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USAID/JAMAICA'S MONITORING OF
AND CONTROLS OVER DOLLAR AND
LOCAL CURRENCY RESOURCES PROVIDED UNDER
ECONOMIC SUPPORT FUND AND
P.L. 480 TITLE I PROGRAMS

MEMORANDUM SURVEY REPORT NO. 1-532-85-10
AUGUST 12, 1985

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PL 480 TITLE I PROGRAMS

SUMMARY

USAID/Jamaica (USAID) and the Government of Jamaica (Government) started the Economic Support Fund (ESF) and PL 480 Title I programs to (1) provide immediate balance-of-payments support to pay for critically needed imports of spare parts, industrial and agricultural inputs, capital goods, and basic agricultural commodities; (2) stimulate production, exports and employment; and (3) assist the Government in long-term economic development through self-help measures.

The USAID had disbursed \$389.85 million under the two programs since January 1981. The principal purpose of the survey was to determine the effectiveness of program controls and monitoring over the resources provided by AID and over the local currency generated from those resources.

Despite USAID's monitoring efforts, some weaknesses in program controls and monitoring existed. We discussed these weaknesses with USAID personnel and were told that appropriate corrective actions would be taken.

We believe that some of the deficiencies found during our survey cannot be attributed only to USAID monitoring but to the Government's apparent laxness in submitting reports and complying with requirements. We have made six recommendations to USAID/Jamaica which should improve its ability to monitor the programs and induce the Government to comply more fully with its commitments.

BACKGROUND

Economic Support Fund

On January 19, 1981, AID started a financial assistance program to the Government of Jamaica in order to provide immediate balance-of-payments support and to stimulate production, exports and employment. As of April 30, 1985, the USAID had lent the Government \$297.35 million. AID provided the funds through eight Economic Support Fund (ESF) loans:

<u>Loan No.</u>	<u>Date</u>	<u>Amount</u>
532-K-014	1/19/81	\$ 40,000,000
532-K-017	2/29/81	38,000,000
532-K-018	9/27/82	50,000,000
532-X-020	12/17/82	25,000,000
532-K-022	3/24/83	29,350,000
532-K-025	11/10/83	25,000,000
532-K-025A	5/25/84	25,000,000
532-K-029	12/27/84	<u>65,000,000</u>
 Total		 \$297,350,000 *****

One condition to using the dollar loan funds was that the Government make available an equivalent amount of foreign exchange to import goods and services from the United States for use in the Government's economic recovery program within one year from the date of disbursement. Another condition was that an equivalent amount in local currency (counterpart funds) was to be deposited into special accounts and used for purposes agreed to by USAID and the Government.

As of March 31, 1985, the Government had deposited the equivalent of \$297,350,000 in local currency into the special accounts and had expended the equivalent of \$194,400,000. Generations from the last loan (K-029) will be used to finance 38 development activities plus two Trust Funds (USAID and UNDP).

The agreements (except loan 532-K-029) also required that the Government of Jamaica provide evidence of being in substantial compliance with targets established for Jamaica under an Extended Fund Facility of the International Monetary Fund and a Structural Adjustment Loan of the World Bank (IBRD). The Government further agreed to take other steps to promote economic recovery as required by conditions precedent to disbursement and by covenants in the agreements.

The USAID and the Government's Ministry of Finance were responsible for programming and monitoring the use of local currency. The Ministry of Finance was also responsible for disbursing the funds to the Government ministries. The Bank of Jamaica was responsible for maintaining the special accounts for local currency generated under the program.

PL 480 Title I

AID made four loans to the Government to import \$92.5 million in basic agricultural commodities (wheat/wheat flour, corn, vegetable oil, rice and blended/fortified foods) under Title I agreements between April 30, 1982 and December 17, 1984.

The amounts of the loans were:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>
FY 1982	4/30/82	\$17,500,000
FY 1983	2/24/83	20,000,000
FY 1984	5/30/84	20,000,000
FY 1985	12/17/84	<u>35,000,000</u>
Total		\$92,500,000 *****

The Government agreed to deposit the local currency generated from the sale of agricultural commodities into special accounts and use the funds for mutually agreed upon development activities. As of March 31, 1985, the Government had deposited the equivalent of \$55,800,000 into the special accounts and had reported expenditures of \$47,600,000.

