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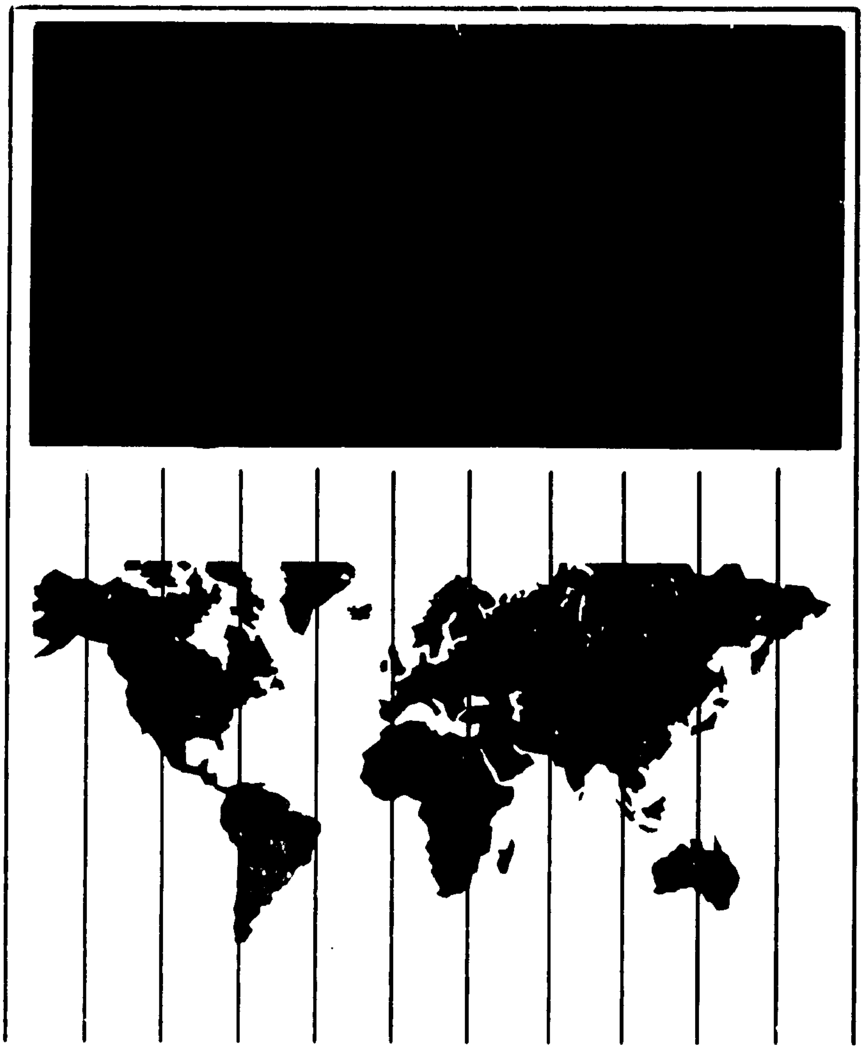

Regional Inspector General for Audit
WASHINGTON

PD AAN 731

NEED TO IMPROVE THE DESIGN AND IMPLEMENTATION OF AGRICULTURAL CREDIT PROGRAMS IN THE SAHEL

AUDIT REPORT NO. 0-698-84-16
December 21, 1983

We audited seven food grain production projects in the Sahel region of Africa. We found that millions of dollars in AID funds were misused and/or wasted due to the failure to design and implement effective and efficient credit programs. The systemic problems discussed in this report need to be addressed by the Bureau for Africa before success can be reasonably expected in future agricultural credit programs.

