

PDAAY-243

IAN: 47058

AUDIT OF
USAID/HAITI'S PL 480 TITLE I,
TITLE II (EMERGENCY), AND
TITLE III PROGRAMS

Audit Report No. 1-521-87-1
October 2, 1986

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

TELEPHONES:
32-0044 & 32-0092
also 32-3120/9, EXT. 293 &

October 2, 1986

MEMORANDUM FOR: D/USAID/Haiti, Gerald Zarr
FROM : RIG/A/T, *Coinage N. Gothard*
Coinage N. Gothard, Jr.
SUBJECT : Audit of USAID/Haiti's PL 480 Title I,
Title II (Emergency), and Title III Programs
Report No. 1-521-87-1

This report presents the results of our audit of Haiti's PL 480 Title I, Title II Emergency Food Aid (emergency), and Title III programs. We appreciate the cooperation and courtesy extended our staff during the audit.

Background

Earlier this year, a series of articles appeared in American newspapers concerning depredations allegedly committed by the Duvalier family during their reign in Haiti. The articles left the impression that AID funds had somehow been diverted into private accounts of the Duvalier family. In response to the articles, AID's Assistant Administrator/Latin America and the Caribbean (AA/LAC) made a formal request that the Office of the Inspector General (OIG) review certain PL 480 activities in Haiti.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a financial and compliance audit of USAID/Haiti's PL 480 Title I (FY 83 and FY 84), Title II Emergency Food Aid, and Title III programs during the period May 5, 1986 through July 17, 1986.

Specifically, our audit objectives included: (1) determining whether PL 480 local currency generations and deposits had been properly made; (2) determining the degree of progress of PL 480, Title II (emergency), and Title III Programs; and (3) evaluating the adequacy of internal controls and procedures as they relate to AID Policy Determination No. 5, Programming PL 480 Local Currency Generations, dated February 22, 1983. Our work included reviewing all pertinent Title I, Title II (emergency), and Title III files, records and other pertinent data, and interviewing cognizant officials at USAID/Haiti and within the Government of Haiti (GOH), including its Title III Management Office. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

Our audit indicated that management of PL 480-generated local currency was in compliance with AID guidelines and that internal controls were adequate. However, neither the Title II (emergency) or the Title III programs were meeting their goals.

PL 480 agreements required that all local currency generations be accurately and expeditiously deposited in a special bank account. To that end, we tested the local currency generations derived from the sale of PL 480 commodities and deposits thereof under Title I (FY 83 and 84), Title II (emergency) (FY 86), and Title III (FY 85 and 86). Our analysis showed that local currency generated under those programs totalling the equivalent of \$52.7 million were properly calculated and deposited into the corresponding special accounts at the Central Bank of Haiti. The funds in those accounts are jointly programmed by USAID/Haiti and the Government of Haiti (see Exhibit A).

We found that: (1) the local currency generations and deposits under the Title I, Title II (emergency) and Title III programs were properly calculated and deposited into the corresponding special accounts at the Central Bank of Haiti; (2) neither the Title II (emergency) nor the Title III program was making acceptable progress towards meeting the respective objectives of each; and (3) Title I and Title III local currency generations, which had remained idle for some time, had not been deposited into an interest-bearing account as suggested by AID Policy Determination No. 5.

The report recommends that the Mission ensure coordination and implementation of PL 480-funded activities and consider depositing PL 480-generated local currency in an interest-bearing account.

1. PL 480, Title II Emergency Food Aid and Title III Programs Were Seriously Delayed in Delivering Planned Services - The overall objectives of the PL 480, Title II Emergency Food Aid (emergency) and Title III programs were to improve the living conditions of the urban and rural poor through the creation of employment to meet seriously deteriorated economic conditions and to reverse stagnation in the agricultural sector. We found the programs had not attained an acceptable level of performance for various reasons. This lack of progress was the result of multiple planning and coordination problems which had prevented the delivery of urgently needed services to both the urban and rural poor. As a result, only \$3.4 million of the equivalent of over \$23 million had been documented as program expenditures at the time of our review. Unless the current pace of the programs improves dramatically, their objectives could be jeopardized.

Discussion - Neither PL 480 Title II nor Title III programs were meeting their goals.

A. PL 480 Title II Emergency Food Aid Program - The purpose of the PL 480 Title II (emergency) program was to generate employment/income in the urban areas of Haiti for unskilled, underemployed or unemployed people. It emphasized short-term employment creation in response to an emergency situation created by the change in government in February of this year. Although the monetization of Title II commodities had generated the equivalent \$7.9 million since March 1986, only \$2 million had been approved for program purposes at the time of our review. This slow pace was caused by a lack of program planning and coordination. As a result, about \$6 million in emergency funds were lying idle with few benefits accruing to the urban poor (see Exhibit B).

We identified the following causes of implementation problems: (1) poor internal communications between entities involved in the program. For example, in certain instances, the GOH implementing unit was unaware what projects had been selected to receive emergency funds; (2) improper planning in the implementation of the urban/rural rehabilitation project, which accounted for 50 percent of the program budget (see Exhibit B); (3) insufficient time available for the development of program documentation. For example, Private Voluntary Organizations such as CARE, Church World Services (CWS), Catholic Relief Services (CRS) and Seventh Day Adventist World Service (ADRA), in need of funds to help restore their regular PL 480 Title II food distribution operations disrupted by the civil disturbances, could not apply for funds promptly; and (4) AID/Washington delays in informing Title III PVO cooperating sponsors of their outreach grant funding level.