Programming and monitoring the use of counterpart funds was the responsibility of the USAID and the Ministry of Finance. The latter was also responsible for accounting for the local currency disbursed for approved projects. The Jamaica Commodity Trading Company (JCTC) was responsible for purchasing and selling the commodities imported under the program. The Bank of Jamaica was responsible for maintaining the special accounts for local currency generated under the program. JCTC is a Government agency that imports and sells all the PL 480 Title I commodities as well as other commodities, such as cars and pharmaceuticals.

PURPOSE AND SCOPE

The Inspector General for Audit in Tegucigalpa surveyed the Economic Support program and the PL 480 Title I program during April and May 1985. The objective of the survey was to determine the effectiveness of program controls and monitoring over the resources provided by AID, as well as the local currency generated in connection with the transfer of those resources. An in-depth audit of these programs was not conducted at this time, and nothing came to our attention that would indicate that, with certain exceptions noted herein, monitoring and control procedures were not generally acceptable. Nevertheless, we made recommendations in this report to the USAID to correct those reporting and monitoring deficiencies noted during the survey.

We interviewed USAID, Bank of Jamaica, Ministry of Finance, and Jamaica Commodity Trading Company personnel and reviewed pertinent records at those locations. We also interviewed the Controller and Auditor General of Jamaica and an IMF representative. Our review covered the amounts disbursed as of April 30, 1985: \$297,350,000 in Economic Support Funds, \$92,500,000 in PL 480 Title I resources and \$2,380,000 provided through a Trade Promotion grant. The programming and monitoring of the local currency counterpart generated under those three activities were also reviewed.

The value of the Jamaican dollar was J \$1.78 to US \$1.00 during the period 1981 to 1984. As of April 1985, the rate was about J \$5.32 to US \$1.00. Currency conversion rates used in this report were those in effect at the time Jamaican currency was deposited into the special accounts under the surveyed activities.

USAID/Jamaica responded to a draft of this survey report via cable dated July 26, 1985. In essence, the USAID agreed with the report findings and recommendations. Based on actions reported by the USAID, we closed four of the six recommendations upon issuance of this report. The USAID's comments have been incorporated into this report. Recommendations 4 and 6 remain open pending completion of action reportedly underway by USAID/Jamaica.

SURVEY FINDINGS AND RECOMMENDATIONS

ECONOMIC SUPPORT FUND

Annual Reports on Imports Attributed by the Government of Jamaica to the ESF Loan

Under the terms of the ESF loan agreements the Government was to use the loan proceeds to import commodities such as machinery and spare parts, raw materials and other commodities from the United States to promote private sector industrial and agricultural development. The Government was also to provide USAID/Jamaica with reports demonstrating that the loan proceeds had in fact been used to import eligible commodities. As of May 8, 1985, the Government had provided two of the required reports, one for loan 014 and one for loan 017. The USAID had not received reports for the following loans:

<u>Loan No.</u>	<u>Report Due Date</u>	<u>Months in Arrears</u>
532-K-020	Dec. 22, 1983 <u>1/</u>	16
532-K-022	Sep. 28, 1983	19
	Mar. 28, 1984	13
	Mar. 29, 1984	13
	Sep. 29, 1984	7
532-K-025	Feb. 25, 1985	2

Language in loan agreements 532-K-022, 025 and 029 stated that USAID/Jamaica would try to provide the Government copies of U.S. Department of Commerce computer reports on commodities exported from the United States to Jamaica in order to facilitate the commodity attribution requirement. However, until April 1985, when a current computer report was delivered by the USAID, the Government reportedly had not received such reports since 1982, even though the USAID stated that reports had been sent in May of 1984.

Unless the Government reports on imports are received by the USAID and verified as being accurate, there is no precise way of knowing that the Government has applied AID ESF loans (nearly \$300,000,000) to the kinds of imports that the loans were intended to finance, i.e., production machinery and parts, raw materials and commodities to promote the private sector development.

1/ Date by which importations equaling the loan proceeds were to have been completed. Actual report due date was not specified in loan agreement.

During our survey, USAID brought the matter of the delinquent reports to the attention of the Ministry of Finance. However, until the reports had been actually received, reviewed and found to be accurate and complete, the USAID needed to follow up to obtain them. Therefore we made the following recommendation.

