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66558

AUDIT OF
THE AGRICULTURE SECTOR DEVELOPMENT GRANT
IN NIGER

Project No. 683-0246

Audit Report No. 7-683-90-07

May 4, 1990

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

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

May 4, 1990

MEMORANDUM FOR: Director, George T. Eaton, USAID/Niger

FROM: Paul E. Armstrong, RIG/A/Dakar

SUBJECT: Audit of the Agriculture Sector Development Grant in Niger (Audit Report No. 7-683-90-07)

The Office of the Regional Inspector General for Audit, Dakar, has completed its audit of the Agriculture Sector Development Grant. Five copies of the audit report are enclosed for your action.

We especially wish to commend the Mission on its collaborative and constructive approach to the audit and on its prompt response to the audit recommendations. Your comments were used to revise some parts of the report and are included in their entirety as Appendix 1.

The report contains eight recommendations, all of which are resolved. Recommendation 3(b) and 7 are considered closed as of the date of issuance of this report. The other recommendations can be closed upon fulfillment of the recommendation requirements.

Please let me know within 30 days of any further actions taken to close the recommendations that are still open.

EXECUTIVE SUMMARY

The Agriculture Sector Development Grant is a $52.9 million assistance program, consisting of $44.8 million in cash transfers and $8.1 million in technical assistance. The cash transfer payments were to be made to the Government of Niger in six increments as certain agriculture policy reforms were made. The major technical assistance component under the grant was carried out by the University of Michigan, and was to assist the host government in analyzing alternative agricultural policies and to establish a policy analysis unit within the Ministry of Agriculture.

The dollar cash transfers were to be converted into local currency and deposited by the host government into a Special Local Currency Account. Local currencies (or "counterpart funds") were to be used to fund agriculture projects which were jointly programed by USAID and the host government. Also, under the grant agreement the host government had to return to A.I.D. a percentage of the local currency funds (five percent for the first three transfers and eight percent thereafter) for a "program trust fund." These funds were to be used by the Mission to defray support costs related to the grant.

In order to provide for management and accounting of grant local currencies, $1.3 million in counterpart funds have been used to fund an Executive Secretariat. This is a quasi-governmental entity which is also currently receiving counterpart funds from a Mission health sector grant.

The program was approved in 1984 and is scheduled to end in March 1992. To date, a total of $39.8 million in cash transfer funds have been released to the host government in 5 increments, and some 42 agriculture projects have received local currency funding. As of September 30, 1989, about $2.8 million in technical assistance funds have been spent. A $25 million phase II agriculture sector grant program is scheduled to start in 1990.

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of the Agriculture Sector Development Grant. The audit concluded that the host government had successfully carried out the policy changes required for the release of the cash transfers, but that the Mission did not require the Secretariat to systematically monitor counterpart funded projects, and that the Secretariat had wasted and misused counterpart funds authorized for Secretariat operations. As a result, counterpart funds spent for grant agriculture projects were very poorly utilized, and neither the Mission nor the Secretariat had any assurance that projects were achieving their objectives or that funds were not being abused. With regard to the Secretariat itself, funds were spent on items inappropriate for office operations (e.g., underarm deodorant), items were purchased at inflated costs (carpet at $50 per square meter), lax controls resulted in multiple thefts, funds meant to train Secretariat personnel were used to train outside individuals, and gasoline and project vehicles were being used for nonprogram purposes.

In reviewing compliance with grant provisions for cash transfers, the audit found that $403,000 in additional interest could be earned over the life of the agriculture and health sector grants if all counterpart funds were deposited in a bank as required by the respective program agreements. Funds had been deposited instead in a Nigerien Treasury account which accrued interest at a lower rate. Also, a delay in the conversion of the $9.5 million second increment under the agriculture sector grant resulted in a $300,000 exchange rate loss and $20,041 in lost interest.

The audit found that the University of Michigan had not developed an institution building strategy for the policy analysis unit as required under the technical assistance contract. As a result, after four years of technical assistance, the unit is still staffed almost entirely with expatriate experts. The sole exception is the expatriate computer advisor who was successfully replaced with trained and competent Nigeriens.

Also, the Mission was improperly using program trust funds. Contrary to the agreement between the Mission and the host government, the Mission was using some of these funds for general operating costs of the Mission. For example, 6 of the Mission's fleet of 18 vehicles and the entire Mission translation unit were funded out of program trust funds.

Finally, the Mission was not measuring the impact of the program. Five years into the program, although much data had been collected by the program technical assistants, a methodology for measuring the impact of the $52.9 million dollar program had not even been established.

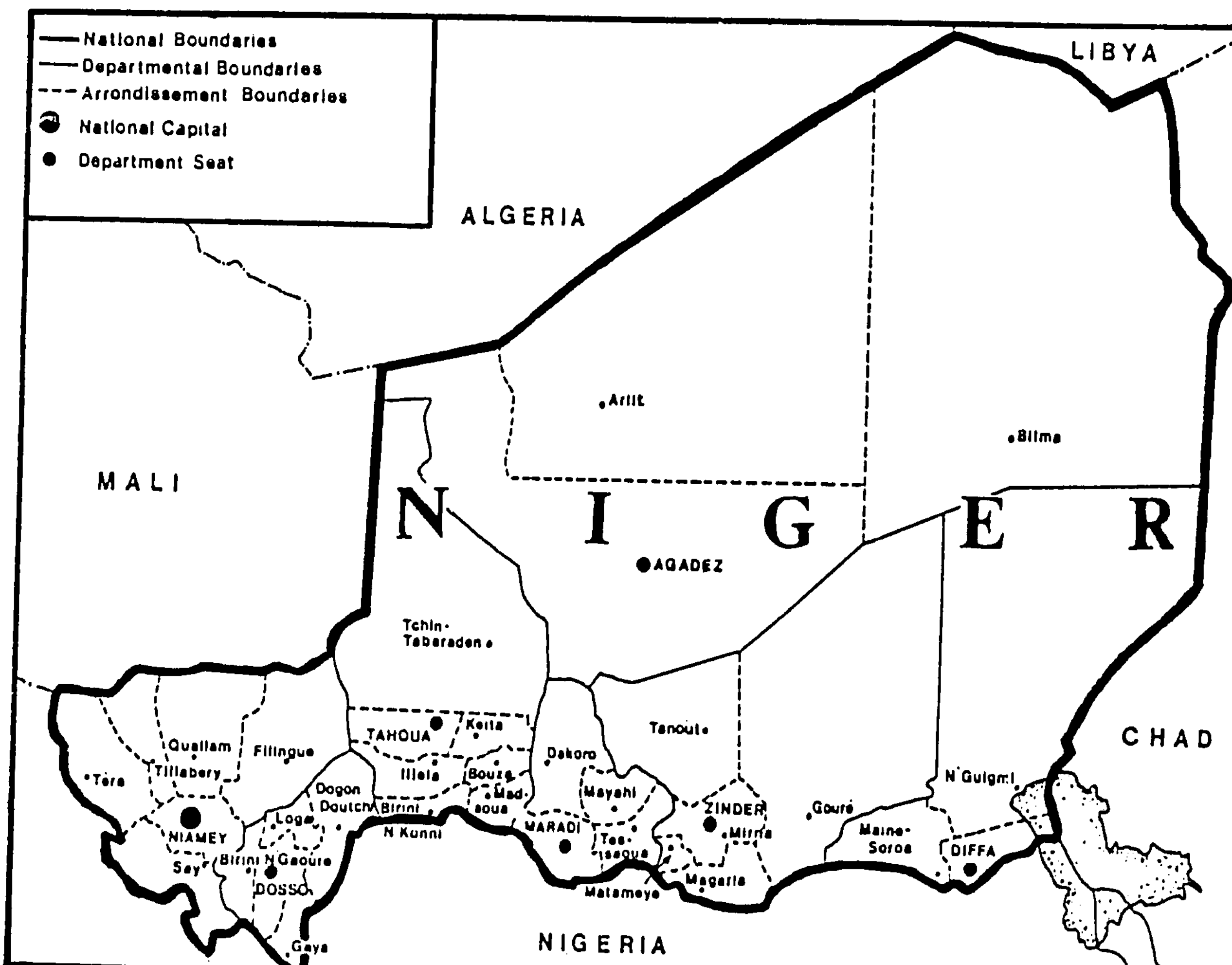
Because of the severe lack of controls at the Secretariat over both project and operational expenditures, the audit recommended that the Secretariat be "decertified" under section 121(d) of the Foreign Assistance Act until Secretariat procedures are finalized and administrative and financial management controls are instituted. Decertification places restrictions on the use of counterpart funds on hand, and allows no further dollars to be transferred to the Government of Niger under either the agriculture or the health sector grants until weaknesses identified by the audit are corrected. Furthermore, the audit recommended that a minimum of $8,160 in misused Secretariat operating funds be refunded to the Special Account, that $40,394 in counterpart funds scheduled for training non-Secretariat personnel in 1990 not be approved, that bank accounts for six terminated projects be closed and the balances be redeposited in the Special Account thereby earning $18,000 in additional interest, and that financial audits be performed on the counterpart funded projects and on the Secretariat itself.

The audit recommended for the agriculture and health sector grants that future cash transfers under both grants be deposited in interest-bearing bank accounts (or that the agreements be revised to reflect procedures actually in use), and that the grant agreements be revised to assure the timely transfer and conversion of all future cash transfer payments. The audit also recommended that the host government submit to the bank which held the $9.5 million cash transfer a bill of collection for $20,041 in lost interest.

Finally, we recommended that the University of Michigan develop a detailed institution building strategy as required by the contract, that the Mission immediately halt the use of program trust funds for Mission operating expenses, and that the Mission <u>not</u> proceed with financing for the $25 million Phase II Agriculture Sector Development Grant until a methodology for measuring impact is firmly established.

Office of the Inspector General

NIGER


National Boundaries
Departmental Boundaries
Arrondissement Boundaries
National Capital
Department Seat
ALGERIA
LIBYA
MALI
CHAD
NIGERIA
N I G E R
Arlit
Bilma
AGADEZ
Tchin-Tabaraden
TAHOUA
Keita
Dakoro
Tanout
Ouallam
Filingue
Tillabery
Tera
Illela
Bouza
Mad-aoua
Mayahi
ZINDER
Goure
N'Guigmi
Dogon Doutchi
Birini
Loga
NIAMEY
N Konni
MARADI
Tes-saoua
Mirria
Maine-Soroa
DIFFA
Say
Birini N'Gaoure
DOSSO
Matameye
Magaria
Gaya

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PART I - INTRODUCTION

A. Background

The Agriculture Sector Development Grant (ASDG) was approved in 1984 as a $32 million four-year "non-project" assistance program. The grant was designed to have a $29 million cash transfer component and a $3 million fund for technical assistance. The program has been amended several times, with the program completion date extended to March 1992, and life of program funding increased to $52.9 million: $44.8 million in cash transfers and $8.1 million for technical assistance. As of September 30, 1989, a total of $42.6 million had been spent.

The purpose of the grant is to (1) promote agricultural production by diminishing policy constraints to development in the agriculture sector and (2) provide cash to Niger to support ongoing agricultural development activities. The grant stipulates numerous reform measures to be implemented by the Government of Niger (GON). These reform measures, selected from a list of principal constraints to agricultural growth and development in Niger, deal with the supply of agricultural inputs, price and marketing policies, cross border trade, agricultural credit, cooperatives and the private sector, and seed and plant material production and distribution.