B. The PL 480, Title III Program - Implementation of the PL 480 Title III Program is governed by the Title III agreement executed by the Governments of Haiti and the United States on May 30, 1985. The program consists of activities designed to reverse agricultural stagnation and promote changes in national agricultural sector policies.

The program faced serious implementation problems caused by poor communications and the absence of a clear understanding among the parties as to the nature and extent of their responsibilities. The implementation problems had prevented many projects from moving forward as quickly as anticipated (see Exhibit C). If the implementation problems cannot be resolved, the possibility exists that the Title III program will fail to meet its goals and objectives in the longer term. Thus, the effective utilization of the equivalent of around \$16 million could be jeopardized.

The parties to the Title III Program in Haiti had differing versions as to why implementation had lagged so seriously. On the one hand, we were told that a ministerial level executive committee established to provide program policy guidance had failed to do so. On the other hand, we were advised that the GOH project managers had resisted concentrating project activities in the same geographical area as called for; had not applied for funds replenishments because they were told Ministry overhead expenses, previously allowed under the Title I Program, would now be

disallowed; had not, because of other responsibilities, devoted full time to Title III activities; had not appointed liaison officials to coordinate program activities among the various affected GOH elements; had not obtained execution of technical performance contracts, because GOH technical personnel did not want to be obliged to work eight hours a day on specified project tasks; and had not begun implementing public sector policy reforms, because the concepts involved were only poorly understood by those involved.

We discovered that USAID/Haiti had issued a comprehensive internal procedures directive governing the operations of the Title III Program in November 1985. It did not appear to us, however, that adherence to those procedures had been accorded the priority warranted by the relative importance of Title III resource transfers. Mission staff perceived them to be complex and onerous to comply with. In general, we came to the conclusion that poor communications and coordination between the Title III Management Office and USAID/Haiti were the principal reasons why these programs had not progressed as scheduled.

Two alternatives were mentioned in order to expedite the Title III program. The first called for obtaining effective agreement to concentrate project activities in the same geographical area and to assign project managers, technicians, and accountants to manage the project on a full-time basis. Also, a Title III coordinating unit was needed within each Ministry in order to coordinate, communicate and work out internal conflicts/problems and to ensure a communications link between the Ministries and the Title III Management Office.

The other alternative would be to finance infrastructure improvements such as irrigation systems, reforestation, soil conservation, etc., directly through private firms or local community groups; and also obtain technical services from the private sector.

Recommendation No. 1

We recommend that USAID/Haiti take those actions needed to ensure that adequate priority is accorded to the effective coordination and implementation of PL 480-funded activities in that country.

Management Comments

In cable PAP 06761, the Mission presented its comments concerning recommendation No. 1, which it requested be included in the body of the report.

"When the audit was done, the Title II program had only been in existence for about three months. It did suffer from initial implementation problems. Since then, however, there has been a dramatic improvement in emergency program implementation. All proceeds from the sale of the wheat have now been programmed. In addition, as of July 31, 1986, 42 percent of emergency program funds had been disbursed to approved projects, compared to 25 percent as

of June 30, 1986. Moreover, 48 percent of cash advances to projects had been liquidated and reported on by July 31, compared to barely one percent as of June 30.

To ensure that both this momentum and the accelerated rate of Title III program implementation are maintained, and to improve the overall management, coordination and implementation of local currency programs, the Mission has established a local currency programming and monitoring structure. It involves three implementation subcommittees, one each for the Title II emergency, Title III, and ESF programs, overseen by a local currency Policy and Coordination Committee (PC Committee) chaired by the Deputy Director. The PC Committee and subcommittees have clearly defined membership and responsibilities related to monitoring program implementation, reviewing and commenting on GOH reports and keeping appropriate Mission and GOH personnel advised of program status. These subcommittees are meeting frequently (the Title III Subcommittee meets twice a month), often with the participation of the GOH Title III Executive Secretary and appropriate GOH Title III Management Office staff. As a result, communication and coordination within USAID and between USAID and the GOH have vastly improved. In addition, Mission is investigating other ways of improving Title III program implementation, such as over programming funds and establishing a mechanism for shifting funds to activities showing promise of fast, effective implementation during the year. We also plan to monitor funds use closely and hold frequent, regular reviews of project implementation for this purpose with the GOH."

OIG Comments

Based on the Mission's comments, recommendation No. 1 was closed upon issuance of the report.

2. USAID/Haiti Needs to Explore the Use of Interest-Bearing Accounts for Title I and Title III Monies - AID policy suggests that PL 480 sales proceeds be deposited in interest-earning accounts until needed. This had not been done in Haiti because the Mission expected the funds to be spent so quickly that no significant interest would be generated. However, Title I and Title II monies could have earned the equivalent of almost \$1.2 million in interest because they had lain idle for some time.

