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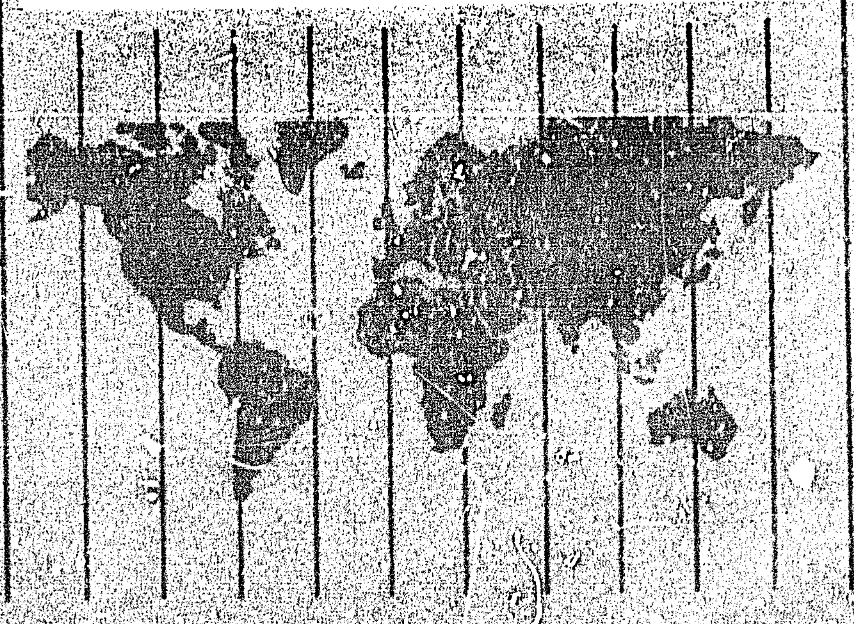

Regional Inspector General for Audit
CAIRO

A REPORT ON
USAID - EGYPT'S
AGRICULTURE COOPERATIVE MARKETING
PROJECT NO. 263-0095

Audit Report No. 6-263-83-3

April 28, 1983

After three years of AID support, including disbursement of $4.0 million, no substantive progress has been made to improve marketing systems for fruits and vegetables in Egypt. The key objective of AID's Agriculture Cooperative Marketing Project (No. 263-0095) was to develop and upgrade the institutional capability of the United Cooperative Society (UCS) to assist small farmers in production and marketing of fruits and vegetables. Project design called for technical assistance to the central cooperative structure, training of marketing staff, and a self-sustaining credit fund for making production loans to farmers. Results of technical assistance provided by the Cooperative League of the United States (CLUSA) has been less than desirable.

USAID management has recognized the project will not reach its goal of increasing small farmer income. Moreover, we agree with USAID's decision not to approve CLUSA's request to extend their technical assistance grant. In addition, the Minister of Agriculture felt there was no need to continue the activity, and does not plan to ask AID for assistance to cooperatives under the present system.

To fulfill grant requirements we recommend that the shortfall in capitalization of the revolving credit fund be determined based on the value of loans made through November 30, 1982. To improve USAID's oversight of project activities we recommend improvements in internal control procedures to assure accurate reporting on the disposition of the AID-financed credit fund. In addition, a decision must be made on the recovery of interest earned on AID funds placed into time deposits.

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Agriculture Cooperative Marketing

BACKGROUND

In Egypt, the only readily cultivatable land is along the Nile River and in the Nile Delta, an area located North of Cairo extending to the Mediterranean Sea. This agricultural land represents about three percent of Egypt's 386,100 square miles. With the availability of water from the High Dam at Aswan, all agricultural land is cultivated under irrigation. Three growing seasons a year provide an environment for crop production. Nonetheless, the output of the agricultural sector, the largest component of the economy, has not grown significantly and is barely keeping pace with the increase in population. The climate and land condition in Egypt should make it agriculturally self-reliant. Instead, Egypt is a net importer of food.

