus eliminating the need for pumping. A small wash-out system is also installed so accumulated sediment can be removed. Results obtained thus far have been encouraging with increased yields even during periods of good rainfall. The cost for the system range from $500 to $1,000 per acre excluding freight, water supply development and installation. Cost will decrease as acreage increases.

Updating of Small Farmer Study by CDB - $25,300

This project has just started and consists of an update of a 1975 study made by the CDB of the small farmer in the Caribbean region i.e., Small Farming Study in the Less Developed Member Territories of the Caribbean Development Bank. As of September 30, 1979, no disbursements had been made.

Conclusions

Although two or three of the projects di cussed above may be of some future help, the basic need for technical assistance in the areas of marketing, agricultural inputs distribution, and farmer training in utilization of credit and farm management were not addressed at all. Consequently, we believe that very little consideration, if any, was given to the decision to deviate from the

original plan in the selection of technical assistance projects actually financed.

During our visits to the various countries, we found that the local credit institutions were in need of technical assistance to implement the agricultural production credit program, the only loan component with activity. The general concensus among the officials interviewed was that the technical assistance being provided to the less developed countries was minimal and of little help. In the agricultural production credit program, for example, local institutions have received little or no training in the proper utilization of credit.

In our opinion, the inadequate use of technical assistance funds has been a contributing factor for the slow implementation of activities financed under loan no. 538-T-006. This is particularly true with respect to the agricultural production credit, marketing, and agricultural inputs distribution components, fields in which expertise available at the local level is scarce and which could derive immediate benefits from any technical assistance received.

RDO/C and CDB officials told us new technical assistance projects were being considered to facilitate the implementation of the various AID-funded programs. We were advised that over $1.0 million of AID grant funds would be made available for CDB's technical assistance activities. As of September 30, 1979, about $70,000 of the funds made available under project agreement 76-3 had not been allocated to the completion of any specific project. We believe these funds should be used to finance activities as contemplated by the project agreement.

In its comments to a draft of this report, RDO/C disagreed with our opinion that CDB and AID did not adhere to the criteria established in the grant agreement for the design, selection and implementation of Technical Assistance projects. RDO/C stated that "The banana aerial cableway and trickle irrigation projects were commissioned as adaptive agricultural research directly related to improving productive capabilities of small farmer production. The production techniques developed through these projects, if successful, will be directly related to the agricultural production credit component of the loan. The small farmer study project was commissioned to gather base line information to be used in economic impact evaluations and the other two projects were directly related to project development". RDO/C considers that all projects chosen were selected within the guidelines established in the project agreement.

While the projects selected may technically and legally fall within the terms of the project agreement, we do not believe that most of the projects adhere to the intent of the project agreement, that is, assisting in the implementation of activities financed under loan no. 538-T-006.

Recommendation No. 4

RDO/C should ensure that all remaining funds under project agreement no. 76-3 are utilized to finance advisors and training as specified in that agreement.

Implementation of Credit Programs under Several AID Loan Agreements

CDB's credit programs being assisted under several AID loan agreements have not reached the level of activity contemplated by the governing agreements.

Limited efforts to meet loan terms and conditions; ridged application of subloan provisions; and cumbersome, time-consuming and inconsistent procedures and subloan conditions have hindered CDB's effectiveness in implementing credit programs. Limited numbers of adequately trained personnel; deficient records; and lax collection procedures have prevented the DFC's from fully utilizing available funds. Thus, less than the anticipated number of small farmers and industries have benefitted and production has not increased at the planned rate.

AID began providing funds to the CDB in December 1970 to assist in the implementation of its credit programs. As of September 30, 1979, AID had provided CDB with six loans which included support for credit programs through DFC's of $10.9 million. Of this amount, $4.7 million had been disbursed. It is expected that additional funds will be provided by these six loans to support CDB's credit programs in the future. The funds disbursed by the DFC's were used to provide credit for agricultural production, small industry support, industrial estate development, and agribusiness activities.

The agricultural production credit program, which provides short and medium term production credit to small farmers, has been allocated $4.0 million of the funds provided under loan no. 538-T-006. As of September 30, 1979, CDB had extended loans to five countries totaling $2.2 million of which $412,000 had been disbursed.

