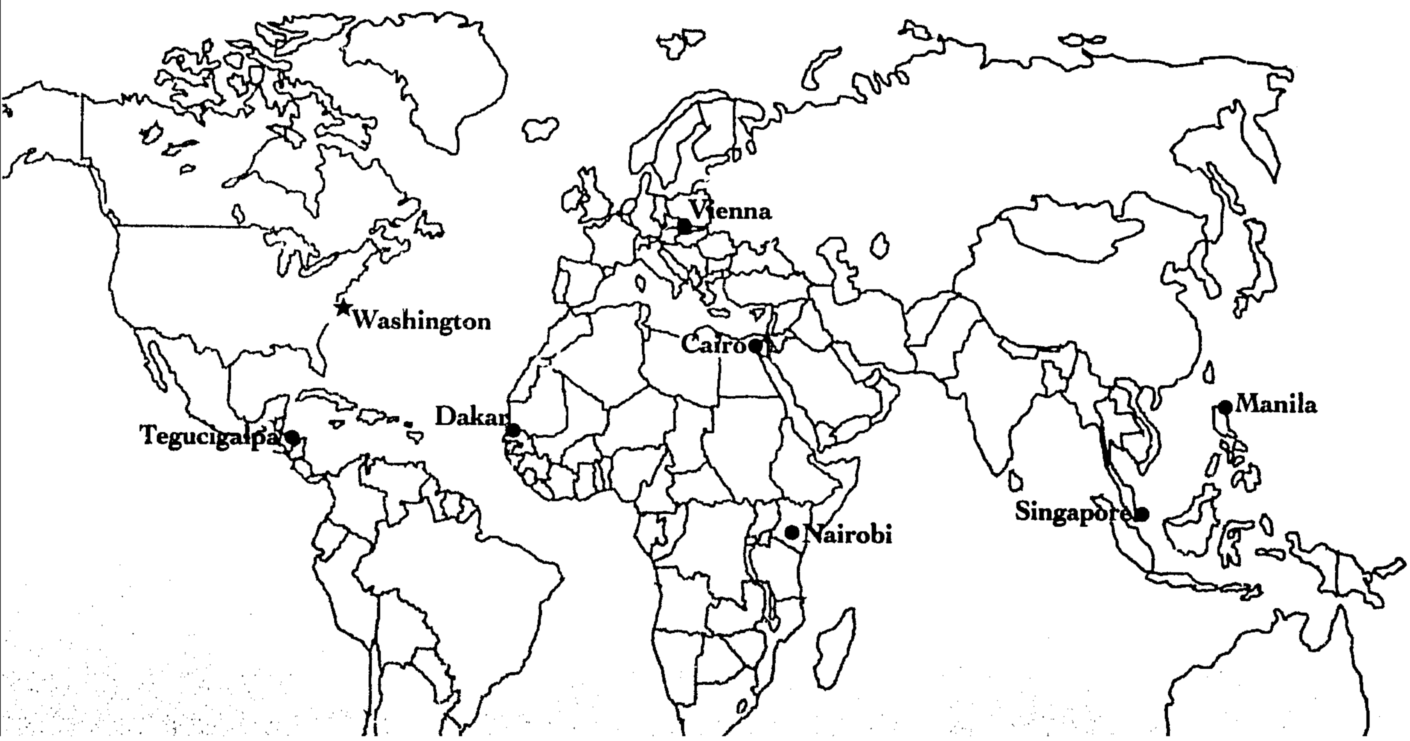
PD-ABD-919

Regional Inspector General for Audit
Dakar

AUDIT OF A.I.D.'S ECONOMIC SUPPORT FUND AND AFRICAN ECONOMIC POLICY REFORM PROGRAMS IN SENEGAL FROM 1987 THROUGH 1990
PROGRAM Nos 685-0289, 685-0290, 685-0292, 685-0293

Audit Report No. 7-685-92-07
March 26, 1992



INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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March 26, 1992

MEMORANDUM

To: **Julius E. Coles, Director, USAID/Senegal**

From: **Paul E. Armstrong, RIG/A/Dakar** Paul Armstrong

Subject: **Audit of A.I.D.'s Economic Support Fund and African Economic Policy Reform Programs in Senegal from 1987 Through 1990, Audit Report No. 7-685-92-07**

Enclosed are five copies of the subject report. We have reviewed your comments given to us on March 26, 1992 after our most recent exit conference and given in response to our draft audit report, and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II herein.

Recommendation Nos. 2.2 and 3.1 are resolved and closed upon report issuance. Recommendation Nos. 1, 2.1, and 3.2 are open but resolved and can be closed after agreed upon actions have been completed, submitted and accepted by our office.

Please advise within 30 days of actions taken to implement Recommendation Nos. 1, 2.1, and 3.2. I greatly appreciate the cooperation and courtesies extended to the RIG/A/Dakar and staff during the audit.

