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asn 70756

**Audit of the Activities of the Bahamian  
Agricultural Credit Guarantee Fund**

**Audit Report No. 9-000-91-005  
March 29, 1991**

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**The Agency for International Development and the Government of the Commonwealth of the Bahamas did not manage and monitor the activities of the Bahamian Agricultural Credit Guarantee Fund as prescribed by the pertinent plans and agreements. The Fund operated nearly 14 years, largely without A.I.D. knowledge or oversight. Furthermore, the Government of the Bahamas did not adequately supervise and monitor the loan guarantee and repayment processes.**

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

ASSISTANT INSPECTOR GENERAL  
FOR AUDIT

MAR 29 1991

MEMORANDUM FOR AA/S&T, Richard Bissell

FROM: *for* AIG/A, John P. Competello *Richard Bissell*

SUBJECT: Audit of the Activities of the Bahamian Agricultural Credit Guarantee Fund

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments, we believe the recommendation is resolved and we will close it when appropriate actions are completed. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the recommendation. We appreciate the cooperation and courtesies extended to our staff during the audit.

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## Background

On January 19, 1973, the Agency for International Development (A.I.D.) and the Government of the Commonwealth of the Bahamas signed a \$10 million agreement establishing the Bahamas Agricultural Research, Training and Development Project. The project purpose was to gain information relating to the development of agricultural programs based upon livestock and agricultural systems in non-traditional cultures and environments. The project was expected to establish an on-going agricultural research, and development program, including a research training center, pilot test farms, and other facilities in the Bahamas. A.I.D. project related activity and support ended in January 1978.

Of the \$10 million authorized for the project, \$800,000 was authorized by a separate agreement in 1975 to implement a pilot agricultural credit program to mobilize Bahamian private banking sector support. The pilot program was implemented in 1976 by establishing the Agricultural Credit Guarantee Fund, and by depositing the \$800,000 into an interest-bearing account at the Central Bank of the Bahamas. The Fund was to be used to guarantee loans made by Bahamian commercial banks to small farmers, cooperative farmer

organizations, or other qualified entities. According to available documentation, an evaluation was supposed to be made in 1977 to determine if the Fund should be continued, modified or liquidated. However, we found no indication that such an evaluation was conducted.

The Central Bank has acted as the Fund's trustee since inception of the credit program. As such, the Central Bank is authorized by the terms of the guarantee agreement to charge the Fund one-half of one percent per year of the interest earned by the Fund to cover its administrative costs. With the exception of this service charge and the interest paid to the U.S. Government on the deposited funds, all withdrawals must be approved in advance in writing by the Government of the Commonwealth of the Bahamas and the U.S. Ambassador to the Bahamas.

An Agricultural Credit Committee consisting of representatives and consultants from the banking sector, an agricultural credit officer, and consultants appointed by A.I.D. and the Government of the Commonwealth of the Bahamas is responsible for defining and establishing the criteria for implementing the loan guarantee program. The Bahamian Agricultural Credit Office, a part of the government's Ministry of Agriculture, Trade and Industry, is responsible for approving technical aspects of loan applications and overall supervision of loan activities. Interaction with the administering Central Bank and the Agricultural Credit Committee is carried out by the U.S. Embassy for the Bahamas with no indicated involvement by A.I.D. until recently.

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## **Audit Objective**

We audited the activities of the Agricultural Credit Guarantee Fund administered in the Commonwealth of the Bahamas to answer the following objective:

- Did the Agency for International Development and the Government of the Commonwealth of the Bahamas manage and monitor the activities of the Agricultural Credit Guarantee Fund as prescribed by the pertinent plans and agreements?

In answering this objective, we: (1) evaluated whether the Fund was administered as intended by the Bahamian Agricultural Research, Training and Development Project plans and grant agreements, (2) reviewed control mechanisms for Fund management and oversight, (3) held discussions with knowledgeable officials and, (4) reviewed available documents about the status and activity levels of the Fund. Staff turnover and the absence of many project records dating back to Project and Fund inception precluded our making the detailed verifications that we would normally make. Our conclusions are based on the

best information we were able to develop under the circumstances. Nothing came to our attention to indicate our conclusions cannot be relied upon. Our discussion of the scope and methodology is in Appendix I.