NEED TO IMPROVE THE DESIGN AND IMPLEMENTATION OF AGRICULTURAL CREDIT PROGRAMS IN THE SAHEL

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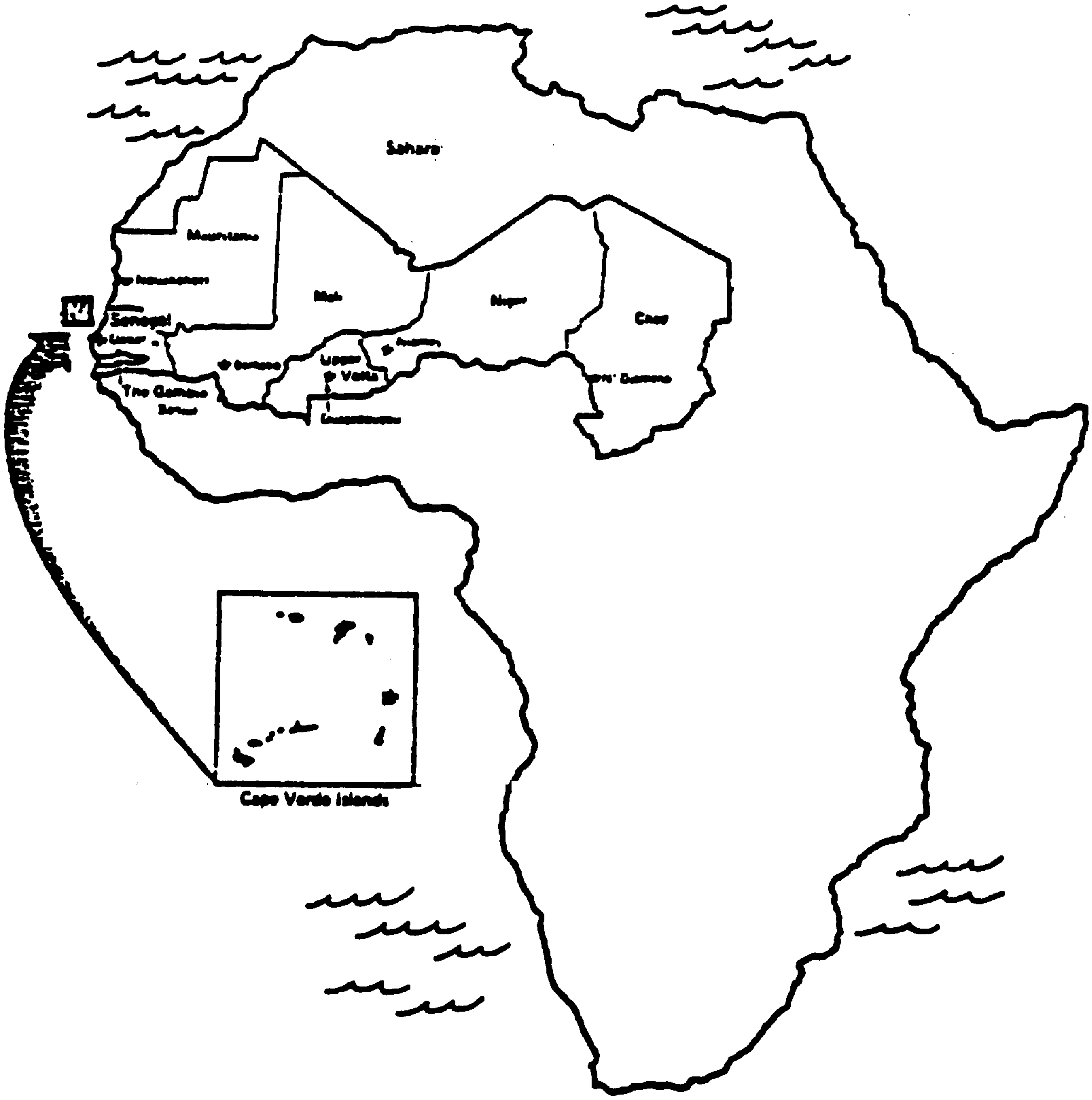
THE SAHEL



EXECUTIVE SUMMARY

Background

AID has programmed a number of projects in the Sahel region of Africa to assist those countries in achieving increased food grain production. These projects promote the use of off-farm inputs such as animal traction, implements, improved seeds, fertilizers and pesticides. A key element in these projects is to make the needed inputs available to farmers through an in-kind credit sales program. Past experience has shown that the success of these projects depends heavily on the efficient and effective operation of the credit program. (See page 1.)

Purpose and Scope

The purpose of this report is to demonstrate the pervasive nature of deficiencies in the in-kind credit sales programs in the Sahel. This report was prepared from information developed during audits of seven food grain production projects. By presenting a consolidated report, we believe that it becomes easier to understand the systemic problems involved, and these problems can then be addressed in a regional context. The reports on these seven audits were issued during the period February 1981 to November 1983. (See page 1.)

Need to Improve the Design and Implementation Of Agricultural Credit Programs

Little progress was made under the seven food production projects which we reviewed largely because the in-kind credit sales programs were not functioning effectively. The credit programs were not successful because there was a need to (1) better assess host-country capabilities so that required technical assistance can be provided, (2) improve financial viability of the credit programs; (3) improve accountability over funds and commodities; and (4) improve AID's oversight of the credit programs. These problems are discussed in this report.

Need To Better Assess Host-Country Capabilities So That Required Technical Assistance Can Be Provided

AID is required to assess the host governments' administrative capabilities to implement the project elements and make provisions for required technical assistance. The assessments made for the food production projects significantly overstated the host governments' capabilities to administer the credit programs and, as a result, the required technical assistance was not identified. Consequently, organizations with no apparent credit capability received huge sums of AID-financed local currencies and no technical assistance was provided. This resulted in millions of dollars in AID funds either being misued and/or wasted through poor performance. (See page 2.)

Need To Improve Financial Viability Of The Credit Programs

There were a number of factors adversely effecting the financial viability of the credit programs. One problem was that the AID-financed inputs were generally sold on credit at a fixed price which in some cases allowed for only a minimal interest rate or none at all. The basis for the interest rates used could not be determined. In some cases the commodities were subsidized by the projects and sold for less than the cost in order to promote the sale. Possibly the most serious detriment to the financial viability of the credit programs was a 50 percent or more default rate on loan repayments. Little attention has been given to these problems by the AID missions. (See page 6.)