Discussion - According to AID Policy Determination No. 5, Programming PL 480 Local Currency Generations, dated February 22, 1983, "Missions should consider depositing 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 interest can later be used for funding such activities." We found that PL 480, Title I, and Title III monies were deposited in non-interest-bearing special accounts within Government of Haiti's (GOH) Central Bank.

According to USAID/Haiti officials, the monies had never been deposited in interest-bearing accounts because it was expected that local currency proceeds would be spent soon after their deposit in the special accounts and the balances would be insufficient to generate significant interest.

Had idle PL 480 Title I monies been deposited in an interest-bearing account, we estimated the dollar equivalent of about \$637,000 would have been earned (assuming an interest rate of 7 percent) during the period from October 1, 1983 to April 30, 1986. Additionally, our calculations indicated that idle Title III balances, which averaged \$11 million/month, would have earned the dollar equivalent of about \$562,000 during the period from October 1, 1985 to April 30, 1986. These added revenues could have been programmed for development purposes. Further, if funds under the Title II (emergency) program are not utilized as planned, the possibility of placing those idle funds into an interest-bearing account should also be explored.

Exhibit D to this report contains USAID/Haiti's views on its compliance with pertinent AID policy directives and addresses this point in particular.

Recommendation No. 2

We recommend that USAID/Haiti seriously explore the possibility of depositing PL 480-generated local currency in an interest-bearing commercial account in accordance with AID Policy Determination No. 5, and document its decision for doing so or not doing so.

Management Comments

In cable PAP 06761, the Mission presented its comments concerning recommendation No. 2, which it requested be included in the body of the report.

"The Mission stated to the audit team that it was not, in principle, opposed to the deposit of idle PL 480 funds in a interest-bearing accounts. As stressed in Exhibit D, however, the Mission has concerns which should be resolved before such a step would become advisable. The first is the inflationary effect increased local currency may have on Haiti's economy. As explained in Exhibit D, Haiti's M1 supply is only approximately 200,000,000 dollars, and may grow at an unacceptable rate if idle PL 480 funds are deposited in an interest-bearing account at the going rate in Haiti. Such M1 growth would destabilize Haiti's very fragile economy. This is why we are sterilizing so much of the ESF cash transfer local currency requirements. We are also concerned about the ability of the GOH to use the additional local currency generated from interest in accordance with sound management principles.

In any case, since the audit team left, we have been further investigating the possibility of depositing idle funds in an interest bearing account. We have consulted with GOH Min. Finance, local economists and commercial bank officials. Our findings thus far are that money supply is growing to the extent that depositing PL 480 funds in an interest-bearing account at this time would indeed be inflationary, thus counteracting other economic policy reforms we are promoting in the PL 480 and ESF programs. All AID/W Legislation and Guidance, including Policy Determination No. 5, emphasize that PL 480 programs should help improve a country's economic climate, thus contributing to development and economic stability. Consequently, based on this alone, the Mission's position is that depositing PL 480 funds in an interest-bearing account is not advisable now."

OIG Comments

Based on the Mission's comments, recommendation No. 2 was closed upon issuance of the report.

This Office intends to review the progress of PL 480-financed activities again in early FY 1988.

AUDIT OF
USAID/HAITI'S PL 480 TITLE I,
TITLE II (EMERGENCY), AND
TITLE III PROGRAMS

EXHIBITS AND APPENDICES

EXHIBIT A

SUMMARY OF LOCAL CURRENCY GENERATIONS AND DEPOSITS
USAID/HAITI P.L. 480 PROGRAMS
FISCAL YEARS 1983 - 1986

| <u>Title</u> <u>Commodity</u> | <u>Amounts in U.S. Dollar Equivalents</u> | | | |
|----------------------------------|---|---------------|---------------|-----------------|
| | <u>FY 83</u> | <u>FY 84</u> | <u>FY 85</u> | <u>FY 86 1/</u> |
| <u>Title I Sales Agreement</u> | | | | |
| Wheat | \$ 7.9 | \$ 9.0 | \$ - | \$ - |
| Vegetable Oil | 5.9 | 4.4 | | |
| <u>Title II Emergency Pgm.</u> | | | | |
| Wheat | | | | 7.9 |
| <u>Title III Sales Agreement</u> | | | | |
| Wheat | | | 3.2 | 10.5 |
| Vegetable Oil | | | | 3.9 |
| Totals | <u>\$13.8</u> | <u>\$13.4</u> | <u>\$ 3.2</u> | <u>\$22.3</u> |