A total of $39.8 million in cash transfer funds have been released to the GON in five increments as these reform measures were achieved. The sixth and final increment (see diagram on page 4) of $5 million is to be released sometime in fiscal year 1990.

Under the grant agreement the host government was required to establish a Special Local Currency Account and deposit local currency (or "counterpart funds") in amounts equal to the dollar disbursements. A.I.D. and the host government were to jointly program these funds for agriculture and livestock development activities. More than 40 agriculture-related projects and activities have been supported by these funds (see Exhibit 1).

In addition, $1.3 million in counterpart funds have been used to fund an Executive Secretariat, a quasi-governmental entity staffed with ministry and contractual personnel, to provide for management and accounting of grant local currencies. The Secretariat also received local currencies under a similar arrangement from an ASDG predecessor grant, the $5 million Rural Sector Development Grant, and is currently receiving counterpart funds to manage health projects under the $15 million Niger Health Sector Support Grant. Of the $1.3 million received for Secretariat operations to date, about $.3 million have come from the health sector grant.

Also, per the ASDG agreement the host government was required to place five percent of grant local currencies in a trust fund account administered by A.I.D. for Mission program activities in Niger. In 1987 the grant agreement was amended to increase the trust fund percentage to eight percent. As of December 31, 1989 the Mission had received $2.3 million in program trust funds under ASDG.

The major technical assistance component under the grant had three basic objectives: (1) to assist the GON in analyzing and examining alternative agricultural policies; (2) to assist in preparing yearly host government action plans for implementing the policy reforms; and (3) to establish an economic policy analysis unit within the Ministry of Agriculture. This technical assistance was provided under contract with the University of Michigan. In 1988 the grant was increased by $1.9 million to provide for technical assistance by the World Council of Credit Unions for development of credit unions in Niger.

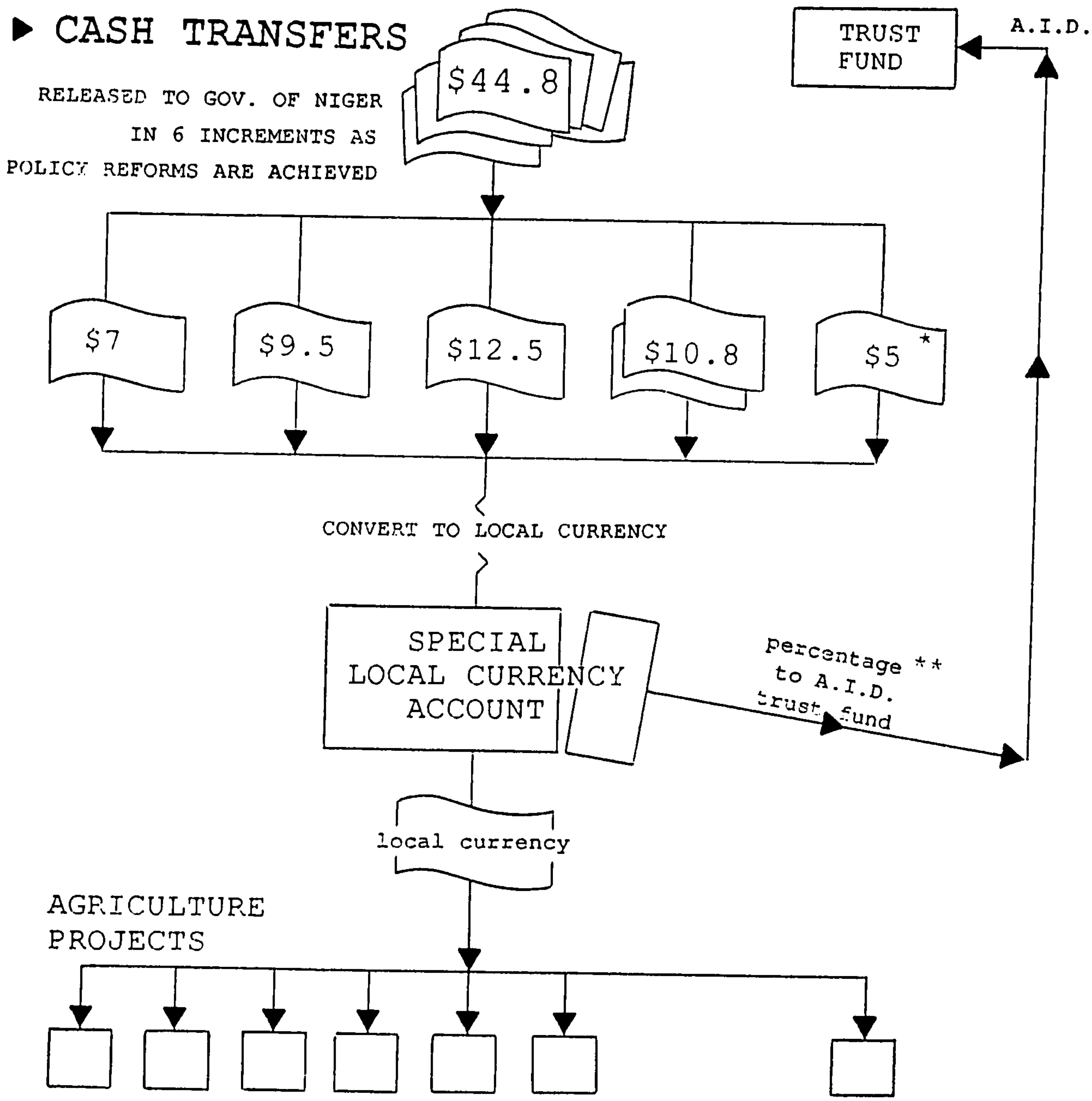
A follow-on program, the $25 million Agriculture Sector Development Grant II (ASDG II), is currently in the design stage and is proposed to start in 1990. The program is to continue policy reform measures begun under the original project, adding specific targets to improve resource allocation, decrease public sector costs and encourage privatization of agricultural enterprises.

<u>Decertification of the Secretariat</u> - The Regional Inspector General for Audit, Dakar, concluded that the Secretariat did not have a system of accounts which permitted adequate identification and control over grant local currencies, and hence recommended that the Secretariat be "decertified" under section 121(d) of the Foreign Assistance Act. This section requires that missions periodically determine whether foreign government entities receiving Sahel Development Program (SDP) funds meet certain accounting requirements (ASDG is a mixture of three kinds of funds including SDP funds). While counterpart funds are not normally subject to certification, in 1985 A.I.D. had administratively decided to apply 121(d) accounting requirements to ASDG.

The Mission last certified Secretariat operations in June 1989, noting that certain weaknesses needed to be corrected. However, as a result of our recommendation on December 20, 1989 to decertify, and a follow-up visit by the Mission controller in January 1990, the Mission officially decertified the Secretariat under section 121(d). As a consequence, there are restrictions on the use of all counterpart funds on hand, and no further dollars can be transferred to the Government of Niger under either the agriculture or the health sector grants, until the administrative and financial weaknesses identified by the audit are corrected.

AGRICULTURE SECTOR DEVELOPMENT GRANT
DISTRIBUTION AND USE OF GRANT CASH TRANSFERS
AS OF SEPTEMBER 30, 1989

(in millions of dollars)



* final increment not yet released

** 5% of first three increments; 8% thereafter

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Dakar conducted a performance audit of the Agriculture Sector Development Grant in Niger. The primary objectives of the audit were to:

(1) review monitoring of projects financed by grant local currencies (counterpart funds);

(2) audit the use of counterpart funds for Secretariat operations;

(3) review compliance with grant agreement provisions regarding cash transfers;

(4) determine the extent to which the Mission is measuring the impact of the grant;

(5) determine whether the institution building element of the grant needs to be strengthened;

(6) ascertain whether Mission trust funds were being used as required; and

(7) review local expenditures and billings made by technical assistance contractors.

We selected for review a sequential sample of 7 out of the 42 counterpart funded projects from a Secretariat summary printout (see Exhibit 1). The sample included active as well as terminated projects and $7.6 million out of the $35.6 million in counterpart funds spent as of September 30, 1989. We used the sample to test key system attributes and procedures which provide for control over counterpart fund use. We judgmentally sampled supporting documentation in six of the seven projects selected. For the seventh we relied instead on a financial audit performed on the project in 1988. We did not, however, review the books of individual projects, nor did we travel to project sites.

At the Secretariat we reviewed operational expenditures for allowability, reasonableness, and the existence of adequate supporting documentation for fiscal years 1988 and 1989. We sampled accounts considered most vulnerable, e.g., vehicle maintenance and office operations, and performed reasonableness tests on the balances of other accounts such as salaries and fuel. We reviewed expenditures from January 1985 to November 1989 for unusual items (unallowable costs, extravagant expenditures, etc.), and reviewed controls over purchases, inventories and personnel. We did not, however, test bank reconciliations for Secretariat accounts, nor did we perform the audit work necessary to render an opinion on its various financial statements.

In reviewing compliance with grant provisions for cash transfer payments, we examined grant agreement provisions in two similar Mission programs, the Niger Health Sector Support Grant and the Niger Economic Policy Reform Program.

With regard to the $2.8 million in contractor expenditures made as of September 30, 1989, we reviewed for allowability and reasonableness the $2.0 million in expenditures made by the major contractor. We reviewed supporting documentation for local expenditures for a two-month period only, but reviewed all local expenditures from contract inception through September 1989 for unusual items. Although the audit was unable to examine support for funds expended by the contractor in the U.S. (as documentation was held at the contractor's home office), the audit reviewed contracts, budgets, and files available in Niger relative to activities paid for by the home office.

With regard to the $.8 million in expenditures made by other technical assistants under the grant, the audit primarily reviewed expenditures made under a limited scope grant agreement with a relatively new contractor. The audit did not review the $.6 million in technical assistance expenditures for contractors that had completed their work and left Niger.

The audit was conducted in Niamey at the USAID Mission, at the Secretariat, and in various host government and project offices. Auditors interviewed Mission, contractor, bank, and host government personnel. Audit work included review and analysis of contracts, program implementation records, evaluation reports, Mission and project financial records, and other relevant documents. The audit covered program activities from August 1984 through January 1989 and, except as noted, total expenditures of about $42.6 million. The audit was made in accordance with generally accepted government auditing standards.

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PART II - AUDIT RESULTS AND RECOMMENDATIONS

A. Findings and Recommendations

1. Weak Controls at the Secretariat Resulted in Poor Project Management and a Waste of Local Currency Operating Funds

a. Poor Management of Counterpart Funded Projects

The Executive Secretariat was required to maintain accurate and thorough records relating to the Special Local Currency Account, to ensure that fund recipients maintained sound records, and to monitor and report on the management of counterpart funds provided to approved projects. While the Secretariat provided accurate summary reports on the status of the Special Account and produced timely reports on the allocation of funds to projects, it failed to ensure that recipient projects maintained sound books and records, and even though provided with four full-time analyst/evaluator employees paid for out of counterpart funds, did virtually nothing in the way of monitoring and reporting to A.I.D.--or to anyone else--on the management of the $40 million in counterpart funds approved to date.

In spite of the fact that the Secretariat received $1.3 million in counterpart funds to support its operations (see Finding 1.b.), the Mission did not require the Secretariat to systematically monitor the projects and provide such reporting. Nor did it require that the Secretariat carry out even the most basic financial management review procedures--most of which were explicitly required by Project Implementation Letter #8 and jointly agreed upon by USAID and the host government. For example, the Secretariat did not:

-- compare actual project expenses to approved project budgets;
-- obtain and review individual project bank statements;
-- perform test checking of expenditures and end use of project funds;
-- always obtain and maintain supporting documentation for project expenditures and advances; or
-- have audits performed on projects as required.