Need To Improve Accountability Over Funds and Commodities

Accounting for the credit programs was characteristically poor in all projects. Specific problem areas included inadequate control over (1) deposits and expenditures from the special credit fund accounts and (2) the receipt and sale of commodities. In several projects the records maintained were so bad that it was impossible to determine what was sold to whom and who repaid what. Contributing to these problems was the lack of internal controls to manage AID credit funds and commodities. (See page 10.)

Need To Improve AID's Oversight Of The Credit Programs

The project officers are responsible for all activities relating to their respective projects, from planning through the implementation and evaluation. Although we recognize that there could be factors over which the project officers have no control, it is incomprehensible to us that someone at sometime during the early stages of the projects did not reach a decision that the credit programs were not working. Such a decision could have been reached with only a modicum of prudent business sense. (See page 13.)

Conclusions and Recommendation

The food grain production projects in the Sahel resulted in millions of dollars in AID funds being misused and/or wasted due to the failure to design and implement effective and efficient in-kind credit sales programs. A basic cause for the poor operation of the credit programs is attributed to the over-optimism of the project designers who assumed the existence of an institutional capability where none existed. This resulted in insufficient technical assistance and AID oversight being designed into the project. Two areas where such capabilities were seriously lacking are accounting for funds and commodities, and requirements for a financially viable credit program. In our view, the systemic problems discussed in this report need to be addressed by the Bureau for Africa before any in-kind credit sales program in the Sahel can be expected to succeed.

Accordingly, we recommend that the Assistant Administrator for Africa develop guidance for an approach to address the systemic problems discussed in this report. (See page 14.)

Management Comments

We provided a draft of this report to the Assistant Administrator for Africa. He stated that the problems discussed in our report will be considered by the Bureau for Africa in their efforts to improve the design and implementation of agricultural credit programs.

BACKGROUND

The Sahel, with approximately 32 million people, is one of the poorest regions in the world. The region forms the transition zone between the Sahara Desert and the more fertile areas to the South (see map). It is an ecologically vulnerable region threatened by the spreading Sahara and by low erratic rainfall.

Agriculture, particularly rainfed, is the predominant form of economic activity in the Sahel. It provides the livelihood for over 85 percent of the population and is the major source of foreign exchange earnings. Thus, with a focus on self-sufficiency in food production by the year 2000, agriculture is the number one development priority in the Sahel.

The vast majority of farmers follow traditional cropping patterns, the main features of which are half-shifting cultivation; little use of animal traction, hence no deep tillage; multiple cropping; and relatively little use of selected seed varieties, fertilizers and other off-farm inputs. The consensus among donors is that more modern farming techniques and practices are needed to achieve the goal of self-sufficiency.

AID has programmed a number of food grain production projects to assist the Sahelian countries to achieve increased production by promoting the use of a technical package of off-farm inputs consisting of animal traction, implements, improved seeds, fertilizers and pesticides. For irrigated projects, pumps may also be provided.

The key element in these projects is to make the needed inputs available to the farmers through an in-kind credit sales program. Past experience has shown that the success of these projects rests heavily on the operations of the credit program. It is thus vital that the credit programs be designed to operate efficiently and effectively.

Purpose and Scope

The purpose of this report is to demonstrate the pervasive nature of in-kind credit sales program deficiencies in the Sahel. This report was prepared from information developed in connection with the audits on seven food production projects listed in Exhibit A. By presenting a consolidated report, the Bureau for Africa will be able to better understand the systemic problems involved, and can address these problems in a regional context. The reports on these audits were issued during the period February 1981 to November 1983.

FINDINGS, CONCLUSIONS AND RECOMMENDATION

Over the past three years the AID Inspector General's Office has reviewed several of the food production projects in the Sahel. In virtually every case, the in-kind credit sales program was not functioning effectively. We found that there was a need to (1) better assess host-country capabilities so that required technical assistance can be provided; (2) improve financial viability of the credit programs; (3) improve accountability over funds and commodities; and (4) improve AID's oversight of the credit programs. Unless these systemic problems are addressed, any in-kind credit sales program in the Sahel will likely fail.

NEED TO BETTER ASSESS HOST-COUNTRY CAPABILITIES SO THAT REQUIRED TECHNICAL ASSISTANCE CAN BE PROVIDED

There are few, if any, agricultural credit banks in the Sahel serving farmers directly. Where such banks do exist, they are generally in an early stage of development with no institutional capability for directly reaching out to the myriad number of widely scattered small farmers. It seems unlikely that any of these banks will develop this outreach capability in the foreseeable future. This is due to the high cost of establishing and maintaining such capabilities.

To be financially viable, the agricultural credit banks must be able to reach large numbers of farmers at low cost. A study on the Eastern ORD Project in Upper Volta, which we believe is representative of costs elsewhere, estimated that the regional development organization's cost of operating the credit program varied from 19 to 30 percent of the value of the outstanding loans. These operating costs are exceedingly high compared to an average annual interest rate of 5.5 percent charged on the loans. No bank, however well capitalized, can absorb operating costs that exceed the interest rate that it charges by several times.

