

PD-AAX-470

54979

THE GOVERNMENT OF
ITS PL 480 REPC

AUDIT REPORT
SYSTEM

The Government of Zambia Is Not Meeting
Its PL 480 Reporting Requirements

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
BACKGROUND	1
FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	3
Title II Commodities Valued At US\$3.7 Million Were Unaccounted For (TA 1603)	3
There Were Significant Delays by GRZ In Utilizing And Reporting Local Currency Funds Generated From Sale Of Title II Commodities (TA's 9601 and 0602).	7
AID/Zambia Needs To Follow-Up With The GRZ Regarding Reporting Requirements on Title I	8
Project Monitoring Needs To Be Improved	12
APPENDIX A - List of Recommendations	
APPENDIX B - List of Report Recipients	

EXECUTIVE SUMMARY

Introduction

For the past thirty-three years the United States has played an important international role as the major supplier of food aid. The principal vehicle for United States food assistance is the Agricultural Trade and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

The Food for Peace Program has been an important element in United States agricultural and foreign policy since the days of the Marshall Plan. Original PL 480 legislation stated numerous goals: to expand international trade, to develop and expand export markets for United States agricultural commodities, to use the abundant agricultural productivity of the United States to combat hunger and malnutrition, and to encourage economic development in the developing countries, with particular emphasis on assistance to those countries that are determined to improve their own agricultural production.

Purpose of Review

The purpose of our review was to determine whether: (a) the Government of the Republic of Zambia's (GRZ), acting through the National Agricultural Marketing Board (NAMBOARD), management controls over the local currencies generated from Title I commodity sales and Title II commodity monetizations were adequate, (b) the PL 480 program was achieving the stated goals and objectives as contained in the project agreements, (c) all applicable United States laws and Agency regulations were being complied with, and (d) the intent of Congress was being followed.

Findings and Conclusions

Our review surfaced the need for increased pressure on the GRZ to meet the provisions of the PL 480 agreements. The deficiencies noted are summarized below and detailed in the following sections of this report:

- The GRZ had not adhered to the provisions of various Title II transfer authorizations. As a result, food valued at \$3.7 million dollars was not accounted for as required on one authorization, and quarterly reports on the utilization of \$2.2 million were not provided on another. In addition, the \$2.2 million is not now scheduled to be utilized until almost three years after receipt (pages 3 to 8).

- The GRZ's record of submitting self-help reports has not been timely. The self-help reports that have been submitted, although improving, were imprecise and lacked specificity on some self-help activities (pages 8 to 12).
- The GRZ has yet to submit a certified statement of receipts and expenditures on Title I agreements. The statement has been an annual requirement for the GRZ since 1978 (pages 8 to 12).
- AID/Zambia needs to formalize its monitoring of self-help projects. We found that very little had been done in this area. In addition trip reports were not routinely prepared for field trips (pages 12 to 15).

We believe that AID/Zambia must make it clear to the GRZ that all project provisions must be complied with or that future programs could be in jeopardy.

AID/Zambia Comments

This report was sent to AID/Zambia in Lusaka for comment. The issues identified were also discussed with responsible AID/Zambia officials and their written comments are included, where appropriate, in this report. AID/Zambia disagreed with most of the report's conclusions and recommendations. In these instances we have reaffirmed our position and provided additional amplification where we believed it is necessary.

BACKGROUND

For the past thirty-three years the United States has played an important international role as the major supplier of food aid on a world-wide basis. The principal vehicle for U.S. food assistance is the Agricultural Trade Development and Assistance Act of 1954, as amended, commonly known as PL 480 and often referred to as the Food for Peace Program.

The overall objectives of PL 480 are to: expand international trade, develop and expand export markets for U.S. agricultural commodities, combat hunger and malnutrition, encourage economic development in the developing countries, and promote in other ways United States foreign policy.