Att.: A/S

EXECUTIVE SUMMARY

Suffering from inappropriate monetary and fiscal policies of the 1970s, Senegal's government turned to the international donor community in the early 1980s which agreed to support programs with the objective of restructuring the economy to make it more competitive in the world market. A.I.D. responded with a series of cash grants to assist the Government of Senegal (GOS) in implementing policy reforms in the agricultural, tax and banking sectors. Between 1987 and 1990, A.I.D. authorized and disbursed $40.3 million and $35.3 million respectively for cash grants in three Economic Support Fund (ESF) programs. In 1989, the African Economic Policy Reform Program II (AEPRP-II) was authorized for $32 million, of which $12 million has been disbursed as a cash grant. (See page one).

The Office of the Regional Inspector General for Audit in Dakar, Senegal audited USAID/Senegal's ESF-V, ESF-VI, ESF-VII, and AEPRP-II programs in accordance with generally accepted government auditing standards from March 29, 1991 to November 14, 1991. The audit's objectives, scope and methodology are described in detail on pages 3, 23 and 24 of this report, respectively.

Significant audit findings are highlighted below:

- Sound management and planning dictate that non-project assistance be planned and implemented in a way which ensures that specific accomplishments be achieved at specific times. While USAID/Senegal negotiated program agreements for ESF-V, ESF-VI, ESF-VII and AEPRP-II that contained relevant authorizations and legal provisions, it did not provide for adequate time controls linked to the tranched disbursements and as a result, there was no control (other than a general termination clause) which required the AEPRP-II program to be formally reviewed to determine its continued feasibility. The AEPRP-II grant is behind schedule due to GOS delays in implementing the Conditions Precedent (CPs) to disbursement which were designed to achieve the program purpose of banking sector reform. (See page 4).

- USAID/Senegal did not follow A.I.D. internal control procedures such as seeking approval for changes or modifications to CPs and requiring verifiable evidence to be submitted in satisfaction of CPs. Consequently, A.I.D. funds were disbursed without reasonable assurance that the objectives of the programs were being achieved. In the case of the AEPRP-II program, USAID/Senegal did not ensure that the intent and spirit of the CP requiring the establishment of a new bank was met prior to disbursing $12 million in

A.I.D. funds. As of this date, over two years after this disbursement, the new bank is still not operational. (See page 7).

- USAID/Senegal followed A.I.D. procedures in monitoring the disbursement of dollars and local currencies. However, an improved procedure is necessary to ensure the timely transfer of dollar funds from the U.S. to the local currency bank accounts in Senegal. This weakness had allowed $9,367 in interest earned to remain idle in a U.S. bank account from January 1990 until December 1991, and has contributed to a less than reasonable assurance that future funds would be transferred in the most expeditious manner possible. (See page 14).

The report makes three recommendations to improve USAID/Senegal's management of cash grant programs and determine the continued viability of the AEPRP-II program. It also evaluates USAID/Senegal's internal controls (see page 18) and reports compliance with applicable laws and regulations (see page 21).

USAID/Senegal disagreed with many of the conclusion and recommendations in our report, and with our conclusion as to the adequacy of evidence that the condition precedent requiring the establishment of a new bank was met. See Mission Comments (Appendix II). The USAID also takes the position that the Requirements of Handbook 4 (non-Project Assistance) do <u>not</u> apply to non-Project Assistance founded under Development Fund for Africa (DFA) programs, but is governed by revised NPA guidelines dated 8/15/90. We maintain that these draft guidelines, even if they were finalized, which they are not, do not substitute for existing guidance, but build upon it. The USAID does agree with the usefulness of establishing terminal dates for CPs, and has agreed to request the Africa Bureau to issue final guidance governing non-Project Assistance under the DFA. The USAID also disagreed with our interpretation as to the adequacy of evidence that the Condition Precedent requiring the establishment of a new bank was met, as well as with our interpretation in the case of ten other CPs. (See page 8 of Appendix II). They have, however, issued a Mission Order to improve their system of documenting evidence that Conditions Precedent have been met prior to disbursement.

Office of the Inspector General

Office of the Inspector General
March 26, 1992

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INTRODUCTION

Background

In 1983, Senegal's economy was on the verge of collapsing after years of uncontrolled government spending, borrowing and heavy subsidies. In addition, rising inflation accompanied by stagnant exports and increasing imports created an untenable debt servicing requirement.

To respond to this crisis, the Government of Senegal (GOS) adopted an economic rehabilitation program supported by the international donors, including A.I.D. Specifically, A.I.D. provided a series of cash grants to enable the GOS to implement policy reforms. Known as the Economic Support Fund (ESF) program and the African Economic Policy Reform Program (AEPRP), the purpose of these cash grants was to encourage the GOS to maintain economic and political stability through promotion of agricultural, tax, and banking sector reforms, thereby addressing the country's underlying problems.

Between 1987 and 1990, A.I.D. approved three ESF programs totalling $40.3 million and AEPRP-II for $32 million. The major objectives of these programs were to:

- reduce demand for rice imports by using price controls and increasing millet production;
- diversify crops by shifting emphasis from peanuts to maize and cowpeas;
- reduce subsidies of sugar and peanuts;
- adopt a revised tax code for increased control over government budgets; and
- restructure the banking sector to improve solvency, liquidity and profitability with a more diversified loan program.

