UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

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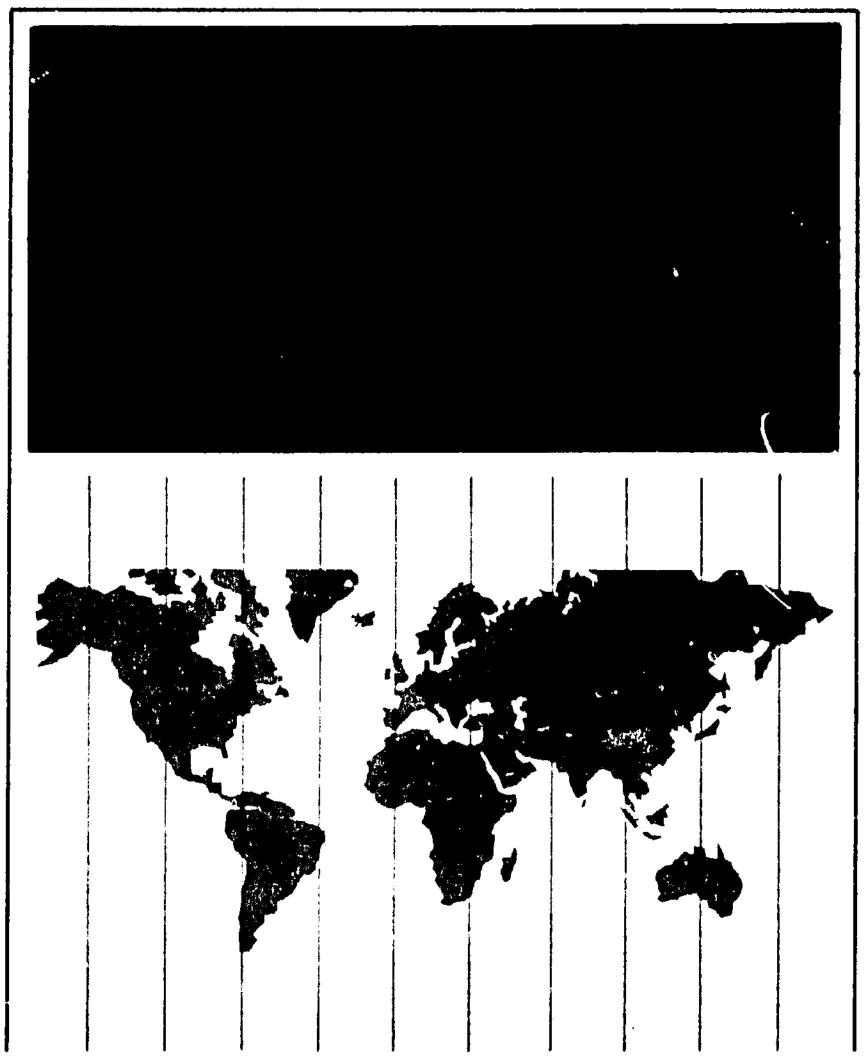

Regional Inspector General for Audit
NAIROBI

USAID/SOMALIA
PL 480 TITLE I PROGRAM

AUDIT REPORT NO. 3-649-82-20
JULY 19, 1982

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Regional Inspector General for Audit
Nairobi, Kenya

July 19, 1982

TO : Mr. James Kelly
Director, USAID/Somalia

FROM : Ray D. Cramer, RIG/A/Nairobi

SUBJECT: Memorandum Audit Report on the PL 480 Title I Program in Somalia
Audit Report No. 3-649-82-20

We reviewed the PL 480 Title I Program in Somalia. The primary purpose of this review was to assess the extent that the Food For Peace program was contributing to AID's overall development program in Somalia. Other purposes were to review the program planning process, the Government of the Somali Democratic Republic's (GSDR) reporting and accountability, and the effectiveness and efficiency of program monitoring.

To afford USAID/Somalia the opportunity to take early corrective measures in areas where we believed management attention was required, we advised the USAID at the exit conference of our findings and proposed recommendations for corrective action. Our findings pertained to:

- The need for a formalized policy regarding the programming and monitoring of local currency generations.

- The need for the GSDR to deposit in the special account about Somalia shillings 95.4 million (US$ 15 million) generated when Title I commodities were sold.

- The need for additional follow-up measures with the GSDR's reporting.

- The need for improved project monitoring

- The GSDR's overburdened absorptive capacity.

Lack of Implementation of Revised AID Policy on Country-owned Local Currency Generated by PL 480 Title I Sales

In June 1976, AID issued AIDTO Circular A-333, subject "Revision of AID's Policy Regarding Participation in the Programming of Local Currency Proceeds of PL 480 Title I Financed Commodities". This circular stated that the Agency's new policy position regarding local currency generations would be an increased involvement.

In accordance with the change in policy emphasis, each mission which expected to generate PL 480 Title I local currency was requested to analyze its situation to determine whether a more active role in counterpart programming would be useful. The mission analysis was to be submitted to AID/Washington by September 1, 1976, and be incorporated in the next Development Assistance Plan revision. Upon receipt of the mission analysis, the regional bureau was to issue a revision to Development Assistance Planning guidelines, and also to set regional policy on counterpart programming for the country concerned.