PL 480 was initially intended as a temporary measure to help other nations with their foreign exchange shortages, and allow the disposal of U.S. agricultural surpluses. Over the years the Congress has periodically extended and amended the act, and today several distinct programs are conducted under PL 480. In line with the objectives noted above, this report deals with both the Title I sales program and the Title II donation program.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities to friendly countries. Agreements under Title I may be signed either for dollar credit with up to 20 years repayment period, or convertible local currency credit with up to 40 years repayment period. Grace period for dollar credit agreements range from zero to two years, and those for convertible local currency agreements may be as long as ten years. Specific down payments in dollars may be required under both types of agreements. Interest rates under both types of financing are set by law at minimums of two percent during the grace period and three percent thereafter. For the majority of Title I sales agreements, the minimum rates have been those used.

Although the Commodity Credit Corporation (CCC) finances the sale and export of commodities under Title I, actual sales are made by private U.S. suppliers to foreign importers, government agencies, or private trade entities. The Corporation finances sales by paying suppliers directly through the U.S. banking system for that portion of their sale not covered by the required down payment. CCC then collects the amount due over the credit period, including the interest, from the importing country.

Title II of the act authorizes the donation of U.S. food commodities to voluntary relief agencies, international organizations, and friendly governments for free distribution. The legislation includes the objectives of (a) reaching the poorest people in the poorer countries, especially children, and (b) contributing to the overall development process in the poorer countries. It provides that food may be made available for the following general purposes:

- To meet famine or other urgent or extraordinary relief requirements.
- To combat malnutrition, especially in children.
- To promote economic and community development in friendly developing areas.
- For needy persons and non-profit school lunch and pre-school feeding programs.

The Title II program in Zambia is a government-to-government sponsored emergency relief program. NAMBOARD, a GRZ parastatal, is responsible for program implementation.

The PL 480 Title I program under review consists of food having a value of about US\$48 million. An additional US\$29 million ^{1/} was transferred to the Government of Zambia (GKZ) under Title II. The entire AID-supported program reviewed totaled about US\$77 million

Purpose and Scope

This review is an assessment of the effectiveness and management of the PL 480 program in Zambia for the period May 1, 1977 through May 31, 1982, conducted under the Agricultural Trade Development and Assistance Act of 1954, as amended.

Our primary objective was to assess the extent that the program is achieving its legislative objectives; and to determine if the terms of the agreements [the sales agreement in the case of Title I programs, and the transfer authorization (TA) in the case of Title II programs] were being followed.

1/ This includes US \$18.9 million in freight charges.

Other major objectives were to assess the management and administration of the program at the country level. These included the organizational structure of the recipient government for administering each title, the roles and responsibilities of the parties involved, and the effectiveness and efficiency of program management processes -- including program monitoring, reporting and accountability.

Audit work was performed at the AID/Zambia office in Lusaka and the USAID/Zimbabwe in Harare. We were also in contact with the U.S. Embassy in Maputo, Mozambique regarding selected audit matters pertaining to the Zambia PL 480 program.

Our audit work focused primarily on the storage, transport and distribution of Title II food to the intended recipients; and included an extensive review and inspection of inland storage conditions and mills. In addition, we reviewed selected program records for both Title I and Title II, interviewed cognizant U.S. Embassy officials in Lusaka, and discussed the program with local, provincial and national-level host government officials.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Title II Commodities Valued At US\$3.7 Million Were Unaccounted For (TA 1603)

TA 1603, dated May 29, 1981, stated that 21,850 metric tons (MTs) of Title II food valued at about US\$3.7 million were provided to Zambia for emergency feeding. The commodities contributed were for (a) free distribution to victims of the drought unable to purchase food supplies, and (b) sale. We were unable to determine how much food was distributed to drought victims, how much local currency was generated from authorized sales, or what purpose generated funds were expended for.

The main reason that we were unable to make the required determinations was because of the lack of information and reports at the GKZ operating level.

The commodities were provided in response to the drought in Zambia's Western Province where it was estimated there were 25,000 persons facing starvation. These victims were in addition to those, although not starving, who were unable to purchase food. The GKZ guaranteed in the program agreement that people unable to buy food would receive Title II food without cost.

Food not distributed to the drought victims or to those unable to purchase food was to be monetized. The local currency generated from the sale of Title II commodities was to be deposited into a special account no later than 90 days after the commodities were sold. The specific uses of the local currency proceeds were to be agreed upon in writing between the GRZ and AID/Zambia.

