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AUDIT OF
A.I.D. ASSISTANCE TO GUINEA
Audit Report No. 7-675-88-04
November 18, 1987

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

November 18, 1987

MEMORANDUM FOR Byron Bahl, A.I.D. Representative, Guinea

FROM: John P. Competello, RIG/A/Dakar 

SUBJECT: Audit of A.I.D. Assistance to Guinea
Audit Report No. 7-675-88-04

The Office of the Regional Inspector General for Audit, Dakar has completed its audit of A.I.D. assistance to Guinea. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains one recommendation which is considered as resolved. It will be closed after OAR/Guinea completes its planned actions to implement the recommendation. Please advise me within 30 days of any further action taken since your early October reply to the draft audit report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

A.I.D. has assisted in the economic development of Guinea since 1962. Through fiscal year 1986 the Public Law 480 Title I and Title II programs to Guinea amounted to \$137 million, and A.I.D. development assistance grants totalled about \$61 million. Also, in August 1986 A.I.D. approved an Economic Support Fund grant of \$10 million and associated technical assistance to support its revised strategy emphasizing program support for the Government of Guinea's new economic reform efforts.

The Office of the Regional Inspector General for Audit/Dakar made a program results audit to assess the results of A.I.D. assistance to Guinea since 1976. Audit objectives were to (1) assess A.I.D.'s strategy and progress in meeting program objectives, (2) identify factors restraining program performance, and (3) evaluate the adequacy of A.I.D. management, including support provided by the Regional Economic Services Office for West and Central Africa, located in Abidjan, Ivory Coast.

It was too early to assess A.I.D.'s redirected strategy to provide program assistance in support of the Government of Guinea's economic reform efforts. In June 1987, the Government of Guinea met conditions precedent for disbursement of the first tranche of \$5 million. The Public Law 480 program helped meet food shortages over the years, but results of A.I.D. development projects were disappointing because of A.I.D. management problems and fundamental policy, financial, and managerial weaknesses in the host government. One of the problems was the non-availability of counterpart funds from Public Law 480 Title I sales proceeds for development projects. A.I.D. management including regional office support had improved, but oversight of Public Law 480 Title I proceeds needed strengthening.

The Government of Guinea did not comply with terms of a 1985 Public Law 480 Title I sales agreement requiring effective joint planning and programming of counterpart funds for economic development. Also, the funds were not deposited in a separate account at a parastatal bank as required.

Counterpart funds obtained from the sale of U.S. food assistance are to be used to enhance the impact of development in the host country. Office of the A.I.D. Representative/Guinea had repeatedly failed in its efforts to have the Government of Guinea jointly program and release these funds to support development projects. About \$11 million in local currency counterpart funds remained unspent as of June 1987. Failure to assure compliance can,

in part, be attributed to the Office's reluctance to take stronger action. The lack of counterpart funds contributed to the poor progress of A.I.D. development projects. The report recommends that the Office of A.I.D. Representative Guinea ensure that counterpart funds are used for development. Management agreed, provided evidence that significant progress had been made, and outlined further corrective actions.

Office of the Director General

AUDIT OF
A.I.D. ASSISTANCE TO GUINEA

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AUDIT OF
A.I.D. ASSISTANCE TO GUINEA

PART I - INTRODUCTION

A. Background

For over two decades, Guinea, located on the West Coast of Africa, was under the rule of a socialist government. Over-centralization and poor management led Guinea into stagnation and economic neglect in spite of the country's impressive natural resources such as bauxite and diamonds. In 1984 a new government came into office, removed some of the economic constraints, and in late 1985 proposed an economic reform program. There was considerable uncertainty and upheaval in the country during the transition period. This new government is attempting to bring Guinea, a country of 6 million people, out of its over 20-year economic decline.

A.I.D. has provided assistance to Guinea since 1962. The assistance program was scaled down to Public Law (P.L.) 480 Title I in 1966-67 because of antagonistic bilateral relations and because of U.S. Government concern over widespread human rights abuses. Development assistance efforts resumed ten years later but were limited to a \$14.4 million five year project called Guinea Agriculture Production Capacity and Training (No. 675-0201) and a number of small projects to assist farmers and improve health.

Following the new government's proposed economic reform program in 1985, the U.S. changed its assistance strategy from project to program assistance. According to the Office of A.I.D. Representative/Guinea (OAR/Guinea), the advantages of the new approach are that the assistance addresses the Government of Guinea's (GOG) fundamental weaknesses and can be more easily directed than the project approach.

From 1962 through 1986, P.L. 480 Title I and Title II programs have provided about \$137 million. A.I.D. development assistance over the same period has totaled about \$61 million in grants. In support of its new program approach, in August 1986 A.I.D. approved a \$10 million grant under the African Economic Policy Reform Program (AEPRP)^{1/} and an associated \$2.5 million technical assistance grant.

In addition to the new AEPRP, as of March 30, 1987, there were four active A.I.D. development projects, (two bilateral

^{1/} Funded through the Economic Support Fund

and two regional) under which about \$8.7 million had been obligated and about \$5.3 million had been spent (see Exhibit 1). In addition, \$8 million in commodities were provided under the P.L. 480 program in fiscal year 1987, and \$18 million was being provided over a three-year period under the Food for Progress program. For fiscal year 1988, the OAR/Guinea requested \$5.5 million for development assistance, and \$3 million for P.L. 480 Title I.