Egypt has an extensive cooperative system including some 5,000 village cooperatives. These cooperatives were formed under the direction of Egypt's Ministry of Agriculture and are referred to as government cooperatives. The general manager is appointed by the Minister. Government control is intended to assure a supply of major food crops, enforce crop rotation, and provide a means of collecting payment from farmers for government-furnished inputs of seeds and fertilizers. Government control causes the farmer to view cooperatives as an extension of the government and not his own organization. This view has enforced the farmer's distrust of the cooperative system.

Despite the extensive system of government cooperatives and the great amount of resources devoted to it, the agriculture needs of small farmers are not being met. A major problem is the government cooperatives do not focus on effective marketing of their members' produce. The Ministry of Agriculture recognized this serious problem and requested AID assistance in addressing the many constraints related to production and marketing of farmers' produce.

AID assistance to Egypt's cooperative system began in 1976 when the GOE requested the Cooperative League of the United States (CLUSA) to provide technical assistance to government cooperatives. A joint CLUSA and USAID study was initiated to address production and marketing problems. The study focused on the feasibility of a private cooperative project for fruits and vegetables.

In their study, CLUSA found that several private fruit and vegetable cooperatives existed in Egypt, and these cooperatives had a greater degree of autonomy than traditional government cooperatives. During the period from February 1977 to July 1979, CLUSA and USAID/Egypt researched the potential for direct AID-funding of a fresh fruit and vegetable cooperative marketing project. In July 1979 the project paper was approved.

The project goal as approved contributes to the Egyptian national goal of increasing small and medium size farmers' income. The project is aimed at reducing costs of perishable crops to consumers. The project was designed: to increase the efficiency and effectiveness of private agricultural marketing cooperatives; to provide sufficient capital for production credit to stimulate fruit and vegetable production; and to establish in Egypt an institutional capability to provide management, cooperative development, and marketing guidance to other cooperative and farmers' organizations.

As approved, the project was to be financed by AID, IBRD (World Bank) and the Government of Egypt (GOE). The estimated $19.2 million cost of the project included a $5.0 million grant from AID; a $9.6 million loan from IBRD and the GOE contribution of $4.6 million.

AID's project grant agreement for $5.0 million was signed September 15, 1979 with the Government of Egypt. Of this amount, $49.3 thousand was earmarked for evaluation. Technical assistance through an Operational Program Grant with CLUSA would cost $1.2 million, and $198.0 thousand would pay for training. The largest component of the project was a $3.3 million credit fund. The tabulation below provides a breakdown of total estimated project costs:

Project
Summary Cost Estimate
($000)

Description	AID	GOE	Other	Total
Technical Assistance	$1.237	-	-	$ 1.237
Training	.198	.040	-	.238
Revolving Loan Fund	3.350	-	-	3.350
Wages and Salaries	-	.676	-	.676
Physical Assets	-	3.679	-	3.679
Evaluation	.049	-	-	.049
Construction & Commodities	-	-	7.427	7.427
Inflation & Contingency	.166	.185	2.208	2.559
	$5.000	$4,580	$9.635 1/	$19.215

1/ IBRD loan never materialized. The Project Grant Agreement signed September 15, 1979 excluded physical infrastructure financing from the project activity.

Implementation of the project was the responsibility of the United Cooperative Society (UCS). UCS was established December 21, 1978, had no capital, was understaffed, and inexperienced in providing the marketing services needed to carry out the complex marketing function. Four existing cooperatives in Alexandria, Gharbia, Menoufia and Beheira, were charter members of the UCS. Alexandria, the oldest of the cooperatives, is a fruit and vegetable cooperative. Members' produce is marketed through its auction stall in the Alexandria market. The other three cooperatives are well-established potato marketing cooperatives, exporting potatoes to European markets.

The project is scheduled to terminate September 1, 1983, and the CLUSA technical assistance contract will expire at the end of March 1983. In May 1982, project evaluators stated that little measurable progress had been made and that the UCS administrative and operation capacity continued to be "woefully" inadequate.

The tabulation below provides a breakdown of AID's obligations and disbursements for this activity at November 30, 1982.

AID Grant Funds
At November 30, 1983
($000)

Description	Obligated	Disbursed	Unliquidated Balance
Consulting Services (CLUSA)	$1.387	$ .613 1/	$.774
Revolving Credit Fund	3.350 2/	3.350	-0-
Training	.106	.102	.004
Miscellaneous	.003	-	.003
Unobligated	.154	-	.154
	$5.000	$4.065	$.935

1/ Slow disbursements are due to slowness in CLUSA billings and AID/W/FM Advice of Charge procedures.