Recommendation No. 1

We recommend that USAID/Jamaica:

- (a) obtain the required commodity reports due as of May 1985 (loans 20, 22 and 25) and formally notify the Government of Jamaica that the report for loan 29 will be due in March 1986; and
- (b) review the reports when they are received to ensure their accuracy and completeness.

Mission Comments

In July 1985, USAID/Jamaica stated that all the required reports had been received and reviewed to ensure their accuracy and completeness. The USAID also stated that it had so notified the Government and at the same time advised the Government of due dates for future reports.

OIG Response

Based on the USAID's stated actions Recommendation No. 1 is closed upon issuance of this report.

Definition of Significant Loan Covenant

One of the covenants (section 7.A) of loan 532-A-025 stated:

Compliance with Previous Agreements.

The Borrower agrees, except as A.I.D. may otherwise agree in writing, that within thirty (30) days of signing this Agreement it will provide to A.I.D., in form and substance satisfactory to A.I.D., written evidence that it has made reasonable and good faith progress in complying with all conditions and covenants of prior A.I.D. cash transfer loans and in submitting all reports required in connection with such loans. Such evidence shall include a narrative statement of compliance actions and efforts to date, a time phased plan for future actions, should such be necessary for full compliance, and whatever supporting documentation is appropriate.

As of May 9, 1985, the USAID could not determine: (a) what specific prior conditions and covenants were referred to in the above covenant, or (b) whether covenant 7.A had been satisfied by the Government and if so, how.

We believe that including section 7.A as a covenant in loan 025 indicated that the USAID had serious concerns regarding the Government's compliance with conditions and covenants of prior agreements. Therefore, the status of the covenant needed to be explicitly clarified by USAID/Jamaica.

Recommendation No. 2

We recommend that USAID/Jamaica:

(a) specifically identify which prior conditions and covenants are referred to in Section 7.A of loan 532-K-025; and

(b) determine if section 7.A of loan 532-K-025 has been satisfied and, if so, how.

Mission Comments

In its July response to a draft of this report USAID/Jamaica:

- stated that there were no prior conditions precedent unfulfilled, and
- identified two unfulfilled loan covenants (loans 18 and 22) and stated that the covenants had been fulfilled upon receipt of specified documentation from the Government. The USAID reportedly received the final required document in May 1985.

OIG Response

Based on USAID/Jamaica's reported actions, Recommendation No. 2 is closed upon issuance of this report.

Divestiture of Government-Owned Enterprises

Divestiture of Government-owned enterprises appeared not to have occurred or even progressed significantly since the first ESF loan in 1981. The ESF loan agreements contained covenants requiring the Government to take steps to divest itself of publicly owned enterprises. For example, loan 532-K-022 dated March 24, 1983, contained the following covenant in Article VI:

Within 120 days of the date of this Agreement, the Borrower will prepare an action program for divestment of publicly owned enterprises, listing by name the enterprises the

Government will seek to divest on reasonable terms, in each fiscal year from 1983-84 to 1985-86, the mechanism for accomplishing the divestment, and the form of the divestment, (i.e. sale or lease).

Loan 532-K-025A (Amendment No. 1) stated in Section 7.A - Special Covenants Applicable to Disbursements Over \$25,000,000 - that:

The Borrower shall, except as A.I.D. may otherwise agree in writing, complete the privatization of the 30 Government owned assets ... within eighteen (18) months of the signing of this amendment.

Nevertheless, Loan 025A was fully disbursed with little if any significant divestiture of Government-owned properties having occurred.

There was ample correspondence in the files addressing this issue, but our review of that correspondence and discussions with USAID and IMF officials led us to conclude that the Government had either been unwilling and/or unable to divest itself of the 30 or more enterprises identified as susceptible to privatization.

Recommendation No. 3

We recommend that USAID/Jamaica document its records as to why loan 532-K-025A and any subsequent loan was disbursed before the Special Covenant applicable to divestiture was complied with.

Mission Comments

USAID/Jamaica's July 1985 response to the draft report cited various documentation addressing the divestiture issue. (We had reviewed some of this documentation during our survey field work and, as stated earlier, detected little evidence of substantive divestment.) However, in its July response the USAID stated that it had documented its records in a memorandum to the files as to why loan 025 and 025A were disbursed prior to full compliance by the Government of Jamaica with the covenant required by loan 022.