The agricultural development banks must, therefore, work through cooperatives and regional development organizations to keep their operating costs within manageable limits. Therefore, if sound and effective credit programs are to work in the Sahel, the development focus must be placed on strengthening the institutional capabilities of the cooperatives and regional development organizations which provide the outreach capability.

AID-financed agricultural credit programs had a unique opportunity of fostering this institutional development, since they were programmed to work through these organizations. Yet in our audits of the seven food production projects, we did not find a single instance where the credit programs of the projects had made such a contribution. The question is: Why?

In AID's programming process, the Project Paper is the basic design document used for justifying the approval and authorization of the project. These papers should contain an assessment of the host government's administrative capabilities to implement the project elements. The assessment, according to AID Handbook 3, Chapter 5c 3d, states:

> "Project Officers should discuss in this section the organization(s) which is(are) to carry out the project. Such an entity might already exist, might be a combination of entities, or might be an entirely new organizational unit. In all cases, assessments must be made of the capability of these organizations to carry out their responsibilities; the mechanism by which the activities of the various organizations will be coordinated; the ability of the organization to select, award, and administer contracts with both local and foreign firms; and the administrative arrangement made to reach and involve the target population."

In reviewing the Project Papers for the seven projects audited, we generally found they contain descriptions of how the existing credit programs work and how the AID-financed credit programs will work. Assessments were then made that the host-government organizations had the capability to carry out the programs. Invariably, in reviewing the credit programs, we found these descriptions and assessments bore little resemblance to the realities in the field. In no case did the organization have the capability it was purported to possess.

It is our view that, if these programs are to work effectively, AID needs to identify the weaknesses in the design stage and then provide the institutions with the needed technical assistance.

The need for accurate asessments of the instutitional capabilities within the host country, and providing necessary technical assistance is illustrated by the problems with the four projects discussed below.

Action Ble Project

Under this project, signed in July 1978, AID was to assist 2,400 small farmers in Mali's Sixth Region to increase the production of wheat and sorghum. Two types of credit were to be provided. The first type was to provide farmers with pumps on an in-kind credit basis to draw water from the Niger River. The second type was short-term, in-kind production credit of up to one year that provided for seeds, fertilizers, fuel and small farm implements.

Responsibility for implementing the project was assigned to Action Ble, a Government of Mali (GOM) organization. Within Action Ble the credit responsibilities were to be assigned to a newly created Credit and Marketing Section. While no technical assistance for the credit program was provided, the two persons to be assigned to the Credit and Marketing Section were to receive training in the U.S.

Many problems were encountered in this project. The credit staff was not adequately trained nor was an organized credit system in place prior to the disbursement of AID credit funds. As a result, pumps were sold without any record of to whom they were sold and no accounting was made for short-term production credit. At the time of the audit, the mission had already suspended further AID disbursements. Since then, action has been taken to terminate the project.

The Project Paper assessed Action Ble as having performed "exceptionally well" in these areas. We believe, however, that if an adequate assessment had been performed, these problems could have been anticipated.

Operation Haute Vallee Project

Under this project, signed in September 1978, AID was to assist the farmers in the Haute Vallee region of Mali to increase food grain production. This was to be achieved by introducing a technical package, including animal traction and related tools, seeds, fertilizer, pesticides and so on. These inputs were to be sold to the farmers under an in-kind credit program.

Responsibility for implementing the program was assigned to Operation Haute Vallee, a GOM agency. The credit program of this project evolved in an entirely different direction than the designers had planned. For example, the Operation directed the AID-financed credit program to serve cash crop farmers (mostly cotton) instead of promoting food grain production as required. The Operation's so-called credit system was in fact the system of another GOM agency.

At the time of our audit, the mission had already taken action to suspend disbursements to the credit program. This action was taken because of the Operation's inability to account for the AID credit funds.

Again, the Project Paper had assessed the Operation as having an administratively sound credit program and concluded that the organization was able to administer the AID credit program.

Operation Mils-Mopti Project

Under this project, signed in June 1976, AID was to assist the farmers in seven geographic sectors of Mali's Fifth Region to increase the production of food grain crops. This was to be achieved by introducing a technical package, including animal traction and related tools, seeds, fertilizers, pesticides, and so on. These inputs were to be sold to farmers under an in-kind credit sales program. Implementation responsibility was assigned to Operation Mils-Mopti, a GOM agency.

Again, many problems were encountered in the use of AID funds. Extension agents, who were assigned credit responsibilities, were poorly trained, if trained at all. To make matters worse, no internal controls were established over the multiple accounting centers located in the project areas which were needed to administer the widely diffused programs. The lack of technical guidance and oversight allowed most of the funds to be diverted for unauthorized purposes.