The A.I.D. program is administered by four U.S.A.I.D. direct hire employees, one U.S. personal services contractor, and three Foreign Service National employees. The Regional Economic Development Services Office/West and Central Africa (REDSO/WCA) has supported OAR/Guinea, with project design, evaluation and financial and accounting services.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Dakar made a program results audit to assess the results of A.I.D.'s assistance to Guinea since 1976. Audit objectives were to (1) assess A.I.D.'s strategy and progress in meeting program objectives, (2) identify factors restraining program performance, and (3) evaluate the adequacy of A.I.D. management, including support provided by the Regional Services Office for West and Central Africa, located in Abidjan, Ivory Coast.

Reviews were made of the A.I.D. country development strategy, International Monetary Fund economic reform strategy, P.L. 480 agreements, and other pertinent documents. The OAR/Guinea project management system, including REDSO/WCA support, was tested on selected projects, by reviewing the project's design and assumptions, implementation, evaluation and management reviews. We also held discussions with cognizant OAR/Guinea staff, representatives of the World Bank and the International Monetary Fund, GOG officials, and contractors.

The Office of the Inspector General had previously issued two audit reports on the U.S. assistance program in Guinea.^{2/} The audit followed up on issues identified in these audits. Review of internal controls and compliance was limited to the finding presented in the report. The

^{2/} Report on Public Law 480 Title I and II Programs in the People's Revolutionary Republic of Guinea, Audit Report No. 4-675-79-3, August 16, 1979; and
Audit of the Guinea Agricultural Production Capacity and Training Project, Audit Report No. 0-657-83-64, May 13, 1983.

audit was completed in June 1987 and was made in accordance with generally accepted government auditing standards.

A draft report was provided to OAR/Guinea in August, 1987. Due to staff changes at OAR/Guinea, formal comments were not received until early October 1987. OAR/Guinea comments have been considered and the report changed as we considered appropriate. The full text of management comments is in Appendix 1.

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PART II - RESULTS OF AUDIT

It was too early to assess A.I.D.'s redirected strategy to provide program assistance in support of the Government of Guinea's economic reform efforts. In June, 1987, the Government of Guinea met conditions precedent for disbursement of the first tranche of \$5 million. The Public Law 480 Program helped meet food shortages over the years, but results of A.I.D. development projects were disappointing because of A.I.D. management problems and fundamental policy, financial and managerial weaknesses in the host government. One of the problems was the non-availability of counterpart funds from Public Law 480 Title I sales proceeds for development projects. A.I.D. management including regional office support had improved, but oversight of Public Law 480 Title I proceeds needed strengthening.

The Government of Guinea did not comply with terms of a 1985 Public Law 480 Title I sales agreement requiring effective joint planning and programming of counterpart funds for economic development. Also, the funds were not deposited in a separate account at a parastatal bank as required. The report recommends that OAR/Guinea strengthen its management of P.L. 480 Title I counterpart funds.

A. Finding and Recommendation

Counterpart Funds Needed to Support Development Projects

Counterpart funds obtained from the sale of U.S. food assistance are to be used to enhance the impact of development in the host country. Office of the A.I.D. Representative/Guinea had repeatedly failed in its efforts to have the Government of Guinea jointly program and release these funds to support development projects. About \$11 million in local currency counterpart funds remained unspent as of June 1987. Failure to assure compliance can, in part, be attributed to the Office's reluctance to take stronger action. The lack of counterpart funds contributed to the poor progress of A.I.D. development projects.

Recommendation No. 1

We recommend that the A.I.D. Representative, Guinea:

- a. together with the Government of Guinea develop formal procedures to identify and approve local currency funded activities, consolidate and simplify procedures to disburse funds, prepare a local currency budget, and develop a program for evaluation and reporting of counterpart fund uses;
- b. request the Government of Guinea to revise quarterly progress reports to include information concerning counterpart fund receipts, allocations, and disbursements to specific activities during the reporting period; and
- c. ensure that A.I.D. development projects receive the counterpart funds needed to achieve their objectives.

Discussion

A.I.D. Circular A-333, issued in 1976, recommended that A.I.D. missions get more involved with the host government in the programming of counterpart funds in order to improve the quality and quantity of development assistance efforts. Also, A.I.D. policy determination No. 5, dated February 22, 1983, recommends that counterpart funds be used to help achieve specific program and policy objectives, as well as to enhance overall development impact in the recipient countries. The policy emphasizes that missions work closely with recipient governments to ensure that counterpart funds are spent as soon as possible after they become available.

Effective use of counterpart funds had been a long standing problem in Guinea. As early as 1979 the A.I.D. Inspector General reported^{3/} that OAR/Guinea was not effectively overseeing or managing the P.L. 480 Title I program. Also, in early 1984, OAR/Guinea reported to the Regional Economic Development Services Office (REDSO) that the 1983 counterpart funds report submitted by the GOG showed no improvement in the use of counterpart funds. OAR/Guinea requested an in-depth review by a public accounting firm of counterpart generation and utilization procedures. However, records at OAR/Guinea did not show what action, if any, had been taken. OAR/Guinea told the auditors that the Office had a small staff in the early 1980s and that close monitoring of the counterpart funds program was not possible.