In essence the USAID reportedly accepted partial compliance to the loan 022 requirement based on an August 4, 1983 "Divestment Report" submitted by the Government, and based on reported continuing actions on the part of the Government to divest itself of the identified properties. The USAID also reported that on May 20, 1985 it had received an update of the August 4, 1983 "Divestment Report" which showed, among other things, that divestment was proceeding.

In our opinion the Government is not divesting itself of publically owned properties at a pace envisaged by AID program managers. For example, even in the May 10, 1985 update noted above, only seven divestments were reported complete. Nevertheless, Recommendation No. 3 is closed upon issuance of this report because:

- USAID/Jamaica reportedly documented its records as required, and
- USAID/Jamaica appears to be exhorting the Government to complete the divestment process.

USAID Trust Fund

In connection with three of the ESF loans, USAID/Jamaica and the Government agreed that certain amounts of the local currency generated would be deposited by the Government into a USAID Trust Fund. They agreed that the total amount could be deposited in several installments, one or more in each quarter of the Jamaican Fiscal Year (April 1 to March 31).

The total amounts to be deposited into the Trust Fund from each loan are shown below:

Loan No.	Amount in US\$	Amount Agreed for Deposit (J\$)	Deposited To Date (J\$)
532-K-17	\$3,088,153	J\$ 5,500,000	J\$ 5,500,000
532-K-22	4,353,371	7,749,000	7,749,200
532-K-29	2,362,670	12,000,000	3,000,000
Total	\$9,804,194	J\$25,249,000	J\$16,249,200
	*****	*****	*****

The Mission was aware of deposits made into the Fund but did not maintain controls to determine the specific source of each deposit. Therefore, USAID/Jamaica could not readily determine how much had been deposited or the amount remaining to be deposited under each loan. Documentation in USAID files attested to the difficulties USAID staff members encountered in attempting to determine the amounts due. Also, the Government did not always make deposits to the Trust Fund in a timely fashion.

Upon analyzing the Trust Fund account we determined that the required deposits had been made. However, so that the USAID can more readily know the status of Trust Fund deposits, we believe it should maintain accounting records of deposits by loan number, assuming future ESF agreements provide for continuation of the USAID Trust Fund.

PL 480 TITLE I PROGRAM

Deposit of Sales Proceeds

The Jamaica Commodity Trading Company (JCTC) was established by the Government in 1981. JCTC was the single largest importing entity on the island; it was also the sole importer for several commodities, the most important of which were bulk items, grocery items, drugs, medical equipment, lumber and motor vehicles. The Jamaica Commodity Trading Company was responsible for purchasing and selling the commodities imported under the PL 480 Title I program. JCTC was also responsible for depositing into special accounts in the Bank of Jamaica amounts in Jamaican dollars equivalent to the value of the commodities received under each PL 480 loan. 2/

Proceeds from the sale of commodities were deposited five to ten months after arrival of each shipment of commodities, the average period being six months. This delay was attributable to the fact that the Mission did not include a provision in the loan agreements or related documentation requiring that deposits be made within a certain period after the arrival of the commodities. Furthermore, JCTC had made deposits into the special accounts only when requested to do so by the Ministry of Finance. Also, the sales proceeds were not being deposited into interest-bearing accounts, as recommended in AID Policy Determination No. 5. AID Policy Determination No. 5 - Programming PL 480 Local Currency Generations - dated February 22, 1982 states:

Missions should consider depositing the sales proceeds into an interest bearing commercial bank account established to help finance development activities not agreed upon during negotiations or not yet ready for implementation; both the principal and the interest can later be used for funding such activities.

Bank of Jamaica (Bank) personnel told us that there was no reason why they could not establish an interest-bearing account, if the Government of Jamaica and USAID agreed to do so.

In holding PL 480 Title I sales proceeds for up to ten months, JCTC was able to utilize those proceeds whereas they might better have been used for priority development projects. By not depositing the proceeds into interest-bearing accounts, additional revenues were lost to development projects.

2/ Each PL 480 Title I agreement required that a separate special account be established.