We were unable to learn what happened to the food. For example:

- How much food was given to drought victims or to those unable to purchase food
- How many people were affected
- Locations where this food was distributed
- How much food was monetized and the amount of local currency generated from the sales
- Evidence of deposit into a special account
- Planned uses for these funds and AID/Zambia's approval

The control mechanism for local currency generations and the reporting requirements contained in Paragraphs D and F of TA 1603 state the following:

- D. "Local currency proceeds from the sale of commodities under this agreement shall be deposited in a special account no later than 90 days after the corn received under this agreement is sold by NAMBOARD. Deposits into the special account may be made in several stages with the final deposit being made not later than six months after the last delivery of corn under this agreement. The local currency proceeds will be used for project activities directly related to emergency relief or rehabilitation or for development purposes that will help alleviate the causes of food shortages for which the commodities are authorized. The specific uses of the local currency proceeds shall be agreed upon in writing between the GRZ and USAID/Lusaka. The GRZ agrees to provide a quarterly report on all currencies generated under this agreement giving details of deposits and disbursements. All such amounts remaining unexpended after two years from date of deposit and accrued interest, shall be deposited with Amembassy, Lusaka Controller."

F. "The GRZ agrees to keep the USAID fully informed concerning the status of commodity receipts, distribution and sales and will provide complete details, as requested. Representatives of the USG will be permitted to audit and have access to all records pertaining to the use of commodities provided by this Transfer Authorization. The GRZ further agrees to submit on a quarterly basis beginning with the signing of this agreement and until the total amounts obtained through the sales of this corn are expended, a report to the USAID/Lusaka which includes the following data on commodities and finances covered under this agreement:

- (1) Beginning stocks
- (2) Arrivals
- (3) Distributions
- (4) Sales
- (5) Damaged stocks
- (6) Ending stocks
- (7) Currencies generated
- (8) Deposits and Disbursements by authorized program"

At the time of our review the GRZ had not complied with the cited requirements.

AID/Zambia told us that they had attempted to obtain answers to questions similar to ours, but the GRZ had not been responsive. They went on to say that the monetized funds were probably used for cash incentives to farmers.

Subsequently to our review and in response to our draft audit report, AID/Zambia stated:

"because of political problems with one government office, which were unrelated to the AID program or the Title II program, the GRZ and the USG did not initially reach agreement on the use of the local currency. However, as soon as these political problems were surmounted the GRZ did agree in writing to the local currency use on 7/21/82. Immediately thereafter, NAMBOARD opened the special account at Barclays Bank (Account No. 0699362) and deposited into it Kwacha 2,891,214 which was realized from the sale of 19,274.76 tons of Title II maize in 1981. (The remaining approximately 2,000 tons of maize was held in Zimbabwe at AID/Zambia's request pending satisfactory resolution of the local currency agreement referred to above. Now that this issue has been resolved, AID/Zambia is making arrangements for final delivery of the maize). To date NAMBOARD estimates that all of the

K2.9 million local generations will be disbursed for (a) last year's producer price bonuses and (b) future (i.e., 1982) producer price increases as called for in the agreement. According to a recent letter, NAMBOARD estimates that at least 2.342 million has already been used for farmer/producer price bonuses, and the remainder will be used for the 1982 producer price increases. Once NAMBOARD's 1981 and 1982 accounting books are finalized, NAMBOARD has stated in a recent letter that it will disburse the funds from the special account for the agreed local currency uses. NAMBOARD has also agreed to provide AID/Zambia with a quarterly special account report until all funds are fully and finally accounted for. With regard to Title II local currency, therefore, we believe that, despite the delay in formalizing the local currency use agreement, the GRZ showed good faith in complying with the major local currency objectives. Shortly after negotiating the agreement the GRZ announced producer price bonuses..."

The actions that AID/Zambia reported the GRZ has now taken are a positive step. We remain of the opinion that the reporting provisions of the TA were not complied with, but must be if PL 480 programs are to continue.

Conclusion and Recommendation

In our opinion agreements between sovereign states should be honored. The GRZ had not done so even after AID/Zambia followup on numerous occasions. On July 21, 1982 the GRZ finally agreed on the use of the local currency generations. However, the GRZ had not fully complied with the reporting requirements of any of the PL 480 agreements. (Additional details are provided in subsequent sections of this report). Therefore, we have retained our recommendation for corrective action.