1/ October 1, - June 30, 1986

STATUS OF P.L. 480 TITLE II EMERGENCY PROGRAM FUNDS
 JUNE 30, 1986
 (\$000)

| Project Title | Budget Amount Approved | Cash Advance | | Undisbursed Balance | | Advance Liquidated | | Advance to Be Liquidated | |
|---|---------------------------|----------------|-------------|------------------------|-------------|-----------------------|------------|-----------------------------|-------------|
| | | Amount | % | Amount | % | Amount | % | Amount | % |
| 1. Urban/Rural Rehabilitation-TPTC | \$4,000 | \$1,800 | 45.0 | \$2,200 | 55.0 | \$-0- | 0 | \$1,900 | 100.0 |
| 2. PYD Title II Enrichment | 877 | 99 | 11.3 | 778 | 88.7 | -0- | 0 | 99 | 100.0 |
| 3. Private Sector Emergency Program | 120 | 60 | 50.0 | 60 | 50.0 | -0- | 0 | 60 | 100.0 |
| 4. Literacy Program | 1,224 | -0- | 0 | 1,224 | 100.0 | -0- | 0 | -0- | 0 |
| 5. PYD Employment Generation (HAVA) | 300 | -0- | 0 | 300 | 100.0 | -0- | 0 | -0- | 0 |
| 6. Cotes de Fer Irrigation | 102 | -0- | 0 | 102 | 100.0 | -0- | 0 | -0- | 0 |
| 7. Ka-Baptiste Irrigation | 170 | -0- | 0 | 170 | 100.0 | -0- | 0 | -0- | 0 |
| 8. Carrefour Arbre-a-Pain Irrigation | 146 | -0- | 0 | 146 | 100.0 | -0- | 0 | -0- | 0 |
| 9. Malaria Spraying | 164 | -0- | 0 | 164 | 100.0 | -0- | 0 | -0- | 0 |
| 10. Program Management/Audit/ Evaluation | 150 | 100 | 66.7 | 50 | 33.3 | 26 | 26.0 | 74 | 74.0 |
| 11. Unprogrammed Funds | 747 | -0- | -0- | 747 | 100.0 | -0- | 0 | -0- | 0 |
| TOTALS | \$8,000 | \$2,059 | 25.7 | \$5,941 | 74.3 | \$26 | 1.3 | \$2,033 | 99.0 |

EXHIBIT B

STATUS OF PL 480 TITLE III PROGRAM FUNDS
JUNE 30, 1986
(\$000)

| Project Title | Budget Amount Approved | Cash Advance | | Undisbursed Balance | | Advance Liquidated | | Advance to be Liquidated | | |
|-------------------------------------|---------------------------|----------------|-------------|------------------------|-------------|-----------------------|-------------|-----------------------------|-------------|--|
| | | Amount | % | Amount | % | Amount | % | Amount | % | |
| <u>Agriculture</u> | | | | | | | | | | |
| Strengthening Rural Credit Svcs. | \$1,500 | \$985 | 65.7 | \$515 | 34.3 | \$475 | 48.2 | \$510 | 51.8 | |
| Swine Repopulation | 50 | 50 | 100.0 | -0- | 0 | 4 | 8.0 | 46 | 92.0 | |
| Coffee/Cocoa Production | 500 | 312 | 62.4 | 188 | 37.6 | 119 | 38.1 | 193 | 61.9 | |
| Cereal Production Improvement | 600 | 365 | 60.8 | 235 | 39.2 | 43 | 11.8 | 322 | 88.2 | |
| Crop Protection | 200 | 130 | 65.0 | 70 | 35.0 | 13 | 10.0 | 117 | 90.0 | |
| Animal Hlth & Husbandry Improvement | 550 | 370 | 67.3 | 180 | 32.7 | 55 | 14.9 | 315 | 85.1 | |
| National Forest Rehabilitation | 300 | 206 | 68.7 | 94 | 31.3 | 104 | 50.5 | 102 | 49.5 | |
| Watershed Management | 750 | 464 | 61.9 | 286 | 38.1 | 218 | 47.0 | 246 | 53.0 | |
| Irrigation & Soil Conserv. | 1,250 | 326 | 26.1 | 924 | 73.9 | -0- | 0 | 326 | 100.0 | |
| ADS II Farming System Resch/Ext. | 700 | 408 | 58.3 | 292 | 41.7 | 191 | 46.8 | 217 | 53.2 | |
| Artibonite Valley Watershed Mgt. | 500 | 274 | 54.8 | 226 | 45.2 | 181 | 66.1 | 93 | 33.9 | |
| Local Resources Development | 300 | 147 | 49.0 | 153 | 51.0 | 120 | 81.6 | 27 | 18.4 | |
| Agricultural Studies | 173 | 173 | 100.0 | -0- | 0 | 20 | 12.0 | 153 | 88.0 | |
| SUBTOTALS | \$7,373 | \$4,210 | 57.1 | \$3,163 | 42.9 | \$1,543 | 36.7 | \$2,667 | 63.3 | |

STATUS OF PL 480 TITLE III PROGRAM FUNDS
JUNE 30, 1986
(\$000)