As a result, expenditures were made which were outside of project budgets, residual funds were held in noninterest bearing project accounts for projects which had been terminated for as long as three years, and competitive contracting procedures were circumvented. Moreover, neither the Secretariat nor A.I.D. had any assurance that the projects being financed with counterpart funds were achieving their objectives or that funds were not being abused. In fact, evidence exists that a large proportion of these funds were, if not wasted, at least very poorly utilized.

Failure to Compare Actual to Budgeted Expenditures - In failing to compare actual expenditures against approved project budgets, the Secretariat allowed unauthorized expenditures to be made and permitted budgets to be overspent. In the project-funded Study of Agricultural Prices, an activity which received $27,000 in counterpart funds, over $14,000 in expenditures were made well after the project termination date. One expenditure was a payment of $7000 to the Nigerien principal researcher. This payment was over and above the $9300 which had been budgeted and had already been paid out for his services; a second was a payment for $3000 in gas coupons dated July 1988, even though the study itself had been issued a year before in June 1987.

We contacted the principal investigator, who indicated that the $7000 was for additional work on the study required by the host government and A.I.D. However, the auditors were unable to find any written authorization to extend work on the study. As for the $3000 in gas coupons, the researcher indicated that there was no way that this amount could relate to the study, as all field work for the study had been completed prior to the issuance of the report.

In another project in the sample, the $1.6 million Rural Development Support Project (Treasury), the auditors ascertained from Secretariat expense ledgers that 4 out of the 17 distinct subprojects making up the "project" had already spent a total of $20,000 more than was budgeted. In addition, as we could not find approved detailed budgets for 16 of the 17 subprojects, it was impossible to judge whether the funds were being used appropriately. To make matters worse, the Secretariat could not provide any supporting documentation (purchase orders, invoices, timesheets, etc.) for $162,000 in expenditures made under the project.

Failure to Review Individual Project Bank Statements - Although Project Implementation Letter No. 8 required that both USAID and the host government be sent project bank statements, neither the USAID Controller nor the Secretariat received or reviewed individual project bank statements. Of particular concern to the auditors was that there were six terminated projects which still had separate bank accounts, and balances per project bank statements did not always agree with Secretariat summary printouts. This disparity cast doubt on the accuracy of Secretariat records. Specifically, the balance per Secretariat records agreed with the bank statement amount for only one of the six projects. For the other five projects, Secretariat balances were overstated in three cases and understated in the other two cases (see Exhibit 2).

In addition, since all six of these projects had been closed for a minimum of two years (some for longer than three years), the program had lost $41,000 in interest by not closing these accounts and returning the funds to the interest-bearing special account. We calculate that $18,386 in interest can yet be earned before these funds are reauthorized and spent, by the immediate closure of these accounts and the redeposit of funds into the special account.

Failure to Test Check Expenditures and Carry Out Field Visits - The failure of the Secretariat to perform test checks on expenditures and to systematically carry out field visits to assure that fund recipients used required administrative procedures and maintained sound books and records, led to a situation where there was little assurance that counterpart funds were not being abused. For example, our review of the $1.8 million CB-5 Cowpea Project indicated that government contracting procedures were most likely being circumvented. A review of project expense ledgers showed multiple purchases of canvas tarps and bagging material being made from the same suppliers on consecutive days to keep quantities just under the host government amount at which competitive bids would be required. Simple test checks of project expenditures would have uncovered such practices.

The CB-5 Project also demonstrates the complete failure to assure that systems were in place to account for project funds. Of the $1.8 million in counterpart funds, $1 million went to regional government offices for the purchase of millet, cowpea and peanut seed. The seed was then sold to farmers for cash or for subsequent repayment in-kind. Seed stocks were then to be recuperated over a two-year period in order to provide an ongoing seed resource. However, project funds were commingled with other government funds, all accountability was lost, and records for the seed revolving funds show a zero balance.

Failure to Maintain Adequate Supporting Documentation - The Secretariat was unable to provide complete supporting documentation for sampled expenses in four out of the seven projects reviewed (see Exhibit 3). The situation was especially severe in the two seed projects in our sample where funds had been advanced to regional government offices for seed purchases, but complete supporting documentation for actual expenditures was never obtained. The Secretariat was unable to support over $400,000 in expenditures made under the 1985 Wheat and Cowpea Seed Project (although the Secretariat maintained that support had in fact been provided), and in the 1987 CB-5 Cowpea Project over $90,000 in such expenditures could not be supported.

Per a 1988 review by a University of Michigan technical assistant, this problem occurred because of commingling of funds and because funds were distributed differently from region to region. In some cases seed was purchased at the regional level, and in others money was distributed all the way down to the local level before it was used to purchase seed. In still other cases funds from different sources and for different operations were already combined at the regional level making the task of accounting for expenditures for individual ASDG projects nearly impossible.

<u>Failure to Have Audits Performed</u> - Both the grant agreement and Project Implementation Letter (PIL) #8 required periodic audits. The PIL specifically required the host government to have audits performed at least every two years. Out of the some 40 activities funded under the grant, only 6 projects were ever audited, leaving the remaining projects without any audit coverage whatsoever.

<u>Poor Utilization of Counterpart Funds</u> - A large proportion of the $35.6 million in counterpart funds spent for the grant projects to date was very poorly utilized. The $8.3 million disbursed for five seed projects in the early years of the program (1985-86) is a case in point. These projects had as objectives (1) purchasing and distributing seed to relieve serious seed shortages following the drought of 1985 and (2) assuring the continuing availability of seed through the establishment of seed stock revolving funds. The seed purchased by the project was to be "loaned" to farmers, with the farmers reimbursing seed in-kind (plus a 50 percent in-kind interest charge) after harvest in order to establish the revolving fund.

While the project did purchase and distribute seed, the revolving funds were complete failures. Funds from different sources and for different operations had been combined at the level of the regional government. In some cases the project seed operations became confused with other operations which were distributing seed for free, so farmers did not think seed had to be reimbursed. In other cases "improved" seed which was distributed under the projects proved to be ill-adapted to the local environment and participants were hence unable to reimburse loans. In still other cases, poor record keeping allowed unauthorized distributions to occur.

As a result, seed stocks quickly disappeared. In the case of the $400,000 Wheat and Cowpea Seed Project, there are no recorded revolving fund stocks left. The same is true for the $900,000 Cowpea Renewal Project. In other cases stocks were sold off, and the funds (purportedly) were deposited in regional development accounts or were in some cases used for unauthorized purposes. A paper by a University of Michigan technical assistant concluded that in general it is clear that "the stocks no longer exist and given the lack of financial control there is no way of reconstructing them."

Many of these same problems recurred in 1987 in the $1.8 million CB-5 Cowpea Seed Project--a project which may not have been necessary at all had the earlier projects been successful in establishing revolving seed stocks. This recurrence is especially disturbing in that the reasons for the failure of the earlier seed projects (nonapplication of program financial management procedures, lack of reporting, failure to furnish bills to justify expenditures, etc.) were well-known and had been specifically identified in an audit of four of the earlier seed projects. Similarly, as in earlier seed projects, CB-5 project funds were commingled with other funds, accountability was lost and seed revolving funds failed.

Thus, a total of $10 million dollars was spent on six seed projects which were largely unsuccessful. This expenditure represents 28 percent of counterpart funds spent to date. One program contractor commented that these projects were a black mark on A.I.D.'s record and are prime examples of the breakdown of the entire grant project management system.

The use of certain other counterpart funds is also questionable. The auditors noted that in 1988 $2 million in counterpart funds were authorized as "interim funding" for a USAID forestry project which had officially ended and which was not very successful. (The project had already received $4.2 million in grant counterpart funds during the project life). Notably, the project's final evaluation in 1987 indicated that the project had not achieved its primary objectives and was plagued by lax accounting and poor financial management, and a follow-up report done in November 1988 noted that these problems, which had been repeatedly identified over the life of the project, were never resolved. In light of such problems one wonders why the project was not thoroughly redesigned before providing additional funding "through the back door."

In addition to the examples cited above, much of the $1.3 million spent on Secretariat operations to track and monitor the use of counterpart funds for grant projects was itself poorly utilized. A detailed description of the problems found is given in Finding 1.b.

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b. <u>Waste of Local Currency Operating Funds at the Secretariat</u>

Sound business practice requires that administrative controls be put in place to assure that purchases are appropriate and authorized, that personnel are effectively managed, and that equipment and commodities are adequately inventoried and safeguarded and are used as intended. However, our review of the operations of the Secretariat, an office with 22 employees (including three drivers and five other nonprofessional staff) indicated inadequacies in administrative controls over purchases, inventories, personnel, gas coupons and use of project vehicles. Specific weaknesses include (1) the lack of detailed written procedures for office operations (e.g., lines of authority and personnel duties are not specified) and (2) major shortcomings in the Secretariat automated accounting system.

<u>Purchases</u> - The auditors noted that unusual and extravagant purchases in excess of normal office requirements were being made. There were numerous and repeated purchases of household insecticide and air freshener aerosols, cleaning supplies, and items such as soap, detergent, and toilet tissue far in excess of what an office the size of the Secretariat could be expected to use. The worst case was one purchase in July 1989 costing $9000, which included such items as 432 cans of air freshener, 432 cans of household insecticide, 432 toilet deodorant balls, and 300 bars of soap. Not one of these items was found in inventory three months later at the time of the auditors' first visit.

Secretariat personnel indicated that some of these items were pilfered over several months by a Secretariat guard who had since been fired and officially charged with theft, while others noted that many such items were passed out to personnel upon receipt. In any case the sheer number of such items purchased led the auditors to suspect that at least some were purchased with the intent of resale. This would have been entirely possible as one employee alone was performing the functions of initiating the procurement, selecting suppliers, receiving purchases, and controlling inventories. Following audit disclosure of these irregularities, the Secretariat fired this employee.

Other unusual items noted were $500 spent for the purchase and planting of roses and other flowers (purportedly at the Secretariat, though no flowers were evident), and the purchase of 25 cans of underarm deodorant for $116 (purportedly received in error for more air freshener). The audit has recommended that these expenditures, as well as a number of the more egregious examples noted before, be disallowed (see Exhibit 4).

In addition, the auditors noted other expenditures which were duly supported by invoices but which seemed somewhat suspect. For example, the budget for vehicle maintenance for fiscal year 1989 for the four Secretariat vehicles was $14,000. Actual expenditures, however, were $28,000, or $7000 per vehicle. This amount seemed totally unrealistic, especially in light of the fact that the vehicles purportedly made only three field trips outside of Niamey in all of 1989. In still other cases items were purchased at inflated costs. For example, $3000 worth of carpeting was purchased for Secretariat use at the rate of $50 per square meter. The auditors ascertained that carpet of that quality was readily available for less than $10 per square meter.

Inventories - The audit found a serious lack of controls over Secretariat fixed assets. The fixed asset register had not been updated since February 1988, but the auditors reconstructed a list of all material items which should have been on the premises. While all major equipment, such as computers, vehicles, and copying machines, was found, numerous lesser items had simply disappeared. When we inquired about a $1000 motorcycle purchased in 1986, we were told that it had just been stolen in December 1989--though no report had been filed with police. Also, the Secretariat had purchased a total of 26 fans costing about $1700. This was done even though counterpart funds had been used to purchase both window unit and "split" air conditioning systems for their rented quarters. Of the 26 fans only 9 were found on the premises, though the property accountant produced some largely illegible slips for several of these fans as well as for some other items that we asked to see, indicating that a number of the items had been borrowed by Secretariat employees--some for as long as two years. The thefts by the Secretariat guard were used to explain the disappearance of other items.