Recommendation No. 1

AID/Zambia develop a country position that will ensure that the GRZ meets its agreed-to commitments as contained in the various PL 480 agreements. This position should be conveyed to the GRZ and should include making future programs contingent upon compliance; or if AID/Zambia thinks it is not in the best interest of the United States to develop a country position that will force compliance, then in consultation with AID/W, it should be documented that AID/Zambia may continue to provide PL 480 assistance without regard to compliance with PL 480 agreements.

There Were Significant Delays by The GRZ In Utilizing And Reporting Local Currency Funds Generated From Sale Of Title II Commodities (TA's 9601 and 0602)

Under the provisions of TA 9601 and TA 0602, dated December 21, 1979 and February 4, 1981, respectively, 50,000 MTs of Title II corn were provided to the GRZ. These commodities were authorized to be monetized and the proceeds used to provide farmers with cash incentives to grow more food and to expand/construct storage facilities. (The major funding for the facilities was to be received from other donors.) These two TA's were valued at about US\$6.9 million and generated approximately K5.3 million.^{1/} We found that after about two years, US\$2.17 million (K1.67 million) remained to be spent under the terms of the TAs.

NAMBOARD had submitted to AID/Zambia disbursement reports accounting for K3,681,948. We verified that these funds were expended for the purposes intended. However, the required quarterly reports on the disbursement of the remaining funds were not provided as required.

We learned that on March 13, 1980, NAMBOARD opened a non-interest bearing bank account at Barclays Bank of Zambia in Lusaka for K3,255,892. On March 19, 1980, NAMBOARD withdrew K1,582,472 to be paid to individual growers as an incentive leaving a balance of K1,673,420 (US \$2,175,446). These funds remained on deposit until October 1981. NAMBOARD advised AID/Zambia on November 23, 1981 by letter that:

"The sum of K1,673,418.90 which was in our special account was paid to the Ministry of Finance in full. We have not heard anything from the Ministry of Finance regarding the use of these funds. We however presume that these funds will be utilized for agricultural projects including storage programme, in consultation with you."

AID/Zambia has followed up with the GRZ repeatedly with letters and personal visits. Unfortunately these efforts were not productive.

^{1/} Zambian Kwacha 1.00 = US \$1.30

AID/Zambia responded to our draft audit report by stating:

"Regarding Transfer Authorization TA 9601 and TA 0602 for 50,000 MIs, the draft audit report notes that after about 2-years K1.67 million (of a total of K5.3 million) local currency generations had yet to be spent by the GRZ for agreed purposes. While this is true, it is also true that (a) the food storage construction project which was involved and was to be funded by Canadian AID, did not get started in 1980 as planned. Construction finally began in early 1982, and the first imported items (e.g., steel reinforcement for food warehouse roofs) arrived in July, 1982. As a result, the PL 480 local currency counterpart input into the project has been delayed accordingly, and the GRZ Ministry of Finance acknowledged in writing on June 1, 1982, that it still has these funds and intends to use them as agreed and report on their use for this project on June 1, 1983 after their CY accounting books are finalized by May of 1983. In our view, therefore, although the process has taken longer than anticipated and reports are often untimely we believe the GRZ has shown good faith in complying with the agreement..."

Conclusion and Recommendation

The TA's are clear on the purposes for which the local currency generations were to be used. Further, the GRZ was to submit quarterly reports detailing how the total amounts generated through monetization were spent. Although the GRZ has now responded and agreed to report on the use of these funds in 1983, at the time of our audit they had not complied with the reporting requirement--even after repeated AID/Zambia attempts to obtain information. At best, if the GRZ uses these funds (equivalent to US \$2.2 million) in 1983 for the intended purpose, the warehouses for which the funds were earmarked will have been delayed by about three years and the GRZ will have had free use of the funds for that length of time. Reporting on the use of the remaining funds should be incorporated into implementation of recommendation No. 1 because of the poor track record of the GRZ in meeting reporting requirements.