At the time of our audit, the mission had already suspended disbursements of AID funds to the credit program because the Operation was unable to account for its use. Subsequently, the Assistant Administrator for Africa ordered the mission to terminate the project in view of the serious financial deficiencies.

The Project Paper for Phase I provided no detailed information on the operation of the credit program. While the Project Paper for Phase II, which commenced in April 1980, was more detailed. It concluded that the performance of the credit program was good. Both Project Papers assessed Operation Mils-Mopti's institutional capabilities in superlative terms. Again, however, the problems encountered were so great that disbursements to the credit program had to be suspended. The evidence indicates that these problems could have been anticipated, if an adequate assessment had been performed.

<u>Niamey Department Development Project</u>

Under this Niger project, signed in August 1977, the AID-financed credit program is designed to operate through the National Agricultural Credit Bank (Credit Bank). The project credit fund account was to be maintained by the Credit Bank. The Credit Bank, however, was to rely on the system of cooperatives being organized in the project area to administer the program. The National Cooperatives Service Agency (Service Agency) was responsible for organizing the cooperatives. There was an implicit assumption in the Project Paper that the organizational structure was adequate, though no critical assessment was made.

A detailed set of procedures was designed so the credit program would operate in the following manner: The farmer submits a loan request to the cooperative. After approval by the cooperative, the requests are grouped by cooperative and forwarded through the Service Agency to the Credit Bank where final approval is made. On approval, a credit contract between the cooperative and Credit Bank is prepared. Upon receipt, the farmer should sign for the inputs and obtain a copy of his approved loan request. Loan repayments are forwarded through to the cooperative and the Service Agency for deposit into the project's credit fund account at the Credit Bank.

At the time of our audit, we found none of these procedures were working, with the result that there was no effective accounting for the AID credit funds. A separate credit fund account at the Credit Bank had not been established. Nor had procedures been established to deposit repayments into the project account. AID credit funds were thus commingled with the Credit Bank's own funds. At the cooperative level, inadequate accounting records were established to control the loans made. It was evident in this case that AID credit funds were released before an adequate assessment had been made of the organizations' capabilities to handle them. Little technical assistance had been provided to develop these capabilities.

NEED TO IMPROVE FINANCIAL VIABILITY OF THE CREDIT PROGRAMS

Financially viable credit funds are essential to the success of the food production projects. Yet, little attention has been given to this matter. There are consequently a number of factors adversely affecting the financial viability of the AID credit programs which need to be addressed. These include payment terms, prices and interest rates, subsidies, and high default rates on loan repayments.

Payment Terms

The AID projects are generally consistent in the conditions governing the sale of inputs for the technical package. These conditions of sale are as follows:

- seeds, pesticides and fertilizer are repayable in one year;
- animal drawn implements are repayable in three - five years; and
- traction animals are repayable in three - five years.

A downpayment of 10 to 50 percent is often required. Yet in no case did we find this downpayment requirement being enforced; or if it were, there was no evidence of these funds accruing to the revolving funds. This down payment requirement, while nice to have, is not essential to the viability of the credit programs. Therefore, if general compliance cannot be obtained, AID should reconsider whether this requirement should be retained.

Prices and Interest Rates

The AID-financed commodities should generally be sold to farmers at a fixed price high enough to cover administrative costs and interest costs. However, in some cases the prices were extablished at a level which were too low to cover any interest costs or covered only part of them. The Operation Mils-Mopti Project discussed below is an example where prices were just slightly above the cost of the commodities. In our view the prices should include the cost of the commodity and a reasonable rate of interest. It appeared from our audits that these prices are generally established without any AID involvement.

We also found that interest rates were generally treated by the AID project papers in an inconsistent manner, with little indication of how they were determined. The rates for the projects reviewed varied from 0 percent to 12 percent. The Project Paper on Phase I of the Operation Mils-Mopti Project in Mali, for example, proposed a 4 percent interest rate for 3-year credits and a 0 percent interest rate for 1-year credit. The Project Paper on the Haute Vallee Project, also in Mali, proposed 12 percent for oxen and 6 percent for all other commodities. The Eastern ORD Project in Upper Volta proposed a 5.5 percent rate. Yet a similar project financed by a different donor used a rate of 11 percent.

It is our view that, if financially viable credit programs are to be established, AID designers and project officers must be more consistent in proposing realistic interest rates. This rate should be established at a level which is consonant with those charged by the national credit banks.

Subsidies

Some projects heavily subsidized the sale of commodities. One example is the Niamey Department Development Project in Niger. Under that project, AID-financed commodities were being sold at something like 60 percent of cost in order to promote the sale of the commodities. Formal arrangements were made to have the Government of Niger reimburse the credit fund account for the amount of the subsidy. However, with the Government's budgetary problems, the required reimbursements have not been made to the project credit fund account. This credit program is very much in jeopardy of being completely eroded by the subsidies.

High Default Rates on Loan Repayments

Almost all projects are experiencing serious problems with loan repayments. The default rates on loans are 50 percent or more. These high default rates are seriously undermining the financial viability of the credit programs.