Cash grants were to be made in tranches subject to GOS fulfillment of certain Conditions Precedent (CPs) designed to stimulate an appropriate pace of policy reform. GOS was to use the local currency generated from these disbursements to reduce its debts. For the three ESF programs, A.I.D. provided $35.3 million in cash transfers, while the GOS disbursed an equivalent amount in local currency. Under the AEPRP-II program, A.I.D. provided $12 million to the GOS who disbursed an equivalent amount in local currency as required. The planned and actual disbursement amounts and dates are shown in the following table.

ESF AND AEPRP PROGRAMS IN SENEGAL Schedule of Disbursements					
Program	Tranche	Planned Date	Actual Date	Planned $ Disbursement	Actual $ Audited Disbursements
ESF-V	1ST	6/87	06/26/87	6,000,000	6,000,000
	2ND	[1]	01/04/88	5,075,000	5,075,000
ESF-VI	1ST	12/88	01/04/89	5,000,000	5,000,000
	2ND	[1]	12/12/89	4,700,000	4,700,000
ESF-VII	1ST	12/89	01/17/90	14,500,000	14,500,000
	2ND	[1]	[2]	5,000,000	0
TOTAL ESF				40,275,000	35,275,000
AEPRP-II	1ST	12/89	02/07/90	12,000,000	12,000,000
	2ND	06/90	[3]	5,000,000	0
	3RD	12/90	[3]	5,000,000	0
	4TH	06/91	[3]	5,000,000	0
	5TH	12/91	[3]	5,000,000	0
TOTAL AEPRP				32,000,000	12,000,000

[1] Planned disbursement dates for the 2nd tranches were not specified.

[2] USAID/Senegal has recently received authorization to obligate $1,000,000 out of the $5,000,000 previously authorized for the 2nd tranche of ESF-VII program, but has not specified a date for disbursement.

[3] The AEPRP-II grant disbursements are behind schedule because the GOS has not met all of the Conditions Precedent. Subsequent to the audit we learned that the second tranche disbursement was in process in January 1992.

Audit Objectives

The Office of the Regional Inspector General For Audit, Dakar, audited A.I.D.'s Economic Support Fund and African Economic Policy Reform Programs in Senegal to answer the following audit objectives. Did USAID/Senegal:

1. negotiate Economic Support Fund (ESF) and African Economic Policy Reform Program (AEPRP) agreements that contained relevant authorizations and legal provisions required by A.I.D. policy and the Foreign Assistance Act?

2. monitor the fulfillment by the Government of Senegal of Conditions Precedent in the program agreements in accordance with A.I.D. monitoring guidance?

3. monitor the disbursement of dollars and local currencies in accordance with A.I.D. policy guidance to ensure that these funds were used for their intended purposes and in accordance with legislation governing the use of separate accounts?

In answering these audit objectives, we tested whether USAID/Senegal: (a) followed A.I.D. internal control policies and procedures and (b) complied with applicable provisions of the ESF and AEPRP Program Grant Agreements and Section 592 of Public Law 101-167.

Our tests were intended to provide reasonable--but not absolute--assurance that illegal acts that could significantly affect the audit objectives would be detected.

Appendix I describes in detail the audit's scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Senegal negotiate Economic Support Fund (ESF) and African Economic Policy Reform Program (AEPRP) agreements that contained relevant authorizations and legal provisions required by A.I.D. policy and the Foreign Assistance Act?

USAID/Senegal negotiated program agreements for ESF-V, ESF-VI, ESF-VII and AEPRP-II that contained relevant authorizations and legal provisions. Notwithstanding this compliance, we feel we must note a deficiency in that the time controls for disbursement included in the Program Assistance Approval Document (PAAD) were not included in the Program Agreement.

USAID/Senegal Negotiated Agreements
Which Contained Required Provisions

In accordance with A.I.D. guidance, all four program grant agreements included the amount and nature of the assistance and specified the Conditions Precedent (CPs) and covenants which must be fulfilled by the Government of Senegal (GOS) prior to the disbursement of funds. In addition, the agreements included the legal requirement that the dollar cash grants and resulting local currencies be deposited into separate accounts and a statement of the terms and conditions under which the generated local currencies were to be used. Finally, the agreements were cleared by USAID/Senegal's Office of the Controller and the Regional Legal Advisor as required by A.I.D. guidance.

However, due to their interpretation of draft guidance proposed by the Africa Bureau, USAID/Senegal did not consider it a requirement that the planned timing of the programs, as authorized in the PAAD should be included in the agreements by providing terminal dates for compliance with the Conditions Precedent.

This situation is discussed below.

> **Recommendation No. 1: We recommend that, as soon as possible, the Director, USAID/Senegal, request that the Africa Bureau issue final guidance governing the design and implementation of non-project**

assistance programs under the Development Fund for Africa and that the Bureau consider including, as part of the guidance, the requirement that terminal disbursement dates be established for meeting all conditions precedent to disbursement.