In an effort to better enforce A.I.D. policy, OAR/Guinea and the GOG entered into a new counterpart fund agreement in May 1985. This agreement defined the rules and procedures by which the counterpart funds were to be managed. Included were provisions requiring that (1) OAR/Guinea and the GOG work together and propose development projects, (2) the GOG report the use of counterpart funds, and (3) the GOG deposit all counterpart funds in a separate bank account at a parastatal bank -- the Banque Guineenne de Commerce Exterieur.

OAR/Guinea has had continued problems in carrying out A.I.D. policy and having the GOG comply with the 1985 agreement. After signing the agreement, OAR/Guinea and the GOG did not work together to plan the use of counterpart funds, although numerous consultations took place. Further, although the GOG reported on the use of counterpart funds, it did not deposit funds in a separate bank account at a parastatal bank. As a result, more counterpart funds were generated each year than were used on development projects. At the time of audit, only 16 percent of the counterpart funds generated between 1983 and March 1987 had been used; the remainder, equivalent to about \$11 million^{4/}, remained in an account at the GOG Treasury. (See Exhibit 2)

The lack of counterpart funds contributed to the poor progress of development projects. In particular three of

^{3/} Report on Public Law 480 Title I and II Programs in the People's Revolutionary Republic of Guinea, Audit Report No. 4-675-79-3, August 16, 1979.

^{4/} The rate of conversion in June 1987 was 410 Guinean Francs to \$1.00

the four active A.I.D. projects ^{5/} were adversely affected by these fund shortages. For example, the Smallholders Production Preparation Project (675-0204) received only about \$80,000 of the \$580,000 planned. Counterpart funds were not made available until January 1986, although the project started in September 1983. During this period, salary payments were not made to temporary workers and needed seeds, fertilizers and insecticides were not purchased.

Also, the Agribusiness Preparation Project (675-0212), received only \$33,000 of the planned \$325,000. Counterpart funds were not provided by the GOG until January 1986 -- about two years after the project agreement was signed and one year after project activities had started. Consequently, the necessary local staff were not hired and training was limited. A May 1986 A.I.D. evaluation noted that the project's objective to establish an effective national agribusiness promotion office had been unsuccessful because the office was incapable of carrying out most of its assigned duties.

Finally, the Combating Childhood Communicable Diseases Project (698-0421), received only \$11,000 of the planned \$190,000. Counterpart funds were not made available until May 1986 -- almost a year after the project started. According to project staff, lack of counterpart funds delayed the establishment of 10 fixed centers for immunization, restricted field supervision, and limited training to 48 persons instead of the planned 500.

OAR/Guinea had been unsuccessful in its many attempts to have the GOG establish a separate account at a parastatal bank and release counterpart funds to support A.I.D. projects (See Exhibit 4 for a listing of OAR/Guinea efforts). Despite continued non-compliance, stronger action, such as curtailment or suspension of assistance, was not taken by the OAR/Guinea or by AID/Washington. According to OAR/Guinea officials, political relations with the GOG had improved and, had stronger measures been applied, these relations would have been harmed. Furthermore, the Mission encountered generally weak GOG management capacity made even weaker by the upheaval of government changes. Therefore, according to the Mission, neither it nor the GOG could apply counterpart funds expeditiously toward project uses. This situation was one of the key factors in switching the local currency from project to policy related uses and changing A.I.D.'s emphasis from project orientation to a policy related program orientation.

^{5/} The fourth active project, African Manpower Development II (698-0433), did not require counterpart funding.

In reply to the draft audit report, the OAR/Guinea provided additional information on the audit issue. As concerns the separate account for P.L. 480 Title I counterpart funds, the Mission stated that the parastatal bank was closed in 1985, and the funds were maintained in a numbered and separate account in the GOG Central Bank. The Mission stated that, because of its insistence on a numbered and special account, the U.S. was the only bilateral donor which knew the extent of its fund deposits.

Regarding the joint planning and programming of counterpart funds, the Mission noted that the follow-on 1986 P.L. 480 Title I agreement established three benchmarks for programming the \$11 million balance in local currency. The first two benchmarks were not met. However, according to the OAR/Guinea, by June 30, 1987 total expenditures and the value of projects jointly programmed for financing amounted to 95 percent of available funds. Further, a public accounting firm arrived in Guinea on November 2, to assist OAR/Guinea to develop financial management procedures for the counterpart fund program.

The auditors agree that recent events appear promising. However, past problems with the GOG applying P.L. 480 Title I proceeds for development requires further attention by the OAR/Guinea. The Office needs to work with the GOG to develop formal procedures for the administration and management of counterpart funds, and require periodic progress reports which include information to measure progress and identify problems. In addition OAR/Guinea needs to ensure that counterpart funds are made available for active A.I.D. projects.

Management Comments

OAR/Guinea officials essentially agreed with the thrust of the draft audit report conclusions and recommendations. Suggestions were made to help clarify and correct the report and to make it more useful to the Mission management.

The draft audit report contained two multi-part recommendations urging (1) GOG compliance in establishing a separate account as required by the 1985 agreement (2) improved joint planning and programming of counterpart funds, and (3) stricter enforcement measures, including, if needed, a plan to reduce A.I.D. assistance levels.

Management commented that the recommendation regarding the establishment of a separate account be dropped since, in its opinion, the numbered and separate GOG Treasury account amounted to compliance with the 1985 agreement. Management also provided an update of the programming of counterpart

funds, stating that most of the funds had either been spent or jointly programmed for development purposes.