| Project Title | Budget Amount Approved | Cash Advance | | Undisbursed Balance | | Advance Liquidated | | Advance to be Liquidated | | |
|------------------------------------|---------------------------|----------------|-------------|------------------------|-------------|-----------------------|-------------|-----------------------------|-------------|--|
| | | Amount | % | Amount | % | Amount | % | Amount | % | |
| <u>Health</u> | | | | | | | | | | |
| Targeted Community Hlth Outreach | \$2,000 | \$ 944 | 47.2 | \$1,056 | 52.8 | \$ 97 | 10.3 | \$ 847 | 89.7 | |
| Malaria Management I and II | 1,100 | 550 | 50.0 | 550 | 50.0 | 398 | 72.4 | 152 | 27.6 | |
| Family Planning Outreach | 300 | 66 | 22.0 | 234 | 78.0 | -0- | 0 | 66 | 100.0 | |
| Support to PL 480, Title II - ADRA | 232 | 121 | 52.2 | 111 | 47.8 | 73 | 60.3 | 48 | 39.7 | |
| Support to PL 480, Title II - CRS | 193 | 89 | 46.1 | 104 | 53.9 | 25 | 28.1 | 64 | 71.9 | |
| Support to PL 480, Title II - SCH | 279 | 66 | 23.7 | 213 | 76.3 | -0- | 0 | 66 | 100.0 | |
| Support to PL 480, Title II - CARE | 201 | 128 | 63.7 | 73 | 36.3 | 98 | 76.6 | 30 | 23.4 | |
| SUBTOTALS | \$4,305 | \$1,964 | 45.6 | \$2,341 | 54.4 | \$691 | 35.2 | \$1,273 | 64.8 | |
| <u>Public Works</u> | | | | | | | | | | |
| Community Water Systems | \$ 140 | \$ 66 | 47.1 | \$ 74 | 52.9 | \$ 34 | 52.0 | \$ 32 | 48.0 | |
| Secondary Road Development | 3,150 | 2,363 | 75.0 | 787 | 25.0 | 899 | 38.0 | 1,464 | 62.0 | |
| TPTC Training Center | 250 | 88 | 35.0 | 162 | 65.0 | -0- | 0 | 88 | 100.0 | |
| SUBTOTALS | \$3,540 | \$2,517 | 71.1 | \$1,023 | 28.9 | \$933 | 37.1 | \$1,584 | 62.9 | |
| <u>Other</u> | | | | | | | | | | |
| PL 480, Title III Mgt Office | \$ 439 | \$ 439 | 100.0 | - | - | \$ 221 | 50.3 | \$ 218 | 49.7 | |
| TOTALS | \$15,657 | \$9,130 | 58.3 | \$6,527 | 41.7 | \$3,388 | 37.1 | \$5,742 | 62.9 | |

12

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

EXHIBIT D

Page 1 of 6

TELEPHONES:
32-0044 & 32-0092
also 32-3120/9, EXT. 293 & 294

20 June 1986

MEMORANDUM:

TO : DD/USAID/Haiti, Linda A. Morse
FROM : D/RIG/A/T, Fred Kalhammer *Fred Kalhammer*
SUBJECT: Financial/Compliance Review of PL 480
Local Currency Generations

As you know, subject review is being made at the request of AA/LAC, Dwight Ink.

To date, we have determined that local currencies produced from the sale of all Titles' commodities have been generated and deposited in accordance with pertinent AID-GOH agreements. On the other hand, we have noted that the procedures used in disbursing those funds from their respective Special Accounts probably require more in-depth examination and streamlining. We have also noted that substantial amounts of local currencies (several million dollars in L/C equivalents, in fact) have lain idle for extended periods of time in non-interest-bearing accounts. This represents a significant opportunity cost for L/C-funded activities in Haiti.

As we move into the second phase of our review during which we shall attempt to trace the flow of funds from the Special Accounts under the Title II Emergency Program and the Title III sales program to their end uses in selected L/C-funded activities, I believe it would be appropriate for the readers of our report to have the benefit of your comments on the implementation of pertinent Agency policy guidance on the use of PL 480 L/C generations. I have attached a copy of AID Policy Determination No. 5 to this memo and invite your comments on the policy statements contained in Section II thereof as they pertain to the goals, objectives and practices being sought/followed by USAID/Haiti.

I would envision that this memo, together with your response keyed to the policy guidance statements, might be included verbatim in our report as an Exhibit. I think this would provide Mr. Ink with further assurances regarding the integrity of your Mission's PL 480 activities.

Thank you for your attention to this suggestion.

ACTION: RIG-3 INFO: CHANGE DCM/5

EXHIBIT D

Page 2 of 6

04-AUG-86 TOR: 10:13

CN: 56893

CHRG: AID

DIST: RIG

VZCZCTG0659

PP RUEBTG

DE RUEBPU #5401/01 2161606

ZNR UUPUU 22B

P 041602Z AUG 86

FM AMEMBASSY PORT AU PRINCE

TO RUEBTG/AMEMBASSY TEGUCIGALPA PRIORITY 0248

INFO RUEHC/SECSTATE WASHDC 3450

BT

UNCLAS PORT AU PRINCE 05401

AIDAC

FOR RIG/A/T FRED KALHAMMER

E.O. 12356: N/A

SUBJECT: FINANCIAL/COMPLIANCE REVIEW OF PL480 LOCAL
CURRENCY GENERATIONS

REF: MEMO DATED JUNE 20, 1986

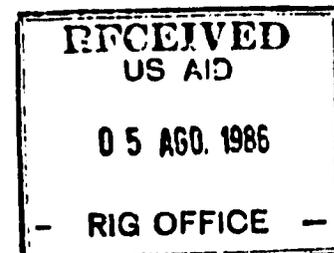
1. THIS IS IN RESPONSE TO YOUR REQUEST INVITING COMMENTS ON AID POLICY DETERMINATION NO. 5, SECTION II AS IT APPLIES TO USAID/HAITI'S PL 480 PROGRAMS.