The cash grant agreement is a bilateral document which focuses on the purpose, amount and major conditions of the assistance provided. Its purpose is to record the basic substantive decisions reached by A.I.D. and the host government. A.I.D. guidance contained in Handbook 4 outlines the provisions to be included in the agreement and the procedures for negotiating the agreement. In developing a cash grant program, Missions are required to include in the cash grant agreement the major elements of the program as authorized in the PAAD and relevant legal provisions. Handbook 4, Chapter 3, Section D states that any material deviation from the terms of the PAAD during negotiation <u>or implementation</u> of the Agreement requires a prior amendment of the PAAD. (Highlighting supplied).

A.I.D. Handbook guidance states that Conditions Precedent (CPs) included in the grant agreement are provisions considered essential to program implementation. CPs address specific actions which the host government <u>must</u> take in order to proceed with implementation or actions deemed necessary to optimize results. CPs are thus one-time actions which must be fulfilled within a specified period of time. A.I.D. Handbook 3 Section 6D5d, while it does not apply to non-project assistance, defines a condition precedent as conditions "without which the project should not go forward".

One A.I.D.'s internal control procedure for ensuring the timely provision of assistance is a requirement that the cash grant agreement require time limitations on meeting the CPs. The function of such terminal dates for compliance is to require A.I.D. management to reexamine its positions vis-a-vis the grant, if the conditions have not been met by the prescribed date. Specifically, A.I.D. Handbook 4 states that the agreed timing of the assistance to be provided should be included in the cash grant agreement. This guidance for the cash grant agreement negotiation process also states that firm agreement on the conditions of cash grant assistance is at least as important as it is in the case of A.I.D. Commodity Import Programs (CIP). A.I.D. policy for the CIP agreement process elaborates on this issue of time controls by stating that terminal dates for compliance with CPs should be a basic agreement provision.

One of the thirteen agreement attributes tested--time controls to disbursement--was found to be absent in all four program agreements covered by the audit. Although USAID/Senegal clearly stated the anticipated dates for meeting CPs in the PAAD, it did not include such dates in the actual program agreements for the substantive[4]

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[4] Each agreement <u>does</u>, however, include a terminal date for meeting routine CPs such as providing legal opinions, specimen signatures, and bank account numbers.

Conditions Precedent to the release of funds. As a result, there was no system of control for ensuring that the assistance would be carried out according to the planned schedule. This lack of control did not affect the implementation of the five disbursements under ESF-V, ESF-VI, and ESF-VII programs as these disbursements were made reasonably close to the planned disbursement dates. However, as of the end of audit field work, AEPRP-II was four tranches, $20 million, and eighteen months behind schedule.

A USAID/Senegal official stated that terminal dates for compliance with the CPs were purposely excluded from the agreements since they may have had the effect of binding the GOS to adhere to timetables that can not be met due to unforeseen events. The USAID also maintains that new draft policy guidance under consideration by the AFR Bureau has the effect of removing non-project assistance under the Development Fund for Africa (DFA) from Handbook 4 (Non-Project Assistance). Therefore, the USAID believes there is no requirement to place the time controls included in the authorizing document (PAAD) in the Program Agreement.

We believe, however, that the use of time controls is necessary to reasonably assure that the program objectives will be met, while still allowing for the flexibility necessary to deal with events that the GOS could not have predicted or controlled. The Office of the Inspector General is not alone in this belief. In the June 1988 audit report entitled "Foreign Aid: Improving the Impact and Control of Economic Support Funds", the United States General Accounting Office recommended that A.I.D. require each internal policy reform program document and, where possible, each grant agreement to specify the anticipated time frames or milestones for achieving these reforms. We also believe that the draft guidance cited by the USAID, or even other preliminary guidelines on the DFA program issued in 1988, were intended to "build upon existing guidance" in the Handbooks. This is in fact stated in these guidance documents themselves. We note that, notwithstanding the fact that the USAID/Senegal did not consider it a requirement to include time controls for the major conditions precedent, they did include terminal dates for meeting routine CPs such as providing legal opinions, specimen signatures, and bank account numbers.

<u>Conclusion</u>

The delays in implementing the Conditions Precedent to disbursement in addition to the lack of achievement of a major program objective that was to be in place before the first disbursement was made (see the next audit objective) raises the issue of the continued feasibility of achieving the program purpose of banking sector reform. A.I.D. management should give serious consideration to these issues before making any future disbursements.

Mission Comments And RIG/A Response

The Mission comments clearly differs with the RIG position regarding the criteria to be used in monitoring non-Project Assistance. They maintain that non-Project Assistance funded under the Development Fund for Africa (DFA) is not governed by Handbook 4 (non-Project Assistance), but rather by the "Revised NPA Guidance" dated 8/15/90, issued by the Africa Bureau. They further state that since there is no requirement in the "Revised NPA Guidance" that time controls for meeting CPs be used, therefore there is no legitimate basis for imposing this Handbook 4 requirement.