Finally, management proposed an alternative to our draft report recommendation for stricter enforcement measures citing several factors which needed to be considered. Among these was that the OAR/Guinea was tying a greater portion of the A.I.D. program to conditionality -- a more flexible, precise and substantively oriented approach to limiting and curtailing assistance. OAR/Guinea believed its approach was sound and was already bearing fruit.

Office of Inspector General Comments

The progress made in jointly programming and funding with the GOG the counterpart funds, and the tools available to deal with potential problems of GOG non-compliance were considered. We have consolidated the two audit recommendations into one multi-part recommendation.

We have dropped that part of the recommendation concerning separate accounts, although we continue to believe that the GOG did not comply with the requirement that funds be deposited in a parastatal bank. In fact, during 1985 OAR/Guinea had noted the GOG's non-compliance and specifically urged that funds be deposited in the parastatal bank noted in the P.L. 480 Title I agreement. Also, the Mission made a good point that it had improved joint planning and programming with the GOG while the funds remained in the GOG Treasury. While dropping the recommendation, we urge OAR/Guinea to consider that proceeds from future P.L. 480 Title I agreements be placed in an interest bearing account in a deposit taking institution. This would (1) be consistent with a recent A.I.D. policy update^{6/} and (2) better ensure that counterpart funds maintained value in the event of delays in disbursements. We also agreed to modify the recommendation concerning measures to enforce GOG compliance in funding development projects. The strategy proposed by OAR/Guinea to make greater use of conditionality should, if properly implemented, result in corrective action.

In conclusion, we modified the draft audit report to reflect the changes taking place in the A.I.D. strategy and program in Guinea. We share some of the optimism expressed by the OAR/Guinea, but we believe the GOG's poor track record in undertaking development projects requires constant

^{6/} Supplemental Guidance on Programming Local Currency (State 327494), dated October 21, 1987

monitoring and evaluation. We consider the recommendation as resolved and will close it upon completion of corrective actions. In this regard, OAR/Guinea should provide the Office of Inspector General with periodic progress reports on action taken to close the recommendation.

B. Compliance and Internal Controls

Compliance

The failure of the Government of Guinea to make counterpart funds available for development purposes was an instance of noncompliance with the terms of the P.L. 480 Title I program agreement. Also, the deposit of funds with the GOG Treasury even though in a numbered and separate account, did not meet compliance with the 1985 P.L. 480 Title I sales agreement. The audit review of compliance was limited to the finding presented in this report.

Internal Control

The audit disclosed that internal controls needed strengthening. There was a need to ensure that counterpart funds were made available for project support. Audit work on internal control issues was limited to the finding presented in this report.

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PART III - EXHIBITS AND APPENDICES

Summary of Active Projects in OAR/Guinea Portfolio
(as of March 30, 1987)

<u>Project Title</u>	<u>Project Number</u>	<u>Start Date</u>	<u>PACD</u>	<u>Cumulative Obligations</u>	<u>Cumulative Expenditures</u>
Smallholders Production Preparation	675-0204	09/28/83	06/30/87	\$3,800,000	\$3,041,000
Agribusiness Preparation	675-0212	01/16/84	06/30/87	1,800,000	1,267,000
Combating Childhood Communicable Disease	698-0421	06/22/85	12/31/87	385,000	118,000
African Manpower Development - II	698-0433	06/22/82	09/30/88	2,249,000	831,000
TOTAL				<u>\$8,734,000</u>	<u>\$5,257,000</u>

P.L. 480 Title I
Recent Local Currency Proceeds and Use in Guinea
(in thousand Guinean Francs)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1/</u>	<u>TOTAL</u>
Proceeds	174,276	181,894	509,024	2,064,265	2,560,750		5,490,209
Used <u>2/</u>	54,746	83,098	0	288,744	453,112		879,700
Percentage	31.4	45.7	0	14.0	17.7		16.0

1/ These figures represent proceeds and expenditures as of March 1987.

2/ Fiscal year amounts are shown for 1983 through 1985.

Counterpart Fund Contributions
Planned Versus Actual
(as of June 15, 1987)

<u>Project Number</u>	<u>Project Title</u>	<u>Started</u>	<u>Completion</u>	<u>Counterpart Funds</u> ^{1/}		<u>Percentage</u>
				<u>Programmed</u>	<u>Received</u>	
675-0204	Smallholders Production Preparation	9/28/83	6/30/87	\$580,000	\$80,000	13.8
675-0212	Agribusiness Preparation	1/16/84	6/30/87	325,000	33,000	10.2
698-0421	Combating Childhood Communicable Diseases	6/22/85	12/31/87	190,000	11,000	5.8

^{1/} Funds were converted into U.S. dollars at the current local rate of 410 GF to \$1.00. Attempts were made to obtain the exchange rates prevailing at the time the counterpart funds were made available to the project, but information was not available. Exchange rates fluctuated between 300 GF in January 1986 to the current rate of 410 GF to \$1.00.