USAID/Somalia had not replied to AIDTO Circular A-333. Senior USAID officials told us that until recently they were unaware of this circular, let alone any of its requirements. They went on to say that USAID/Somalia's Policy is and has been one of increased involvement. Although the USAID had not provided the required analysis to AID/Washington, neither had the Regional Bureau followed up to obtain it or furnish the USAID with policy guidance.

Prior to our arrival, USAID/Somalia had completed the required in-country analysis. Although the policy that the Bureau would have established may not have been different from the strategy the USAID has adopted in programming local currency proceeds, we believe that the policy should be based on a more formal analysis and approval by the Africa Bureau.

Conclusion and Recommendation

We conclude that the USAID has addressed the thrust of Circular A-333. One remaining action is for the Regional Bureau to provide policy guidance once USAID/Somalia's analysis has been reviewed. We are recommending this be done.

Recommendation No. 1

The Regional Bureau for Africa (AA/AFR) formally provide USAID/Somalia with the required policy guidance after reviewing the in-country analysis.

<u>The GSDR Needs To Deposit The Equivalent of Over US$ 15 Million In Local Currency Into the Special Account.</u>

At the time of our review over US$ 15 million in local currency [about Somalia Shillings (So.Sh.) 95.4 million] needed to be deposited into the special account. These funds were generated from the sale of PL 480 Title I commodities provided under the 1981 sales agreement. None of the proceeds from that agreement have been deposited.

USAID officials advised us that the GSDR sells the commodities to two parastatal organizations who in turn sell to various government agencies. The problem is that these various government agencies lack the funds to pay for the commodities. Thus, the parastatal organizations are not paid, and the local currency generations are not available for deposit.

It is our view that the local currency is generated when the commodities are transferred/sold to the two parastatals. Credit sales and subsequent collection problems are internal matters of the GSDR and should not affect the sales agreement.

The USAID is fully aware of this problem. Its files are replete with memoranda and records of meetings with GSDR officials attempting to resolve the matter. The latest information is that all local currency generations will be made by October 1982.

In responding to our draft audit report USAID/Somalia said:

> "...(The draft report) suggests that all the Title I commodities are sold by the parastatal to Government agencies which default on payment. This is not the complete picture. Title I and commercial commodities are sold both to Government agencies and to the retail sector. However, because of the indebtedness of the Government agencies to the parastatals the arrears have built up. It should be noted that the GSDR has generated and deposited at least $36 million in local currency equivalent from 1978, 1979, and 1980 agreements.

We concur. Sales agreements for 1978, 1979, and 1980 totaled about US$ 35.4 million or the equivalent of about So.Sh. 258.9 million. These local currency generations, though slow in coming, have been deposited. The local currency remaining to be deposited are the generations from the 1981 sales agreement which amount to about US$15 million or approximately So.Sh. 95.4 million. USAID/Somalia subsequently advised us that So.Sh. 17 million was given to the Ministry of Finance for deposit against the 1981 sales agreement.

Our draft report containing a proposed recommendation that the 1982 Title I sales agreement not go forward until all local currency generations from previous sales agreements had been deposited. USAID/Somalia commented:

"...The U.S. Government signed PL 480 Title I sales agreement with the GSDR on June 17, 1982 prior to receipt of the draft audit. The mission intends to hold the GSDR to its pledge to deposit arrears by October 1982. We concur in the suggestion that the signing of future agreements be conditional on the deposit of previous year's generations."

Conclusion

In view of USAID/Somalia's strong stance in this matter as evidenced by their written response to our draft audit report, we have withdrawn the recommendation.

USAID/Somalia Needs To Follow-Up with the GSDR Regarding Reporting Requirements

Annual PL 480 Title I self-help reports are due in AID/Washington not later than close of business December 15. Receipt of the annual report not later than December 15 is essential to prepare and meet the deadline for the President's annual Food for Peace report to Congress in accordance with Section 408 of PL 480. The report should relate information on the achievement of specific self-help provisions contained in current year agreements. This information is also vital to the mission in its evaluation of the host country's performance in carrying out self-help provisions of PL 480 agreements.

The GSDR has only submitted one self-help report in four years -- it lacked content and specificity. The report should relate information on the achievements of specific self-help provisions contained in the current year agreement. This information is also vital to the USAID in its evaluation of the host country's performance in carrying out self-help provisions of PL 480 Title I sales agreements. The need for a meaningful evaluation of a recipient country's self-help performance is made explicit in the PL 480 Act. Section 109(a) makes clear that:

"Before entering into agreements with developing countries for sale of United States agricultural commodities on whatever terms, the President shall consider the extent to which the recipient country is undertaking wherever practicable self-help measures to increase per capita production and improve the means for storage and distribution of agricultural commodities."

All Title I sales agreements contain the following provision:

"The government of the importing country shall furnish in accordance with its fiscal year budget reporting procedure, at such times as may be requested by the government of the exporting country but not less often than annually, a report of the receipt and expenditure of the proceeds, certified by the appropriate audit authority of the government of the importing country, and in case of expenditures the budget sector in which they were used."