The AID Project Papers, when they do address the default problem, generally do so in terms of collective responsibility. For example, in the Operation Haute Vallee Project in Mali, the project designers assumed village councils were involved in the credit program. On the basis of this assumption, the designers developed a credit program which required the loans financed with AID credit funds to be approved and repayment guarantied by the councils. However, in auditing the project, we discovered that the village councils were not involved in the credit programs at all.

We agree that establishing and integrating village councils or associations into the credit program is a good idea. Administrative costs can be reduced by dealing with groups of farmers rather than large numbers of individual farmers. Through group lending, peer pressure can be used as a means of obtaining better repayment performance. The problem is that establishing these village councils or associations is a difficult task. Yet the Project Papers seem to suggest this can be done with minimal planning, analyses and technical assistance. This explains why AID's efforts to establish these councils and associations have not worked.

The credit program in the Niamey Department Development Project in Niger was designed to work through newly established cooperatives which processed the farmers' loan applications to the National Agricultural Credit Bank. It was therefore determined to make the cooperatives collectively responsible for the farmers' debt by having the bank withhold approval of applications from any cooperative whose default rate was in excess of 10 percent. At the time of our audit this procedure was not working, since neither the cooperatives nor the Credit Bank had adequate accounting records to enforce this requirement.

It was apparent from our audits that little, if anything, was being done to address the default problem. This we concluded was due in part to the poor accounting for the credit programs. In some cases the records were so bad it was almost impossible to determine the default rates with any degree of accuracy. It is therefore essential that accounting systems be established and designed to provide this kind of reporting information. This will entail establishing adequate loan accounts so that such steps as the aging of amounts overdue can be reported.

The default problem has to be addressed, otherwise the perception may continue to spread among farmers that AID-financed credit sales do not have to be paid. At the present time there are rarely penalties associated with non-payment. This is one of the basic flaws of the programs. It is our view that AID needs to introduce such penalties as suspension of further credit and repossession of oxen and implements when repayment is not made.

There are very real instances when farmers are unable to repay their loans. This often occurs when an area is severely hit by the lack of rainfall. In such cases crops are totally destroyed, leaving the farmers with little or no means of livelihood. None of the projects have made adequate provisions for dealing with these cases. In these cases, AID might consider forgiving that part of the loan used to buy fertilizers and pesticides, since these inputs are lost with the crops. That portion of the loan used to buy such tangible assets as oxen and implements could be rescheduled. Some such provision is needed.

There seems to be a perception among some farmers that those individuals administering the credit programs are reaping personal benefits at their expense. While our audits disclosed no such specific cases, it is evident, with the lack of accounting records and internal controls, that this could have been occurring. The perception of dishonesty in the administration of the programs does not foster good repayment habits. Senegal is a case in point.

Under the AID Cereals Production Projects I and II in Senegal, the extension of credit was the responsibility of the National Office for Cooperatives and Development Assistance (ONCAD). Working in tandem with a system of cooperatives, ONCAD seemingly had the capability to carry out the required credit program. Under the procedures of this program, the farmer applied to the cooperative for an in-kind loan to purchase inputs. These requirements were then transmitted to the ONCAD which delivered the inputs to the cooperative, with the cooperative delivering the inputs to the farmer. Loan repayments were made to ONCAD through the cooperative.

On balance, this seemed to be a reasonable credit arrangement on which to structure the AID projects, whose purpose was the intensification and diversification of food crop production in the peanut basin of Senegal. ONCAD, however, was inefficient and members became disillusioned with its handling of cooperative affairs. With cooperative members refusing to pay their loans, non-paid loans soared to the catastrophic level of 409,969 tons equivalent of peanuts. In October 1980, the Government addressed the problem by dissolving ONCAD, imposing a moratorium on debt repayment and suspending the credit program for five years.

Though Senegal is an extreme case, AID should take heed from this example in stressing the need for efficiency and honesty in the administration of its credit programs.

NEED TO IMPROVE ACCOUNTABILITY OVER FUNDS AND COMMODITIES

Accounting for the credit programs was poor in all projects reviewed by us. This stemmed largely from a general lack of accounting skills. In most projects the organizations barely had the skills to account for operating expenses. There were no organizations possessing the more sophisticated skills necessary to account for the credit programs.

Section 121 (d) of the Foreign Assistance Act of 1961, as amended, and which is applicable to the Sahel Development Program, states:

> "Funds available to carry out this section (including foreign currencies acquired with funds appropriated to carry out this section) may not be made available to any foreign government for disbursement unless the Administrator of the Agency for International Development determines that the foreign Government will maintain a system of accounts with respect to those funds which will provide adequate identification of and control over the receipt and expenditure of those funds."

None of the projects we reviewed had a credit sales program which would have been able to fulfill the requirements of Section 21 (d) of the Foreign Assistance Act. Under the Casamance Regional Development Project the credit sales program has not started due to the difficulties in designing a program in compliance with this requirement. All other credit sales programs reviewed by us were funded prior to the enactment of Section 21 (d) and have been suspended. This action was either taken by the missions unilaterally or in response to our audit recommendations.