OAR/Guinea Efforts to Obtain
Counterpart Funds After May 1985 Agreement

- May 23, 1985: P.L. 480 Title I agreement signed.
- June 12: Letter sent to the Ministry of Planning urging the Government of Guinea to place all the counterpart funds into one account.
- July 23: Office of the A.I.D. Representative/Guinea (OAR/Guinea) contacted the Ministry of Planning and was informed that a joint account would be opened at the Banque Guineene de Commerce Extérieur.
- July 30: Another letter sent to the Ministry of Planning asking that the joint account be set up.
- August 3: OAR/Guinea asked the Ministry of Planning to arrange for counterpart funds to be transferred to the accounts of three A.I.D. projects (Combating Childhood Communicable Diseases, Agribusiness Preparation, and Smallholders Production Preparation).
- August 6: OAR/Guinea contacted the Ministry of Planning to inquire about the joint account and was informed that the account had not been opened.
- August 23: OAR/Guinea contacted the Ministry of Planning and was told that the Government of Guinea had decided that funds could not be made available to A.I.D. projects until all the counterpart funds were placed in one account.
- August 28: OAR/Guinea reiterated its request that the Ministry of Planning arrange for counterpart funds to be transferred to the accounts of the three A.I.D. projects, and to do so before the end of the month.
- September 3: OAR/Guinea contacted the Ministry of Planning and was informed that counterpart funds will be transferred to the account of the Combating

Childhood Communicable Diseases project very shortly. However, funds for the other two projects could not be transferred since the divisions of the Ministry of Planning in charge of agriculture and education had not been contacted.

- September 8: OAR/Guinea contacted the Ministry of Planning about the transfer of the counterpart funds, but the cognizant ministry official could not provide any information.
- September 10: Letter sent to the Ministry of Planning again requesting that a joint account be opened.
- September 19: Letter sent to the Ministry of Planning requesting that counterpart funds be transferred to the three A.I.D. projects.
- May 15, 1986: Letter sent to the Ministry of Planning expressing the need to urgently set up a coherent and efficient system for the utilization of counterpart funds.
- October 23: Letter sent to the Ministry of Planning expressing concern over the low utilization rate of the counterpart funds and proposing a meeting with Ministry officials.
- January 28:
1987: Letter sent to the Ministry of Planning deploring the low utilization rate of the counterpart funds, and warning that the food assistance program in Guinea may be jeopardized if the issue was not resolved. OAR/Guinea also suggested an amendment of the May 1985 agreement to establish clear procedures for the approval and disbursement of the counterpart funds.

ACTION: RIG-2 INFO: DCM

VZCZCTAA843AKA911
RR RUTADS
DE RUTAAK #3990 2791624
ZNR UUUUU ZZH
R 061618Z OCT 87
FM AMEMBASSY CONAKRY
TO AMEMBASSY DAKAR 0330
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LOC:
06 OCT 87
CN: 44971
CHRG: AID
DIST: RIG

UNCLAS SECTION 01 OF 03 CONAKRY 03990

AIDAC

DAKAR FOR RIG

E.O 12356: N/A

SUBJECT:

1. IN GENERAL, AID MISSION ACCEPTS THE THRUST OF BOTH CONCLUSIONS AND RECOMMENDATIONS OF SUBJECT REPORT. WE DO SUGGEST CERTAIN CLARIFICATIONS AND CORRECTIONS TO INCREASE ITS DEGREE OF ACCURACY AND TO MAKE IT MORE USEFUL TO MISSION MANAGEMENT.
2. OUR COMMENTS AND SUGGESTIONS ARE BASED ON OUR UNDERSTANDING OF THE HISTORICAL DEVELOPMENT OF THE USE ASSISTANCE PROGRAM HERE. THAT IS, THE ORIGINAL FULLY-FLEDGED USG PROGRAM WAS SCALED DOWN TO TITLE I IN 1966-67 BECAUSE OF ANTAGONISTIC BILATERAL RELATIONS AND BECAUSE OF USG CONCERN OVER WIDE-SPREAD HUMAN RIGHTS ABUSES. THE USG RECOMMENCED A SMALL PROGRAM IN 1976-77 FOCUSED ON EXPLORATORY EFFORTS IN HEALTH AND AGRICULTURE?? TH? DISAPPOINTING RESULTS OF THESE PROJECTS WERE CAUSED BY FUNDAMENTAL POLICY, FINANCIAL, AND MANAGERIAL WEAKNESSES. ONE AMONG MANY MANIFESTATIONS OF THESE FUNDAMENTAL WEAKNESS WAS SLOWNESS IN APPLYING TITLE I SALES PROCEEDS TO DEVELOPMENT PROJECT PURPOSES. FOLLOWING THE NEW GOG REGIME'S INSTITUTION AT THE END OF 1985 OF A PROGRAM DESIGNED TO ADDRESS THESE FUNDAMENTAL DEFECTS, THE USG SWITCHED ITS ENTIRE ASSISTANCE APPROACH FROM PROJECT TO PROGRAM ASSISTANCE. THE ADVANTAGES OF THE NEW APPROACH ARE THAT THE ASSISTANCE ADDRESSES THE DEMONSTRATED FUNDAMENTAL WEAKNESSES AND CAN BE CALLED FORWARD AND DIRECTED AS WHEN AND WHERE NEEDS?FIED AS COMPARED T THE MORE MECHANISTIC PROJECT APPROACH.
3. OUR SUGGESTIONS FOR THE EXECUTIVE SUMMARY INCLUDE THE FOLLOWING:
 - A. PAGE 1, PARA 2 - PLEASE CHANGE QUOTE THE MAJOR UNQUOTE TO 'LARGEST'. IN DEVELOPMENT ASSISTANCE TERMS PL 480 WASN'T NECESSARILY THE MOST IMPORTANT ACTIVITY.
 - B. PLEASE CHANGE SECOND SENTENCE OF SAME PARA TO READ QUOTE A.I.D. DEVELOPMENT ASSISTANCE ALSO HAS BEEN... UNQUOTE. WE ESPECIALLY OBJECT TO THE WORD SPORADIC WHICH CARRIES MEANINGS OF SCATTERATION, CAPRICIOUSNESS, AND FREQUENT CHANGE, WHICH THE REPORT DOES NOT SUBSTANTIATE.