2/ LE2,345,000 at LE.70 = $1.00. Total Revolving Credit Fund capitalization at November 30, 1982 was LE2,412,431.

PURPOSE AND SCOPE

The purpose of this audit was to determine whether the cooperative marketing project was effectively and efficiently managed, and to evaluate progress. We examined project documents and reports, and held discussions with responsible project officials in USAID and the GOE. We observed project activities at the UCS office in Alexandria and visited four member cooperatives. Project activities through November 30, 1982 were included in our review. Our audit was made in accordance with applicable U.S. Government Auditing Standards.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

THE CHANCE FOR PROJECT SUCCESS IS DOUBTFUL

AID's assistance to a small portion of Egypt's rural poor is not achieving the results planned. After almost three years of AID support, including disbursement of $4.0 million, no substantive progress has been made to improve marketing systems for fruits and vegetables in Egypt. Project planners emphasized that successful project implementation was wholly dependent upon the development of a management organization. The key objective of the AID-financed portion of this cooperative marketing project was to develop and up-grade the institutional capability of the United Cooperative Society (UCS). The UCS was to establish a marketing capability and assist small farmers in production and marketing of fruits and vegetables. In addition, the project was to increase the efficiency and effectiveness of the four charter member cooperatives so they could expand their outreach to a greater number of small and medium size farmers. The AID grant provided a $3.3 million line of production credit for this purpose. Production was expected to increase by thirty percent, and a trained UCS marketing staff was to be in place by the terminal date of AID's assistance on September 1, 1983. However, there has been little progress toward achievement of these end of project objectives, and there is some doubt that the United Cooperative Society will become a viable entity before AID's technical assistance terminates.

A viable entity for marketing fruits and vegetables is questionable

Egyptian cooperatives do not have the experience or training in providing all services necessary to carry out a complete marketing function. The project was developed in response to the Ministry of Agriculture's request to improve production and marketing of fruits and vegetables. The purpose of the project as approved in July 1979 was to build an effective marketing capability in the United Cooperative Society (UCS). This pilot project was to demonstrate to fruit and vegetable farmers that an improved system for marketing agriculture production could be achieved. Thus, the improved system would increase small and medium size farmers' income while reducing costs of perishable crops to consumers. Project design called for technical assistance to the central cooperative structure including training of marketing staff, and credit for farmers within the project area.

Technical assistance aimed at improving administrative and marketing capabilities of the United Cooperative Society was provided through an AID-financed operational program grant with CLUSA costing $1.4 million. The CLUSA OPG was signed October 6, 1979 and included nine man-years of long term advisors and two man-years of short term technical assistance.

Long term technical assistance costing $335,500 included the following advisor positions:

Team Leader - 3 years: Provide leadership for the CLUSA team and assure that CLUSA is on track regarding the project purpose, goals and work plan schedule. The team leader is responsible for co-ordinating all project activities including training plans, liaison with USAID, UCS and the MOA.

Marketing and Sales Advisor - 2 years: Assist the UCS and other government marketing cooperatives in organizing effective marketing and sales departments; contribute to the writing of marketing plans for domestic and export marketing; supervise the organization of workshops on selling and marketing of fresh fruits and vegetables; determine cooling and processing needs; and work closely with production specialist in ensuring that quality control and market specifications are communicated to farmers.

Operations and Production Advisor - 2 years: Advise farmers on sound agriculture practices and provide information on needed inputs, hybrid seeds, fertilizers, and herbicides; develop records of planned production of crops by area; develop production plans to support marketing arrangements; and develop improved data on costs of production and income. Among other things, work closely with marketing personnel on a program of equipment purchase, available financing and anticipated storage and processing needs.

Credit and Financial Specialist - 2 years: Review the approved financial system including accounting, budgeting, financial reporting and internal auditing; monitor the operation of the system and make recommendation for improvements as needed. Review the credit system including loans by UCS to member cooperative, loans to farmers, and their collection, and advise on the handling of the LE2.345 million ($3.3 million) credit fund. Develop and assist in carrying out audit training programs.