In general, the credit programs should operate as follows: AID funds are deposited to a special credit fund account. These funds are subsequently used to procure the inputs such as fertilizers, implements, seeds and oxen. When these inputs are sold on an in-kind credit basis, loan contracts are prepared and loan accounts are established. Repayments are then made and flow to the special account, with the cycle repeating itself. From this process it is evident that the following internal controls are required:

- Records must be established over the receipt and disbursement of AID funds deposited to the special credit fund accounts;

- An inventory system must be established to account for the receipt, distribution, location and sales of the commodity inputs;

- Loan contracts must be executed and loan accounts must be established when the inputs are sold; and

- controls must be established to ensure that repayments are credited to the loan accounts and flow to the special accounts.

The credit programs are not administered by one centralized location but rather by 20 to 50 decentralized locations in the project area. This decentralized structure adds complexity to the administration of the programs.

A smooth functioning credit program requires that at the decentralized offices the necessary records are established, the details promptly and correctly recorded, and reports accurately and periodically forwarded to the centralized offices. At the centralized offices this information should be consolidated and then analyzed to ensure the system is functioning properly. The basic problem with the credit programs is that the necessary records have not been established and little, if any, accurate, detailed information is reaching the centralized offices where the control points rest. The result has been almost a complete lack of accountability.

A large part of the problems discussed in this report resulted because AID designers completely ignored accounting in the design of the projects. Not one Project Paper even mentions the accounting requirements and no provision was made to provide the required technical assistance. The chaotic accounting which has been characteristic of these credit programs was due to these and other design deficiencies. Contributing to this situation is the lack of adequate guidelines regarding aspects that need to be considered in designing credit programs. Guidelines are urgently needed to explain what must be done to get these programs on track.

<u>Special Credit Fund Accounts</u>

The project grant agreements require that all AID credit funds released to the program be deposited to a special credit fund account at a commercial bank. Those funds stemming from the repayment of AID-financed, in-kind, loans are also to be deposited to this account. The withdrawal of funds from these accounts are then restricted to the procurement of inputs required under the technical package being promoted by the projects.

Our audits indicated that in three projects (Eastern ORD Project, Niamey Department Development Project and Action Ble Project) the AID credit funds had not been properly deposited in the special accounts. For example, funds under the Eastern ORD Project were deposited to a general account and thus commingled with other donor funds.

Another major problem with deposits to the special accounts relates to repayment proceeds on AID-financed loans. In the three projects in Mali, for example, we found that in excess of $1 million was never deposited to the special accounts as required. These funds were diverted and used by the organizations for unauthorized and unspecified purposes. It is obvious that better and more effective accounting and reporting is needed to control these repayments.

Accounting for Commodities

Accounting for commodities was seriously lacking in all projects. This situation appeared to be due to an absence of understanding on how such a system works.

In our audits we generally found sufficient accounting to verify the procurement and receipt of the commodities at the organizations' central warehouses. However, with the subsequent distribution of the commodities to the various warehouses in the project areas, all accounting disappeared.

The various sub-offices in the project areas should maintain stock cards. These cards should show the receipt of commodities, their location, sale, and inventory balance. These cards provide the basic data for reporting on commodity movement and inventory to the central office.

Commodities under the jurisdiction of a sub-office may be warehoused at several locations. The basic record keeping document at these locations is the bin card. These cards, maintained for each of the commodities, show what comes in, went out, and the balance on hand. The data on these warehouse bin cards should tie into the stock record cards at the sub-office. It is through the proper maintenance of such record keeping that internal controls are developed.

The problem is that stock record and warehouse bin cards are generally not maintained. Efforts have been made in some projects to introduce them but they were seldom maintained after being introduced. Commodity accounting is thus an aspect in which all organizations require extensive training and assistance.

Loan Accounting

When AID-financed commodities are sold, a loan contract and a loan account card should be prepared. In our audits we found that this seldom happens.

When commodities are sold, the usual procedure is to enter the sale on a listing, showing the farmer's name and amount of the sale. Payments are made by notations to this listing. All too frequently, however, these listings are not maintained adequately. In several projects we found it impossible to determine what was sold to whom and who repaid what.

Loan accounting in all projects needs to be addressed. Loan contracts should be executed and proper loan cards prepared. It is only through the use and maintenance of these records that internal controls can be developed.

Internal Controls

Internal control is the methodology by which management is carried on within an organization. It includes any of the numerous devices for supervising and directing operations. Some of the principal elements contributing to internal control include:

- An accounting process that provides officials with prompt, complete and accurate information on operating performance and comparisons with predetermined performance standards.

- Preparation of periodic reports, consonant with accounting and related records.

- Internal checks built into operating procedures, thereby providing maximum protection against fraud and waste.

- Frequent appraisals of management, its policies and operations.