UNCLASSIFIED

CONAKRY

C. IN THIRD PARA OF PAGE I, PLEASE INDICATE AS OF WHEN IT WAS THAT NO FUNDS HAD YET BEEN DISBURSED UNDER THE SUPPORT FUND.

D. THROUGHOUT PAGE II, PLEASE GIVE BETTER SENSE OF TIMING, THAT IS, WHEN AUDIT WAS MADE AND THE PERIOD IT COVERED. ALSO, PHRASES LIKE QUOTE LITTLE IMPACT UNQUOTE AND QUOTE ADEQUATE UNQUOTE IN PARA THREE ARE TOO VAGUE TO BE MEANINGFUL. DO YOU MEAN, FOR EXAMPLE, THAT EVEN THOUGH MISSION MANAGEMENT WAS UP TO NORMAL A.I.D. STANDARDS, DEVELOPMENT ACTIVITIES FAILED TO MEET THEIR STATED OBJECTIVES? OR IS IT THE ACTIVITIES ACHIEVED THEIR STATED OBJECTIVES BUT STILL HAD LITTLE EFFECT ON POPULAR WELL-BEING?

E. SUGGEST WORD POOR IN FIRST SENTENCE OF PARA TWO OF PAGE III BE CHANGED TO SLOW. POOR CARRIES A WHOLE SERIES OF PEJORATIVE MEANINGS, OF WHICH SLOWNESS IS THE ONLY ONE SUBSTANTIATED IN THE REPORT.

F. MISSION BELIEVES THAT PHRASES LIKE QUOTE A.I.D. HAS REPEATEDLY FAILED IN ITS EFFORTS TO HAVE THE GOVERNMENT COMPLY WITH PL 489 REQUIREMENTS UNQUOTE AND QUOTE ALTHOUGH NECESSARY, A.I.D. DID NOT TAKE STRICTER ENFORCEMENT MEASURES UNQUOTE IN PARA III OF PAGE THREE POTENTIALLY MISREPRESENT THE SITUATION AND MISS THE POINT WITH RESPECT TO EVENTS HERE AND IN WASHINGTON DURING THE PERIOD COVERED BY THE AUDIT. THAT IS, THE MISSION ENCOUNTERED GENERALLY WEAK GOG MANAGEMENT CAPACITY MADE EVEN WEAKER BY THE UPHEAVAL OF GOVERNMENT CHANGEOVER. THEREFORE, NEITHER COULD THE MISSION AND GOG APPLY COUNTERPART FUNDS EXPEDITIOUSLY TOWARD PROJECT USES NOR COULD THE TWO PARTIES CARRY OUT OTHER REQUIRED PROJECT ACTIONS AS FAST AS ORIGINALLY ENVISIONED. THIS SITUATION WAS ONE OF THE KEY FACTORS IN SUBSEQUENTLY SWITCHING THE LOCAL CURRENCY FROM PROJECT TO POLICY RELATED STRUCTURAL ADJUSTMENT USES AND SWITCHING THE MISSION PROGRAM AS A WHOLE FROM A PROJECT ORIENTATION TO A POLICY RELATED PROGRAM ORIENTATION. IN FACT, ONE COULD ARGUE CONVINCINGLY THAT THE CURRENT USE OF TITLE I LOCAL CURRENCY FOR STRUCTURAL ADJUSTMENT, WITH EXPENDITURES TO DATE IN CY 86 AND CY 87 OF DOLS 4.6 MILLION, REPRESENTS A MUCH MORE PRODUCTIVE NET USE OF THE PROCEEDS THAN WOULD HAVE BEEN THE CASE HAD WE SUCCEEDED IN USING THEM EARLIER FOR PROJECT PURPOSES. ONE CAN ARGUE EQUALLY CONVINCINGLY THAT TURNING DOWN SMALL HOLDERS II AT THE PROJECT PAPER ECPR, THE SUBSEQUENT REDUCTION IN FY 86 DA OBLIGATIONS FROM DOLS 4 MILLION ESTIMATED IN FY 87 AS TO DOLS
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2.8 MILLION ACTUAL, REDUCING FY 87 OBLIGATIONS FROM DOLS 5 MILLION ESTIMATED IN FY 88 ABS TO DOLS 2.135 MILLION ACTUAL, AND THE MUCH WIDER APPLICATION OF CONDITIONS PRECEDENT TO DISBURSEMENT OF USG ASSISTANCE CONSTITUTE STRICTER MEASURES THAN THOSE ENVISIONED IN THE DRAFT REPORT.

4. COMMENTS IN PARA THREE APPLY ALSO TO BACKGROUND SECTION. MOREOVER, ASSERTIONS ON PAGES ONE AND TWO OF THE BACKGROUND SECTION THAT A NEW GOVERNMENT CAME INTO POWER IN 1984 WITH A PROGRESSIVE REFORM PROGRAM ARE INCORRECT. IN FACT, THE NEW GOVERNMENT REMOVED SOME OF THE MOST FLAGRANT ECONOMIC IRRITANTS EARLY IN 1984 BUT DID NOT SETTLE ON A PROGRAM UNTIL THE END OF 1985. THE INTERVENING PERIOD WAS ONE OF UNCERTAINTY AND UPHEAVAL. SUGGEST REPORT'S ACCOUNT OF THIS PERIOD BE REPERASED TO REFLECT THIS SEQUENCE OF EVENTS.