The small industry credit (SIC) program, which provides funds for construction, equipment, and occasionally, for working capital, has been funded under loan nos. 538-L-001 and 538-L-003. By September 30, 1979, CDB had extended 24 loans totaling $3.3 million to 10 countries of which $1.7 million had been disbursed. Additional funds will be provided for the small industrial credit program under loan nos. 538-T-007, 008/011, and 012 but no commitments have been made by the CDB with these funds. The industrial estate development program, which provides funds for the construction and development of industrial parks has been funded under loan nos. 538-L-001 and 003. By September 30, 1979 CDB had extended 26 loans totaling $4.1 million to 7 countries of which $2.1 million had been disbursed. Also, additional funds will be provided for the industrial estate program under loan nos. 538-T-007, 008/011, and 012 but no commitments have been made by CDB with these funds.

The agribusiness credit program, which provides funds for Agricultural support activities, has been funded under loan no. 538-L-005. By September 30, 1979, the CDB had extended one loan of $1.4 million of which $451,000 had been disbursed. Additional funds will be provided for agribusiness projects under loan nos. 538-T-007 and 008/011.

With the exception of funds disbursed under loan no. 538-L-001, which allocated and disbursed $2.2 million for small industry and industrial estates subprojects, credit activities under the remaining loans were very limited. For instance, only $412,000 or 19 percent of the funds allocated under loan no. 538-T-006 for the agricultural credit program have been disbursed to the small farmer since the inception of the program on June 30, 1976, a period of more than 3 years. To further illustrate, the agricultural production credit program has been established in 5 of the 11 countries authorized by loan no. 538-T-006. At the time of our review, two additional applications for the establishment of agricultural production credit programs in Cayman Island, and St. Kitts-Nevis-Anguila were being considered by the CDB to establish an APC. Even if these applications were approved, only a minor increase in credit activity could be expected. The countries are very small with little agricultural activity. In addition, countries with ongoing agricultural production credit programs do not expect a tangible increase in activities from the current level unless program requirements are modified as discussed in other sections of this report.

The main reasons for implementation delays of the CDB's credit programs are discussed below:

-- CDB's laxity in complying with program requirements -- The Project Paper of loan no. 538-T-006 required that "satisfactory arrangements for the distribution of inputs in each LDC, will be a pre-condition to AID-financed CDB subloans for agricultural production credit (APC) in the LDC". Also, Section 5.02(a) of loan no. 538-T-006 provides that the borrower covenants and agrees "to insure that appropriate measures are taken for increasing the availability of agricultural inputs in those LDC's where AID loan funds are to be utilized for agricultural production credit". However, agricultural production credit subloans were extended to DFC's but input arrangements were never made even though the project provided $2.5 million for this purpose. Input arrangements were not improved because of the lack of acceptance of the regional project as discussed on page 9 of this report. We found no evidence that AID had attempted to get the regional project moving. The non-compliance with this covenant, which was never waived by AID, has been a determining factor for the slow implementation of the credit component. For instance, the lack of sound inputs distribution arrangements were forcing farmers in Antigua, who had received loans under agricultural production credit, to pay high prices for onion and carrot seeds, when available, and plowing services were also very difficult to obtain.

-- Loan no. 538-T-006 requires that the CDB assign a farm improvement officer to each intermediary institution to provide in-country supervision of the agricultural production credit program and related technical assistance. Although loan funds totaling $500,000 were available for this purpose, CDB never assigned farm improvement officers to the DFC's, with the exception of St. Lucia's. (The St. Lucia's farm improvement officer resigned in June 1979 and the position has been vacant ever since.) The reason given by CDB for not appointing these personnel was that credit volume did not justify their assignments. This position deviates from the intent of the program since the main responsibility of the farm improvement officers was to manage and, with their in-country supervision, to promote the APC program. In addition this represents a non-compliance with a loan requirement which had not been waived by AID. The need for farm improvement officers' services was evident at the three DFC's we visited. Farmers were not fully aware of the existence of the agricultural production credit program and agricultural extension officers were not receiving adequate information and assistance for promoting the program. In Belize, for instance, when a credit application is received it is the DFC who makes the determination as to what funds should be used. A recent evaluation report, August - October 1979 on loan no. 538-T-006 highlighted the importance of the farm improvement officers' participation in the agricultural production credit program and recommended their appointment as a condition to the extension of the terminal disbursement date for the loan.

