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Auditor General

IMPROVEMENTS ARE NEEDED IN A.I.D.'S ASSISTANCE PROGRAM IN CAPE VERDE

Since 1975, AID has provided \$30 million in economic assistance to the Government of Cape Verde. The impact of this assistance can be enhanced if AID improves the implementation of the assistance program by requiring better oversight and more stringent planning. For example, the financial viability of AID-financed desalination projects is questionable. As a result, the Government of Cape Verde may be required to provide large subsidies which it cannot afford to keep the projects operating once they are completed.

Audit Report Number 80-75

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Area Auditor General, Washington
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EXECUTIVE SUMMARY

Introduction

AID economic assistance to Cape Verde has totaled nearly \$30 million since 1975. Food assistance, provided under the P.L. 480, Title II program, has comprised a large share of AID's assistance. This assistance is predicated on Cape Verde's inability to raise more than half its annual food requirements and its lack of foreign exchange to procure much of its remaining food needs commercially. Indications are Cape Verde will be dependent on donor food assistance for the foreseeable future. Other aspects of AID's economic assistance program have been designed to be consistent with, and supportive of, the Government's National Emergency Plan and long-term development priorities. Such assistance includes the employment generating Rural Works Project, the Primary and Non-Formal Education Project and two water desalination projects.

Purpose and Scope of Review

The purposes of this review were: (1) to assess the results of the AID assistance program in Cape Verde, (2) to determine whether the program was effectively and efficiently managed, and (3) to ascertain whether AID funds were expended properly and in compliance with AID policies and procedures. The review included an examination of the program records, site visits and discussions with appropriate Government of Cape Verde and AID officials.

Implementation of the P.L. 480, Title II Program Needs Improvement

In our view, the need for better AID planning and oversight of the P.L. 480, Title II program is illustrated by the following:

- Commodities, having a value of \$2.1 million, were provided without a binding Transfer Authorization. Providing commodities without a binding agreement is contrary to U.S. regulations (pages 2-3).

- A total of \$789,000 of sales proceeds generated under the P.L. 480, Title II, Section 206 program was improperly used to defray storage and distribution costs because AID is not adequately monitoring the local currency proceeds generated. Moreover, in view of the fact that the Government did not make its detailed records available for audit, raises the question whether it complied with the deposit requirement (pages 3 - 5).

- AID has not taken the necessary actions to convert the P.L. 480, Title II, Emergency Relief Program to a regular socio-economic development program. The use of emergency relief as a long-term substitute for socio-economic activities is contrary to AID regulations (pages 5 - 6).

- Storage facilities in Cape Verde are inadequate to accommodate the P.L. 480 commodities. Though Subsection B of Section 212 of the International Development and Food Assistance Act of 1977 amends Section 401 of Public Law 480 (Bellmon Amendment) to require a certificate stating that storage facilities are adequate, no such certification was made (pages 7 - 8).

- Donated food commodities are not being properly coordinated by the international donor community as evidenced by the re-export of considerable quantities of commodities. These re-exports should be considered by AID in planning its P.L. 480, Title II, requirements for Cape Verde (pages 9 - 10).

Inaccurate Time and Attendance Records Are Being Maintained On The Rural Works Project

AID has provided \$3.9 million under the Rural Works Project for defraying local currency costs. These funds have been largely used to defray payroll costs. A test of these costs at two locations shows that time and attendance records were not being properly maintained. Unless time and attendance records are maintained properly, the integrity of the payroll cannot be assured (pages 11-13).

The Primary and Non-Formal Education Project Is Behind Schedule

Implementation of the Primary and Non-Formal Education Project has experienced inordinate delays due to the Government's inability to fulfill the Conditions Precedent relating to the construction of the schools. The Government has started to construct two schools on the basis of an "informal understanding" that AID will reimburse it for the cost of construction when the Conditions Precedent are met. No limit, however, has been established for the amount of AID reimbursement (pages 14-16).

The Viability of the Desalination and Power Project Is Questionable

The Sal Desalination and Power Project and the Mindelo Desalination Project will require large host government subsidies. In view of the host government's budget problems, we believe that adequate funds may not be available to fully utilize the facilities when they are ready for operation (pages 17-19).

Summary of Management Comments

In response to the draft report, AID's Country Development Officer/Bissau indicated that appropriate action had been taken to address several of the deficiencies. He did not, however, agree with all the findings. The Development Officer stated that, while the Government has not established a separate fund for P.L. 480, Title II, commodity sales proceeds, "there is no doubt about the fact that the funds exist, as millions of escuelos have been programmed to carry out projects which can be seen with the naked eye." In regard to the storage problem he stated: "There have been no heavy rains in 12 years, all outside stored grain is covered with heavy tarps, is fenced, and has 24-hour guards." Concerning the exportation of food commodities, the Development Officer stated: "It is pure budget support by other donors. The Government does not sell the commodities but barter them for other needed products such as wood from Bissau and Angola."

Conclusions and Recommendations

In our view, AID can improve implementation of its assistance program in Cape Verde by requiring more stringent planning and better oversight. More has to be done to ensure that the Government of Cape Verde complies with such P.L. 480, Title II regulations as accounting for the deposit and expenditure of funds generated from the sale of the commodities. It is not presently known whether the Government is even making the required deposits because the detailed records were not made available to us for review. Arrangements also have to be made to ensure that the Government of Cape Verde will be able to provide sufficient funds for the operations of the Sal Desalination and Power Project and the Mindelo Desalination Project.