Personnel - The lack of administrative controls over personnel was most striking. On several occasions the auditors did an office check of personnel. In every case we found at least one employee absent without permission or without the knowledge of anyone else in the organization. Some employees were absent without permission for days on end. Most incredibly, the Secretariat did not even keep records of employee attendance.

Perhaps even more disconcerting was the fact that there were no up-to-date written procedures for office operations, no detailed employee job descriptions, no specified lines of authority, and no annual workplans for review of the projects which the Secretariat was supposed to be monitoring. To complicate matters, staff appointments are mostly political, allowing the Secretariat administrator little power to discipline or remove those who do not perform.

As a result, a Secretariat staff accountant could--and did--refuse to perform duties requested of him by the person acting as chief accountant. A driver refused to drive even when requested by the Secretariat administrator. The administrator, frustrated in his efforts to fire this driver, in the end hired an additional driver. Also, even though there were two financial analysts and two evaluator/technicians on the payroll, little was done in the way of monitoring and evaluating the counterpart funded projects.

Of further concern was the abuse of training funds meant to train Secretariat personnel. Program evaluators and analysts pointed out the need for training, and a line item had been established for training in Secretariat budgets. The auditors, however, discovered that in fiscal years 1988 and 1989 the Secretariat had spent $47,677 to send three civil servants who were <u>not</u> Secretariat employees to training programs abroad. For example, in 1988 over $16,000 in grant counterpart funds were spent to send a Ministry of Planning employee to Italy for a seminar on international law.

It is clear that the Secretariat has been under some pressure by the Ministry of Planning to send its employees abroad for training. Indeed, at the end of the audit we discovered that the Secretariat at the behest of the Ministry was to provide an additional $40,394 in funding to send four Ministry employees to Atlanta for management courses in 1990. However, from our point of view, Secretariat training funds were meant to improve Secretariat skills, and were not to be a training slush fund for other host government employees.

<u>Gas Coupons and Project Vehicles</u> - Gas coupons purchased by the Secretariat were being released for use without keeping any records whatsoever. Gas coupons are used for government activities because gasoline can thereby be purchased at a

discount and because coupons provide a modicum of control. All coupons have consecutively numbered stubs on which the vehicle number, odometer reading, and date of release are to be filled in. However, none of the coupon stubs at the Secretariat were filled in, and no coupon register was maintained. In addition, none of the four Secretariat vehicles, which were all purchased with counterpart funds, were provided with vehicle logs. Vehicle logs are used to record odometer readings, dates, times, destinations, and user signatures for each trip, so as to provide control over vehicle use.

As a result, gasoline expenditures were excessive, the Secretariat was providing gas coupons for use by other government entities, and vehicles were being used for nonproject purposes. The Secretariat gasoline budget for fiscal year 1989 was $20,000, while actual expenditures were over <u>twice</u> that amount! This would indicate that for 1989 each project vehicle consumed at least 15 gallons of gasoline every workday--at a time when field trips were in general not being made. *By way of comparison, the total yearly gas consumption of the 4 Secretariat cars was equal to the entire annual consumption of the 18 cars in the USAID fleet.* Auditors were also told that the Secretariat was under political pressure to provide coupons to other ministries, that Secretariat gas coupons had in fact been used during a government referendum, and that the vehicles themselves were being used by Secretariat personnel for trips totally unrelated to Secretariat business.

<u>Weaknesses in the Automated Accounting Environment</u> - There are also major weaknesses in the automated accounting environment at the Secretariat. The system software is a spreadsheet package which was customized for Secretariat use by a former USAID contractor under the Sahel Regional Finance Management Project, but which does not have sufficient memory to accumulate project expenses by category. In addition, the system lacks certain general controls and is not well-suited to accounting applications: (1) the system lacks internal and external documentation (i.e., documentation on how the spreadsheet works internally, as well as external manuals or instructions on how to use the customized system); (2) the chief accountant is the only person who knows how the system operates; and (3) there is a lack of "data integrity": that is, one can simply delete data without a trace. In standard accounting software packages this is not possible as one is forced to enter formal adjustment or reversal entries in order to alter data. This control, which is lacking in the current system, is what would provide an assured audit trail.

In Conclusion - As a result of poor controls at the Secretariat, counterpart funds for Secretariat operations were being wasted. Funds were spent on items inappropriate for office operations, items were purchased at inflated costs, lax controls resulted in at least two documented thefts, other property was purportedly stolen or alternately borrowed by Secretariat personnel, and the Secretariat was unable to determine whether items were misplaced, stolen or had otherwise disappeared. In addition, certain Secretariat personnel were performing poorly (or not at all), funds meant to provide training for Secretariat personnel were being used to train outside individuals, gasoline and project vehicles were being used blatantly for nonprogram purposes, and deficient automated data processing controls added an element of vulnerability in accounting for both Secretariat and project expenditures.

Recommendation No. 1

We recommend that the Mission Director, USAID/Niger, decertify the Ministry of Planning Secretariat and hence withhold the final $5 million tranche of grant funds pending:

a. the institution of administrative and financial controls over Secretariat operations;

b. the development, and approval by the host government, of a detailed Secretariat procedures manual acceptable to A.I.D. that would set forth detailed job descriptions and chains of command and would give the Secretariat administrator effective control over its operations; and

c. the installation of an appropriate accounting software package to account for Secretariat and project use of counterpart funds and the institution of staff training in its use.

Recommendation No. 2

We recommend that the Mission Director, USAID/Niger, require that with regard to the management of the counterpart funded projects, certain basic financial and evaluative functions be made an integral part of the Secretariat procedures manual and employee job descriptions:

a. The Secretariat should periodically ompare actual project expenditures to approved project budgets for all active projects and forward the comparisons to USAID;

b. The Secretariat should routinely obtain individual project bank statements, and currently, in consultation with the Mission, should reconcile and close accounts for all terminated projects and deposit all unused funds into the Special Local Currency Account;

c. The Secretariat should in consultation with the Mission set up a workplan for periodic project site visits, in order to perform test checks on expenditures and use of project funds, and to conclude on the progress of projects in meeting their objectives; and

d. The Secretariat in consultation with the Mission Controller's Office should set up an audit plan to comply with Project Implementation Letter #8 requirements for periodic audit.

Recommendation No. 3

We recommend that the Mission Director, USAID/Niger, require:

a. that the Government of Niger refund $8,160 (see Exhibit 4) in misused Secretariat operating funds to the Special Account and that $47,677 spent for training three Ministry employees be refunded as well, unless the Mission itself--rather than the host government--makes a formal determination that the training directly relates to project monitoring;

b. that $40,394 in counterpart funds scheduled for training non-Secretariat personnel in 1990 be disapproved; and

c. that a financial audit be performed on the Secretariat's use of counterpart funds for operations.

Management Comments

The Mission agreed fully with Recommendations 1 and 2, and with parts b and c of Recommendation 3. Accordingly, the Mission has decertified the Secretariat, the final dollar increment is being held in abeyance, and no new projects funded with counterpart funds are being considered until improvements in handling local currency have been made. Further, the Mission is contracting for a complete management and financial audit of counterpart funds under ASDG and has already purchased the required accounting software. The Mission has also made it clear in its approval of a very restrictive budget at the Secretariat that training scheduled for Ministry of Planning personnel in 1990 will not be considered a valid charge against the Secretariat's budget.

With regard to Recommendation 3(a), however, the Mission agreed only in part, noting that the Ministry of Planning had asserted that the $47,677 in Secretariat funds spent to train three Ministry employees should be allowed because the training "directly related to project monitoring". The Mission, however, added that it would follow up on the other costs recommended for disallowance, "which are clearly not appropriate uses of counterpart funds."

Office of Inspector General Comments

Because of the Mission's decisive action in decertifying the Secretariat and in addressing in an integral fashion the administrative and financial problems raised in the report, recommendations 1 through 3 are considered resolved. Recommendations 1 through 2(c) can be closed upon receipt of evidence that the controls required in the recommendations have been instituted. Recommendations 2(d) and 3(c), regarding the establishment of an audit plan and the performance of a financial audit at the Secretariat can be closed when a contract for the comprehensive audit of ASDG counterpart funds has been signed. Recommendation 3(b) regarding funds scheduled for training non-Secretariat personnel in 1990 is considered closed.

Recommendation 3(a) regarding the disallowance of certain Secretariat operating funds has been revised to require the Mission to make a formal determination as to whether the funds spent for training non-Secretariat personnel related to the project or not (the Mission had merely noted in its comments that the host government had asserted that the training costs were proper). The recommendation can be closed upon the redeposit of $8,160 into the Special Account and upon the Mission's assessment and conclusion that funds spent to train non-Secretariat personnel in prior years in fact relate to project monitoring. If the Mission concludes that these funds do not relate to the project, they should be refunded to the Special Account as well.

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2. More Interest Can Be Earned By Depositing Cash Transfer Funds in a Bank

Per the program agreements for both the Agriculture Sector Development Grant (ASDG) and the Niger Health Sector Support Grant, the host government was to open special local currency accounts in a bank. Instead, the host government has deposited the first five increments of the agriculture sector grant, and the first increment of the health sector grant, into special accounts at the Nigerien Treasury. The auditors were not able to ascertain how this came about, although the practice apparently stems from A.I.D. having agreed to a similar arrangement for an ASDG predecessor grant in 1984. While the deposit of cash transfer local currencies into a Treasury special account does afford a means to track counterpart funds, the arrangement has not assured the ready availability of grant funds, nor does it provide an attractive rate of interest.

Nonavailability of Counterpart Funds - Funds deposited in the Treasury special account are not always available when needed. Indeed, the availability of counterpart funds from the two Nigerien Treasury accounts has recently become an issue. In 1989 the Treasury refused to release to USAID $171,000 in health sector trust funds. The Treasury retained these funds for seven and a half months, despite repeated Mission attempts to persuade the Treasury to release them. This put the Mission in the position of having to plead for funds which should have been transferred automatically. Similarly, under ASDG the Treasury retained $900,000 in program trust funds for a two and a half month period. Per the grant agreements the Treasury was to have released the trust funds to USAID immediately upon deposit of local currencies in the special accounts. In the auditors' opinion, the deposit of local currency funds in a bank (in effect, with a third party) instead of in the Treasury, would provide more assurance that funds will be readily available for program use.

The auditors also noted a recent slowdown in Treasury payment of project bills. The oil company supplying gas coupons for both programs has refused to honor purchase orders for more coupons until delinquent bills have been paid. This problem caused the cancellation of a project workshop under the health sector grant. In another case a computer company refused to service a project until bills were paid.

Higher Rate of Interest - An additional advantage of depositing funds in a bank is that more interest can be earned. Auditor review found that bank accounts with add-on check writing capabilities are available locally with interest rates that are three percent higher than the Treasury account rate. The Treasury currently accrues interest at a rate of 5.5 percent per annum on the balances in the two special accounts. The auditors have calculated that the deposit of all agriculture and health sector local currency into special accounts held by a bank rather than by the Treasury would conservatively provide to the programs an additional $403,000 in interest over the remaining life of the two grants. Of this additional interest, $126,000 would come from the transfer of funds currently in the Treasury to a bank, and $277,000 would come from the deposit of future agriculture and health sector cash transfers into the special bank accounts. This added interest would provide additional funding for health and agriculture projects.