5. WITH REGARD TO FINDINGS AND RECOMMENDATIONS WE TAKE NOTE AND SUGGEST AS FOLLOWS:

A. IN THE INTRODUCTION PARAGRAPH, THE HEADING QUOTE COUNTERPART FUNDS WERE NOT USED FOR DEVELOPMENT PURPOSE UNQUOTE IS OPEN TO THE INTERPRETATION THAT THEY WERE USED FOR NON-DEVELOPMENT PURPOSES. SUCH WAS NOT THE CASE. SUGGEST HEADING BE REFORMULATED TO INDICATE SLOWNESS OF DISBURSEMENT RATHER THAN NATURE OF USE.

B. WITH REGARD TO THE RECOMMENDATIONS THEMSELVES, FOR REASONS DISCUSSED IN PARAS SIX THROUGH NINE BELOW, WE SUGGEST THE FOLLOWING:

I. RECOMMENDATION NO. 1 A BE DROPPED.

II. RECOMMENDATION NO. 1 B BE REWORDED TO SAY QUOTE THE OFFICE OF THE AID REPRESENTATIVE, WORKING WITH PERTINENT GCG ENTITIES SHALL DEVELOP FORMAL PROCEDURES FOR IDENTIFICATION AND APPROVAL OF LOCAL CURRENCY FUNDED ACTIVITIES, CONSOLIDATE AND SIMPLIFY PROCEDURES FOR DISBURSEMENT OF FUNDS, PREPARE A LOCAL CURRENCY BUDGET????AN, AND DEVELOP A PROGRAM FOR EVALUATION AND REPORTING OF COUNTERPART FUND USES UNQUOTE.

III. RECOMMENDATION NO. 2 A BE REWORDED TO SAY QUOTE REVISE QUARTERLY PROGRESS REPORTS TO INCLUDE INFORMATION CONCERNING COUNTERPART FUNDS RECEIPTS, ALLOCATIONS, AND DISBURSEMENTS TO SPECIFIC ACTIVITIES DURING THE REPORTING PERIOD. THIS REPORT SHALL REFERENCE ANTICIPATED FUND BALANCES FOR THE REPORTING PERIOD INCLUDED IN THE APPROVED BUDGET PLAN UNQUOTE.

IV. RECOMMENDATION NO. 2 B. PLEASE RETHINK PER PARA 9 BELOW.

6. REGARDING SEPARATE ACCOUNTS CALLED FOR IN RECOMMENDATION ONE A, NOTE THE COUNTERPART AGREEMENT OF MAY 1985 SET THE REQUIREMENT THAT THE GCG DEPOSIT COUNTERPART GENERATIONS IN A SINGLE SEPARATE BANK ACCOUNT. PRIOR TO THIS DEPOSITS WERE HELD IN SEGREGATED ACCOUNTS OF SEVERAL STATE BANKS. SHORTLY AFTER THE MAY 1985 AGREEMENT, ACCOUNTS IN THE STATE BANKS WERE FROZEN. THE ACCOUNTS WERE CONSOLIDATED AND UNFROZEN IN JANUARY 1986 WHEREUPON THE FUNDS WERE TRANSFERRED TO GUINEA'S CENTRAL BANK AND DEPOSITED IN A NUMBERED AND

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SEGREGATED ACCOUNT. WHEN AGAIN IN JUNE 86 AID'S FUND, TOGETHER WITH ALL OTHER BILATERAL COUNTERPART FUNDS, WERE SEIZED BY THE MINISTRY OF ECONOMY AND FINANCE TO BE EFFECTIVELY COMANAGED FROM THE STATE TREASURY, THE FUND WAS ASSIGNED TO A NUMBERED AND SEPARATE ACCOUNT. INDEED, USAID IS THE ONLY BILATERAL AGENCY WHICH KNOWS THE EXTENT OF ITS FUND DEPOSIT AND IS ABLE TO PROGRAM FUND EXPENDITURES BECAUSE IT IS THE ONLY AGENCY WHICH HAS INSISTED THAT DEPOSITS BE MADE FROM THE BEGINNING INTO A NUMBERED AND SEPARATE ACCOUNT. AND WHILE THE FUNDS HAVE BEEN TRANSFERRED FROM ONE ACCOUNT TO ANOTHER, THEY HAVE BEEN IN NUMBERED AND SEPARATE ACCOUNTS THROUGHOUT.