Accordingly, we recommend that the Country Development Office/Bissau:

- take steps to: (1) improve its monitoring by evaluating the distribution of P.L. 480, Title II, commodities and (2) determine that the Special Development Account is established and that the funds are being deposited and expended in accordance with the Transfer Authorizations.
- assure and certify that adequate storage facilities are available as a prerequisite to call-forward of commodities as required by the Bellmon amendment to Section 401 of P.L. 480.
- consider future Government of Cape Verde requests for P.L. 480 corn in the context of overall commodity needs, taking into consideration any surpluses existing in other food categories, and donations of other international donors.
- reassess the economic feasibility of the Sal project in view of the fact that increased utilization of the airport has not occurred and fuel costs have risen dramatically since the original analysis, and consider means of ensuring that the project will receive Government support after AID assistance is terminated.

BACKGROUND

The country of Cape Verde comprises ten islands, nine of which are inhabited. The Islands are situated about 335 miles from the African mainland, due west of Dakar, Senegal. The country is a geographic extension of the West African Sahelian zone and consequently is subject to similar geographic and climatic conditions, in particular those related to drought. Cape Verde's population at the beginning of 1979 was estimated at 327,000 of which 70 percent lived in the rural areas. Although it is the smallest Sahelian country, Cape Verde is the most densely populated.

The Government of Cape Verde is in the process of preparing its first National Economic Development Plan and anticipates completing it by mid-1980. To combat the adverse effects of the drought, the Government promulgated an Emergency Plan which has been in effect since October 1977. The Emergency Plan places emphasis on carrying out short-term ad hoc public works projects to alleviate the high rate of unemployment in rural areas. The Government, however, is gradually shifting its emphasis to longer-term developmental objectives. These objectives include increased food production, water resources development and the accessibility of basic services to the majority of the rural communities.

AID economic assistance to Cape Verde has totaled nearly \$30 million since 1975. Food assistance, provided under the P.L. 480, Title II program, has comprised a large part of AID's assistance. This food assistance is predicated on Cape Verde's inability to raise much more than half of its annual food requirements and the lack of foreign exchange to procure much of its remaining food needs commercially. Indications are that Cape Verde will be dependent on donor food assistance for the foreseeable future. Other aspects of AID's assistance have been designed to be consistent with, and supportive of, the Government's goals for the National Emergency Plan and its long-term development priorities. In this regard, AID's assistance includes an employment generating rural works project, an education project and two water desalinization projects.

The AID program in Cape Verde is administered by the AID Country Development Officer located in Guinea-Bissau (CDO/Bissau). Pursuant to Delegation of Authority Number 140, the ultimate responsibility for the program rests with the Regional Economic Development Services Office West Africa (REDSO/WA) located in Abidjan, Ivory Coast.

Purpose and Scope

The purposes of our examination were: (1) to assess the results of the AID program, (2) to determine whether the program was effectively and efficiently managed, and (3) to ascertain whether AID funds were expended properly and in compliance with AID policies and procedures. Our examination included a review of the program records, site visits and discussions with appropriate Government of Cape Verde and AID officials. The examination was performed in accordance with generally accepted auditing standards and procedures.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

IMPLEMENTATION OF THE P.L. 480, TITLE II PROGRAM NEEDS IMPROVEMENT

A number of deficiencies were found in the implementation of the P.L. 480, Title II Program in Cape Verde. Commodities were turned over to the Government of Cape Verde without a binding agreement. Government officials were unable to provide supporting documentation evidencing the proceeds realized on the sale of the commodities and how those funds were expended. Storage capacity is scarce and requires better coordination of P.L. 480 commodity arrivals. Cape Verde's re-export of donor commodities suggests the need for a higher degree of coordination among international donors. These deficiencies, in our view, are indicative of the need for better planning and monitoring of the program. Details are presented below.

Food Commodities Distributed Without a Transfer Authorization

Commodities, having a value of \$2.1 million, were provided under the P.L. 480, Title II program for fiscal year 1979 without a binding Transfer Authorization signed by AID and the Government of Cape Verde. Providing commodities without a valid agreement is not only contrary to U.S. regulations, but is also reflective of poor management.

The Transfer Authorization constitutes the basic operating agreement governing the ownership and use of P.L. 480, Title II, commodities. It sets forth the amounts, types and value of commodities to be delivered and states the conditions governing its sale or distribution. The latter conditions are of particular importance in the case of Cape Verde. The reason is that most of the P.L. 480 commodities being provided are sold rather than distributed directly to the needy. The local currency proceeds generated from these sales should be deposited to a special account and then used for authorized development purposes. Thus, in view of the nature of this program, it is imperative that the Transfer Authorizations be formalized prior to host country control of the commodities to obviate any misunderstanding regarding the deposit procedures and use of the funds.

The CDO/Bissau tended to minimize the importance of the Transfer Authorization. The explanation was that the Government of Cape Verde was already familiar with the conditions pertaining to past agreements and was not likely to alter its policies. Therefore, in his opinion, it made little difference that the Authorization was formalized after the commodities were turned over to the host country. In our view, the absence of a written agreement for P.L. 480, Title II commodities, which are no longer under U.S. control, constitutes a serious lapse in operating control. It risks conveying to the Government of Cape Verde the impression that the U.S. regards such agreements and the obligations and requirements thereof as unimportant.

In our Audit Report (No. 3-682-78-16, dated March 19, 1978) on the P.L. 480, Title II program in Mauritania, we similarly noted that commodities were being turned over to the host country without a binding agreement. We recommended in that report that AID's Office of Food for Peace take action to prevent similar occurrences. As of the completion of our audit, the Office of Food for Peace had not addressed this problem.