USAID generally agreed with this analysis (project officers were the most enthusiastic), but noted that the grant agreements also indicate that the bank could be "of the grantee's choice." Some banks would not be safe. At the exit conference the Mission also mentioned that per the head of the Nigerien Treasury there may be a legal impediment to depositing development budget funds in a bank. In our discussions with the Treasury head, he (not surprisingly) expressed little enthusiasm for the recommendation, but cited no such legal impediments. It seems unlikely that the host government would have signed a binding legal document with A.I.D. providing that program funds be deposited in a bank, if such a practice were illegal.

Management Comments

The Mission did not agree with the recommendation to deposit cash transfer local currencies in bank accounts for two reasons. First, the Mission referred to a letter written by the President of Niger in 1986 instructing the Ministry of Finance to transfer all project bank accounts to the Treasury, because the number of such accounts had proliferated to such an extent that the host government was having trouble keeping track of them. The Mission concluded that while it was aware of this change, the Mission had merely failed to amend grant agreements accordingly. Secondly, the Mission noted that it had visited three commercial banks, and these banks did not pay interest on current accounts.

Office of Inspector General Comments

Taking the last objection first, the auditors agree that current accounts are not interest-bearing. Nevertheless, all the banks we visited indicated that a portion of the cash transfer funds could be designated as long-term and would be interest-bearing, and that drawdowns could be made for current needs. We therefore do not find this objection credible. Furthermore, a review of the records showed that per past experience program cash transfers have been held for up to two years. Therefore, to be conservative in our interest calculation, we assumed that future cash transfers would be held for no longer than a year and a half, that the first quarter of each transfer would be disbursed immediately upon receipt (thereby earning no interest), and that the remaining three quarters of each transfer would be disbursed at the rate of one quarter every six months.

With regard to the initial objection, we have not had an opportunity to review the 1986 letter which reportedly had the effect of consolidating the various host government accounts into the Treasury. Nevertheless, we do not feel the letter itself would prohibit the deposit of future increments into bank accounts--especially since deposits into bank accounts are clearly required by the grant agreements themselves.

We have therefore revised Recommendation 4 in two ways. First, in recognition of the host government's apparent rejection of separate bank accounts in the past, we are addressing only future deposits under the two grants. As pointed out in the narrative, this would still result in an additional $277,000 in interest over the remaining life of the grant. Secondly, the revised recommendation now provides either for the deposit of such funds in bank accounts or the amendment of the agreements to reflect procedures in use (an alternative suggested by the Mission in its response) should such deposit prove unacceptable. The recommendation is therefore considered resolved and can be closed upon action on either one of the two alternatives.

Recommendation No. 4

We recommend that the Mission Director, USAID/Niger, require either that the host government deposit all future cash transfers from the agriculture and health sector grants in interest-bearing bank accounts or that the parties to the agreements amend the grant agreements to reflect the procedure actually in use.

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3. <u>Delay in Conversion of a $9.5 Million Cash Transfer Resulted in a $300,000 Exchange Rate Loss and $20,041 in Lost Interest</u>

Within five working days after the grantee receives notice that a U.S. dollar disbursement has been made to a U.S. bank, the grantee is required by the grant agreement to deposit the local currency equivalent in a special local currency account. However, for the $9.5 million second increment of the Agriculture Sector Development Grant, there was a 20-day delay from the deposit of dollars at Citibank/New York on December 19, 1985, to the deposit of local currency in the Treasury of Niger on January 7, 1986. Because of this delay, and because of a declining dollar rate vis-a-vis the French franc on which the local currency is based, the host government experienced an exchange rate loss of $300,000, as well as $20,041 in lost interest which the money would have generated had it been deposited in the Treasury special account in a timely fashion.

The audit was unable to conclusively determine the reason for the delay although host government speculation on the dollar/local currency exchange rate seems to be the most likely cause. Citibank/New York indicated that it had transferred the dollars to Citibank/Niamey the same day the transfer order was received: Thursday, December 19, 1985. Citibank/Niamey, however, indicated that because of transmission difficulties it only received the $9.5 million on Monday, December 23. The Director of Citibank/Niamey maintains that he was then instructed by the Nigerien Treasury on December 26 over the phone to put a hold on the transfer because the dollar was falling rapidly in comparison to the French franc and might go back up.

We found in the record no direct confirmation or denial by the host government of the bank's allegations--though in a cable dated 2/6/86 the Mission noted that the host government would not confirm that such an instruction was given and that the Minister of Finance was contemplating taking action against Citibank/Niamey for the loss. We were unable to learn of any action in fact taken against the bank, nor were we able to locate any host government officials directly involved in the transaction. The current head of the Nigerien Treasury promised to gather written documents bearing on the case, specifically any written instruction to Citibank pertaining to the disposition of the funds, but as of the end of the audit none had been provided. Without such evidence we must assume that Citibank's account of the Treasury phone call is accurate, and that the Government of Niger was in fact negligent in not assuring that the $9.5 million in local currencies were deposited into the special account within the five day period stipulated by the grant. The host government, thus, would be responsible for the $300,000 exchange rate loss--although the auditors also question why USAID was not monitoring the movement of this rather sizeable cash transfer.

The $20,041 in lost interest was calculated at the 5.5 percent Treasury rate for the 14-day period from December 26, 1985 to January 7, 1986 during which time the bank retained use of program funds. The cause of the lost interest is clear: namely, the grant agreement between USAID and the Government of Niger did not specify that interest be earned while held by Citibank. In contrast, a newer policy reform program in the Mission portfolio requires the cash transfer recipient bank to accrue interest on the cash transfer funds for as long as they are held, and further specifies that the exchange rate to be used in converting the funds to local currency is the rate in effect on the day the funds are received, not the date of transfer to the local special currency account. Had such a provision been in effect for ASDG, the project would have experienced neither the $300,000 exchange rate loss, nor the $20,041 loss in interest.

Recommendation No. 5

We recommend that the Mission Director, USAID/Niger:

a. revise fund transfer agreements under both the agriculture and health sector grants to clearly define responsibility for timely transfer and conversion of grant funds, and to require that banks temporarily holding cash transfers pay interest; and

b. request the host government to submit to Citibank/Niamey a bill of collection for $20,041 in lost interest for the 14-day period during which time the bank retained use of program funds.

Management and Office of Inspector General Comments

The Mission agreed with the recommendations and findings except that the Mission concluded that it did not have the authority to "instruct" the host government to submit a bill of collection to Citibank/Niamey. We have therefore revised Recommendation 5(b) per Mission suggestion to read "request."

With regard to Recommendation 5(a), the regional legal advisor has already drafted language for incorporation into the agriculture and health sector project agreements in order to assure the timely transfer and conversion of future cash transfers. Recommendation 5 is therefore resolved and can be closed upon the incorporation of the new language into the project agreements and upon a formal request by the Mission that the host government seek recovery of $20,041 in lost interest.

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4. USAID/Niger Does Not Know If the Agriculture Sector Development Grant Is Making the Intended Impact

Among other duties, the University of Michigan technical assistance team was to determine if the agricultural policy reforms instituted under the grant were having the intended effect. To accomplish this task, the contractor in conjunction with establishing a policy analysis unit within the Ministry of Agriculture, had to coordinate the collection and analysis of relevant data and to design, put in place and maintain a monitoring system to evaluate the impact of the policy reforms.

Over the last four years, the Government of Niger has fulfilled 26 conditions precedent relative to agriculture policy changes in 6 discrete areas, triggering the release of $39.8 million in cash transfer assistance. The Mission, however, still does not know if the reforms are having their intended impact, as a methodology for measuring grant impact has never been devised.

While the University of Michigan was responsible for setting up an evaluation system, such a system could not be designed until the Mission provided important guidance on exactly what baseline data needed to be accumulated and what methodology would best evaluate progress toward objectives. Indeed, there was a good deal of confusion over the life of the program as to what data needed to be collected and how impact was to be assessed. The project's logical framework indicated that the "verifiable indicators" for program success were to be "increased crop production and farmer incomes." However, a 1985 A.I.D./Washington review concluded that it would be difficult to link grant policy changes with impact at the farm level, and advised that instead, the monitoring of macroeconomic indicators and policy reform decisions and actions should be the first order of business.

The 1987 ASDG midterm evaluation concluded, nevertheless, that a "successful methodology" had not been developed, and subsequent Africa Bureau guidance in 1988 considerably expanded what was required when assessing impact of nonproject assistance. The guidance required that programs such as ASDG must be able to demonstrate a developmental impact, not just "macroeconomic" change, such as the immediate effect of the cash transfers on the budget deficit. The guidance notes that A.I.D. needs to go beyond reporting that policy "x" has changed and must begin to demonstrate that the policy change has made a real difference--and must report for whom it has made a difference.

Against this background the University of Michigan made several attempts to assess the impact of the grant. The Mission was very critical of the first attempt in mid-1988, noting that a basic methodology had not been applied, that policy-specific benchmark indicators were not identified, and that conclusions were not supported by empirical verification. The Mission never officially responded to the University of Michigan's revised assessment of early 1989, and in July 1989 funded an attempt by another contractor using funds from another Mission project. This latter contractor developed a "conceptual approach" to a system design but in the end recommended that the University of Michigan be given primary responsibility for the design, operation and maintenance of a system. At the end of January 1990 the University of Michigan had fielded yet another expert to work with the technical assistance team already in place in order to develop a methodology, and simultaneously the Mission was considering the possibility of setting up within the Mission itself a policy analysis group that would measure overall impact of the Mission's various policy reform programs.

As a result, a considerable amount of effort and money has been spent on a number of largely unfruitful attempts by the technical assistance contractor and others to develop a methodology to assess impact--and because such a methodology was not developed early on, the data which may be required may not even have been collected. Thus, over four years into the program, the Mission does not know whether the $53 million grant is making the impact intended, as indicators for measuring impact have never been agreed upon.

The Mission in its defense has indicated that many of these studies and activities brought out "important insights which increased overall understanding of the policy reform process" and has stressed the changing Agency requirements over the life of the grant with regard to impact assessment. The Mission has further pointed out that certain reform measures under the program already have data collection, monitoring and impact systems in place: namely, reform measures which have been added to the program since 1987. Accordingly, the auditors recognize that many of the attempts to devise a methodology undoubtedly have contributed in some way to the present understanding of what is desirable and possible with regard to impact measurement. We also recognize that Agency requirements have in fact become more rigorous over the life of the grant and that the Mission has established databases and systems for reform measures added since 1987. Nevertheless, four years into the program it is clear that while the technical assistance team has undoubtedly collected and automated lots of data, an overall approach to evaluating the program still has not been developed, in spite of the fact that such an assessment was clearly required under the technical assistance contract, and in spite of the fact that a $25 million dollar phase II program is planned to start later in fiscal year 1990.

Recommendation No. 6

We recommend that the Mission Director, USAID/Niger, not proceed with financing for Phase II of the Agriculture Sector Development Grant until a methodology for measuring impact is firmly established.