2. USAID/HAITI HAD BEEN INSISTING ON TIGHTER CONTROLS AND INCREASED OVERSIGHT OF TITLE I FUND MANAGEMENT AND ON PLAYING A GREATER ROLE IN PROGRAMMING TITLE I LOCAL CURRENCY FOR AT LEAST FIVE YEARS PRIOR TO THE SIGNING OF PL 480 TITLE III AGREEMENT ON MAY 30, 1985. USAID/HAITI PERCEIVED THAT SUCH MANAGEMENT CONTROLS AND USAID PARTICIPATION WERE VITAL TO MEETING INDIVIDUAL PROJECT AND TITLE I PROGRAM DEVELOPMENTAL OBJECTIVES. THE MANAC HECT GOFTBLY AND

MECHANISMS FOR JOINT GOH-USAID PROGRAMMING OF LOCAL CURRENCY PROCEEDS DEVELOPED DURING THIS PERIOD WERE FURTHER REFINED AND SPECIFIED IN THE TITLE III AGREEMENT. AS A RESULT, USAID/HAITI IS FOLLOWING THE MAJORITY OF THE GUIDELINES LISTED IN SECTION II, AS FOLLOWS:

3. MISSION/EOST GOVT AGREEMENT ON SALES PROCEEDS AND REFORMS.- USAID/HAITI AND THE GOH NEGOTIATED FOR OVER A YEAR BEFORE THE TITLE III AGREEMENT WAS SIGNED. FULL AGREEMENT WAS REACHED ON SPECIFIC LOCAL CURRENCY USES AND POLICY REFORMS BEFORE THE TITLE III PROGRAM WAS PROPOSED TO WASHINGTON IN EARLY 1985. THE RESULT WAS A TITLE III AGREEMENT WITH SPECIFIC ACTIVITIES (ANNEX B, ITEM III) AND CLEARLY STATED POLICY AND INSTITUTIONAL REFORMS, WITH BENCHMARKS COVERING THE THREE YEARS OF THE TITLE III PROGRAM (ANNEX B, ITEM II).

4. ELABORATION OF SPECIFIC ACTIVITIES.- TABLE II OF



ANNEX B OF THE AGREEMENT PROVIDES A LISTING WITH ILLUSTRATIVE AMOUNTS FOR EACH DEVELOPMENT ACTIVITY. THE AGREEMENT ALSO ALLOWS FOR YEARLY NEGOTIATION OF THE ACTUAL AMOUNTS, WHICH ARE THEN SPECIFIED IN IMPLEMENTATION LETTERS. OF THE 14 ACTIVITIES LISTED, THE SPECIFIED TITLE III FUNDING FOR 12 OF THEM REPRESENTS AT LEAST PART OF THE REQUIRED GOH COUNTERPART FOR THE DA FUNDS PROVIDED. A LIST OF ADDITIONAL ACTIVITY TYPES THAT COULD BE INCLUDED IN THE TITLE III PROGRAM, IF BOTH GOVERNMENTS AGREE, IS ALSO INCLUDED IN THE AGREEMENT (ANNEX B, ITEM III, SECTION B2) TO INSURE THAT INAPPROPRIATE ACTIVITIES ARE EXCLUDED FROM FUNDING.

5. ADDITIONALITY.-THE THIRD GUIDELINE REFERS TO THE "ADDITIONALITY" REQUIREMENT OF PL 480 TITLE III,

SECTION 303(C). THIS WAS A CONCERN THROUGHOUT THE TITLE III NEGOTIATIONS. THE RESULT WAS POLICY/INSTITUTIONAL REFORMS AND DEVELOPMENT ACTIVITIES THAT MET SECTION 303 C OF PL 480 TITLE III (SEE PROJECT PAPER, HAITI FOOD FOR DEVELOPMENT PROGRAM, DECEMBER 1984, PP.83-88). A CLAUSE STIPULATING THAT NO BUDGET REDUCTIONS WILL BE MADE HAS BEEN INCLUDED IN THE AGREEMENT (ANNEX A, ITEM IV, SECTION D) TO ENSURE THAT THE GOH'S OWN RESOURCES ALLOCATED TO DEVELOPMENT ACTIVITIES ARE NOT REDUCED IN REAL TERMS FROM YEAR TO YEAR. USAID/HAITI REVIEWS GOH DEVELOPMENT BUDGET ALLOCATIONS EACH YEAR, AS STIPULATED IN THIS POLICY GUIDELINE. THIS REVIEW HAS ALREADY PRODUCED RESULTS. MISSION REVIEW DETECTED A REDUCTION IN THE PROPOSED FY 86 GOH DEVELOPMENT BUDGET. USAID/HAITI ALERTED THE GOH TO THE REDUCTION AND CALLED ATTENTION TO THE RELEVANT SECTION OF THE AGREEMENT. THE GOH RESPONDED BY MAKING ADJUSTMENTS IN ITS BUDGET ALLOCATIONS.