In responding to a draft of this report, AID's Office of Food for Peace informed us that it had taken the following action to address the problem:

"While PDC/FFP cannot ensure that commodities will not be shipped before an agreement has been signed, it is our intention not to do so. FFP is constantly seeking ways to improve the Title II program. One area of concern included the delay in obtaining proper approval of the Transfer Authorization (TA). In order to expedite the approval process of the TA, A.I.D. Handbook 9 has been amended eliminating the Program Approval Request documentation previously required for PL 480, Title II emergency relief and government-to-government programs. The elimination of this document expedites the approval process of the TA, which is the official agreement between A.I.D. and the cooperating sponsor."

The Food for Peace Office also stated that the fiscal year 1979 Transfer Authorization for Cape Verde was signed after completion of our audit.

Unauthorized Use of P.L. 480, Title II, Section 206, Sales Proceeds

A total of \$789,000 was improperly used to defray storage and distribution costs. Supporting documentation, moreover, was not made accessible to us by the Government of Cape Verde to determine whether other local currency proceeds generated on the sale of P.L. 480 commodities were deposited and expended properly.

P.L. 480, Title II, assistance to the Government of Cape Verde commenced in fiscal year 1977. The first year of this program was authorized under Section 206 of P.L. 480 which permits the sales of Title II commodities where there is a strong justification for the U.S. to provide food aid on more generous terms than available under Title I. The local currency proceeds generated from these in-country commercial sales must be deposited in the name of the recipient government in a separately identified "Agricultural Commodity Account". The proceeds in this account are then available to the Government for financing the development purposes agreed upon.

The Transfer Authorization (Number 7601 dated April 8, 1977) for the fiscal year 1977 program, signed by the U.S. and the Government of Cape Verde, authorized the transfer and delivery of 11,500 tons of Title II rice and corn. The Government of Cape Verde was authorized to sell these commodities at the prevailing commercial market rate. According to CDO/Bissau records, the proceeds to be realized from these sales and deposited to the special account totaled \$2,545,300. We found, however, that the Government of Cape Verde only deposited \$1,756,300 to the account. The difference of \$789,000 was used to defray storage and distribution costs.

The Transfer Authorization states:

"All administrative and other costs related to receiving and handling the commodities will be borne by the GOCV. That is, gross proceeds of the sales will be available to finance development purposes agreed upon."

The utilization of funds for storage and distribution costs was not authorized. Yet the CDO/Bissau has made no effort to make the Government of Cape Verde comply with the deposit requirements of the agreement.

In its response to a draft of this report, the CDO/Bissau stated that due to an oversight a waiver for an exception to these requirements was not obtained. It is now seeking an ex post facto amendment of the Transfer Authorization to allow for the deduction of costs related to transportation, handling and storage. In this regard, we agree with the CDO/Bissau that the Government's financial situation warrants such action. Nonetheless, in our view, this action should have been taken at the time the Transfer Authorization was drafted and prior to the distribution of the commodities.

The Transfer Authorization requires that the Government of Cape Verde utilize the sales proceeds deposited in the "Agricultural Commodity Development Account" exclusively for development purposes in the areas of agriculture, rural development and nutrition. To facilitate AID's monitoring of the funds, the Transfer Authorization requires the Government of Cape Verde to provide a quarterly report on the status of the special account until all sales proceeds generated have been disbursed and reported on.

We found that the Government of Cape Verde is providing semi-annual reports in lieu of the quarterly reports required by the Transfer Authorization. The CDO/Bissau authorized this change because of delays in receiving the necessary data from the outlying islands. To verify these reports, we requested the Government to provide us with the records relating to receipts, deposits and expenditure of funds. This request was made on three separate occasions. Each time Government of Cape Verde officials informed us that the records were unavailable, having been sent to Washington. Our subsequent follow-up in Washington indicated that AID officials in the Office of Food for Peace had neither requested nor received the documentation. The Government's reluctance to make the records accessible to us raises the question whether any documentation exists to substantiate that the funds were deposited and expended as reported by the Government of Cape Verde.

Responsibilities for the P.L. 480 program do not terminate when the Government of Cape Verde assumes control of the commodities. AID Handbook 9, Chapter 2B.4 states that:

"AID has the primary responsibility for the administration of the Title II program. AID monitors, advises and assists the cooperating country sponsors in their administration of approved programs."

These responsibilities require that AID be actively involved in program implementation activities. In our view, this includes verifying the existence of the special account and selectively ensuring that the funds are properly deposited and expended from the special account.

The CDO/Bissau, in responding to the draft report, stated:

"The GOCV has been operating their Development Fund using proceeds from food sales in Cape Verde since 1976. There is no doubt about the fact that the fund exists, as millions of escudos have been programmed to carry out projects which can be seen with the naked eye. The one problem CDO has been having is convincing GOCV that within the Development Fund Account they must set up either a separate account for USAID commodity sales proceeds or at least a sub-account within the Development Fund marked 'USAID/GOCV.' The Government has agreed to take action on this subject."

We cannot accept this reasoning as sufficient evidence of the funds' existence, particularly in view of the fact that the activities supported by these funds are virtually identical to the activities funded under the separate Rural Works Project discussed later in this report. Only through an examination of actual account disbursements can it be determined whether the projects "seen by the naked eye" resulted from the P.L. 480 funds. Moreover, while CDO/Bissau states the Government of Cape Verde has agreed to establish such an account, we should note that the CDO/Bissau's efforts in the past have not been adequate. We believe more has to be done in this regard.

Need to Regularize the P.L. 480, Title II, Emergency Assistance Program

AID has been slow in converting the P.L. 480 Emergency Relief Program to a regular social or economic development program.

In fiscal year 1978 the P.L. 480, Title II, program shifted from Section 206 sales to emergency relief. This shift was necessitated by a change in the legislation which requires that local sales proceeds generated from Section 206 commodity sales be used for increasing the availability of food commodities to the neediest individuals in the recipient countries. AID determined that the Government of Cape Verde's use of these funds for rural infrastructure projects, e.g. small dams, roads, etc., would no longer qualify it for Section 206 assistance. It was therefore decided that another P.L. 480 program had to be developed. In the interim AID has provided assistance under an Emergency Relief Program.