Additional expertise costing $99,000 was to be provided through two man-years of short term consultants. Short term assistance was needed to improve the development of grades and standards classification and maintenance of quality control of horticulture crops. Also, additional credit advisor assistance to the UCS was to be provided to evaluate and implement credit policies for disbursement of the credit fund and to ensure that procedures and documentation were consistent with UCS capabilities, met AID requirements, and provided timely credit for the target group. Additionally, the short term credit advisor was to assist the UCS and the marketing cooperatives to implement the agreed upon credit and marketing policies for loans to farmers through member cooperatives.

The technical assistance team was to assist and coordinate all activities of the project. This approach to development was through on-the-job training with CLUSA consultants and academic and special training of UCS staff in the United States. The project paper also talked about technical training in Egypt for packing-shed operations, refrigerated storage, and truck scheduling and maintenance. CLUSA claims that the UCS did not provide sufficient staff members to take advantage of the CLUSA team services cr to utilize academic and special training in the U.S. As a result, this training was never initiated.

During our visit to UCS in November 1982, the professional staff consisted of one Administrative and Production Director and a Marketing Advisor. The remaining UCS staff included a driver, an office boy, a typist, and an accounts clerk. There were eight others working at UCS, but they were government employees on loan from the Agricultural Cooperative Department of the Ministry of Agriculture.

CLUSA progress reports have continually cited a critical barrier to project progress has been the inability of UCS to provide adequate counterparts to the CLUSA team. At the same time, CLUSA was slow in providing advisors to the project. After the contract was signed on October 6, 1979, it took six months (April 1980) to place a permanent team leader in Egypt. The other three long term technical advisors arrived in February 1981, March 1981 and October 1981. The full compliment of technical advisors was not available for the transfer of assistance until two years after the OPG was entered into.

In our view, the key position of the UCS staff was still vacant at November 30, 1982. There was an urgent need for the appointment of a general manager with authority to conduct the business and affairs of the cooperative and make appropriate management decisions in a timely manner. This authority rests mainly with the Chairman of the Board of Directors. A new board and Chairman were elected in July 1982, and since that time there has been a continual delay in decision making. It has taken a number of months for the new board and Chairman to be effective.

During our discussions with the Chairman in Alexandria in November 1982, we were assured that the general manager position would be filled within two weeks. Two candidates for the position were being considered at that time. According to USAID project officials, a general manager was hired in December 1982. In our view, the expected project output for an improved UCS administration and marketing capability has been adversely affected by failure to fill this position. Moreover, more than 80 percent of the UCS professional staff positions are occupied by MOA employees.

Infrastructure development eliminated

The cost of infrastructure development, a major component of the project design was omitted from project assistance. The project paper described the lack of infrastructure as a major constraint to an effective marketing system. Nonetheless, the Summary Cost Estimate and Financial Plan included in the grant agreement, eliminated this $9.6 million funding requirement from the project budget. However, in describing the project, project planners said the project was designed to improve the marketing system for fruit and vegetables through "...providing basic physical infrastructure for a pilot cooperative marketing activity."

Planned infrastructure development included the construction of needed refrigerated storage facilities, warehouse, packing line machinery and equipment, refrigerated vans, trucks and other miscellaneous commodities. In developing this project, the project team believed the GOE and UCS would be able to locate alternate funding for this activity.

An outside source for these funds never materialized, and the failure to implement the planned infrastructure component has had an adverse effect in the project's potential for success.

In retrospect this omission may have developed into the most serious detriment to project success. AID's project evaluators in May 1982 described the situation by saying "To build and buy the infrastructure required as markets expand will require a sizeable amount of capital. UCS is a small organization and is not geared up to deal with the construction, maintenance and overhead costs required for such an expanded effort." They concluded that the lack of structural facilities, an integrated part of the project design is increasingly handicapping the project. We agree.

The credit fund not capitalized as planned

Full utilization of the LE2.345 million credit fund was required from the outset, and a ten percent interest rate was needed to capitalize the revolving fund to reach LE4.881 million in six years. The revolving credit fund was not capitalized as planned. Thus, the viability of the credit fund as a self-sustaining mechanism for providing continued financing to a greater number of small farmers is therefore in doubt.