Management and Office of Inspector General Comments

The Mission agreed with the recommendation but regarded our depiction of its efforts at impact assessment as "largely unfruitful" as inaccurate. We have therefore revised the finding narrative to reflect more of the positive steps the Mission has taken, particularly with regard to reform measures added to the grant since 1987. With regard to the recommendation itself, the Mission agreed that a more complete methodology for measuring the impact of program reforms is required. The Mission was confident that this methodology would be achieved under Phase I of ASDG, noting that the University of Michigan was fielding a consultant in May 1990 to establish and test an impact assessment methodology for ASDG program reforms. The recommendation is therefore resolved and can be closed--and financing for Phase II can proceed--once such action has been taken.

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5. Institution Building Element of the Grant Needs to Be Strengthened

One of the objectives of the grant technical assistance was to establish a policy analysis unit in the host government, capable of collecting data and performing analyses of agricultural development activities and of formulating empirically based policy recommendations. In order to accomplish this, the technical assistance team was to develop under its first three-year contract an "institution building strategy" for the unit and establish a plan which would include staffing patterns, roles and functions of designated positions, and all required training. The contract with the University of Michigan envisioned that there would be multiple counterparts (host government personnel who would work closely with technical assistants) within the policy analysis unit.

While the unit is now firmly established within the Ministry of Agriculture, no such strategy was ever elaborated and the unit is (with the exception of computer personnel) still staffed entirely with expatriate experts. While one Nigerien counterpart was in fact designated in 1987, this counterpart has had only limited interaction with the expatriate technical assistants.

The failure to develop an institution building strategy and a lack of involvement in training Nigerien personnel was due in large part to the opinion of the first contractor Chief of Party that the most pressing task of the policy analysis unit was to develop the data with which to work. He also was of the opinion that when the team first arrived, the host government was not at all convinced about the benefits of policy analysis, and that the team first needed to do "marketing" of policy analysis and to develop an information network.

Bureaucratic uncertainties in the host government likely also played a role in the failure of the policy analysis unit to become more integrated into Ministry operations. The unit was never officially established by the host government until well into the third year of the program, even though the technical assistants started working in the Ministry in 1985.

As a result, four years into the program the policy analysis unit is almost entirely dependent on expatriate personnel. Most of the analytical work performed by the unit was in large part performed by the technical assistants themselves. Symptomatic of this orientation is the fact that of the numerous studies produced by the unit, most carried the name of one or more expatriate personnel on the covers. Not one carried the name of a Nigerien colleague as co-author, counterpart or otherwise.

In addition, because of the failure to develop an institution building strategy and to systematically train Nigerien counterparts, opportunities for an early phase-in of trained Nigerien policy analysts have been foregone--with the attendant retention of expensive expatriate personnel for longer periods of time than would otherwise have been necessary. The strategy was to have been developed during the first three-year contract. Instead, the contract has since been extended to March 1992, for a total contract period of six years. On the positive side, the University of Michigan has been quite successful in institutionalizing the automated data processing function within the unit. The expatriate advisor left at the end of his three-year tour and has been replaced by a staff of trained and competent Nigeriens.

Recommendation No. 7

We recommend that the Mission Director, USAID/Niger, require that:

a. the University of Michigan technical assistance team evaluate policy analysis training needs and develop a detailed institution building strategy as required by the contract; and

b. that the Ministry of Agriculture officially assign adequate counterpart personnel to the policy analysis unit.

Management and Office of Inspector General Comments

The Mission agreed with the finding. The contractor has prepared and submitted for host government and Mission review an institution building strategy, and the Ministry has assigned a technician to serve as a counterpart to the University of Michigan senior policy analyst. Recommendation 7 is therefore closed as of the date of this report.

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6. Program Trust Funds Were Used for Mission Operating Expenses

Per a Memorandum of Understanding between the Mission and the Government of Niger, grant trust funds were to be used to defray project support costs related to the initiation, implementation and monitoring of activities carried out under the special local currency counterpart fund established under the grant, and secondarily, for other U.S. assistance activities in Niger. The memorandum, however, specifically excludes "operating expense" costs of the Mission (i.e., general management support services) as not being eligible.

We reviewed trust fund use and found numerous cases in which trust funds were being used for operating expense (OE) purposes. For example: vehicle maintenance and repair costs and the purchase of six of the Mission's fleet of eighteen vehicles were financed by trust funds. In 1989 (and in prior years) the entire Mission translation unit consisting of four contract personnel was financed out of grant trust funds, even though obligations under the grant in 1989 represented only about one third of total Mission obligations. In addition, interviews with the incumbents of 12 other positions financed by ASDG trust funds, primarily in the agriculture development and controller's offices, indicated that at least half of these individuals were spending little of their time on grant activities.

The Mission indicated that trust funds were used in this fashion because "past decisions were made based on earlier and changing guidance" with regard to trust fund use, and were made "within the context of fluctuating Mission staffing needs." Such use was further justified on the basis that ASDG could be tied directly or indirectly to much of the agriculture development office portfolio, as well as to significantly increased personnel requirements within the controller's office, and as such almost any use within these offices could be interpreted as a legitimate and appropriate use of program trust funds. More to the point, however, is that OE funds have been declining and that USAID/Niger, like other A.I.D. missions, has had to seek operating expense funds elsewhere. This has led to the use of program trust funds for what in the past may have been funded out of the OE account. We have noticed and reported on this tendency in one other audit involving a central African mission.

The Regional Inspector General, however, is concerned that because of an inappropriate use of program trust funds, A.I.D.'s cost of doing business is becoming less and less apparent, and management control over operating costs is being lost. The Acting Administrator of A.I.D., in a November 1989 world-wide cable, also showed concern about the importance of developing a better understanding of the relationship between agency programs and the levels of work force and operating expense funds needed to manage them. The Mission's current use of program trust funds obscures this relationship and is, in our opinion, improper in some cases. Moreover, it is the auditors' opinion that such use of program trust funds can become, in effect, an unwarranted method of converting funds authorized for program purposes into operating expense funds.

In responding to the audit's recommendation, the Mission made a detailed analysis of trust fund use for fiscal years 1989 and 1990. The Mission agreed that certain ASDG trust funded positions as they are currently defined need adjustment. Other positions, the Mission conceded, are more appropriately funded under other program trust funds. Still others, it noted, are now more appropriately transferred to OE (operating expense). Accordingly, the recommendation below can be closed upon our review of the revised 1990 trust fund use budget.

Recommendation No. 8

We recommend that the Mission Director, USAID/Niger, make an analysis of Mission trust fund use for fiscal years 1989 and 1990, highlighting all cases of noncompliance with program trust fund criteria and immediately halting all such use.

Management and Office of Inspector General Comments

The Mission noted that an analysis has been performed and that positions financed with trust funds have been realigned so that funding sources agree with work performed. Recommendation 8 is therefore considered resolved and can be closed upon our review of revised trust fund budgets.

B. Compliance and Internal Controls

Compliance

The audit disclosed numerous instances of host government noncompliance with the grant agreement. Finding 1 demonstrates that the grantee did not ensure that counterpart fund recipients maintained sound books and records, and did not report on the use of counterpart funds provided to approved projects. The finding also noted that host government contracting procedures were circumvented. Finding 2 reports that the host government did not deposit grant transfers in a bank, as required in the agreement, but rather deposited the transfers in a special account at the Treasury. The finding also points out that the host government did not comply with the grant agreement requirement that program trust funds be immediately transferred to A.I.D. upon receipt of grant cash transfers. Finding 3 discusses the host government failure to comply with the grant agreement requirement to ensure that cash transfer funds be deposited within five working days into the special account.

The audit also found that the University of Michigan did not develop an institution building strategy as required by their contract (Finding 5), and finally, that USAID did not comply with the Memorandum of Understanding requirement that program trust funds not be used for Mission operating expenses (Finding 6).

Internal Controls

The Mission needed to ensure that financial management controls over counterpart funded projects were being implemented by the Secretariat. The near complete disregard of the control principles enumerated in Project Implementation Letter No. 8 resulted in the poor utilization of project counterpart funds. With regard to internal operations at the Secretariat, severe inadequacies in administrative controls over purchases, inventories, and personnel resulted in the waste of project funds. Also, with respect to the Secretariat automated data processing environment, the audit identified several serious weaknesses in both general and application controls.

Following the disclosure of irregularities in commodity purchases, a Secretariat employee who was in charge of several purchasing functions was fired. Also, earlier reported thefts at the Secretariat resulted in the imprisonment and fining of a Secretariat guard. Such incidents combined with the numerous control deficiencies enumerated in the audit report, provide an indication that without strong Mission action to improve Secretariat procedures and controls, the use of counterpart funds both in agriculture projects and Secretariat operations will continue to be subject to a high degree of risk.

C. Other Pertinent Matters

During our review of contractor local expenditures, one minor item came to our attention which should be disallowed. In 1988 the University of Michigan charged the project $732 for summer school attendance in Niger for the children of one technical assistant. The $732 includes a direct charge of $546 plus $186 of associated contract overhead charges. The contractor had charged the summer school cost to the program based on the fact that the technical assistant in question had not exceeded the maximum education allowance. While an education allowance is provided for school-age children of technical assistance personnel, instruction in addition to that normally provided for free in public schools in the U.S. is not allowable. Summer school is not normally provided for free in the U.S. As both the Mission and the contractor have agreed that the $732 was not allowable, the Mission should take steps to recover this amount.

AUDIT OF
THE AGRICULTURE SECTOR DEVELOPMENT GRANT
IN NIGER

PART III - EXHIBITS AND APPENDICES

Projects/Activities Funded By Agriculture Sector Development Grant Local Currency
(as of September 30, 1989)

	Amount Authorized** FCFA (000)	$ (000)
Niamey Department Development	1,105,377	$3,685
Livestock Feed Storage	220,000	733
Hydro-agricultural Construction	207,222	691
Village Extension Support	10,090	33
*Secretariat Operations	283,014	943
Soils Laboratory	189,900	633
Cereal Production Renewal	770,000	2,567
Health Department - Maradi	28,000	93
*Forestry & Land Use Planning (FLUP)	1,271,830	4,239
FLUP Interim Funding	612,000	2,040
Nigerien Enterprises	1,448,858	4,830
CARE Agroforestry	214,437	715
Crop Protection	180,000	600
*Wheat & Cowpea Seed	131,000	437
AFRICARE Fish Ponds	49,389	164
Improved Seed	804,990	2,683
Fertilizer Imports	272,000	907
Rural Development Support	851,879	2,838
*Rural Development Support(Treasury)	465,862	1,553
Livestock Renewal	100,000	333
Cowpea Renewal	269,500	898
Peanut Renewal	500,000	1,667
Guaranty Funds	356,700	1,189
*Study of Agricultural Prices	8,200	27
Rural Code Drafting	170,338	568
Agriculture Production Support	231,520	772
Dembou Guaranty Funds	230,000	767
Firgoun Perimeter Study	27,117	90
*CB-5 Cowpea Seed	530,000	1,767
Village Poultry	42,800	143
Maradi Employment Creation	598,823	1,996
Hydrogeological Study	11,966	40
Intensive Animal Husbandry Support	500,000	1,667
*Forestry Project Audit	7,448	25
Firgoun South	586,238	1,954
Livestock Pathology	160,146	534
Information Gathering Systems	305,310	1018
Fodder Crop Management	281,175	937

Projects/Activities Funded By
Agriculture Sector Development Grant Local Currency
(as of September 30, 1989)

	Amount Authorized**	
	FCFA (000)	$ (000)
*Vaccine development	175,124	$584
Animal Husbandry(Niger/Center-East)	15,000	50
Agricultural Workshop	58,123	194
Goure Rehabilitation	694,674	2,315

* The audit reviewed funds spent for Secretariat operations plus a sample of seven counterpart funded projects (see Audit Objectives and Scope section).