AID has provided emergency relief assistance to Cape Verde for the past two fiscal years - 1978 and 1979. Indications are that AID will continue to provide emergency relief in 1980. This use of emergency relief as a long-term substitute for P.L. 480 socio-economic development activities is contrary to AID regulations.

AID Handbook 9, Chapter 7.A.3 states:

"Emergency projects by definition are considered to be temporary and short term in nature, usually less than nine months. While longer term "emergency needs" may arise from such conditions as drought, crop failure, civil strife, or continued influx of refugees, and displaced persons, these situations are to be approached on a case-by-case basis, and as soon as possible converted from an emergency nature to more regularized social or economic development activities."

In our view, the use of emergency relief to facilitate the transition from the Section 206 program to another P.L. 480 program may have initially been warranted. But there is little justification to continue providing such relief indefinitely.

The CDO/Bissau stated in its comments to the draft of this report that it is, at present:

"...attempting to guarantee CV a long-term, 5-year supply of food and has recently completed a Food for Development paper which we hope will result in PL-480 Title II Section 206 or a Title III program. This will eliminate the need for 'emergency' programs."

Inadequacies in AID's Monitoring of the Emergency Assistance Program

The CDO/Bissau has not properly monitored the P.L. 480 Emergency Assistance Program.

P.L. 480 commodities valued at \$1.6 and \$2.1 million were provided under the Emergency Assistance program in fiscal years 1978 and 1979, respectively. Under this program the Government of Cape Verde was to distribute the commodities at no cost to victims of the drought unable to purchase food supplies. It was authorized to sell those commodities not needed for direct free distribution.

Approximately 20 percent of the commodities were distributed directly to the poor in 1978. This distribution was effected through a Government of Cape Verde organization--the Empresa Publica de Abastecimentos de Cabo Verde. Only summary records regarding these distributions were made available to us by the Government. We endeavored to ascertain through records whether this aspect of the program had been effectively implemented. These records, however, disclosed no information indicating that the distribution phase of the program had been reviewed by AID personnel.

The other 80 percent of the commodities provided under the Emergency Relief Program were sold in the commercial market. According to the Government's semi-annual reports provided to the CDO/Bissau, the local currency proceeds realized from these sales were deposited in a special account and used for authorized purposes.

Like the earlier P.L. 480, Title II, Section 206 Program, the Government of Cape Verde did not provide us with the detailed documents supporting the deposit and expenditure of funds generated under the Emergency Relief Program. Lacking this documentation, we were unable to verify whether the sales proceeds were deposited and/or used for the authorized activities to which they were attributed.

AID Handbook 9, Chapter 7.D.1.a, delineates AID's monitoring responsibilities as follows:

"This function covers a multitude of activities which are not limited to the determination of commodity requirements and their actual distribution. This effort is one of project management which includes identifying and reporting anticipated and actual problems and undertaking or catalyzing required actions. It should emphasize such activities as reviewing and evaluating the cooperating sponsor's performance capabilities, the planning process, and the implementation systems employed."

These responsibilities clearly indicate that the CDO/Bissau's responsibilities for the program extends beyond the initial planning stage. Yet there is no indication that the CDO/Bissau monitored activities after the commodities were turned over to the Government. In view of the above responsibilities, we believe the CDO/Bissau must make periodic reviews and evaluations to ensure that the distribution program is being implemented properly. Oversight procedures must also be established to ensure that the local currency proceeds generated from the sales of the commodities are being deposited and utilized as intended. Only through such oversight procedures can AID be sure the program is operating efficiently and effectively.

Inadequate Storage Facilities

Storage facilities in Cape Verde are inadequate to accommodate the P.L. 480 commodities. Moreover, there is no evidence AID made the necessary certification on the adequacy of storage facilities required under the Bellmon Amendment of P.L. 480.

Congressional concern about storage problems and disincentives to agricultural production resulted in the August 1977 so called Bellmon Amendment to Public Law 480. That part of the amendment dealing with storage problems states that:

"No agricultural commodity may be financed or otherwise made available under the authority of this Act except upon a determination...that (1) adequate storage facilities are available in the recipient country at the time of exportation of the commodity to prevent the spoilage or waste of the commodity..."

Compliance with this amendment is mandatory even in the case of emergency programs. Yet AID officials were unable to provide us with any evidence that the necessary certification had been made.

We found that almost 5,000 tons of P.L. 480, Title II corn, unloaded in April 1979 at the Port of Praia, were being stored in an outside holding area near the airport where security was minimal. The area was enclosed by a makeshift fence which could be easily entered. Theft of the P.L. 480 commodities from this outside storage area has occurred in the past and could occur again.

There are six outdoor silos at the Port of Praia holding a total of 3,300 tons. Other warehouses are able to accommodate an additional 4,200 tons. All such storage facilities are presently full. The Director of Stocks at the

Empresa Publica de Abastecimentos de Cabo Verde, a government agency charged with the management and distribution of food, stated that plans existed to expand storage capacity by another 9,000 tons. But it was not known when construction on these facilities would begin. Thus, for the immediate future, storage facilities at the Port of Praia are very scarce.

In Mindelo, the nation's other port, the situation is much better. A new 5,000 ton warehouse had been constructed and P.L. 480 corn was being moved inside on the day of our visit. Officials at Empresa de Abastecimentos told us that it would take only three months to distribute the 5,000 tons which had just arrived.