6. PVO'S/PRIVATE SECTOR.- THE FOUR TITLE II PROGRAM PVO COOPERATING SPONSORS IN HAITI RECEIVE SUPPORT FOR THEIR PROGRAMS FROM TITLE III PROCEEDS, AS DOES THE COMMUNITY WATER SYSTEMS PROJECT, WHICH, ALTHOUGH IMPLEMENTED THROUGH THE PUBLIC WORKS MINISTRY, RECEIVES ASSISTANCE FROM CARE. THESE FUNDS ARE USE

TO EXPAND LOGISTICAL CAPACITIES, TRAIN FIELD STAFF, AND INCREASE THE DEVELOPMENT IMPACT OF THEIR PROGRAMS. IN ADDITION PVOS RECEIVED TITLE I FUNDS FROM PRIOR YEARS TO REBUILD DAMAGED INFRASTRUCTURE. FINALLY PVOS AND PRIVATE SECTOR RECEIVED FUNDS FROM MONETIZED TITLE II WHICH ALSO AUGMENTED THE OUTREACH GRANTS TO IMPROVE COMMODITY MANAGEMENT SYSTEMS. THESE TITLE II FUNDS ALSO SUBSTITUTED FOR OUTREACH GRANT FUNDS NOT PROVIDED BY AID/W.

7. TIMING OF UTILIZATION OF PROCEEDS/INTEREST BEARING ACCOUNT.- IN FY 83, USAID/HAITI WAS INFORMED OF THE INTEREST-BEARING ACCOUNT POLICY. USAID/HAITI RESPONDED THAT SINCE LOCAL CURRENCY PROCEEDS WERE BEING GENERATED AND SPENT VERY QUICKLY, THERE WOULD RARELY BE AN INSUFFICIENT BALANCE IN THE TITLE I SPECIAL ACCOUNT TO GENERATE SIGNIFICANT INTEREST.

NOW, AS A RESULT OF TRANSITION TO TITLE III AND RELATED MANAGEMENT REQUIREMENTS FOR BETTER CONTROL AND DOCUMENTATION OF FUNDS, MONIES MOVE MORE SLOWLY AND A PIPELINE HAS BUILT UP. USAID/HAITI IS NOW CONSIDERING DEPOSITING TITLE III INTO AN INTEREST-BEARING ACCOUNT. HOWEVER, THERE ARE AT LEAST TWO CONCERNS THAT WILL HEAVILY INFLUENCE THE FINAL DECISION. THE FIRST IS THE POSSIBLE INFLATIONARY EFFECTS OF INCREASED LOCAL CURRENCY.

AT PRESENT, HAITI'S M1 SUPPLY IS ONLY APPROXIMATELY 200,000,000 DOLLARS. IF PL 480 FUNDS WHICH ARE NOT BEING DISBURSED VERY RAPIDLY ARE PLACED IN AN INTEREST BEARING ACCOUNT AT 7 PERCENT, THE PRESENT RATE IN HAITI, IT COULD INCREASE THE M1 SUPPLY AT A RATE THAT COULD FUEL INFLATION, THUS HELPING TO DESTABILIZE THE ECONOMY AT A TIME WHEN OUR STRATEGY CALLS FOR HELPING TO STABILIZE IT. WE ARE STERILIZING 30 PERCENT OF THE CASH TRANSFER LOCAL CURRENCY REQUIREMENTS FOR THIS VERY REASON. THE CRUX OF THE PROBLEM IN THE PL 480 PROGRAM IS NOT THE AVAILABILITY OF LOCAL CURRENCY; IT IS THE ABSORPTIVE CAPACITY OF THE GOB TO UTILIZE IT IN ACCORDANCE WITH SOUND MANAGEMENT PRINCIPLES. SECONDLY, IF THE INFLATION ISSUE CAN BE RESOLVED, WE WILL NEED PRECEDENTS OF THE ESTABLISHMENT OF INTEREST BEARING ACCOUNTS IN OTHER COUNTRIES. THE U.S. TREASURY DOES NOT PAY ITSELF INTEREST ON IDLE FUNDS IT HOLDS.

8. POLICY DIALOGUE.- AS DISCUSSED EARLIER, THE LENGTHY NEGOTIATIONS PRIOR TO THE SIGNING OF THE TITLE III AGREEMENT CENTERED PRIMARILY AROUND MACROECONOMIC POLICY REFORMS AND MAJOR MODIFICATIONS IN GOB INSTITUTIONS TO HELP LOWER THE PRICES OF STAPLE FOODS AND FUEL, INCREASE RURAL FAMILY INCOMES AND SHIFT THE TAX BURDEN FROM THE RURAL POOR TO THE URBAN POPULATION. THUS THIS POLICY GUIDELINE HAS BEEN ADHERED TO SINCE THE BEGINNING OF THE TITLE III

PROGRAM DEVELOPMENT PROCESS. AS FOR PRICING THE PL 480 COMMODITIES IN THE LOCAL MARKET, USAID/HAITI AND THE GOI HAVE NEGOTIATED A PRICING FORMULA WHICH ENSURES THAT LOCAL PURCHASERS OF THE PL 480 COMMODITIES PAY NO LESS THAN THE AMOUNT THEY WOULD HAVE PAID HAD THEY BOUGHT THE SAME COMMODITIES COMMERCIALY.