The revolving credit fund established under the project was to be administered by the United Cooperative Society (UCS). USAID/Egypt provided LE2.345 million through the Ministry of Agriculture to the UCS for making loans through cooperatives to farmers. Credit funds were first loaned by UCS to member cooperatives and the cooperatives reloaned to small farmers. Cooperatives are responsible for collecting loans from the farmers and for repaying to UCS the principal plus an interest charge (currently eight percent).

The USAID grant agreement requires a ten percent annual growth in the revolving fund. In order to generate the planned credit fund capitalization each year, a minimum ten percent interest charge is required on loans to member cooperatives. If interest charges to cooperatives are less than ten percent UCS is required to make up the difference for the annual credit fund investment.

The total volume of loans to cooperatives during the three year period ended November 1982 was LE4,403,660. Interest earned on these loans to cooperatives was LE67,431. Therefore, the capitalized revolving fund reached only LE2,412,431 (LE2,345,000 plus LE67,431 interest earned).

By the end of the third year of loan activity the planned volume of loans was to reach LE10,524,489 and the capitalized balance of the fund was expected to be LE3,303,580. As a result the capitalization of the revolving credit fund is LE891,049 less than planned. Major reasons for the shortfall in capitalization of the credit fund are twofold. First, the established credit policy was not implemented and the required ten percent capitalization was not realized. Second, the volume of loans to farmers reached only 42 percent of planned activity.

Conclusions and Recommendation

Few results have been achieved after almost three years of AID support under the Agriculture Cooperative Marketing Project. No measurable progress has been made to improve existing marketing outlets for fruits and vegetables in Egypt. Moreover, technical assistance provided to improve the administrative and marketing capabilities of the United Cooperative Society has been less than desirable. Nine man-years of long term technical assistance were provided in the areas of marketing, sales, production and credit. Infrastructure development, a key element of the project design, never materialized, and the UCS is not financially or administratively capable of developing the infrastructure required.

USAID project officials recognize that the project has had little success. The most measurable success has been the production credit fund which has just recently been fully disbursed. In molding the future for this project, USAID management stated "Through the relationship between CLUSA and the UCS, several actions have been initiated to foster an equitable cooperative system that would function to better serve the member cooperative and small farmers." USAID management feels that while some successes have been achieved, failures have caused serious delays. Among the failures causing delays were staffing, shortfalls in profits because of poor planning, and the inability of the cooperatives to provide services to the members.

In responding to CLUSA's requested extension of their grant, USAID felt there was no justification for additional funding or further need for technical services. The Minister of Agriculture confirmed USAID's position when he recognized that the project was a success in demonstrating how to work with small farmers, but he felt there was no need to continue the activity in a project format. He informed USAID that he does not plan to ask AID for assistance to cooperatives "under the present system."

Although we recognize some progress has been made to accelerate production activity in the project, we agree with the USAID and Minister of Agriculture's decisions to terminate CLUSA technical assistance on March 31, 1983, and to allow the project to terminate as planned September 1, 1983. Nonetheless, we believe that every effort should be made to implement the grant agreement provision for a 10 percent annual increase in the capitalization of the revolving fund. In a letter dated February 11, 1982, USAID management again explained to the UCS board Chairman how the annual 10 percent credit fund investment must be generated. In order to capitalize the credit fund as required by the grant, USAID officials stressed that a 10 percent investment charge on loans made to member cooperatives must be added annually to the revolving fund. Further, the difference in the amount charged to member cooperatives for credit and the 10 percent annual investment must be met by UCS. The UCS has not met this requirement, and the UCS board chairman contends that small farmers cannot be charged more. To assist USAID management in their efforts to meet this requirement, we make the following recommendation.

Recommendation No. 1

USAID/Egypt determine the short fall in capitalization of the revolving credit fund based on the actual volume of loans made through November 30, 1982, and implement the agreed to credit policy for a 10 percent annual increase in the capitalization to the revolving credit fund.