The following experience is related as a footnote to the seriousness of the storage situation. On our arrival in Praia on June 21, 1979, we noted a large stockpile of bags in a holding area near the airport. We were informed by a Cape Verdian at the scene that the bags contained rice and had been there two years. A request that we be allowed to visit the holding area was later made by the AID Agricultural Development Officer on June 25, and repeated by us directly to Government of Cape Verdian officials on June 29. We were informed that such a visit would not then be possible. Despite repeated requests, we were not permitted to visit the area until July 3, when the goods in question were no longer there.

The Secretary/General of the Ministry of Cooperation told us that the Government would not answer our questions regarding the rice. He would only state it was not U.S.-supplied rice. Our questions regarding where it came from, how long it had been there, or where it was presently located were not answered.

Since the U.S. had supplied 1,500 tons of rice in 1977, we asked to see the records concerning its disposition. We were told again that such records were unavailable, having been sent to Washington. No such records, however, had been requested or received by AID in Washington. In our view, this situation underlines the need for CDO/Bissau to monitor the storage situation closely.

The CDO/Bissau stated in his response to the draft audit report that:

"Storage facilities are adequate. As there have been no heavy rains in 12 years, all outside stored grain is covered with heavy tarps, is fenced, and has 24-hour guards. The new port warehouses have now been completed and will handle 5,000 mts. EMPA is at present building 9,000 tons of additional storage throughout Santiago. Tarrafal warehouse is completed and other area warehouses on Santiago and on other islands are nearing completion. It might take 3 months to use 5,000 tons on the island of Mindelo, but the entire country requirement is 4,000 mts per month. Only two ports are used, Mindelo and Praia. From these ports, all corn is distributed by smaller vessels to the nine islands and they require 4,000 tons of corn per month to support 3-400,000 people."

Exportation of Food Commodities

While the Government of Cape Verde continues to ask for U.S. shipments of corn on an emergency basis, citing an overall annual corn requirement of 48,000 tons, it continues to mill and re-export for profit considerable quantities of excess wheat donated by the international community. In fiscal year 1978, a total of 2,500 tons of wheat flour were exported to Angola alone.

AID regulations prohibit donation of commodities which are the same or similar to those which a recipient country exports. This prohibition does not apply to emergency shipments which are exempted. Yet, the commercial export of flour milled from donated grain is prima facie evidence that either the food deficit situation is not as severe as described by the Government of Cape Verde or donor responses to food requests are not carefully coordinated to minimize surpluses and deficits in all categories of commodities.

A Government of Cape Verde official informed us that, though the Government had not requested wheat from donors, it had received it anyway. The Government, according to this official, could not leave the wheat lying about when Cape Verde had an idle flour mill and extremely close ties to such Portuguese-speaking countries as Angola and Guinea-Bissau where bread shortages existed. Yet we found that in March of 1979, the Government of Cape Verde requested the Government of France to provide 5,000 metric tons of wheat rather than the same amount of corn. We also noted that a United Nations Development Report dated May 31, 1977 showed Cape Verde having a corn deficit of 24,323 tons and wheat surplus of 6,000 tons for the remainder of 1977. At least one donor (Great Britain) reported in August 1977, it would not be delivering any more corn in 1977, but would consider a shipment of wheat in January of 1978. In our view, this situation indicates that a higher degree of donor coordination in the provision of food commodities is needed. If international donors presently supplying wheat were to supply corn instead, the overall food import totals could probably be decreased.

The CDO/Bissau stated in response to the draft report:

"All donor countries know that consumption of wheat is 6-8,000 mts per year. If they give them 10,000 mts, should they let it rot? It is pure budget support by other donors. They do not sell; they barter it for wood from Bissau and Angola. The staple diet is corn and they require 48,000 mts per year. We cannot reduce our corn by the wheat equivalent, since wheat will not make 'cachupa.' Rome keeps all donors advised. CDO reported these small exports from 1977 onward. Other donors have surplus wheat but would have to purchase corn, which they will not do. GOCV requested wheat from France, as France has only Number 3 yellow corn which cannot be used for 'cachupa.' They need Number 2 yellow from the U.S. or Number 1 white dent from Angola (as in the past) or Argentina and South Africa. The GOCV annually purchases commercially 10,000 mts of corn from world markets which shows they are using some of their scarce exchange to help themselves and are not totally dependent on donor countries."

Conclusions and Recommendations

There are serious deficiencies in AID's management of the P.L. 480, Title II program in Cape Verde. Though steps are now being taken by the CDO/Bissau to address these deficiencies, we believe more has to be done. Steps have to be taken to ensure that a special account is established by the Government of Cape Verde for the proceeds realized on the sales of the P.L. 480, Title II commodities and that these sales proceeds are expended for authorized activities. The storage situation should be verified prior to call-forwards as required by the Bellmon Amendment. Moreover, coordination among the donors should be improved in programming food donations. We have accordingly made the following recommendations:

Recommendation No. 1

The CDO/Bissau take steps to: (1) improve its monitoring by evaluating the distribution of P.L. 480, Title II, commodities and (2) determine that the Special Development Account is established and that the funds are being deposited and expended in accordance with the Transfer Authorizations.

Recommendation No. 2

The CDO/Bissau assure and certify that adequate storage facilities are available as a prerequisite to call-forward of commodities as required by the Bellmon amendment to Section 401 of P.L. 480.

Recommendation No. 3

The CDO/Bissau consider future Government of Cape Verde requests for P.L. 480 corn in the context of overall commodity needs, taking into consideration any surpluses existing in other food categories, and donations of other international donors.

RURAL WORKS PROJECT NEEDS TO BE CLOSELY MONITORED

Lack of internal controls in the Government of Cape Verde's payroll procedures indicated considerable potential for abuse in the expenditure of AID funds under the Rural Works Project.