7. REGARDING JOINT PLANNING AND PROGRAMMING OF COUNTERPART FUNDS, WHICH WE UNDERSTAND TO BEAR THE BRUNT OF RECOMMENDATION 1B, WE NOTE THE FUND AGREEMENT OF MAY 1985 ESTABLISHES PROCEDURES FOR WRITTEN COMMUNICATION BETWEEN AID AND THE GOG TO PLAN FUND ALLOCATIONS. NUMEROUS EXAMPLES OF CORRESPONDENCE ARE IN THE FILES WHICH DEMONSTRATE THAT, IN FACT, CONTINUOUS CONSULTATION TOOK PLACE. FURTHER, THE TITLE I AGREEMENT OF FY 86 ESTABLISHED THREE DISTINCT BENCHMARKS FOR PROGRAMMING THE DOLS 11 MILLION BALANCE OF COUNTERPART FUNDS. THE FIRST BENCHMARK WAS THE REQUIRED PROGRAMMING OF 1984 TITLE I GENERATIONS AND FUNDS OF PREVIOUS YEARS BY APRIL 1986. THE SECOND BENCHMARK WAS THE PROGRAMMING OF FY 85 TITLE I COUNTERPART GENERATIONS BY 30 JUNE 1986. THE THIRD BENCHMARK REQUIRED PROGRAMMING OF FY 86 TITLE I COUNTERPART GENERATIONS BY A DATE SET AT 6 MONTHS AFTER ARRIVAL OF COMMODITIES - WHICH PROVED TO BE 15 JUNE 1987. THE PROGRAMMING PROCESS LAGGED THE FIRST TWO BENCHMARKS. BY JUNE 30, 1987, HOWEVER, THE SLACK HAD BEEN TAKEN UP. TOTAL EXPENDITURES AND THE VALUE OF PROJECTS JOINTLY PROGRAMMED FOR FINANCING AMOUNTED TO 95 PERCENT OF THE AVAILABLE FUNDS.

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8. REGARDING QUARTERLY REPORTING ON COMPLIANCE WITH PL 480 AGREEMENTS, WE NOTE THAT A QUARTERLY REPORT PROGRAM IS ALREADY IN PLACE AND THAT THE GOG IS SATISFACTORILY PROVIDING THE LIMITED INFORMATION REQUIRED BY AID/W.

9. WE HAVEN'T SUGGESTED ANY REWORDING OF RECOMMENDATION 2B AND CAN MEET IT EASILY ENOUGH BUT RIG MAY WISH TO RETHINK THE RECOMMENDATION BASED ON THE FOLLOWING FACTORS. FIRST, WASHINGTON WILL MAKE FUTURE PROGRAM DECISIONS, INCLUDING FOOD PROGRAM DECISIONS, BASED ON SEVERAL FACTORS SUCH AS FOOD NEEDS AND AVAILABILITIES. EVEN TO THE EXTENT LOCAL CURRENCY USE IS A FACTOR, MISUSE, WHICH IS NOT BEING CLAIMED IN THE REPORT, RATHER THAN SLOWNESS OF USE, WILL BE THE PRIMARY CONCERN. SECOND, THE GOG HAS RECOGNIZED ITS INSTITUTIONAL SHORT-COMINGS WITH REGARD TO PROGRAMMING AND DISBURSING LOCAL CURRENCY PROCEEDS AND HAS REQUESTED AID ASSISTANCE IN ADDRESSING THEM - ASSISTANCE WHICH IS NOW BEHIND SCHEDULE FOR REASONS TOTALLY OUTSIDE THE CONTROL OF THE GOG OR THIS MISSION. THIRD, WE ARE TRYING A GREATER PORTION OF OUR PROGRAM TO CONDITIONALITY - A MORE FLEXIBLE, PRECISE, AND SUBSTANTIVELY ORIENTED APPROACH TO LIMITING AND CURTAILING ASSISTANCE THAN THAT CONTAINED IN THE AUDIT RECOMMENDATION. FOURTH, THE POTENTIAL RANGE OF USES IS NOT NEARLY SO BROAD AS INDICATED IN THE DISCUSSION SECTION OF THE AUDIT REPORT GIVEN CBSS STRUCTURES ON PROGRAM FOCUS, GIVEN CBSS ECPE CONCERN OF OVER THE MACRO-ECONOMIC IMPACT OF DISBURSEMENTS, AND GIVEN THE DISAGREEMENT AMONG VARIOUS DONOR EXPERTS ON THE BEST USE AND RELATIVE POTENTIAL IMPACT OF LOCAL CURRENCY GENERATIONS. THE AUDIT RECOMMENDATION AND DISCUSSION WITH ITS LANGUAGE OF QUOTE FULLY COMPLIED UNQUOTE IMPLIES REDUCTION OF COMPLIANCE TO A SET EQUATION WHICH ALLOWS FOR NO DISTINCTIONS WHEN THE PROBLEM IS MORE COMPLEX THAN THAT. MOREOVER, THE REPORT LANGUAGE, DESPITE ITS STERN SOUND, CONTAINS BROAD LOOPHOLES AND REFLECTS MEASURES LESS STRICT THAN THOSE AID ALREADY HAS UNDERTAKEN, WILL CONTINUE TO UNDERTAKE, AND WHICH ARE BEARING FRUIT.

10. ALSO SUGGEST EXCHANGE RATE CALCULATIONS IN REPORT BE REVIEWED TO ENSURE CONFORMANCE WITH THE QUOTE RATE AT WHICH THE CENTRAL MONETARY AUTHORITY OF THE IMPORTING COUNTRY... SELLS FOREIGN EXCHANGE FOR LOCAL CURRENCY IN CONNECTION WITH THE COMMERCIAL IMPORT OF THE SOME COMMODITY UNQUOTE LANGUAGE OF OUR TITLE I BILATERAL AGREEMENT AND TO TAKE NOTE OF THE MASSIVE DEVALUATION WHICH THE GOG CARRIED OUT DURING THE PERIOD COVERED BY THE AUDIT.

11. HOPE THE ABOVE IS USEFUL. WILL BE HAPPY TO CONTINUE THE DISCUSSION AS APPROPRIATE

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