Recommendation No. 4

We recommend that USAID/Jamaica, in consultation with appropriate Government of Jamaica officials:

(a) include in future PL 480 Title I loan agreements realistic time limits governing the deposit of sales proceeds into the designated special accounts, and

(b) establish interest-bearing accounts for deposits of proceeds from the sales of PL 480 Title I commodities, in accordance with the pertinent AID policy determination, or document its records as to why this should not be done.

Mission Comments

USAID/Jamaica reported in its July 1985 response to the report draft that it will seek to implement Recommendation No. 4 in future PL 480 Title I agreements.

Monitoring of PL 480 Title I Program Requirements

USAID/Jamaica needed to improve its monitoring of the Government's compliance with requirements of the PL 480 Title I loan agreements. For example, at least one report required annually had never been submitted by the Government, and some of the periodic reports were submitted well after they were due.

The Government of Jamaica has not submitted to USAID/Jamaica an annual, certified report of the receipt and expenditure of PL 480 sales proceeds.

Part I of the FY 1982 loan agreement states that the Government:

...shall furnish in accordance with its fiscal year budget reporting procedure, ...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.

The USAID had not requested the report. Mission officials in charge of the PL 480 program could not provide a good reason for not requesting the report, and it seemed to us they were not aware of this requirement.

The loan agreements and memoranda of understanding required the Government to submit several other periodic reports to AID. Some of the reports were not received in a timely manner, e.g., bank statements of the special accounts into which PL 480 sales proceeds were deposited. As

of April 30, 1985, the last bank statements found in USAID files were dated June and July 1984, and were for the FY 1982 and FY 1983 agreements, respectively. No bank statements for the FY 1984 or FY 1985 accounts appeared to have been received by USAID/Jamaica.

A Mission official stated that problems have been experienced in obtaining timely reports from the Government because of apparent communication problems between the Ministry of Finance, which is in charge of submitting most reports to USAID, and other Government entities.

Recommendation No. 5

We recommend that USAID/Jamaica formally request the Government of Jamaica to submit required annual reports on receipt and expenditure of PL 480 sales proceeds, as well as the required bank statements for deposits under the FY 1984 and FY 1985 PL 480 agreements.

Mission Comments

In its July 1985 response, USAID/Jamaica stated that it had requested, by letter, the required annual certified report and that it had received up-to-date bank statements. The USAID also pointed out that even though the required:

...annual certified report had not been requested previously and transmittal of bank statements from the bank of Jamaica to the Ministry of Finance, and then to USAID, was frequently delayed, sales proceeds for all commodities received had been deposited into special accounts, and adequate reporting of - drawdowns against these accounts has been provided by the Government of Jamaica, and is documented in Mission files.

OIG Response

Based on the stated action taken by USAID/Jamaica, Recommendation No. 5 is closed upon issuance of this report.

Recommendation No. 6

We recommend that USAID/Jamaica devise a system or checklist that will alert all its project managers when required reports are due from the Government of Jamaica. The system should require the generation of a written notice to appropriate (D) officials, if reports are not received on a timely basis.

Mission Comments

USAID/Jamaica stated, in its July response, that it has "...already instituted improved systems of monitoring the receipt of required reports on the deposit and expenditure of local counterpart resources." The USAID further indicated that it intends to improve the overall monitoring of its projects through recently acquired computer technology.

USAID Monitoring of Counterpart Funding for Its Projects

The USAID apparently did not attempt to ascertain specific host country contributions to USAID funded projects. (A significant amount of the local currency provided to the Government as a result of the ESF loans and PL 480 Title I sales is budgeted for USAID projects.) The USAID, we were told, took the position that if the projects were progressing well the Government must be meeting its commitment.

Our discussion with selected USAID project officers and staff indicated that counterpart funding has been a problem and that the lack and/or tardiness of the Government in meeting its financial commitments had caused certain projects to falter. For example, individuals in USAID's Office of Agricultural and Rural Development stated that projects have suffered because of late Government counterpart contributions.

We are making no formal recommendation in this survey report because our survey did not cover a review of specific projects to determine if lack of Government funding is in fact a serious problem. However, we believe the USAID needs to devise a means of (1) keeping current on counterpart contributions by the Ministries through periodic progress reports (which was not being done), and (2) reviewing counterpart contributions when projects lag because such contributions appear delinquent.

APPENDIX 1

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