We note that the 8/15/90 "Guidance" cited by the USAID is an unsigned draft document, a revision of earlier preliminary Africa Bureau Guidance on DFA non-Project Assistance issued as Headquarters Management Notice No. 88-44 in July 1988. Even if it were a signed official policy document however, neither it (nor the 1988 Notice) clearly state that Handbook 4 is inapplicable--only that it is "inadequate". In fact both policy documents state that they "build on existing A.I.D. policies, procedural requirements, and guidance". Thus, there is to say the least, some uncertainty, as to what the current criteria should be.

Even the currently applicable 1988 preliminary guidance however, supports the inclusion of some form of timetable in DFA non-Project Assistance. It refers to the need to include an implementation plan which "lists specific accomplishments to be achieved at specific times and a plan for tranching A.I.D. disbursements to these accomplishments". The USAID also agrees with the usefulness of terminal disbursement dates. Therefore, the question is one of clarifying the criteria, which is the main thrust of our recommendation.

Did USAID/Senegal monitor the fulfillment by the Government of Senegal of Conditions Precedent in the program agreements in accordance with A.I.D. monitoring guidance?

USAID/Senegal's performance in monitoring the Conditions Precedent did not meet standards, as specified in A.I.D. Handbook guidance.

For the disbursements made under the ESF and AEPRP programs, USAID/Senegal was responsible for reviewing and approving evidence submitted by the GOS in satisfaction of a total of 52 CPs. The Mission reported that "the monitoring system consisted of gathering information from various sources, meeting with GOS officials as required for clarification, and reporting program status in periodic Program Implementation Reviews. These reviews have increased in frequency over time, and have recently been held four times a year on average. When fulfillment of CPs was deemed to have been met by the Program Review Committee and the Executive Committee for Program Review, and accepted and approved by the Mission Director, USAID/Senegal issued Program Implementation Letters (PILs) which notified the GOS that the CPs had been met."

However, as discussed below, USAID/Senegal did not follow Handbook controls for ensuring that 12 of the 52 CPs were met prior to disbursement nor in our opinion did it seek appropriate authority to amend a CP that was not met prior to disbursement. Furthermore, its monitoring system for CPs did not include controls to ensure that evidence submitted to USAID/Senegal by the GOS was adequate to verify that required actions were indeed taken.

USAID/Senegal Needs to Improve its <u>Monitoring of Conditions Precedent</u>

A.I.D. monitoring guidance contained in Handbook 3 requires Missions to verify and document compliance with CPs before disbursing funds in order to ensure that actions critical to program success are implemented[5]. USAID/Senegal did not verify policy reform evidence submitted by the GOS and, in 12 of the 52 cases (discussed in detail below), did not ensure that CPs were met prior to disbursing funds.

For example, a CP to the first tranche of AEPRP-II required the establishment of a new bank prior to the disbursement of the first tranche of $12 million, yet this new bank is still not operational two years after A.I.D. disbursed the money, and there is no firm evidence it will ever be established. This situation occurred because USAID/Senegal did not follow A.I.D. control procedures such as seeking approval for changes or modifications to CPs and requiring verifiable evidence to be submitted in satisfaction of CPs. Consequently, A.I.D. funds were disbursed without reasonable assurance that the objectives of the programs had been achieved. In addition, the AEPRP-II end of program status has been altered due to this weakness.

> **<u>Recommendation No. 2</u>: We recommend that the USAID Director, Senegal:**
>
> **2.1 obtain immediate guidance from the Assistant Administrator for Africa on whether the absence of the new bank requires a retroactive amendment to the PAAD of the African Economic Policy Reform Program due to the resulting changes in the stated**

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[5] While the USAID points out (correctly), that Handbook 3 (Project Assistance) does not apply to non-Project Assistance, and that Handbook 4 is silent on Conditions Precedent, we regard this as a deficiency of Handbook 4 on non-Project Assistance. The failure of Handbook 4 (or any other preliminary or proposed DFA guidance) to include such Handbook 3 guidance by reference should not have the effect of absolving the Agency from monitoring of CPs any more than it should eliminate the necessity to comply with other existing regulations or Handbook 15 on Financial Management or pertinent sections of other Handbooks as well. A.I.D. currently operates under a Handbook system that some have criticized as "voluminous inaccurate, outdated and not well-indexed". This has resulted in a growing volume of cable guidance, preliminary interim and draft guidance issued by various bureaus in A.I.D. to "update and clarify" the Handbooks. We believe this policy process is confusing, sometimes contradictory, difficult to track and can sometimes lead to gaps in the control system as illustrated by the present situation.

program outputs;

2.2 issue a Mission Order establishing monitoring responsibilities among program committee members in which procedures are included for requesting, verifying, approving, and disapproving conditionality evidence.