A NEED TO MONITOR THE CREDIT FUND

USAID/Egypt's oversight of the AID-financed credit fund needs to be improved. Internal control procedures for monitoring the effective utilization of the LE2.345 million ($3.3 million) credit fund need to be established.

For the first time since the fund was capitalized in June 1980 the revolving fund was fully utilized. Outstanding loans to cooperatives were LE2,606,000 at the time of our visit to the UCS in November 1982. UCS was processing loans to six member cooperatives, and farmers were receiving production credit loans at cooperatives we visited.

During our field visits to UCS and member cooperatives we found loan information reported to the UCS and USAID was not always complete and cooperative financial reports did not show the actual use of revolving credit funds. For example:

-- A loan was approved for cucumber production. The marketing plan submitted and approved stated that production was to be sold at retail markets. Instead of following the approved plan, cooperative officials told us that funds were reprogrammed for seed production without UCS approval. This change in marketing plans and use of funds were not reported to UCS. In addition, loans to selected farmers had been made before UCS loan funds were approved and received by the cooperative. In addition, cooperative reports showed that credit funds were fully utilized for farmer loans, while actual records at the cooperative showed the UCS loan had not been fully disbursed.

-- In another case, even though revolving credit fund reports to UCS and USAID showed loans were made to small farmers in accordance with the credit policy, loans were actually made to only a few land owners whose holdings were larger than the prescribed 10 feddans.

-- Loans were made to farmers in advance of approval and receipt of UCS loan funds. This procedure was a common practice which raises doubt as to the need of UCS credit funds or that funds were used for the intended purpose -- to reach a greater number of small farmers.

-- UCS loan funds were commingled with other cooperative funds.

-- Uniform financial records recommended by CLUSA and approved by the UCS Board of Directors were not used by cooperative accountants. Accountants at a new cooperative were not properly trained in the use of prescribed financial records and reporting requirements.

Also, the project lacks an up-to-date membership list of participating farmers. Without this information, we fail to see how evaluators can make a judgement on the planned project output of increased number of farmers reached. We were repeatedly told by Cooperative Management that a current membership list was not maintained. For example, at the Alexandria cooperative, farmers were receiving more than one loan during the growing season and membership information was not regularly updated. Current information was available only by the number of loans made. In reviewing loan records at Alexandria we noted that loan funds for farmers were available from different sources. Therefore, membership information based on the number of loans made is not an accurate control. Records on total project membership were not available at the UCS.

Conclusions and Recommendations

Oversight of the AID-financed revolving credit fund should be improved. UCS needs to implement internal controls over cooperative reporting to assure that loan information received adequately shows the disposition of credit funds. In addition, cooperative membership information needs to be updated. To assist USAID management in its monitoring responsibilities we make the following recommendations.

Recommendation No. 2

USAID/Egypt require UCS to develop internal control procedures to assure that financial information received from cooperatives accurately shows the disposition of the credit fund.

Recommendation No. 3

USAID/Egypt require UCS to develop and maintain co-operative membership lists for evaluation purposes.

At the exit conference USAID officials expressed concern that Recommendations No. 2 and 3 above could not be implemented before the project terminates on September 1, 1983. They believe the needed leverage to initiate corrective action no longer exists with the GOE.

In our view, the management responsibility for the AID-funded $3.3 million credit fund goes beyond this date, and procedures for reporting the disposition of the funds must be improved. According to the Regrant Agreement between the GOE and the UCS dated May 12, 1980, the terms and conditions of the AID grant agreement must be complied with. UCS must report to the GOE the disposition of credit funds and all other project matters.

We believe the recommended corrective actions would assist the new general manager at UCS in meeting his obligation of the regrant agreement with the GOE. We retain the draft report recommendations.

INTEREST EARNED ON AID FUNDS NEEDS TO BE RECOVERED

UCS deposited AID grant funds into an interest bearing bank account at rates of interest from six to ten percent.

According to the terms of the regrant agreement between MOA and UCS, the revolving fund was to be used exclusively for seasonal crop production loans to member cooperatives. To qualify for the money, UCS had to establish a bank account for the revolving fund, furnish a statement as to the general credit policy including the terms and conditions by which funds would be reloaned to farmers, and furnish a plan for obtaining the participation of an increasing number of lower income farmers in the project.