-- CDB's inflexibility in applying subloan provisions -- Subloans with the DFC's include conditions which are not realistic, thus not adjusted to the individual country needs. For instance, the subloan for a small industry credit in Antigua provides that the net worth of prospective borrowers should not exceed $36,807, a requirement of loan no. 538-L-003. The DFC's Small Industry Loan Officer of Antigua told us that this net worth limitation was a problem for approving subloans. Prospective borrowers that could participate in the program normally exceed the net worth requirement. This Small Industry Loan Officer further stated that a three-bedroom house is worth over $25,000, and if its value is added to the value of furniture, vehicle, other personal items and business property, the individual's net worth would exceed the limitation. This would be the case of a middle class entrepreneur, the prospective subborrower of the small industrial credit program. The Small Industry Loan Officer went on to say that as a minimum the net worth limitation should be increased to around $73,000.

The General Manager of the Antigua DFC complained that CDB approval was required for all subloans under the SIC program regardless of the amount involved. This requirement, in addition to the time consuming (6 to 7 weeks) approval process, negates the opportunity for institutional building as the DFC is operating as a rubber stamp institution having no decisions to make. This General Manager feels, and we agree, that some degree of responsibility should be

delegated in approving small industrial credit subloans to make them feel they are operating as an institution. After all, the DFC's should be in a better position to judge and evaluate potential borrowers since they know the people and the projects. Therefore, some operating decisions should be delegated to the DFC's for approving small industrial credit subloans.

-- CDB's reimbursement procedures are too cumbersome, too time-consuming and inconsistent -- CDB requires detailed financial reporting along with supporting documentation for all agricultural production credit transactions. General Managers of DFC's feel this requirement is unrealistic for a program of this type. In addition, we found the procedures were not consistently applied. In the agricultural production credit program, for instance, the St. Lucia DFC only furnishes payroll sheets while the Antigua DFC provided all supporting receipts, invoices and payroll sheets regardless of the amount. On the other hand, the Belize DFC has on occasions been reimbursed without having to submit any documentation. Also, the DFC General Managers of Antigua and Belize told us that CDB cumbersome procedures had forced them to use DFC's own resources rather than AID funds to finance both small industrial credit and agricultural production credit loans.

-- CDB's conflicting subloan conditions -- While AID is trying to make agricultural credit available to marginal farmers who have no access to commercial credit by minimizing traditional collateral requirements, the CDB lending conditions have not been relaxed to reach marginal farmers. For instance, in Implementation Letter No. 1, issued on September 13, 1976, AID set out the criteria and methodology that CDB should use in selecting and approving subprojects under loan no. 538-T-006. AID required that only crop liens be used as collateral for agricultural production credit subloans. However, CDB has continued to require secured marketing arrangements which marginal farmers cannot provide as they are not organized. We found no evidence that AID has seriously attempted to get CDB to relax its lending conditions to reach the marginal farmer with funds provided under loan no. 538-T-006. The General Manager of the Belize DFC told us that the bulk of the small farmers in Belize do not meet the credit requirements of the agricultural production credit program (marketing arrangements and land tenure) so their participation in the agricultural production credit program has been limited.

-- DFC's do not have a uniform or planned method of promoting the agricultural production credit program -- Primarily they rely on the agricultural extension officers and the agricultural information officer. However, materials and campaigns developed by the information officer were considered inadequate by all DFC's we visited. The information provided was too fragmented and too sophisticated for the small farmer.

-- DFC's do not have a farm improvement officer specifically appointed to work in the promotion, supervision, and administration of the agricultural production credit program -- In the DFC's we visited, it appears the agricultural production credit program is secondary to other DFC programs and farmers are served on a first come first served basis. In Belize, for instance, it is the loan officer who makes the determination whether or not to use agricultural production credit funds in processing subloans.

-- DFC's do not have adequate personnel required to carry out some of the project evaluations and appraisals -- In most instances loan officers get involved in the process of helping the prospective subborrowers in completing their subloan applications and subsequently evaluating them thus jeopardizing the objectivity of the loan officers.

-- DFC's deficiencies in the maintenance of records and documentation -- A reserve account for the risk premium being collected on the agricultural production credit program has not been set up in some of the DFC's we visited. Documentation in most individual loan files was incomplete. For example, in Belize copies of loan agreements did not have the manager's signature. Checklists of loan preconditions were missing from all but one of the files examined.