** This summary also includes the $5 million received under the Rural Sector Development Grant, an ASDG predecessor grant which provided funds to many of the same activities. For the sake of simplicity all dollar values in this Exhibit have been converted at the approximate current rate of 300 FCFA (local currency) to $1.00, even though actual conversion rates during the early years of the project were as high as 475 FCFA to the dollar.

Exhibit 2

Comparison of Project Balances Per Secretariat Records With Balances Per Bank Statements For Closed Counterpart Funded Projects at September 30, 1989*

(in CFAF Local Currency)

	Per Secretariat Records	Per Bank Statements
Niamey Department Development	9,499,656	8,286,582
Livestock Feed Storage	65,862,857	65,862,857
Cereal Production Renewal	2,896,370	**
Wheat and Cowpea Seed	304,685	3,551,051
Improved Seed	354,075	6,668,000
Agriculture Production Support Recurrent Charges	21,382,679	19,764,204
Totals	100,300,322	104,132,694

Difference FCFA 3,833,372

Dollar Difference ($1=300 FCFA) $12,775

* There are eight other closed projects which do not have separate bank accounts and hence are not listed in this Exhibit. Balances for these other closed projects are contained in the grant local currency special account and are earning interest at 5.5%.

** Per Secretariat accounting personnel the balance of this project was merged into the Wheat and Cowpea Seed Project bank account. Though this assertion is consistent with the unexplained excess observed in the Wheat and Cowpea account (see above), we could find no written evidence to support the claim.

Missing Support Documentation For a Sample of Seven Counterpart Funded Projects (as of September 30, 1989)

	Total Amount Spent	Dollar Value of Missing Support
Forestry & Land Use Planning	$4,237,127	0 *
Wheat & Cowpea Seed	435,650	$435,650 **
Rural Development Support (Treasury)	1,549,337	162,300
Study of Agricultural Prices	26,890	600
CB-5 Cowpea Seed	1,362,433	90,645
Forestry Project Audit	17,472	0
Vaccine Development	58,637	0
	$7,687,546	$689,195

* RIG did not review supporting documents for this A.I.D. bilateral project, but relied on work performed in August 1988 by a local audit firm which reviewed $3.9 million in project expenses.

** The Secretariat was unable to provide us with any written support whatsoever for actual seed purchases made under this 1985 project, other than that cash advances had been made to regional government offices. In an undated audit report done by a local firm of this seed project, auditors at that time were apparently provided with at least some supporting documentation for seed purchases, although the audit did note that the support was often deficient.

Exhibit 4

Misused Secretariat Operating Funds
(Amounts to Be Refunded to the Special Local Currency Account)
(September 1988 to December 1989)

Invoice Date	Description	Amount in Dollars
Dec 1989	25 cans underarm deodorant	$116
July 1989	432 cans air freshener	2,736
July 1989	432 cans household insecticide	2,693
July 1989	120 cans four-liter size cleaning fluid	780
July 1989	432 deodorant balls	1,310
Nov 1988	assorted flowers	525
		$8,160
Training Abroad for Non-Secretariat Personnel:		
(1988)	in Italy (one civil servant)	16,850
(1989)	in USA (two civil servants)	30,827
		$55,837

ACTION: RIG INFO: AMB DCM

VZCZCDK0829 LOC: 352
RR RUEHDK 17 APR 90
DE RUEHNM #3546/01 1071426 CN: 20612
ZNR UUUUU ZZH CHRG: RIG
R 171418Z APR 90 DIST: RIG
FM AMEMBASSY NIAMEY
TO AMEMBASSY DAKAR 8664
BT
UNCLAS SECTION 01 OF 04 NIAMEY 03546

AIDAC

FOR RIG/A/DAKAR
ATT. PAUL E. ARMSTRONG

E.O. 12356: N/A
TAGS:
SUBJECT: RESPONSE TO DRAFT AUDIT REPORT

REF: AUDIT REPORT NO. 7-683-90-X

1. WHILE THE MISSION IS IN GENERAL AGREEMENT WITH THE FINDINGS AND RECOMMENDATIONS IN THE AUDIT, FURTHER THOUGHT AND RESEARCH HAS LED US TO THE CONCLUSION THAT CERTAIN OF THE TEXT, FINDINGS, OR RECOMMENDATIONS MIGHT BE WORDED DIFFERENTLY. OUR APPROACH IN CONSTRUCTING THIS RESPONSE WAS TO CONCENTRATE MAINLY ON THE RECOMMENDATIONS. THEY ARE LISTED BELOW WITH EITHER ACTIONS UNDERWAY OR OUR SUGGESTED CHANGES, IF COMPLETE AGREEMENT WAS NOT POSSIBLE.

2. RECOMMENDATION NO. 1

ASDG HAS BEEN DECERTIFIED. NOT ONLY ARE DOLLAR TRANCHES BEING HELD IN ABEYANCE, BUT NO NEW PROJECTS FUNDED WITH COUNTERPART FUNDS ARE BEING CONSIDERED UNTIL IMPROVEMENTS IN THE HANDLING OF LOCAL CURRENCY HAVE BEEN MADE. THE MINISTER OF PLAN AND THE USAID MISSION DIRECTOR HAVE APPOINTED STAFF MEMBERS TO EXAMINE THE SITUATION AT THE SECRETARIAT AND MAKE RECOMMENDATIONS ABOUT HOW TO PROCEED TO RECTIFY THE PROBLEMS. IN ADDITION, A PIO/T IS BEING CIRCULATED IN THE MISSION IN ORDER TO CONTRACT FOR A COMPLETE MANAGEMENT AND FINANCIAL AUDIT OF COUNTERPART FUNDS UNDER ASDG. THE AUDIT WILL ADDRESS THE CONCERNS MENTIONED IN PARTS (A) AND (B) OF THIS RECOMMENDATION. THE MISSION HAS ALSO APPROVED AN
EXTREMELY CURTAILED OPERATING BUDGET FOR THE SECRETARIAT THAT INCLUDES THE PURCHASE OF ACCOUNTING SOFTWARE TO BE INSTALLED AT THE SECRETARIAT BY THE EXPATRIATE ADVISOR, WHO REPORTS TO THE AID CONTROLLER. THIS WILL ADDRESS PART (C) OF THIS RECOMMENDATION. WE ANTICIPATE THAT THE PIO/T WILL BE CLEARED AND ON ITS WAY TO YOU BY APRIL 20, 1990.

3. RECOMMENDATION NO. 2

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THE MISSION AGREES. ACCOUNTS ARE CURRENTLY BEING BROUGHT UP TO DATE AND RECORDS ORGANIZED IN PREPARATION FOR THE AUDIT. OUTSTANDING BANK STATEMENTS WERE A PREREQUISITE FOR THE APPROVAL OF THE OPERATING BUDGET. A WORK PLAN, INCLUDING SITE VISITS, HAS BEEN REQUESTED IN WRITING BEFORE CERTAIN BUDGETARY LINE ITEMS WILL BE APPROVED, (E.G. GASOLINE, PER DIEM, VEHICLE MAINTENANCE AND REPAIR). THE INITIAL COMPLETE AUDIT OF SUBPROJECTS WILL TAKE PLACE DURING THE NON-FEDERAL AUDIT MENTIONED ABOVE. USAID WILL FOLLOW UP TO ENSURE THAT A WORK PLAN IS DRAWN UP FOR REGULAR AUDITS AFTER THAT TIME.

4. RECOMMENDATION NO. 3

THE MISSION AGREES IN PART. A LETTER WAS SENT TO THE MINISTER OF PLAN ASKING THAT ALL CATEGORIES OF COSTS SHOWN IN THE RECOMMENDATION BE REPAID TO THE COUNTERPART FUND. THE MINISTRY OF PLAN HAS REPLIED THAT THE COSTS SHOWN IN THE RECOMMENDATION FOR TRAINING OF MINISTRY OF PLAN PERSONNEL ARE DIRECTLY RELATED TO PROJECT MONITORING AND SHOULD THEREFORE BE ALLOWED. THE MISSION HAS MADE IT CLEAR IN ITS APPROVAL OF THE CURRENT BUDGET THAT MINISTRY OF PLAN TRAINING WILL NOT BE CONSIDERED TO BE VALID CHARGES AGAINST THE SECRETARIAT'S BUDGET. SINCE THIS WAS APPARENTLY NOT CLEAR IN THE PAST, WE BELIEVE THAT THE REPAYMENT OF THE TRAINING COSTS SHOWN IN THE RECOMMENDATION IS NOT WARRANTED. THE MISSION WILL FOLLOW UP ON THE OTHER COSTS RECOMMENDED FOR DISALLOWANCE, WHICH ARE CLEARLY NOT APPROPRIATE USES OF COUNTERPART FUNDS.

5. RECOMMENDATION NO. 4

WE FIND WE ARE UNABLE TO AGREE. THERE ARE TWO REASONS THAT INHIBIT OUR ABILITY TO ACT ON THIS RECOMMENDATION: (1) THE PRESIDENT OF NIGER, IN 1986, WROTE A LETTER TO THE MINISTER OF FINANCE WHICH WE HAVE OBTAINED, INSTRUCTING THAT BANK ACCOUNTS FOR PROJECTS HAD BECOME

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TOO PROLIFIC (NOT ONLY WERE THERE SEVERAL BANK ACCOUNTS RESULTING FROM U.S. ASSISTANCE, BUT SEVERAL OTHER COUNTRIES ARE MENTIONED), AND THE GON WAS THEREFORE HAVING DIFFICULTY KEEPING TRACK OF THE VARIOUS FUNDS. HE ASKED THAT A REVIEW BE MADE AND THE ACCOUNTS BE LOCATED, AND THAT THE BALANCES IN THOSE ACCOUNTS BE TRANSFERRED TO THE TREASURY. USAID COMPLIED WITH THIS REQUEST, BUT FAILED TO AMEND THE ORIGINAL GRANT AGREEMENT TO REFLECT THE CHANGE. (2) WE HAVE VISITED THREE LOCAL COMMERCIAL BANKS AND THEY ALL STATE THAT THEY DO NOT PAY ANY INTEREST AT ALL ON CURRENT ACCOUNTS. THEY INFORM US THAT THIS POLICY RESULTED FROM THE WEST AFRICAN MONETARY UNION INSTRUCTION THAT NO INTEREST BE GIVEN ON CURRENT ACCOUNTS IN ORDER TO ENCOURAGE LONGER TERM DEPOSITS. FOR THE ABOVE REASONS, WE BELIEVE THE RECOMMENDATION SHOULD BE CHANGED SO THAT THE MISSION IS ASKED TO AMEND THE VARIOUS AFFECTED GRANT AGREEMENTS TO REFLECT THE PROCEDURE IN USE.

6. RECOMMENDATION NO. 5

THE MISSION AGREES WITH PART (A). LANGUAGE HAS BEEN DRAFTED BY THE RLA AND IS BEING INCORPORATED IN DOCUMENTS FOR THE VARIOUS AFFECTED PROJECTS. IN THE CASE OF NHSS, THIS WILL BE AN AMENDMENT TO THE GRANT AGREEMENT, CURRENTLY BEING PREPARED FOR OBLIGATION. IN THE CASE OF ASDG, THIS WILL TAKE THE FORM OF A PIL TO BE ISSUED BEFORE THE NEXT TRANCHE IS RELEASED. AS FOR PART (B), THE MISSION IS UNSURE WHETHER IT HAS THE AUTHORITY TO INSTRUCT THE HOST GOVERNMENT REGARDING A TRANSACTION TO WHICH THE MISSION WAS NOT A PARTY. THE MISSION WOULD AGREE TO A FINDING THAT REQUIRED THAT WE REQUEST THAT THE GON SUBMIT A BILL OF COLLECTION TO THE BANK FOR THE LOST INTEREST.