The documents to satisfy the release of funds were submitted and accepted by USAID on April 15, 1980. A CLUSA Report supported the UCS submission as complying with the grant agreement requirements. However, CLUSA noted that credit funds should not be loaned to farmers until appropriate marketing contracts were in place. Also the amount needed in 1980 would be far less than planned because UCS had no staff and marketing arrangements were not established. Nonetheless, AID released the full $3.3 million to the UCS in June 1980. The system for loaning the funds to farmers was not in place until several months later. The Gharbia cooperative received the first loan in December 1980, seven months after AID disbursed the fund to UCS. During this time credit funds were transferred to time deposits.

Effective fiscal administration would have prevented the premature disbursement of U.S. government funds. Both Treasury fiscal requirements and AID cash management procedures require that government funds be released to meet immediate disbursing needs. Since the purpose of the regrant to the UCS was for making seasonal crop production loans to the agricultural marketing cooperatives, funds should not have been disbursed until December 1980.

The Grant Agreement requires that any interest earned on grant funds disbursed by AID prior to the authorized use for the project be returned to AID in U.S. dollars.

We discussed this issue with the UCS Board Chairman, CLUSA and USAID project officials. They contend that the funds were used for the authorized purpose as funds were placed into the revolving fund special account. In our view, the authorized use of loan funds would be the release of credit funds to member cooperatives for loans to farmers. Cooperative loans were to be supported by approved loan application and a marketing plan. As it now stands, UCS financial records show that LE347,140 ($417,396 @ LE.83168 = $1.00) in interest was earned on the AID-financed revolving credit fund through October 31, 1982.

The UCS loan program has accelerated during the last few months and UCS loans to member cooperatives have reached LE2,606,000. The question of interest accumulations no longer exists, now that the AID-financed credit fund has been fully utilized for production loans to farmers. Nonetheless, a decision must be made concerning the interest earned on the revolving fund prior to its authorized project use.

Conclusion and Recommendation

Interest earned on AID funds should be recovered and deposited to the U.S. Treasury Account.

AID funds were deposited by the UCS into time deposits, and LE347,140 ($417,396) was credited on the UCS accounts as interest earned. U.S. Treasury regulations and the USAID grant agreement require that interest earned on federal funds by the recipient organization be turned over to the Treasury. Accordingly, USAID/Egypt needs to recover these funds and deposit them in the appropriate U.S. Treasury Account.

Recommendation No. 4

USAID/Egypt recover the U.S. dollar equivalent of the LE347,140 interest earned on time deposits administered by UCS.

At the exit conference USAID management referred to a document cleared by USAID's legal office stating "...AID's position that the interest should not be returned to the U.S. Treasury but rather be folded back into the revolving fund..." In our view this October 11, 1982 memorandum addressed to the CLUSA Chief of Party does not amend the grant agreement requirement for the return of the interest earned.

The question of interest earned on time deposits is now being studied by AID's General Counsel in Washington. The problem of interest earned on time deposits is also questioned in IG audit reports (Reports No. 6-263-81-5 and 6-263-81-7) on two other AID-financed project in Egypt.

LIST OF REPORT RECOMMENDATIONS

LIST OF REPORT RECIPIENTS

Assistant To The Administrator For Management (AA/M)	1
Assistant Administrator/Bureau For Near East (AA/NE)	5
Director, USAID/Egypt	5
Audit Liaison Office (AA/NE)	1
Office Of Egypt Affairs (NE/E)	1
Office Of Financial Management (M/FM/ASD)	2
Directorate For Program And Management Services (M/DAA/SER)	6
Bureau For Program And Policy Coordination (PPC/PDPR/PDI)	1
General Counsel (GC)	1
Office Of Legislative Affairs (LEG)	1
Office Of Public Affairs (OPA)	1
Office Of Evaluation (PPC/E)	1
Office Of Development Information And Utilization (S&T/DIU)	4
Inspector General (IG)	1
RIG/A/Abidjan	1
RIG/A/Karachi	1
AAP--New Delhi	1
RIG/A/Latin America/W	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W	1
Regional Inspector General For Investigations And Inspections (RIG/II/Cairo)	1