-- Lax collection procedures -- With the exception of Belize, which is in the process of implementing a uniform set of guidelines, collection procedures were found to be lax and inconsistent. For instance, accounts are not being aged on a timely and consistent basis delinquent reports are not being prepared regularly and foreclosure procedures are not promptly initiated.

-- Indiscriminately recycling of funds -- With the exception of the Belize DFC, we found that funds were being indiscriminately recycled at the other DFC's.

We believe that before significant progress can be made in CDB's credit programs action must be taken to get compliance with the provisions of loan agreements, improve procedures and train personnel. In the August - October 1979 evaluation of loan no. 538-T-006, it was recommended that if the terminal disbursement date was extended changes and adjustments should be made in the credit program. The evaluation report recommended that agreement be reached on the use of farm improvement officers, regulations and guidelines should be reviewed and amended to make credit available to a wide range of individuals, and technical assistance should be provided to improve the DFC's capabilities in approving, recording and collecting loans. We believe that the recommendations made in the evaluation report are valid and should be implemented. We have no additional recommendations to make.

Improper Management of Funds Advanced Under Loans to CDB

Funds advanced to the CDB under several AID loans have not been properly managed by RDO/C. Operating requirements were not known or frequently reviewed. Consequently, advances were made which were not needed or used on loan activities for extended periods of time thus unnecessarily increasing the cost to the U.S. in providing assistance.

Each of the loans reviewed contained provisions for making cash advances to CDB to cover operating requirements. That is, to ensure that funds were available to make agricultural production credit loans, AID would make advances to CDB. According to AID policy, these advances were to be limited to 3-months operating requirements. However, we found that nothing was done to ensure that the AID policy was being adhered to.

Between September 30, 1976, and September 30, 1979, AID advanced CDB $6,750,000 under several loan agreements. Information regarding how many of these funds had actually been utilized on implementing loan activities was not readily available, but RDO/C records showed that CDB had outstanding advances as of September 30, 1979, of about $5.9 million.

We noted during our review of CDB records that some advances were promptly deposited in interest earning accounts and that the interest earned was transferred to CDB's operating account as interest income. For example, on June 1, 1978 a $250,000 advance under loan no 538-T-006 was made to CDB for the purpose of getting the project started. This advance, which was approved by RDO/C with minimum review, turned out to far exceed the immediate needs of the program. It was never used for project purposes and remained outstanding through September 30, 1979. Interest earned on this advance was transferred to the CDB's operating account. We could not readily determine the total amount of interest earned on all loan advances from CDB's records. CDB has been requested to develop this total and to forward it to RDO/C.

When we discussed the above situation with the newly appointed RDO/C Controller, he agreed with our finding and during the audit initiated corrective action to recover loan advances not being used to further loan activities. Also, he instituted sound policies that should prevent the indiscriminate issuance of advances. As of December 15, 1979, CDB had liquidated over $3 million of the advances, leaving an outstanding balance of $2,842,520. RDO/C advised us that all outstanding advances are reviewed monthly for utilization and turnover rate and such action as required is taken. Therefore, we are making no recommendation.

We requested an opinion from the RDO/C's Regional Legal Advisor regarding interest earned on funds advances under loan agreements.

The opinion states that since the loan agreements with CDB do not include a provision requiring the return of any interest earned there is "no legal basis for AID to claim a right to or a degree of control over the earned interest". However, we question CDB's practice of investing idle funds and appropriating interest proceeds to subsidize its operating expenses. In our opinion, the proceeds from the interest should be returned to the U.S. Treasury as stated in AID's cash management procedures contained in STATE 273219 of October 19, 1979, Section II.D.(1) : "...except where contrary to law, interest earned on federal funds by recipient organizations is promptly paid over to the treasury". If it is not possible to recover interest earned, then it should be reprogrammed for the same purpose as the loans. However, since the AID Handbook is silent in this respect and the subject of interest earned on AID loan advances may have worldwide implications, we are referring this matter to AID's Office of the General Counsel for action.

Recommendation No. 5

The Office of the General Counsel, AID/Washington should make a determination of the final disposition of interest earned on AID's loan advances and request appropriate AID offices to take necessary action.