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## **Audit Findings**

**Did the Agency for International Development and the Government of the Commonwealth of the Bahamas manage and monitor the activities of the Agricultural Credit Guarantee Fund as prescribed by the pertinent plans and agreements?**

The Agency for International Development and the Government of the Commonwealth of the Bahamas did not manage and monitor the activities of the Fund as prescribed by the pertinent plans and agreements. The Fund operated nearly 14 years, largely without A.I.D. knowledge or oversight. Furthermore, the Government of the Bahamas did not adequately supervise and monitor the loan guarantee and repayment processes. These problems are discussed below.

### **The Fund Was Not Managed and Monitored As Intended**

The Agency for International Development did not effectively oversee \$800,000 in project funds deposited for Agricultural Credit Guarantee Fund implementation. Because management responsibility for the Fund was not specifically assigned to an operating unit within A.I.D., the Fund's activities were not tracked, as required, and accumulated interest to be remitted to the U.S. Government was inadequately accounted for. Additionally, the Government of the Bahamas, which had principle operating responsibility for the Fund, did not commit the resources necessary to supervise and monitor the loan process appropriately to ensure loan repayments. Accordingly, there was minimal use of the Fund in recent years, and a substantial loan default and arrearage rate.

**Recommendation No.1: We recommend that the Bureau for Science and Technology negotiate with the Government of the Commonwealth of the Bahamas to terminate the Agricultural Credit Guarantee Fund.**

### A.I.D. Was Not Involved

The Bahamas Agricultural Research, Training and Development Project agreement signed on January 19, 1973, assigned the A.I.D. Technical Assistance Bureau (now the Bureau for Science and Technology) responsibility for the control and expenditure of all A.I.D. project funds. In 1976, A.I.D. authorized the deposit of \$800,000 to the Central Bank of the Bahamas as part of an agreement with the Government of the Commonwealth of the Bahamas to establish the Agricultural Credit Guarantee Fund. Although not directly involved in the administration of the Fund, the Bureau remained responsible for general oversight of the deposited Project funds, and was supposed to have minimal involvement with the Fund's Agricultural Credit Committee to establish implementation policies. However, according to a former Project official, the Project was in final implementation stages when the Fund was established. Consequently, no specific A.I.D. office or entity was delegated monitoring responsibility for the Fund. Thus, after the termination of A.I.D.'s support in 1978, there was no indication that A.I.D. was officially involved with the Fund's activities until 1989 -- 11 years later.

A.I.D.'s renewed involvement began when the U.S. Embassy for the Bahamas cabled a request in June 1989 to withdraw up to \$10,000 of the Fund's accrued interest. According to the cable, the Fund had fallen into disuse in recent years, and the \$10,000 would be used to fund agricultural credit officer travel in the field. In April 1990, A.I.D.'s Bureau for Science and Technology, Office of Research and University Relations was delegated responsibility to respond to the U.S. Embassy. The Office refused the request because all accrued interest was required by the project agreement to be returned to the U.S. Treasury.

Another A.I.D. responsibility was oversight of interest computations on Fund balances and the deposit of those amounts to the U.S. Treasury. Nevertheless, we could find no evidence that A.I.D., throughout the Fund's life, had a mechanism to ensure that Fund interest was accumulated and deposited to the U.S. Treasury as required. Central Bank of the Bahamas management stated that remitted interest was transmitted to the U.S. Embassy. The Embassy's records, however, were incomplete and the total amounts received were not known. Bank Statements provided by the Central Bank of the Bahamas show that \$989,000 in interest was remitted to the U.S. Embassy from 1976 through 1989. The incomplete Embassy records precluded our verifying that the correct interest amounts were received and deposited to the U.S. Treasury.