At the present time none of the projects audited have adequate internal controls to manage AID credit funds. Nor will they until such time that adequate accounting systems have been developed and personnel have been adequately trained to maintain them. In establishing the accounting systems, particular attention needs to be paid to internal controls.

NEED TO IMPROVE AID'S OVERSIGHT OF THE CREDIT PROGRAMS

AID has the responsibility to ensure that those AID funds transferred to credit programs are used for the purposes intended. To ensure adequate host-government accountability for use of the funds, proper oversight procedures and designation of responsibility must be established within AID. This oversight responsibility, under the project management concept used by AID, is assigned to a single AID officer designated as Project Officer.

The Project Officer is responsible for all activities relating to that project, from planning through implementation and evaluation. Numerous IG audit reports, however, have indicated that the duties assigned to these officers were not performed.

This was often due to factors over which the Project Officers had no control. One such factor has been the propensity of AID missions to expand its programs without making adequate provisions for project staffing. This has resulted in Project Officers being assigned two or more large projects, with few of the responsibilities being performed. An augmenting factor has been the stationing of Project Officers at the USAIDs, with the project sites being located 100 miles or more away. This distance and the lack of adequate roads has made on-site monitoring extremely difficult.

Yet, notwithstanding this problem, it is incomprehensible to us that someone at sometime during the early stages of the projects audited did not visit the field offices and reach a decision that the credit programs were not working. Such a decision could have been reached with only a modicum of prudent business sense. What is particularly disturbing is that credit programs which were not working in Phase I were carried over to Phase II intact. Aid funds were thus released without any regard as to how they were utilized.

Another closely related problem has been the failure of the AID designers to recognize the need for financial technical assistance. There has been a tendency to assume a host government's financial capability where none exists. This has resulted in no on-site management capable of reporting to the USAID on the implementation of the programs or providing day-to-day guidance.

In January 1982, the IG issued an Audit Report (No. 82-35) on "Problems in Host Country Accounting for Utilization of AID Funds in the Sahel" which addressed the lack of financial oversight. Since the issuance of that report, AID management has given increasing attention to the proper utilization of AID funds. This attention has subsequently resulted in the suspension of all releases of AID funds to the credit programs. No AID funds have been or will be released to these credit programs until such time that the certification requirements of Section 121(d) of the Foreign Assistance Act are fulfilled.

CONCLUSIONS AND RECOMMENDATION

In analyzing why the credit programs are in the present predicament, we had to go back to the inception of the projects. In doing so, we generally found, the cause could often be attributed to the over-optimism of the project designers who assumed the existence of an institutional capability to manage credit programs where none existed. This failure to recognize and identify institutional weaknesses resulted in insufficient technical assistance and oversight being designed into the projects. Failure was thus the inevitable outcome.

Credit programs are difficult to administer under the best of circumstances. To administer such programs in the Sahel, which is one of the poorest regions of the world, is a particularly difficult task. The institutional capabilities, including basic accounting skills, are seriously lacking. No credit sales programs are going to work in the Sahel if these realities are not taken into account during the design stage. Nor are they going to work if problems are left unattended during the implementation phases. Therefore, if AID is going to continue funding such programs, it is necessary AID learn from its prior experiences. In our view, unless the systemic problems discussed in this report are addressed by the Bureau for Africa, any in-kind credit sales program in the Sahel will likely fail.

Accordingly, we recommend that:

<u>Recommendation No. 1</u>

The Assistant Administrator for Africa (AA/AFR) develop guidance for an approach to address the systemic problems in the Sahel regarding the design and implementation of in-kind credit sales programs. The guidance should specifically address the folowing problem areas:

1. assessment of host country capabilities and required technical assistance;

2. factors effecting financial viability;

3. accounting for funds and commodities; and

4. AID oversight.

EXHIBIT A

LISTING OF FOOD PRODUCTION PROJECTS IN THE SAHEL DISCUSSED IN OFFICE OF INSPECTOR GENERAL REPORTS

Eastern ORD Integrated Rural Development Project in Upper Volta (No. 686-0201)
Audit Report No. 81-44 Dated 2/13/81

Senegal Cereals Production Project (No. 685-0235)
Audit Report No. 0-685-81-50 Dated 3/6/81

Action Ble Project in Mali (No. 688-0213)
Audit Report No. 0-688-81-139 Dated 9/24/81

Operation Haute Vallee Project in Mali (No. 688-0210)
Audit Report No. 7-688-82-1 Dated 9/20/82

Niamey Department Development Project in Niger (No. 683-0204)
Audit Report No. 7-683-83-2 Dated 2/10/83

Operation Mils-Mopti Project in Mali (No. 688-0202)
Audit Report No. 7-688-83-3 Dated 5/3/83

Casamance Regional Development Project in Senegal (No. 685-0205)
Audit Report No. 7-685-84-1 Dated 11/17/83

NEED TO IMPROVE THE DESIGN AND
IMPLEMENTATION OF AGRICULTURAL CREDIT
PROGRAMS IN THE SAHEL

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