AID's Audit Rights for Loans to CDB

AID's audit rights are not clearly defined in the loans to CDB and related subloans with the DFC's. The loans and subloans do not include the standard language regarding reports, records, inspections and audit. Thus, AID may be denied the right to audit activities to the level considered necessary in the future.

Appendix 9A-1 of AID Handbook 3 lists standards to be included in loan agreements. In Section B.5 the standards for reports, records, inspections, and audit are given. In subsection (c) it states the borrower will "afford authorized representatives of a Party (AID) the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party (AID) and books, records, and other documents relating to the Project and the Loan". (Information in brackets and underscoring added).

The AID loan agreements with CDB include provisions on the maintenance and audit of records and rights of inspection. However, these provisions are not specific regarding AID's right to inspect (audit) books, records, and other documents. The provisions provide for regular audits by an independent auditor acceptable to AID and that "authorized representatives of AID shall have the right at all reasonable times to inspect financed subprojects and the

utilization of all goods and services financed under the Loan". We believe that a provision which specifically authorizes AID to inspect (audit) books, records, and other documents should have been included in the loan agreements to fully safeguard AID's audit rights.

The bulk of AID assistance (loans and grants) to the English-speaking countries in the Caribbean area is funnelled through the CDB. The CDB, as the borrower and the administering agency, has primary responsibility for overall administration and coordination of this assistance. The CDB channels this assistance to the recipient countries by means of loan agreements between CDB and local governments or DFC's. These loan agreements stipulate that all rights of audit are reserved to the CDB and no provision has been made for audit by other interested parties, such as AID.

We discussed the above situation with the RDO/C Regional Legal Advisor. He is of the opinion that AID's audit rights are clearly established in the loan agreements. According to the provisions of the loan agreements, CDB has to furnish AID any information and documentation requested and the Regional Legal Advisor believes that this protects AID's interests. We believe, however, that the AID audit rights issue should be clarified with CDB for better program operations.

In reply to a draft of this report, RDO/C stated that it was not aware of any instances in which audits, including this audit, have been impeded because of the wording of the above clause. In RDO/C's opinion, this clearly indicates that the wording of the clause is not deficient. While we had no difficulty during this audit, this may not be true at some future time.

RDO/C states that the clause used in the loan agreements is a standard provision taken from AID's model agreement. While the clause in the AID loan agreements with CDB may be a standard provision taken from AID's model agreement, the clause used in the loan agreement is not the same clause as the one shown in the AID Handbook.

The RDO/C Regional Legal Advisor advised us that he does not consider it legally permissible to attempt to change audit rights by unilateral implementation letter. We are not requesting that AID's audit rights be changed, we merely want to ensure that they are clearly defined to avoid conflict in the future.

Recommendation No. 6

RDO/C should issue implementation letters to clearly define AID audit rights on all active loans with CDB and subloans made by CDB.

AID Monitoring

RDO/C's oversight of program activities has not been forceful enough to attain acceptable levels of progress. In some program areas, little effort has been spent in monitoring AID-financed activities being implemented by CDB. Consequently, RDO/C has relied mainly on CDB's reporting to be apprised of program progress, problems and accomplishments. We found some of CDB's reports to be inadequate. Some RDO/C officials contend that AID actions are limited because of the lack of defined procedures outlining the project implementation monitoring process.

Because of the regional concept and policy decision, CDB was given a degree of operational autonomy in carrying out AID programs. For instance, loan no. 538-T-006 provided in Annex 1 that overall administration of the program will be the responsibility of the CDB's agricultural division, assisted by other CDB divisions as appropriate. Based on this authority, CDB, following the project plan, contacted individual states and prepared country plans, selected intermediate credit institutions, made project appraisals, approved projects, appointed project supervisors, entered into loan agreements with DFC's or governments and disbursed funds. These actions were taken in consideration of the general framework of the agreement. While we agree that CDB should be given the freedom to make decisions and implement AID-financed activities, it is necessary that AID officials be aware of what is being done, what problems exist, and make sure that action is taken to improve operations and the accomplishments of stated objectives.