Under A.I.D. Delegation of Authority No. 551 the Mission Director, USAID/Senegal, has been delegated the authority to review and approve documents and other evidence submitted by the GOS in satisfaction of CPs to disbursement. The meeting of CPs to disbursement--one of the first events to occur during the implementation of a program--is the subject of a routine monitoring task since these conditions are a part of most bilateral programs. To facilitate the monitoring process, A.I.D. Handbook 3 requires Missions to document their monitoring systems, clearly allocating responsibilities. In addition, A.I.D. project implementation guidance requires Missions to issue Project Implementation Letters (PILs) either concurrently with negotiated agreements or promptly thereafter specifying those documents that are to be submitted by the grantee in order to satisfy CPs set forth in the agreement. According to Delegation of Authority No. 551, when programs at USAID/Senegal are funded with more than $30 million (as was AEPRP-II), the authority to amend the program rests with the authorizing office--the Assistant Administrator for Africa (AA/AFR). Since a change or waiver of a CP would have the effect of amending the program authorization, any such changes or waivers of CPs under AEPRP-II should have the approval of the AA/AFR.

Twelve of the 52 CPs (for AEPRP-II, ESF IV, ESFV) were either not ensured as met by USAID/Senegal prior to disbursing A.I.D. funds or the evidence submitted was not adequate to verify actions had indeed been taken. (See Appendix III for a list of these 12 CPs.) In one case, USAID/Senegal certified a CP as met even though the evidence submitted did not meet the original underlying intent of the reform objective. Moreover, there were four instances where USAID/Senegal did not have any documentary evidence that the CPs were met prior to disbursement and five other cases in which it accepted letters of attestation from the GOS confirming that certain actions were taken without documenting the underlying evidence. Finally, there were two instances where CPs were changed to covenants which were not met as planned.

- Under pressure to disburse the cash grant due to a shortage of GOS funds to pay government salaries in December 1989, USAID/Senegal accepted the Memorandum and Articles of Association which created the legal framework for a new bank as evidence that a CP in the AEPRP-II program, requiring "evidence of the establishment of a new bank", was met. However, at the time of disbursement in February 1990, USAID/Senegal officials knew that the Central Bank had not granted a license for this bank to operate and that the required capital had not been raised--two very crucial steps to opening the new and dynamic bank envisioned by this program. Eight months after the

A.I.D. funds were disbursed, the GOS agreed with the Central Bank that it would not open a new bank. There is no evidence that USAID/Senegal requested guidance from the authorizing office, AA/AFR, on whether the aforementioned document constituted adequate evidence that the intent of the CP was indeed met.

- As evidence that a CP to ESF-VI was met, USAID/Senegal accepted a letter from the GOS confirming that the wheat perequation[6] payment had been made. The auditors documented evidence that, while this payment was eventually made, it had not, in fact, been made prior to the disbursement of A.I.D. funds.

- Two CPs in the ESF-VI agreement were changed to covenants[7] by USAID/Senegal (the authorizing office for ESF-VI) in order to disburse the second tranche of $4.7 million before the end of December 1989--the period that the GOS was in dire need of cash to pay salary commitments. These two covenants, that were to have been met by March 30, 1990, had still not been met at the time of the audit.

- Although USAID/Senegal disbursed the second tranche of ESF-V in full, it did not have documentary evidence that a timetable for establishing a plan of action for reducing rice imports was submitted by the GOS (as required by a CP to the second tranche disbursement of ESF-V).

- USAID/Senegal disbursed the first tranche of ESF-V without having met a CP which required an audit of an agricultural parastatal to have started.

The principal cause of these deficiencies is USAID/Senegal's lack of adherence to controls such as:

- issuing basic PILs fully explaining the evidence to be submitted,

- verifying the evidence submitted in satisfaction of CPs, and

- requesting the appropriate authorization to rescind and/or change CPs when deemed necessary.

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[6] The term "wheat perequation" (perequation is a French word which means "equalization") denotes the amount due to the GOS by the Senegalese wheat importers and is the difference between the price at which wheat is sold by the importers in Senegal and the price at which wheat is bought on the international market plus a percentage to cover costs and profits. The price at which wheat is sold in Senegal is fixed by the GOS and, when the fixed price is considerably higher than the world price, the perequation formula is, in effect, a consumer tax on wheat.

[7] Covenants, as defined in A.I.D. Handbook 3, are those provisions which obligate the grantee to observe certain requirements or take certain specific or continuous actions during the life of the agreement. However, covenants do not provide as much leverage as CPs because they do not require that actions be taken before A.I.D. funds are released.

Further details on the establishment of the new bank and the other examples are presented below.

The New Bank

For the case of the establishment of a new bank, the evidence accepted did not meet the intention of the CP as authorized in the Program Authorization and Approval Document (PAAD). The CP as stated in the Program Agreement states that, prior to the disbursement of the first tranche of $12 million, the grantee shall furnish in writing:

> Section 2.3(3) "Evidence of the establishment of a new bank incorporating the performing assets of the former public banks (BNDS, SONAGA/SONABANQUE, SOFISEDIT) together with copies of the new bank's manual of operating procedures, initial balance sheet and projected income statement".