### The Agricultural Credit Committee Was Ineffective

The Agricultural Credit Committee was responsible for defining and establishing all criteria necessary for the Fund's operations. However, based upon the available information, we

believe the Agricultural Credit Committee was ineffective. The high incidence of loan defaults and arrearages and the virtual halt of loan guarantee activity for a three year period through late 1989 should have precipitated Committee action. Yet the Committee only convened once during that period, in June 1989. Additional activity might have led to timely corrective actions.

For the life of the Fund, the Committee, according to the project agreement, was supposed to prepare an annual written report that provided a detailed accounting of the Fund, along with projections and recommendations. Reports sent to the U.S. Embassy, however, lacked a detailed Committee account of the fund. The records on file at the U.S. Embassy were only brief Central Bank of the Bahamas summations of loans guaranteed and interest earned. The summations accompanied yearly interest payments sent to the U.S. Embassy. Problematic implementation of the Fund might have been avoided if the required detailed reports had been submitted.

### Supervision and Monitoring Problems

The Bahamian Agricultural Credit Officer assigned by the Bahamian Ministry of Agriculture, Trade and Industry was responsible for approving all technical aspects of loan applications and supervision as defined by the Agricultural Credit Committee. The credit officer was also charged with carrying out periodic inspections to detect problems as they arose and assisting the farmers or the bank in realizing security in the event of defaulted loans. Bahamian government officials stated, however, that the credit officers were prevented from fulfilling their responsibilities because of the nonavailability of travel funds. The credit officers inability to oversee the loan process probably contributed to the high loan default and arrearage rate. As of December 31, 1989, the Fund had guaranteed 84 loans. Of these, 22 loans or 26% were in default in the amount of \$119,113. Additionally, 9 other loans or 11% of the loan guarantees were in arrears in the amount of \$49,538.

Bahamian government officials told us that the Fund would be better managed in the future. Improvements would include a renewed government emphasis on expanding the country's agricultural sector; an increased loan guarantee ceiling to attract more professional farmers thereby lessening default risks; and a more stringent Ministry of Agriculture, Trade and Industry approach to loan monitoring. However, the Ministry's travel funds remained restricted, which left doubt as to the credit officers ability to properly monitor loans.

In summary, the Fund operated for nearly 14 years with minimal A.I.D. involvement or awareness of the Fund's activities. During that time, at least \$989,000 in interest was generated from the Fund's principle. Because the U.S. Embassy's records were incomplete,

we could not verify that it received all the interest from the Central Bank or that it forwarded the interest to the U.S. Treasury as required. Also, the Fund incurred loan default and arrearage problems, along with other implementation difficulties. Further, the government failed to comply with the terms of the Project agreement in that it did not play an active role in the loan application process and supervision of loans. This may have contributed to the high incidence of loan default. Additionally, for an extended time the Fund was nearly inactive without meaningful actions by the government or the Agricultural Credit Committee to assure proper utilization. Recently, the government has tried to revitalize the Fund and to improve management of loan activities. However, considering the age of the program, the absence of A.I.D. involvement, and the extent of problem loans, the termination of the Fund should be considered.

### **Management Comments**

Management agreed fully with the report's finding and recommendation. We consider the recommendation resolved. We will close the recommendation when the Bureau for Science and Technology notifies us of the results of the negotiations with the Government of the Commonwealth of the Bahamas. All of the Bureau's comments are attached to the report as Appendix II.

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## SCOPE AND METHODOLOGY

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### Scope

We audited the activities of the Bahamian Agricultural Credit Guarantee Fund in accordance with generally accepted government auditing standards. Our review was limited to evaluating the status and activity levels of the Fund, and determining whether interest was remitted to A.I.D., as required. Official project records were retired by the Bureau for Science and Technology, and the Bureau could not retrieve them for our use. Consequently, document reviews were limited to available records at A.I.D. Washington offices, the U.S. Embassy for the Bahamas, and the Central Bank of the Bahamas. Because interest remittances from the Central Bank of the Bahamas dated back to 1976, resulting in various supporting records being unavailable, we were unable to verify the actual deposit of those remittances into the U.S. Treasury for most years. We did not assess compliance with applicable laws or review the internal controls over Fund operations.