RDO/C has not placed sufficient emphasis on monitoring. This, we feel, is directly attributable to RDO/C staffing deficiencies during the early years of the mission. We noted that although the RDO/C maintained one of the largest programs in the Latin America/ Caribbean bureau, commensurate staff was one of the smallest in number. As a result, as shown in the other sections of this report, implementation problems have not been solved, compliance with the terms and conditions of loan agreements have not been achieved, drawdowns have been slow and AID's new programs are being developed without benefit of full information on operating deficiencies of existing programs. Loan no. 538-T-006 serves to illustrate this situation as 77 percent of the time has elapsed and only 4 percent of the funds had been disbursed.

Some project managers at RDO/C confirm that their programs are not receiving sufficient monitoring. The RDO/C in conjunction with the CDB does not regularly make field visits to DFC's. Project managers do not become familiar with field personnel and learn first-hand of implementation problems. We visited three countries and discussed this with DFC personnel. In St. Lucia, for example, the Manager of the Agricultural and Industrial Bank told us that only one visit had been made by RDO/C officials during the past year. In the other two countries, formal visits have not been made.

CDB's reports are inadequate to keep the RDO/C project technician fully informed of DFC implementation bottlenecks. Some of the DFC's complaints were:

-- The disbursement documentation procedures were so burdensome that many farmers in St. Lucia who could not write were being exploited by farmers who could write by charging exhorbitant rates for the preparation of pay sheets and other documents required for disbursement purposes.

-- CDB reimbursement procedures were too time consuming and too cumbersome. CDB required detailed financial reporting along with supporting documentation for all agricultural production credit transactions. Thus, insignificant amounts such as $3.38 paid by a small farmer in Antigua for agricultural chemicals, had to be reported. Since small purchases are the biggest volume of the credit utilization, we question the rationale for requesting supporting documents for all agricultural production credit transactions from small farmers. Agriculture production credit should perhaps be supported by farm progress reports prepared by technicians supervising credit rather than by invoices, receipts and payroll sheets.

-- CDB reimbursements were so slow that liquidity problems were being experienced by the DFC's in St. Lucia and Antigua. For example, the National Development Corporation in St. Lucia was behind in making construction payments on the industrial estates program and complained of reimbursements delays of up to 4 months from CDB.

-- Technical and administrative staff were not being provided by local governments in St. Lucia, Dominica, Antigua and Belize.

-- The lack of adequate agricultural services and the absence of sound marketing structures are serious problems affecting the DFC's operation. Plowing services were critically needed in Antigua, and sound marketing structures for vegetable and some other products were lacking in St. Lucia, Antigua, and Belize.

-- Other deficiencies noted in CDB reports were that some subprojects were not timely reported; standard formats were not always completed and mathematical errors were sometimes found in statistical tables.

Despite the inadequate flow of technical information, RDO/C yielded to a request from CDB on August 30, 1978, to change the reporting requirements. On November 14, 1978, RDO/C authorized CDB to reduce the frequency of narrative technical reports from quarterly to annually. This concession was granted in order to accommodate CDB's desire to have its narrative reporting workload reduced.

We believe this reduction in the frequency of narrative reporting would have been merited if the format of the report had been revised in order to provide more comprehensive information. This revised format, with both administrative and technical personnel inputs, would have been useful as a tool in making desk reviews of the ongoing projects.

Even though RDO/C technicians are not a party to the CDB operating decisions, RDO/C needs to maintain oversight responsibilities, needs to be fully informed, needs to know if AID agreements are being complied with and whether matters affecting implementation are being acted upon. To do this, RDO/C must not rely primarily on existing reporting systems, but must obtain first-hand information from observations in the field.

RDO/C's staff has been increased which should help in monitoring AID-financed activities However, we believe that to effectively monitor these activities procedures have to be established and project sites have to be visited.

RDO/C commented in its reply to a draft of this report that we should give a more definitive explanation of what is implied as adequate monitoring, especially in light of RDO/C's unusual relationship with CDB. We believe that regardless of any "unusual relationship" adequate monitoring has to mean that RDO/C knows what's going on, and is in a position to take action to ensure that projects are effectively, efficiently and economically implemented. For example, RDO/C should have known whether participating countries were making required contributions and been in a position to take action. This was not the case at the time of our review (page 9). Also, RDO/C should not have advanced funds to CDB which were not needed to implement project activities on a current basis. We found that RDO/C was not appropriately managing cash advances at the time of our review but has now taken action to improve its operation (page 22). These are only two examples of inadequate monitoring noted during our review. Most of the problems regarding delays in implementation and needs for redesign discussed in this report stem, in our opinion, from a lack of adequate monitoring. We believe that had AID representatives, whether in AID/Washington or assigned to RDO/C, been providing adequate monitoring many of the problems noted could have been resolved and more implementation would have been accomplished at the time of our review.