In June 1975, AID provided the Government of Cape Verde with a \$3 million no-interest loan under Section 496 of the Foreign Assistance Act to support the Rural Works Project. At the time the loan was signed, it was agreed that AID would seek legislation to convert the loan to a grant; this conversion was effected in March 1976. The project was then amended in May 1977 to provide an additional \$400,000 grant from the Food and Nutrition Appropriation - Section 103. Again, in September 1978, the project was amended to provide another \$500,000 grant from the Disaster Relief Assistance Appropriation. In total \$3.9 million in AID funding from various AID appropriation accounts has been provided under the Rural Works Project.

The immediate objective of the Rural Works Project is to provide employment opportunities to a rural workforce of which 70 percent are reportedly unemployed. Approximately 10,000 workers are to be employed under the project. These workers are to build dikes in valley areas to catch alluvial soils washed down from the mountain side during sporadic, torrential downpours; to construct retaining walls that prevent further erosion of soils; to provide irrigation facilities; to clear areas of rocks for pasture and crop production. The project design envisions these soil and water conservation works as contributing to the longer term goal of improving and increasing soil and water resources available for crop production.

The Project Paper, AID's design and strategy paper justifying the project, indicated that project activities were to be dispersed over four islands with particular emphasis on the Island of Santo Antao. The areas of project activity, however, were subsequently restricted to the Island of Santiago at the request of the Government of Cape Verde.

We found that the project has been sub-divided into four areas on the Island of Santiago. As of March 1978, the CDC/Bissau reported that the following conservation works had been constructed at these areas:

<u>Subproject</u>	<u>Initial Duration</u>	<u>Starting Date</u>	<u>Dams</u>		<u>Walls</u>	
			<u>Programed</u>	<u>Built</u>	<u>Programed</u>	<u>Built</u>
Seca	12 mos.	1/12/76	836	1,239	2,400	8,424
Picos	12 mos.	1/16/76	940	1,032	2,800	7,160
Domingo	21 mos.	4/16/76	120	18	1,600	2,672
Engenhas	45 mos.	2/05/76	850	129	40,600	8,200
			<u>2,746</u>	<u>2,418</u>	<u>47,400</u>	<u>26,456</u>

A total of \$2.8 million had been expended from AID funds as of April 30, 1979. Government reports indicated that the average number of workers employed per day on the four sub-projects has increased from 1,800 in July, 1976 to over 10,000 by the end of 1978. Thus, on the basis of these reports, the employment objective is being achieved.

Inaccurate Attendance Records

AID initially provided the Government of Cape Verde with two advances totaling \$640,000 to defray salary costs. Subsequent release of AID funds has been based on periodic Government requests in the form of expenditure reports to replenish this advance account.

The documentation supporting the payroll costs are maintained at the Ministry of Rural Development. Our review of these records disclosed no deficiencies. However, to verify that there was an actual person for each name listed, we selected two work sites at Rebiera Orga, sub-project of SECA, to test the time and attendance procedures. At the first job site the attendance list indicated 21 of 24 workers present. Yet we could only locate 9 persons at the job site. At the second job site we could not find 15 of the 69 workers marked present.

Our sample, though small, indicated the potential for considerable abuse in this project. This potential was underlined by the fact that inadequate time and attendance records were maintained by supervisory personnel. Unless these records are properly maintained; payrolls can be padded with non-existent persons or "phantoms."

In response to the draft report, CDO/Bissau stated it was informed by Cape Verdian officials that since our visit occurred on the last day of a pay period, record-keepers had followed a customary practice of completing their records on the day preceding the last day of the period. Last day absentees are then submitted to the Ministry of Rural Development which then adjusts the records. While this explanation may have some basis in fact, we find it strange that: (1) it was not offered to us on the scene, (2) the attendance sheets were still at the job sites on the day we arrived, (3) there were some persons marked "absent" on the last day, and (4) the Government officials with us on that day acknowledged the absences to be a bad situation and sternly admonished the foreman on the scene with regard to the missing employees. The CDO/Bissau also stated in its response that subsequent spot attendance checks have uncovered no further abuses and that two additional Government of Cape Verde monitors have just begun work spotchecking worksites.

Conclusion

AID intends to provide additional funds to this rural development activity under a new, add-on project. Where substantial amounts of funds are turned over to the host country directly for local currency costs, AID is responsible

for taking reasonable precautions to ensure that these funds are used properly. It is our view, given the potential for abuse, that selective, unannounced spotchecks be made by AID personnel to ensure that the time and attendance records are properly maintained. Since the CDO/Bissau said this is now being done, an earlier recommendation contained in the draft report was deleted.

PRIMARY AND NON-FORMAL EDUCATION PROJECT PRE-MATURELY STARTED

Implementation of the Primary and Non-Formal Education Project has been delayed due to the Government's inability to fulfill the Conditions Precedent relating to the construction of schools.

On August 19, 1978, AID and the Government of Cape Verde signed a Grant Agreement under which AID agreed to provide up to \$3 million for the Primary and Non-Formal Education Project. One of the objectives of the project was to construct 60 rural primary schools to replace mostly rented facilities which are seriously inadequate; to construct and equip two industrial art shops which will enable the Government to move toward its goal of non-formal, vocational education; and to construct 15 teacher housing units to attract qualified teachers to the rural areas. The other objective was to provide U.S. technical assistance to design and implement training programs to upgrade the professional capabilities of 200 teachers and administrators. The project was to be implemented over a three year period ending in September 1981.

We found that the project has been slow evolving into the implementation phase. The training element, for example, was to commence in the summer of 1978. To get this phase started AID excluded the funds allocated for training from the Conditions Precedent. Yet the training did not start until September of 1979 or a year later.