AID/Zambia Needs To Follow-Up With The GRZ Regarding Reporting Requirements On Title I

Annual PL 480 Title I self-help reports submitted by the GRZ did not provide adequate information, were late, and the annual certified financial report had not been provided. Annual PL 480 Title I self-help reports are due in AID/Washington not later than close of business December 15 to meet the deadline for the President's annual Food for Peace report to Congress in accordance with Section 408 of PL 480. The submitted reports did not relate

information on the achievement of some of the specific self-help provisions contained in current year agreements. This information is vital to the Mission in its evaluation of the host country's performance in carrying out self-help provisions of PL 480 agreements.

The need for a meaningful evaluation of a recipient country's self-help performance is made explicit in the PL 480 Act, Section 109(a):

"Before entering into agreements with developing countries for sale of United States agricultural commodities on whatever terms, the President shall consider the extent to which the recipient country is undertaking wherever practicable self-help measures to increase per capita production and improve the means for storage and distribution of agricultural commodities."

AID's Report to Congress on the Developmental Impact of Public Law 480, dated March 30, 1982, has this to say about self-help reports:

"Until recently there were no established procedures for evaluating the developmental effectiveness of Title I activities. The annual reports on progress varied considerably in quality and content. Further, there have been virtually no retrospective studies of the real impact of Title I programs carried out in past years..."

While the GRZ has submitted four self-help reports in five years, in 1978 a self-help report was not submitted. The GRZ self-help reports provided to AID/Zambia, although improving, still do not provide specific data on all self help activities. To illustrate the point, reports did not relate information on the achievement of specific self-help provisions included in the sales agreements such as credit to farmers, or improvements made in the transportation sector. Data on inputs to credit and transportation should be included in the GRZ's report. The GRZ's self-help reports, in our opinion, were weak in this respect.

After four years of a Title I program, the GRZ has yet to provide a certified financial report. The first certified statement was due in 1978.

All Title I sales agreements contain the following provision:

"The government of the importing country shall furnish in accordance with its fiscal year budget reporting procedure, at such times as may be requested by the government of the exporting country but 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 certified report of receipts and expenditures is an important monitoring tool.

In response to our draft audit report AID/Zambia said:

"Although the GRZ has not always submitted timely self-help reports, we believe the final report should mention several balancing considerations. The draft audit report states that it is essential to meet the December 15 deadline for self-help report so that the annual self-help report can be submitted to Congress. While it is true that December 15 is a worldwide deadline, it is also true that the US Department of Agriculture has always been two years behind schedule in submitting their report to Congress. (The FY 80 report was submitted to Congress in July of 1982).

In all but one case all Title I agreements in Zambia were signed in June, July or August of each year, and the commodities arrived in Zambia in September, October, November and December. It is therefore difficult to measure progress in achieving self-help measures or local currency generations in November when the commodities have not yet arrived or have just arrived. In the case of some self-help measures (e.g., GRZ self-help commitments to increase producer prices or reduce maize and fertilizer subsidies), progress can sometimes be measured within five or six months of signing the agreements, but generally speaking at least one year must pass from the signing of the agreement before a thoroughly detailed self-help progress report can be formulated. If the local currency is specifically allocated to particular GRZ budgetary items, sometimes eighteen months must pass before the GRZ is in a position to report on their findings. In short, a more rational self-help reporting requirement, from the field point of view (i.e., not just AID/Zambia but AID worldwide), would be to require a self-help progress report from the recipient government every six (6) months until the AID/Mission and reports and Washington agencies determine that these self-help reports, taken together, (a) provide satisfactory content and specificity and (b) indicate that the recipient government has made satisfactory progress toward achieving the self-help measures.

According to the PL 480 agreements signed in Lusaka, each year in November the GRZ is to submit a self-help report which measures progress toward achieving the self-help measures in the agreement. According to the guidelines, the field is then obliged to evaluate the GRZ's self-help report and send both the self-help report and our evaluation to USDA. AID/Zambia has done this, and based on these evaluation documents, Washington agencies dealing with PL 480 (i.e., primarily USDA)

can either accept the self-help report as satisfactory or ask for more detail and specificity. In short, determination of the adequacy of the GRZ's self-help report rests in Washington D.C. and is based on the self-help report itself, as well as the field's evaluation of the report. If the audit found that the criteria for self-help report adequacy are too slack, it seems that a more effective audit recommendation would be directed at Washington agency criteria. Washington agencies must first improve self-help report acceptability criteria before the field can be expected to follow. However, this cannot take place without the institution of a more rational self-help report submission schedule...."