Recommendation No. 7

RDO/C should establish procedures and schedule field visits to project sites that will ensure adequate monitoring of AID-financed activities.

REGIONAL DEVELOPMENT OFFICE/CARIBBEAN
AID AGRICULTURAL AND INDUSTRIAL LOAN FUNDS ALLOCATED TO DFC's THROUGH CDB AND AMOUNT OF GRANT FUNDS PROVIDED
As of September 30, 1979
(In $000's)

Loan No.		Amount of AID Loan	CDB Loan Value	CDB Disbursements	Balance
538-L-001	Special Dev. Fund - I	10,000	2,197 1/	2,197	--
538-L-003	Special Dev. Fund - II	12,000	6,569 1/	2,128	4,441
538-T-006	Integrated Agricultural Development	10,000	2,163 2/	662	1,501
538-T-007	Regional Agribusiness Development	6,500	-- 3/	--	--
538-T-008/ -011	Caribbean Dev. Facility	20,000	-- 4/	--	--
538-W-012	Employment/Investment Promotion	8,400	-- 5/ 6/	--	--
	Total	66,900	10,929	4,987	5,942
		Grant Amount			
Grant Agreement No. 76-3		400		330	70

Explanatory Notes

1/ Represents loan proceeds channeled through the DFCs for commercial credit to farmers, entrepreneurs, local institutions, and national governments.

2/ Project Paper allocated $4.0 million for the APC program. In addition marketing sub loans up to $100,000 would be made through the DFC's.

3/ Nothing specific has been allocated for DFC's commercial lending, but the loan agreement provides $5.2 million for private sector lending of which individual sub loans up to $100,000 would be handled by DFC's.

4/ No specific amounts have been allocated to DFC's. However, $2.0 million have been set aside to finance local currency costs and limited amounts of foreign currency costs of selected projects at the less developed countries.

5/ The loan agreement provides $3.9 million for the financing of small and medium industry and industrial estate credits. The remaining $4.5 million would be for direct lending to private and public sectors.

6/ DFC's and commercial banks will have access to use loan resources for sub loans up to $100,000.

LISTING OF RECOMMENDATIONS

Recommendation No. 1 - Page 9

RDO/C should redesign the project financed with funds from AID loan no. 538-T-006 to ensure that: individual country needs and characteristics are appropriately considered; workable goals and benchmarks are established; and baseline data are collected.

Recommendation No. 2 - Page 10

RDO/C should ensure that the agreed upon counterpart contributions under loan no. 538-T-006 are made.

Recommendation No. 3 - Page 12

RDO/C should establish procedures for conducting joint evaluations on a timely basis.

Recommendation No. 4 - Page 17

RDO/C should ensure that all remaining funds under project agreement no. 76-3 are utilized to finance advisors and training as specified in that agreement.

Recommendation No. 5 - Page 23

The Office of the General Counsel, AID/Washington should make a determination of the final disposition of interest earned on AID's loan advances and request appropriate AID offices to take necessary action.

Recommendation No. 6 - Page 24

RDO/C should issue implementation letters to clearly define AID audit rights on all active loans with CDB and subloans made by CDB.

Recommendation No. 7 - Page 28

RDO/C should establish procedures and schedule field visits to project sites that will ensure adequate monitoring of AID-financed activities.

EXHIBIT C

LIST OF REPORT RECIPIENTS

	Copies
Deputy Administrator, AID/W	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC), AID/W	1
Assistant Administrator, Office of Legislative Affairs (LEG), AID/W	1
Controller, Office of Financial Management (OFM), AID/W	1
General Counsel, GC, AID/W	1
AID Representative, Regional Office for Caribbean Programs, Bridgetown, Barbados	5
Country Officer, ARA/CAR, AID/W	1
Director, LAC/DP/PO, AID/W	3
Director, OPA, AID/W	1
DS/DIU/DI, Room 813, SA-18, AID/W	4
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