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### Methodology

To accomplish the audit objective, we (1) reviewed available project agreements for the Bahamas Agricultural Research, Training and Development Project, the agreement to establish the Agricultural Credit Guarantee Fund, and available U.S. Embassy for the Bahamas documentation, (2) reviewed reports of interest payments transmitted from the Central Bank of the Bahamas to the U.S. Embassy for the Bahamas and, (3) held discussions with representatives from the Bank of the Bahamas, the Bahamian Ministry for Agriculture, Trade and Industry and the U.S. Embassy for the Bahamas. Reconstruction of events that transpired since the establishment of the Project and the Fund were based on available

Project documents, which were incomplete. We interviewed the only A.I.D. representative that was somewhat familiar with the Project. However, he was retired and could not readily recall specific events, given the substantial passage of time since his involvement.

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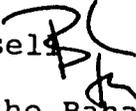
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

ASSISTANT  
ADMINISTRATOR

March 26, 1991

MEMORANDUM

TO: IG/A/PSA, Coinage Gothard

FROM: AA/S&T, Richard E. Bissell 

SUBJECT: Draft Audit Report on the Bahamian Agricultural  
Guarantee Fund

REF: IG/A/PSA memo dated 3/14/91

We appreciate the opportunity to respond to subject report of the review and audit of the Bahamian Agricultural Guarantee Fund.

AUDIT OBJECTIVE: The audit was conducted to determine whether the Agency for International Development and the Government of the Commonwealth of the Bahamas managed and monitored the activities of the Agricultural Credit Guarantee Fund as prescribed by the pertinent plans and agreements.

IG FINDINGS: The auditors found that The Fund was not well managed. More specifically, The Agency for International Development did not effectively oversee project funds deposited for Agricultural Credit Guarantee Fund implementation. A.I.D. did not track the Fund's activities, as required, and account for accumulated interest required to be remitted to the U.S. Government. Furthermore, the Government of the Commonwealth of the Bahamas, which had principle responsibility for the Fund, did not supervise and monitor the loan process appropriately to ensure loan repayments. Accordingly, there was minimal use of the Fund in recent years, and a substantial loan default and arrearage rate.

IG RECOMMENDATION: The Bureau for Science and Technology negotiate with the Government of the Commonwealth of the Bahamas to terminate the Agricultural Credit Guarantee Fund.

BUREAU RESPONSE: As the successor organizational unit to the Technical Assistance Bureau (TAB) the Bureau for Science and Technology inherits responsibility for this action. I have discussed this audit with members of my staff and we agree fully with your findings and with your recommendation.

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In this context, we will follow-up with the U.S. Embassy in Nassau and with the Government of the Commonwealth of the Bahamian (GCOB). Our preference here would obviously be to negotiate a closure of the fund and related account, with a refund of the remaining balance. If, after appropriate consultation with GC and with the GCOB, this is not practical, we would seek to negotiate a mutually agreement and/or the appropriation from which the funding was initially provided. We will close out this implementation arrangement as soon as possible. However, given the unclear nature of the agreements and the need for negotiation and legal review, this may take some time.

In addition, on page 10 of the report you stated that most of the interest earned cannot be verified as being deposited into the U.S. Treasury. However, on Page 11 the report indicates the interest was remitted from the Central Bank to the Embassy. Thus, it appears that the Embassy probably did not credit the payment to the proper USG account. Given that the interest appears to have been received by the USG, we would propose not to track down the interest payments in the Department of State accounts. We will, however, request that FM instruct the Embassy on the proper account for future payments.

Based on our acceptance of the audit report findings and recommendations, and proposed plan of action, we request that the recommendation be considered closed. Upon completion of the negotiation, we will provide you with a copy of our agreed approach to termination of A.I.D involvement.

Douglas Sheldon, Director, S&T/PO, will be available to provide additional information, if needed. He can be reached on 875-4301.

cc: DAA/S&T, BLangmaid  
S&T/RUR, Curtis Jackson  
FM/C, Michael Usnick  
GC/LP, Gary Winter  
S&T/PO Fern Finley