The construction element of the project has been delayed due to the Government's inability to fulfill the Conditions Precedent. In the Project Paper, AID assigned responsibility for engineering design and supervision to the Government. Though AID recognized that the Government's Ministry of Public Works was weak technically, the assignment of responsibility was predicated on the expected return of five architects and six engineers who were studying and working abroad. Though these technicians did not return as planned, the Government nonetheless urged AID that construction proceed.

AID agreed that the project should no longer be delayed. It therefore decided that a U.S. consulting engineer be retained on a priority basis to assist the Government of Cape Verde clear the Conditions Precedent and provide increased AID supervision over the construction elements of project implementation. However, as there was some question whether funds for a U.S. consulting engineer could be disbursed before the Conditions Precedent had been met, AID had to amend the grant. Accordingly, in February 1979, AID "carved" out of Conditions Precedent those funds needed to provide the engineering services.

The U.S. consulting engineer arrived in March 1979. Yet even with the assistance of this engineer, the Government has not fulfilled the Conditions Precedent as of the date of our audit. The delay, in our judgment, appeared due to the Government's reluctance to be tied down to the specificity required by the Conditions Precedent; that is, to a complete list of site locations, cost estimates and plans and specifications.

Our review indicated that some initial work on the project was begun by the Government prior to the signing of the Conditions Precedent. This work deviates from the original project objectives. Although the Project Paper envisioned replacing "remote rural classrooms" with 30 new one-room; 20 two-room; and 10 three-room schools, and saw the project as reaching "the most

remote and outlying areas," the Government began construction on two large (four- and six-room) schools located in the capital of Praia itself. The Government has carried out this construction with its own funds. The CDO/Bissau, however, has an "informal understanding" with the Government that AID will reimburse it for the cost of construction when the Conditions Precedent are met. The CDO/Bissau does not know how much these two schools will cost. Nor has a limit been established for the amount of the reimbursement. This action seemed to be in violation of Section 611(a) of the Foreign Assistance Act of 1961, as amended, which states:

"No agreement or grant which constitutes an obligation of the United States Government in excess of \$100,000 under Section 1311 of the Supplemental Appropriation Act, 1955, as amended... shall be made for any assistance authorized under Titles I, II, and VI of Chapter 2 and Chapter 4 of Part I--(1) if such agreement or grant requires substantive technical or financial planning, until engineering, financial, and other plans necessary to carry out such assistance, and a reasonably firm estimate of the cost to the United States Government of providing such assistance have been completed..."

Another aspect of concern in terms of the "informal understanding" is whether the schools will meet acceptable construction standards. We noted some deficiencies in the on-going construction. For example, in some classrooms nonfunctional pillars, added at the insistence of the Government engineers and architects, obstructed vision. How such a problem will be handled with regard to reimbursement is unclear to us.

In commenting on the draft report, CDO/Bissau stated:

"The conditions precedent for subject project have been met and work is underway in seven locations. The substitution of multi-classroom schools is logical as long as population density so warrants and the objective for construction of schools is met; i.e., replacing rented facilities. One must also take into consideration the movement of rural population toward the urban centers; therefore in this case the two multi-classroom schools will be serving the rural population in a most efficient manner.

"AID had an informal understanding that the GOCV could start the schools at their expense, and when our U.S. engineer arrived and upon his review of all records of costs, materials, etc. used in the building, USAID would consider reimbursing GOCV under the project agreement. To date we are not in agreement with costs and if the USAID-financed engineer does not agree to the GOCV cost reimbursement requests, USAID will advise GOCV that they have constructed two schools at their own expense. No U.S. monies have been reimbursed as yet for these two schools."

In regard to these comments, we should point out that the intent of the project was to stem the movement of migration to the cities by providing such basic services as education to the rural area. This intent now seems to have been modified.

Conclusion

AID has agreed to reimburse the Government for the construction of two schools without knowing how much the schools would cost. Also, no limit was established for the amount of the AID reimbursement. Accordingly, in our draft report, we had recommended that AID clarify the criteria for AID reimbursement of the two schools. Since this is now being done, the recommendation was deleted from this report.

DESALINATION AND POWER PROJECTS ARE NOT FINANCIALLY VIABLE

Indications are that two projects financed by AID, the Sal Desalination and Power Project and the Mindelo Desalination Project, will require large Government subsidies to keep them in operation. These projects, in our view, appear to put excessive demands on the budget resources of the Government. There is a strong possibility, in view of the Government's budget problems, that adequate funds may not be available to utilize fully the facilities when ready for full operation.

On March 30, 1978 AID and the Government signed a grant agreement under which AID agreed to provide up to \$6,290,000 to finance a Desalination and Power Project for the Island of Sal. The purpose of the project is to provide potable water and electric power for the 8,000 inhabitants and commercial firms on the island. To this end the AID grant will finance the purchase and installation of a water desalination/power generating plant, a water delivery and distribution system, a power delivery and distribution system and training for the entire staff of water/power, delivery and distribution system.

The largest revenue producing employer on the Island of Sal, and the largest beneficiary of the project, is the International Airport. The airport, which employs 600 people, is presently used by four foreign airlines: South African Airways, Soviet Aeroflot, Portuguese Airlines and Angolan Airlines. One of the economic assumptions contained in the Project Paper is an increased use of the airport by other foreign carriers. The Project Paper mentioned in March 1977 of on-going negotiations with five foreign carriers and listed six others which overflowed the island as potential users. Yet some two years later none of the eleven foreign carriers had been added to airport users.

There is some question, moreover, whether South African Airways will continue to use the airport if other African countries, e.g., Senegal and the Ivory Coast, are permitted landing rights. Thus, the outlook for increased foreign air carrier usage of the airport does not look too promising.