EXHIBIT D
Page 5 of 6

9. PROCEDURE FOR PROGRAMMING MONITORING AND EVALUATION.- PRIOR TO THE SIGNING OF THE TITLE III AGREEMENT, USAID/HAITI AND THE GOI GRADUALLY IMPLEMENTED INCREASINGLY TIGHTER CONTROLS ON TITLE I PROCEEDS AND ESTABLISHED SPECIFIC PROCEDURES FOR PROGRAMMING, MONITORING, AND EVALUATING TITLE I FUNDED ACTIVITIES. THESE CONTROLS AND PROCEDURES WERE SPECIFIED IN MEMORANDA OF UNDERSTANDING ATTACHED TO, AND MADE A PART OF, THE LAST TWO TITLE I AGREEMENTS. THEY WERE FURTHER REFINED IN THE TITLE III AGREEMENT (ANNEX B, ITEM IV), WHERE PRIMARY RESPONSIBILITY FOR USE AND ACCOUNTING FOR THE TITLE III FUNDS WAS VESTED IN THE GOH IN ACCORDANCE WITH THIS POLICY GUIDELINE. A SPECIAL TITLE III MANAGEMENT SYSTEM WAS CREATED, CONSISTING OF AN EXECUTIVE COMMITTEE COMPOSED OF SEVEN GOI MINISTERS, AN AUTONOMOUS TITLE III MANAGEMENT OFFICE UNDER THE MINISTER OF PLAN AND A COMMODIT

IMPORTATION AND SALES UNIT UNDER THE MINISTER OF COMMERCE. THE WHOLE SYSTEM IS COORDINATED BY AN EXECUTIVE SECRETARY, WHO IS AN EX OFFICIO MEMBER OF

THE EXECUTIVE COMMITTEE, DIRECTOR OF THE MANAGEMENT OFFICE AND SUPERVISOR OF THE COMMODITY IMPORTATION AND SALES UNIT (CISU). THE CISU IS RESPONSIBLE FOR THE IMPORTATION AND SALE OF COMMODITIES AND THE DEPOSIT OF THE PROCEEDS IN THE SPECIAL ACCOUNT. THE MANAGEMENT OFFICE MONITORS THE USE OF PROCEEDS, THE IMPLEMENTATION OF DEVELOPMENT ACTIVITIES AND THE PROGRESS MADE ON THE POLICY AND INSTITUTIONAL REFORMS. IN THE MONTHS IMMEDIATELY PRIOR TO THE SIGNING OF THE TITLE III AGREEMENT, THE GOH AND USAID/HAITI JOINTLY DEVELOPED A DETAILED MANAGEMENT PLAN FOR THIS SYSTEM, DEFINING INTERRELATIONSHIPS AND SPECIFIC RESPONSIBILITIES. THE OPERATION OF THIS MANAGEMENT SYSTEM IS MONITORED CLOSELY BY THE USAID, AND IS AMONG THE ELEMENTS OF THE TITLE III PROGRAM TO BE THOROUGHLY REVIEWED AT THE ANNUAL EVALUATION MEETING EACH YEAR.

10. AS CAN BE SEEN, USAID/HAITI HAS CLOSELY ADHERED TO THE POLICY GUIDELINES IN POLICY DETERMINATION NO. 5, WITH THE EXCEPTION OF THE DEPOSIT OF PROCEEDS IN AN INTEREST-BEARING ACCOUNT, AND HAS DONE SO FOR SEVERAL YEARS. NOW THAT A LARGE PIPELINE HAS DEVELOPED, USAID/HAITI WILL RECONSIDER THE POSSIBILITY OF NEGOTIATING INTEREST PAYMENTS ON FUNDS. WASHINGTON SHOULD THUS BE ASSURED OF USAID/HAITI'S WILLINGNESS TO ADHERE TO ALL POLICY GUIDELINES, AS WE AGREE THAT THIS WILL MAXIMIZE THE DEVELOPMENT IMPACT OF THE LOCAL CURRENCY GENERATED UNDER THE TITLE III PROGRAM. MCM UWAY

BT
#5401

NNNN

APPENDIX A

REPORT DISTRIBUTION

| | <u>No. of Copies</u> |
|-----------------------|----------------------|
| Director, USAID/Haiti | 5 |
| AA/LAC | 2 |
| LAC/CAR/H | 1 |
| LAC/DR | 1 |
| LAC/DP | 1 |
| LAC/PS | 1 |
| LAC/CONT | 1 |
| LAC/GC | 1 |
| LAC/RLAs | 1 |
| AA/M | 2 |
| GC | 1 |
| LEG | 1 |
| M/FM/ASD | 3 |
| PPC/CDIE | 3 |
| AA/XA | 2 |
| XA/PR | 1 |
| FVA/FFP | 2 |
| IG | 1 |
| AIG/A | 1 |
| IG/PPO | 2 |
| IG/PSA | 1 |
| IG/LC | 1 |
| IG/EMS/C&R | 12 |
| IG/II | 1 |
| RIG/II/T | 1 |
| Other RIG/As | 1 |