After four years of a Title I program, the GSDR had just provided a so called certified financial report. Even so it was only for the period 1978 through 1980, and the report was incomplete. While the report was signed by the Acting Director General of the GSDR's Ministry of Finance, no where on the document was any reference made to a "certified Statement."

USAID/Somalia personnel must, as a matter of course, follow-up personally and repeatedly with GSDR officials to obtain any response. USAID/Somalia officials told us that it is not because the GSDR is unwilling to comply with the agreement, but rather because the GSDR lacks the personnel qualified to properly complete the reports.

Conclusion and Recommendation

USAID/Somalia's files are filled with letters to the GSDR requesting the required reports. There was, however, no indication these problems would be resolved in the near term.

With the view toward improving the content of the self-help and financial reports due in late 1982, we are advancing the following recommendation:

Recommendation No. 2

> USAID/Somalia advise the GSDR that unless the GSDR can demonstrate that the reports required by the 1981 Title I Sales Agreement can be submitted timely and contain all the required information and certification (by resubmitting complete and properly certified reports for at least the 1980 Sales Agreement), AID will not be in a position to approve additional Title I programs.

The USAID said in their response to our draft report:

> "...The mission will follow up with the Ministry of Finance for a completion of the outstanding self-help report which will incorporate the activities of 1981. The report will be submitted to Washington prior to the December 15, 1982 deadline. With respect to the currency generation report the mission has accepted the official stamp of the Ministry of Finance over the Director General's signature as an indication that the report contains true and complete information to the best of their knowledge and is equivalent to a certification."

Project Monitoring Needs To Be Improved

In the area of improved project monitoring, we believe the USAID could take some additional steps. The USAID needs a systematic monitoring program to ensure that the GSDR is taking the self-help measures and other developmental activities by using local currency proceeds generated from Title I sales.

Senior USAID officials stated that when a self-help project is tied-in with one of the USAID's regular projects, it receives adequate overview. Too, project technicians as a matter of routine, inspect GSDR's implemented projects in their respective geographical areas. We believe that a more formal monitoring program should be initiated. There are many projects financed from local currency proceeds, and unless a procedure is established to record the progress made toward project goals, and uses made of the local currency, the requirements of Section 106 of Public Law 480 cannot be addressed.

Section 106(b)(1) reads in part:

> "Agreements hereunder for the sale of agricultural commodities for dollars on credit terms shall include provisions to assure that the proceeds from the sale of the commodities in the recipient country are used for such economic purpose as are agreed upon in the sales agreement.. "

Conclusion and Recommendation

In our view the best way to assure compliance would be systematic on-site inspections with an appropriate progress report placed in the Mission's official files. Pending definitive action we are advancing the following recommendation.

Recommendation No. 3

USAID/Somalia develop a procedure to provide on-site inspections of a representative sample of self-help projects financed from Title I local currency proceeds. Such a procedure should require that project progress reports be placed in the USAID's official files.

USAID/Somalia agreed with us in this matter. In their response to the draft report they said:

> "...We concur with this recommendation and are in the process of developing procedures for on-site monitoring. We intend to forward a copy of our procedure to RIG/A Nairobi after thorough consultation with GSDR officials but not later than August 31, 1982."

The GSDR's Present Absorptive Capacity May Have Been Reached

We question whether the GSDR has (or will have in the near future) the required absorptive capacity to implement a Title I, or any other type of food program that requires specific performance. There is little question that a Title I program increases the demands made on any recipient government. Somalia is no exception. One could argue whether the GSDR has the capacity to absorb the additional responsibilities similar to those which are standard in a Title I sales agreement.

Somalia has all the characteristics of a country which has an overburdened absorptive capacity. These characteristics take the form of much slower than anticipated achievement of development projects, an inability to meet commitments, and insufficient budget. To illustrate the point: The GSDR allocated in 1979 and 1980 for self-help projects about So.Sh. 171.3 million but disbursed only about So.Sh. 137.3 million. Since none of the 1981 local currency generations of about So.Sh. 95.4 million had been deposited, it follows that none could have been disbursed.

Every Title I program carries with it certain self-help and other development requirements. It appears to us that the Title I program makes it more difficult for an already strained GSDR to meet the myriad requirements of donor assistance.

We are of the opinion that as the requirements for a PL 480 Title I, or other food program become more stringent, the GSDR will be less able to manage. To increase their absorptive capacity is a long term development proposition.

Conclusion

We are not making a recommendation, but in our draft report suggested that the USAID consider our comments when planning future food developmental programs.

In USAID/Somalia's response to our draft report they stated.

> "...USAID/Somalia agrees that Somalia has a limited absorptive capacity resulting in part from the poverty of the country itself and in part from Somalia's colonial heritage which has left behind a very weak human resource base. USAID/Somalia has taken this limited capacity into account in designing its program. Our projects are making minimal demands upon the GSDR budget. In addition they are expanding institutional capabilities and rapidly enlarging the human resource base. Thus Somalia's absorptive capacity is being increased measurably on a daily basis by the USAID assistance."

cc: Deputy Administrator
AA/AFR (2)
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