"The audit report notes that the GRZ has yet to provide a certified financial report on local currencies. While this is true, we believe that the audit report should mention the following:

(1) ...That neither USDA nor AID worldwide has ever insisted that this general repeat general provision of PL 480 agreements be strictly adhered to. We recommend that the audit report reflect this fact and report that KIG/A has made similar findings in other PL 480 audits it has conducted recently.

(2) The audit report notes that AID/Zambia files are replete with letters to the GRZ requesting the required reports. The audit report does not mention, however, that on three occasions since 1980 AID/Zambia requested Washington agencies to inform them if there were any repeat any outstanding PL 480 Title I reports, and AID/Zambia received negative replies...

...We believe that if AID wishes to correct the present approach toward local currency use report compliance, the audit recommendation would have more effect if it were directed toward Washington agencies (i.e., AID/W and USDA) rather than at one field post."

In our view the self-help reports, although improving still do not provide adequate information on progress in certain areas.

We also agree that six month progress reports would be a useful monitoring tool and encourage USAID/Zambia to put this requirement in future agreements. In our opinion, it is the USAID's responsibility to establish such reporting requirements as it considers necessary to meet its monitoring responsibilities, as long as those requirements meet the minimum requirements of the Agency.

The certified financial report is a requirement and should be met.

CONCLUSION

Self-help reports, although improved, still do not discuss projects or all agreed-to activities. This should continue to be pursued; and more frequent reports might be required as considered necessary. AID/Zambia files are replete with copies of letters to, and memorandum of conferences with, GKZ officials in attempts to obtain the required financial reports. There was, however, no indication this problem would be resolved in the near term. This is another example of the GKZ not meeting an agreed-to commitment, and should be included in the resolution to recommendation No. 1 on page 6.

Project Monitoring Needs To Be Improved

In the area of improved project monitoring, we believe that AID/Zambia could take some additional steps. AID/Zambia did not have a systematic monitoring program to ensure that the GKZ was implementing the self-help and other developmental activities using local currency proceeds generated from Title I sales. In addition, we were unable to locate documentary evidence that any AID/Zambia staff members had monitored project activities in the drought affected areas supplied food under the Title II program.

Senior AID/Zambia officials told us that the self-help measures were mostly budgetary support and not easily measured. Further the office staff was very small and they just didn't have enough people available to make specific inspection visits. They went on to say that when a self-help project was tied in with one of AID/Zambia's regular projects, it received adequate overview. AID/Zambia also indicated field trips were made to the Western Province to monitor the disaster relief program.

We reviewed selected sales agreements to determine if they contained self-help projects financed from Title I local currency generations where progress could be readily measured. We found there were. To illustrate:

From the July 19, 1979 Sales Agreement

- Village level training meetings
- Demonstrations of new agricultural techniques

From the December 21, 1979 Sales Agreement

- Publication of producer prices
- Adopt procedures to improve statistic gathering
- Develop a marketing course
- Improve plant protection and grain storage facilities
- Increase the number of extension agents

From the July 22, 1981 Sales Agreement

- Improve grain storage facilities
- Reinforce the planning unit
- Provision of credit to the small farmer

It is clear that these self-help measures are verifiable and thus easily monitored.

In our view a more formal monitoring program should be initiated. Unless a procedure is established to review the uses of the local currency, the requirements of Section 106 of Public Law 480 cannot be addressed.

Section 106(b)(1) reads in part:

"Agreements hereunder for the sale of agricultural commodities for dollars on credit terms shall include provisions to assure that the proceeds from the sale of the commodities in the recipient country are used for such economic purpose as are agreed upon in the sales agreement..."

Also from the same Act, Section 109(d)(3):

"The President shall take all appropriate steps to determine whether the economic development and self-help provisions of each agreement entered into under this title, and of each amendment to such an agreement, are being fully carried out."