The Project Paper analyzed the economic effect of a discontinuation of South African flights with no increase in landings by other carriers. This analysis indicated a lowering of the internal financial rate of return from seven percent to six percent. While the analysis considers decreased revenues from landing fees and reduced utilization of power and water by consumers, it does not address, in our opinion, the financial impact decreased air service would have on the proposed industries of tourism, shrimp, flower delivery, etc., which would seem to be vitally linked to frequency of air service. We also noted virtually no anticipation of increased costs for fuel to operate the facility. The estimate of fuel costs contained in the Project Paper appears to assume constant fuel costs over the 30-year life of the project.

In our view, the financial viability of this project is overly optimistic. With no apparent growth in the commercial sector, we question whether there will be an adequate consumer base to generate sufficient revenues to cover all recurring project costs. It appears to us that the operating deficits of this project may be indefinitely dependent on Government subsidies. A good example of this happening is the Mindelo Desalination Project which was also financed by AID.

The Mindelo desalination plant, supplying fresh water to the port city of Mindelo on the Island of Sao Vincente, was operating far below its rated capacity of 2,200 metric tons per day because of progressive deterioration resulting from the lack of stand-by equipment, instrumentation, spare parts and trained personnel. Therefore, on January 26, 1977, AID provided a grant of up to \$600,000 to finance the needed stand-by equipment, instruments, spare parts and technical assistance.

The Project Paper dated November 30, 1976, supporting the grant, recognized the deteriorating financial position of the plant and the need for a government subsidy of \$280,000 annually. It suggested that the Government allow the plant management to increase user water charges and place the plant on "break even" basis. The Project Paper stated that a covenant would be included in the grant agreement itself which would require the Government to permit a rate increase or to subsidize plant operations. This covenant, however, was not included in the project agreement. Though the price of water per meter has increased slightly, from \$.83 to \$1.00 per cubic meter for small consumers, this increase was far short of what the plant managers themselves had suggested.

The Mindelo plant is now operating at 50 percent capacity because the new boiler is not yet operational. Yet it is unlikely that the project operating at maximum capacity will be able to generate sufficient funds to maintain the plant without a sizable government subsidy. According to the plant engineer, the plant's average per unit operating costs presently exceed average per unit revenues by approximately 250 percent. The Government's annual subsidy at the present level of production is about \$800,000. Once the project is complete and the plant is operating at maximum capacity, an even greater subsidy will be required. The question is whether the Government will be able to provide this subsidy.

The Government of Cape Verde's recurrent budget has been under heavy pressure. The following table shows the figures for 1976 and 1977 and the estimates for 1978:

	<u>Recurrent Budget (In U.S. Dollars)</u>		
	<u>1976</u>	<u>1977</u>	<u>1978</u>
Receipts	7,948,000	8,873,000	11,448,000
Expenditures	<u>14,303,000</u>	<u>17,121,000</u>	<u>19,047,000</u>
Balance	<u>-6,355,000</u>	<u>-8,248,000</u>	<u>-7,599,000</u>

The 1976 budget deficit was met by the sale of commodities donated by the Netherlands, and in 1977 assistance from Arabian countries and Sweden, which provided \$4.5 million in budget support, helped to finance the deficit. Foreign assistance will likely finance the deficits in 1978 and subsequent years.

It is apparent that the Government of Cape Verde has continuing and serious budgetary problems. Any large Government subsidies needed to operate the Sal and Mindelo projects will consequently exacerbate this situation. Thus, in view of this situation, it is questionable whether the Government of Cape Verde is in a position to provide the subsidies required for the AID projects.

Conclusion and Recommendation

It is our opinion that AID's designers are not adequately addressing the financial viability of projects and the consequences when AID support is terminated. In our view, AID's designers must address this issue specifically. The following recommendation has therefore been made:

Recommendation No. 4

We recommend that CDO/Bissau reassess the economic feasibility of the Sal project in view of the fact that increased utilization of the airport has not occurred and fuel costs have risen dramatically since the original analysis, and consider means of ensuring that the project will receive Government support after AID assistance is terminated.

LIST OF REPORT RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	
The CDO/Bissau take steps to: (1) improve its monitoring by evaluating the distribution of P.L. 480, Title II, commodities and (2) determine that the Special Development Account is established and that the funds are being deposited and expended in accordance with the Transfer Authorizations.	10
<u>Recommendation No. 2</u>	
The CDO/Bissau assure and certify that adequate storage facilities are available as a prerequisite to call-forward of commodities as required by the Bellmon amendment to Section 401 of P.L. 480.	10
<u>Recommendation No. 3</u>	
The CDO/Bissau consider future Government of Cape Verde requests for P.L. 480 corn in the context of overall commodity needs, taking into consideration any surpluses existing in other food categories, and donations of other international donors.	10
<u>Recommendation No. 4</u>	
We recommend that CDO/Bissau reassess the economic feasibility of the Sal project in view of the fact that increased utilization of the airport has not occurred and fuel costs have risen dramatically since the original analysis, and consider means of ensuring that the project will receive Government support after AID assistance is terminated.	19

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator/AFR	5
CDO/Bissau	-
REDSO/WA	3
Cape Verde Desk	3
AFR/EMS	1
AFR/SFWA	1
AFR/IIS	1
Office of Legislative Affairs	1
Office of Food for Peace	1
Office of Financial Management, Controller	1
Office of General Counsel	1
DS/DIU/DI	4
PPC/E	1
Auditor General	1
AAG/EA	1
AAG/EAFR	1
AAG/Egypt	1
AAG/LA	1
AAG/NE	1
AG/PPP	1
AG/IIS	1