7. AUDIT RECOMMENDATION NO. 6

SIGNIFICANT ELEMENTS OF A METHODOLOGY FOR MEASURING THE IMPACT OF POLICY REFORMS UNDER THE GRANT ARE IN PLACE; WORK IS UNDERWAY ON OTHERS. USAID/NIGER EXPECTS THAT AN APPROPRIATE SYSTEM WILL BE ESTABLISHED BEFORE THE START OF ASDG II.

FOR THE RECORD, USAID/NIGER REPEATS BELOW ITS POSITION ON IMPACT/MONITORING OF ASDG WHICH WAS REVIEWED IN DETAIL WITH THE AUDITORS BUT IS NOT ADEQUATELY REFLECTED IN THE DRAFT AUDIT REPORT.

USAID/NIGER AGREES THAT A MORE COMPLETE METHODOLOGY FOR MEASURING THE IMPACT OF ALL REFORMS IS REQUIRED, AND IS CONFIDENT THAT THIS WILL BE ACHIEVED UNDER ASDG I. BUT THE AUDIT'S DEPICTION OF EFFORTS TO DATE AT IMPACT ASSESSMENT AS "LARGELY UNFRUITFUL ATTEMPTS" IS NOT CORRECT. CERTAIN REFORM MEASURES UNDER THE PROGRAM HAVE DATA COLLECTION, MONITORING AND IMPACT MEASUREMENT SYSTEMS IN PLACE (SEE NEXT PARAGRAPH). THE UNIVERSITY OF MICHIGAN TECHNICAL ASSISTANCE TEAM AND TDY CONSULTANTS HAVE MADE SIGNIFICANT CONTRIBUTIONS TO THE

OVERALL UNDERSTANDING OF THE POLICY REFORM IMPACTS OF THE PROGRAM. THESE EFFORTS AND APPROACHES, LARGELY ACCOMPLISHED WITHOUT AGENCY GUIDANCE, HAVE EVOLVED AND WILL CONTINUE TO EVOLVE OVER THE LIFE OF THE PROGRAM (SEE BLOOM - BOYER MEMO OF 11/8/89). TO DISCOUNT THESE EFFORTS AS "LARGELY UNFRUITFUL" UNDERSTATES THE INTELLECTUAL DIFFICULTY OF THE EXERCISE AS WELL AS WHAT HAS ALREADY BEEN ACCOMPLISHED.

USAID/NIGER WOULD LIKE TO MAKE A DISTINCTION OF APPROACHES TO IMPACT ASSESSMENT USED UNDER ASDG DEPENDING ON THE POLICY REFORM AREA. IN 1987 DURING THE FINALIZATION OF THE FIRST AMENDMENT TO THE ASDG WHICH INCORPORATED IMPROVED SEED PRODUCTION REFORMS, AID/W INSTRUCTED THE MISSION TO ESTABLISH DATA BASES AND A SYSTEM FOR MEASUREMENT OF THE IMPACT OF THIS REFORM AT THE FARM/HOUSEHOLD LEVEL. THIS WAS THE EXTENT OF THE GUIDANCE PROVIDED AND WAS A MARKED DEPARTURE FROM PREVIOUS THINKING ON DETERMINING THE IMPACT OF ASDG POLICIES, I.E., USING MICROECONOMIC AS OPPOSED TO MACROECONOMIC INDICATORS. USAID/NIGER, NONETHELESS,

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INCORPORATED IN THE DESIGN OF THE SEED COMPONENT THE ESTABLISHMENT OF KEY DATA BASES FOR MEASURING INDICATORS IN ORDER TO MONITOR THE SEED REFORM EFFORTS. BEGINNING IN 1988, AN ANNUAL SEED USE SURVEY HAS BEEN USED TO GATHER INFORMATION ON KEY VARIABLES MONITORED BY THE PROGRAM, I.E., SEED DEMAND BY TYPE AND AMOUNT, SEED PRICES, PRIVATE SECTOR PRODUCTION, PRODUCTION COST INFORMATION, ETC.

THE SECOND PAAD AMENDMENT WAS FOR SUPPORT TO CREDIT UNION DEVELOPMENT. A MAJOR COMPONENT DESIGNED INTO THIS ACTIVITY WAS THE MONITORING AND EVALUATION OF THE IMPACT OF THE PROGRAM BY MEASURING SEVERAL VARIABLES OVER TIME, I.E., CREDIT UNIONS ESTABLISHED, COMPOSITION OF MEMBERSHIP, CAPITAL MOBILIZED (SAVINGS AND LENDING), MULTIPLIER EFFECTS, ETC.

THE THIRD PAAD AMENDMENT TO THE ASDG INCLUDED REFORMS IN THE AREA OF NATURAL RESOURCES MANAGEMENT (NRM). MISSION EFFORTS IN MONITORING THIS POLICY COMPONENT ARE THE MOST SIGNIFICANT TO DATE. A NATURAL RESOURCES MANAGEMENT ADVISOR WAS ADDED TO THE T. A. TEAM WHOSE MAIN RESPONSIBILITY IS TO SET UP A SYSTEM FOR (NRM) IMPACT MONITORING. ALSO, USAID/NIGER HIRED A PSC NRM SPECIALIST TO ASSIST IN THIS EFFORT.

IT IS CLEAR, THEREFORE, THAT USAID HAS BEEN SYSTEMATICALLY INSTALLING IMPACT SYSTEMS IN EACH NEW GRANT COMPONANT FOR YEARS.

IN THE MISSION'S OPINION, THE INTELLECTUAL DILEMMA OF IMPACT ASSESSMENT REVOLVES AROUND THOSE POLICY REFORM AREAS INCLUDED AS PART OF THE ORIGINAL PAAD, I.E., INPUT SUBSIDIES, CEREAL MARKETING, CROSS-BORDER TRADE, COOPERATIVE DEVELOPMENT AND PRIVATE SECTOR PROMOTION. IT IS FOR THESE AREAS OF POLICY REFORM FOR WHICH A SYSTEM FOR IMPACT MONITORING WAS NOT ESTABLISHED A PRIORI, AND THAT THE UM AND RELATED CONSULTANTS HAVE BEEN FOCUSING THEIR EFFORTS TO RETROFIT DETAILED MEASUREMENT SYSTEMS NOT ORIGINALLY SEEN AS PART OF THE SCOPE OF BROAD SECTOR GRANTS. THE LATEST ELEMENT OF THIS ANALYSIS IS THAT THE UM IS TO FIELD A CONSULTANT IN MAY - JULY 1990 TO FOLLOW-UP ON PREVIOUS WORK AND TO ESTABLISH AND TEST AN IMPACT ASSESSMENT METHODOLOGY FOR THESE REFORMS.

THE METHODOLOGY IS TO USE REGRESSION ANALYSIS IN ORDER TO TRY TO ISOLATE THE EFFECT OF THE PARTICULAR POLICY REFORM VARIABLE ON AGRICULTURAL PRODUCTION (USED AS A PROXY FOR RURAL INCOME). THUS, EVEN IN THE MOST CHALLENGING PART OF IMPACT MONITORING, ASDG CONTINUES TO MAKE PROGRESS.

8. AUDIT RECOMMENDATION NO. 7

THE FOLLOWING ACTIONS HAVE BEEN TAKEN: THE SENIOR POLICY ANALYST OF THE UNIVERSITY OF MICHIGAN TECHNICAL ASSISTANCE TEAM HAS PREPARED AND SUBMITTED FOR THE GON

AND THE MISSION'S REVIEW AN INSTITUTION BUILDING STRATEGY FOR POLICY ANALYSIS STRENGTHENING OF THE DIRECTION DES ETUDES ET PROGRAMMATION (DEP) WITHIN THE MINISTRY OF AGRICULTURE AND LIVESTOCK (MAL).

IN ADDITION, THE MAL HAS FORMALLY ASSIGNED A TECHNICIAN TO SERVE AS A COUNTERPART TO THE SENIOR POLICY ANALYST.

9. RECOMMENDATION NO. 8

AN ANALYSIS HAS BEEN PERFORMED AND POSITIONS HAVE BEEN REALIGNED SO THAT FUNDING SOURCES AGREE WITH WORK PERFORMED. DOCUMENTS ARE BEING PROCESSED TO EFFECT THE CHANGES. IT IS ANTICIPATED THAT ALL NECESSARY CHANGES WILL BE COMPLETED BY THE END OF APRIL, 1990.

10. AUDIT OBJECTIVES

USAID/NIGER NOTES THAT THE AUDIT OBJECTIVES AS SPECIFIED ON PAGE 7 OF THE DRAFT AUDIT REPORT WERE NEVER MADE AVAILABLE TO THE MISSION BEFORE OR DURING THE CONDUCT OF THE AUDIT. ALTHOUGH THIS DOES NOT AFFECT THE EVENTUAL AUDIT FINDINGS OR THE MISSION'S INTENT TO IMPLEMENT CORRECTIVE MEASURES, USAID/NIGER WOULD, NONETHELESS, OFFER THE FOLLOWING OBSERVATION. THE GON'S COMPLIANCE TO THE POLICY REFORM MEASURES IS MENTIONED ON PAGE II IN A ONE-HALF SENTENCE OF THE EXECUTIVE SUMMARY AND THEN IS NEVER MENTIONED AGAIN, I.E., "THE AUDIT CONCLUDED THAT THE HOST GOVERNMENT HAD SUCCESSFULLY CARRIED OUT THE POLICY CHANGES REQUIRED FOR THE RELEASE OF THE RESOURCE TRANSFERS.........".

AS THE POLICY REFORMS ARE THE RAISON D'ETRE OF POLICY REFORM-BASED SECTOR GRANTS SUCH AS THE ASDG AND FROM WHICH EVERYTHING ELSE EMANATES, I.E., RESOURCE TRANSFERS, COUNTERPART FUNDED PROJECTS, IMPACT MEASUREMENT ETC. USAID/NIGER DOES NOT UNDERSTAND HOW THIS MOST FUNDAMENTAL AND CRUCIAL ELEMENT OF THE PROGRAM COULD BE OVERLOOKED AS AN AUDIT OBJECTIVE. USAID/NIGER INTENDS TO IMPLEMENT THE AUDIT RECOMMENDATIONS CONSIDERING THE OBSERVATIONS CONTAINED HEREIN. USAID/NIGER WISHES TO POINT OUT, HOWEVER, THAT THE SUCCESS OF A POLICY REFORM-BASED SECTOR GRANT MUST FIRST AND FOREMOST BE JUDGED BY THE COMMITMENT BY THE HOST GOVERNMENT TO THE POLICY REFORMS.

IT IS, AFTER ALL, THE POLICY REFORMS WHICH ARE BEING "BOUGHT" BY THE SECTOR GRANT. IN THE CASE OF THE ASDG, THERE IS NO QUESTION THAT THE GON HAS PERFORMED ADMIRABLY IN THIS REGARD. THE AUDIT REPORT DOES NOT MAKE THIS KEY POINT SUFFICIENTLY CLEAR, AND THEREFORE MISSES THE MAIN OBJECTIVE OF THE WHOLE PROGRAM.
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