Finally, the Agency's March 30, 1982 Report to Congress on the Developmental Impact of Public Law 480 had the following to say regarding self-help measures:

"Efforts are being encouraged to include actions in furtherance of agricultural policy reform in the self-help measures where appropriate. Periodic reviews of performance to monitor implementation and assess progress on a regular basis are scheduled as well..."

AID/Zambia addressed the monitoring issue by saying:

"Throughout the draft audit report, but especially in the section on self-help, there seems to be a conceptual problem regarding the terms quote program unquote, quote project unquote, quote self-help measure unquote, quote development activities unquote, etc. In many cases the most critical self-help measures in Zambia's PL 480 agreements relate to GRZ policy reports. Compliance with these provisions cannot be verified by field trips, and no amount of AID/Zambia in-country travel, on-site inspections, etc. will help monitor

progress towards GRZ compliance. For example, the primary self-help objective of the PL 480 program since 1979 has been to encourage the GRZ to (a) increase the prices paid to food producers in Zambia, and (b) increase consumer prices of fertilizer and maize in order to reduce government subsidies and improve the terms of trade for the farmer. We have achieved these objectives and have not only carefully monitored GRZ progress toward compliance but also actively supported the GRZ in making these difficult policy decisions. AID/Zambia files are replete with documentation related to this continuing effort, and the GRZ's PL 480 Title I self-help reports, in our view and in the view of Washington agencies, were adequate to verify compliance in accordance with existing criteria..."

"The draft audit report notes specific self-help measures in the July 19, 1979 agreement, the December 21, 1979 agreement and July 22, 1981 sales agreement which, the report implies, were not adequately monitored. We believe that, in all fairness, the report should have mentioned that (a) self-help reports were submitted for each of these agreements and found acceptable by Washington agencies (b) several of the measures are monitored in Lusaka and were adequately covered in the self-help reports and AID/Zambia evaluations, (e.g., publication of increased producer prices, reinforcement of the planning unit, etc.)..."

The Agency has re-emphasized the need for improved monitoring of all local currency funded projects generated from PL 480 Title I food sales. As recently as July 7, 1982 the AID administrator declared:

"Missions with Title I programs should review their present monitoring procedures to determine if changes or improvements are needed..."

In our view AID/Zambia's monitoring procedures need to be strengthened, and the monitoring activities need to be documented. Regarding site visit reports, the Project Officers Guidebook, Appendix L, states:

"For efficient management and continuity, it is equally important that such visits be recorded in written reports prepared by the responsible Project Officer. These reports serve a number of purposes. They provide a succinct commentary for AID management on the status of the contract or grant, and become an integral part of the official contract or grant files of the agency. Properly completed, they constitute an invaluable 'follow up' monitoring tool by identifying problems and the actions required to resolve them."

Conclusion and Recommendation

USAID/Zambia was not regularly monitoring implementation and assessing the use of counterpart proceeds, nor were reports prepared on site visits. In our opinion, the best way to assure compliance is systematic on-site inspections with appropriate trip reports placed in the official files.

Recommendation No. 2

AID/Zambia develop procedures to
(a) ensure on-site inspections of
a representative sample of self-help
projects financed from Title I local
currency sales proceeds, and (b) require
the preparation of trip reports to document
the inspections.

List of Recommendations

Page No

Recommendation No. 1

6

AID/Zambia develop a country position that will ensure that the GKZ meets its agreed-to commitments as contained in the various PL 480 agreements. The position should be conveyed to the GKZ and should include making future programs contingent upon compliance; or if AID/Zambia thinks it is not in the best interest of the United States to develop a country position that will force compliance, then in consultation with AID/W, it should be documented that AID/Zambia may continue to provide PL 480 assistance without regard to compliance with PL 480 agreements.

Recommendation No. 2

15

AID/Zambia develop procedures to (a) ensure on-site inspections of a representative sample of self-help projects financed from Title I local currency sales proceeds, and (b) require the preparation of trip reports to document the inspections.

APPENDIX B

List of Report Recipients

	<u>No. of Copies</u>
<u>Field Offices:</u>	
AID/Zambia	5
AID/Washington	
Deputy Administrator	1
AA/AFK	5
AA/FVA	2
LEG	1
GC	1
IG	1
FVA/FFP	1
AFK/SA	5
F/ASD	2
PPC/L	2
S&T/DIU	1
	4