As mentioned, the new bank is (as of issuance of this report), still not operational. According to the Program Officer, this CP was never intended to mean that the new bank be operational since the GOS could not actually control the opening of the bank--only the Central Bank of West African States had the authority to grant a license. He also stated that the viability of the new bank was uncertain and that the intention of A.I.D. was to simply include a CP that required the GOS to think about how such an institution would operate. This statement is not, however, supported by the PAAD which states that this new bank was expected to open in October 1989--two months prior to the anticipated disbursement date for the first tranche.

Because this new bank was expected to contribute to the privatization, restructuring, and improved management of the banking system--a major program objective--a CP to the first disbursement (one of five such CPs under this program objective) requiring its establishment was included in the program agreement. As such, we believe any change or waiver of this CP should have required approval from the authorizing office--AA/AFR. When the Africa Bureau eventually learned, in September 1990, that the GOS had agreed with the Central Bank not to open a new bank, it stated that the failure to open the new bank together with reports which indicated the GOS' lack of commitment to the banking reform program raised concerns that AEPRP-II may achieve substantially less than A.I.D. had hoped. Regardless of whether or not the establishment of a new bank was a feasible goal, or whether the original end of program status is still achievable, we believe there was a serious breakdown in management controls because USAID/Senegal did not request the authorization from AA/AFR to either rescind or modify the PAAD.

Other Examples

For other examples presented above, USAID/Senegal sent letters requesting that the

GOS confirm that certain actions were taken without requesting that specific verifiable evidence be presented. In each case the GOS replied with a letter of attestation in which it confirmed that the actions were taken. In still other cases, USAID/Senegal did not have documentary evidence in the program files showing that CPs in question were met.

USAID/Senegal officials stated that letters of attestation from the GOS were considered adequate evidence along with the Program Office's general knowledge concerning the policy reform actions taken. They also stated that lengthy expensive independent verifications of the CPs would not have been worth the benefit of documenting the evidence in all cases. While the Standards for Internal Controls in the Federal Government recognize that the cost of internal control should not exceed the benefit derived, the cost to the auditors of obtaining and reviewing verifiable evidence was minimal and well within the budget and time resources available to USAID/Senegal.

Mission Comments And RIG Response

The USAID, as discussed in the previous finding, believes that draft proposed guidance dated August 15, 1990 which concerns non-project assistance funded from the DFA removes such assistance from Handbook 4 (Non-Project Assistance) which is therefore not applicable. We do not agree with this assessment, as explained in the previous finding. We therefore fully believe that Section 3D of Handbook 4 should apply. It states in its entirety:

> "As stated above, the signed PAAD is the authorizing document for entering into a Loan or Grant Agreement. Any material deviation from the terms of the PAAD during negotiation or implementation of the Agreement requires prior amendment of the PAAD. A.I.D. officials empowered to approve PAAD may approve amendments with appropriate clearances".

Subsequent AFR policy documents, signed or unsigned, should build on existing guidance. We do not believe they should replace or negate it unless this is clearly stated in the guidance itself. If the Agency truly intends to create a "hybrid" category of assistance not subject to existing Handbook guidance, this should be clearly set forth.

However, even the preliminary guidance in Headquarters Management Notice No. 88-44 states:

> "Missions may not make any substantive changes in the program objectives or conditionality without first obtaining AID/W concurrence. If substantive changes are proposed, the PAAD amendment should be sent to AID/W for amendment".

We continue to believe that the USAID's decision to accept the "apparent intent of the GOS to proceed with the new bank and evidence of completion of a good faith first step" as sufficient evidence of its "establishment" represents a substantial change in the conditionality, which should have required PAAD amendment under either Handbook 4 or the Headquarters 1988 Management Notice. The proposed draft guidance, which the USAID now maintains is applicable, would interestingly provide for a more liberal method:

> "Alternatively, a mission may request ad hoc authority by a cable which outlines the nature of the proposed changes and the effect of these changes on the overall program objective".

While this is certainly in line with A.I.D.'s trend toward decentralization of authority, from an accountability perspective we see some problems determining the proper level of authority involved in cable approvals, and feel the PAAD amendment procedure on major program changes is an internal control well worth keeping.

There was also a wide diversion of opinion between the USAID and RIG/A/Dakar concerning whether 12 of 52 conditions precedent relating to the three agreements (AEPRP II, ESF VI, ESF V) were properly met prior to disbursement. The USAID, in their comments asked for clarification on this matter since they felt only one CP was not met prior to disbursement and that two could have been better documented. In line with the USAID's request, we have categorized these 12 CPs as follows: 4 were not met before disbursements were made; 6 were considered met with inadequate submissions; and 2 considered met with inappropriate submissions. It is our position that one CP concerning the establishment of a New Bank (AEPRP II) was never satisfied before (or after) the $12 million was disbursed on 2/7/90. We also note 3 CPs from ESF VI were not met prior to disbursement. This occurred because 2 of these 3 CPs were converted to covenants--which had the effect of allowing the disbursements of $4.7 million made on 12/12/89 to occur notwithstanding the non-completion of the covenants desired action. At the time of audit, neither covenant has been completed. Finally, even on the one CP that the Mission agrees was not satisfied before disbursement, the significance of this occurrence was minimized by stating that the balance of this payment was made six days after the $5 million was disbursed. The auditors note from an internal control point of view that such a timing scenario on a condition precedent requiring a monetary payment by a host government would not preclude the possibility that the balance (or all) of the payment could be made using the USAID disbursement itself. This scenario would not have happened in this case, since the payments of the perequation were made by commercial entities rather than the government. But in the case of a government or parastatal organization's payment, this possibility would exist.

The greater emphasis being placed on reform programs in Africa, which calls for tough and difficult actions to be taken by recipient governments, also dictates that the occurrence of these actions be monitored even more strictly, both from the point of view of when they occur and if they occur. We feel our findings one and two are related in the sense that they address both these important aspects of program monitoring.

The Mission's response refers to encouraging governments to make policy changes "through the stick of the CP process followed by the carrot of the disbursement of dollar assistance". We agree. However, if the stick of the CP process is weakened by not including timed deadlines for reforms to occur and the carrot is provided too readily by overly generous interpretations of the reform conditions, such programs will not succeed in Africa.

Did USAID/Senegal monitor the disbursement of dollars and local currencies in accordance with A.I.D. policy guidance to ensure that these funds were disbursed in accordance with legislation governing the use of separate accounts?

USAID/Senegal followed A.I.D. procedures in monitoring the disbursement of dollars and local currencies. However, it should take steps to ensure timely transfer of dollar funds from the U.S. to the local currency bank accounts in Senegal.

In accordance with statutory requirements, USAID/Senegal ensured that separate bank accounts were established in Citibank/New York to receive the dollar cash grants from the US Treasury and subaccounts were established in the Senegal branch of the Central Bank of West African States (BCEAO/S) to receive the generated local currency. USAID/Senegal properly monitored these accounts by:

- reviewing the bank statements to determine whether the funds were deposited into the intended separate accounts in the amounts specified in the program agreements;
- analyzing the local currency deposits to determine whether they were transferred at the highest lawful rate of exchange;
- reviewing accounting records concerning local currency payments and tracing a sample of these payments to their end use and following up on any discrepancies;
- establishing memorandum accounting records for the dollar disbursements; and
- reviewing bank statements to determine when the dollars were exchanged for local currency and transferred to the separate local currency subaccounts.

As a result, USAID/Senegal substantially complied with standards established in A.I.D. Handbooks and cable guidance.

However, as discussed below, the existing GOS system for ensuring timely transfers from the dollar account to the local currency accounts needs strengthening.

USAID/Senegal Complied with Legislation but
<u>Needs to Urge Correction of a Structural Problem</u>

A.I.D. policy as stated in cable 91 STATE 204855 requires missions to cause funds to be transferred in the most expeditious manner possible. Under the ESF-VII first tranche disbursement, a delay of eight days occurred in exchanging the $14.5 million for the equivalent amount of local currency because BCEAO did not notify the GOS that the funds were available. Consequently, both USAID/Senegal and the GOS were unaware that funds were available during this eight-day period and, although interest income of $9,367 was earned during that period, it was not promptly transferred to the local currency account as required by the agreement.

> **<u>Recommendation No. 3</u>: We recommend that the USAID Director, Senegal:**
>
> **3.1 condition the release of any future cash grant disbursement on the proper transfer of the $9,367 in earned interest; and**
>
> **3.2 determine the feasibility of bypassing the Central Bank of West African States in future cash grants by requesting the U.S. Government's Regional Accounting Management Center in Paris to disburse the cash grants in local currency directly to the Government of Senegal.**

Section 592(b) of Public Law 101-167 requires countries receiving ESF cash transfers and non-project sector assistance cash disbursements to maintain such funds in a separate account and not commingle them with any other funds. A.I.D. guidance as stated in cable 87 STATE 325792 incorporates this statutory requirement and adds the preference for placing cash grant dollars in an interest-bearing account. An interest-bearing account protects the dollar disbursement against inflation in the case where the dollars can not be disbursed for agreed to purposes in an expeditious manner.

The deposit of $14.5 million in the local currency account at BCEAO/S was delayed by a total of eight days. Foreign exchange in countries of the West Africa Monetary Union (WAMU), such as Senegal, is pooled at the monetary union level and individual countries do not have control over dollar use by the monetary union. Therefore, during this eight-day period, the dollars were held in a separate account in Citibank/New York by the BCEAO headquarters and were invested for four days earning $9,367 in interest income.

The delay occurred because the BCEAO did not inform the GOS that the dollar funds had been received. BCEAO headquarters officials stated that the use of separate accounts is very rare and as such the bank staff receiving the telex notification of the $14.5 million deposit was not familiar with this particular separate account and may not have known to notify the GOS of the deposit. They also noted that the interest earned on this deposit was a mistake on the part of Citibank/New York and that no further investments were made on this separate account because it does not want to encourage the use of separate accounts which require special monitoring.

USAID/Senegal has succeeded after three formal requests to the GOS to get the interest transferred to the local account. However, the structural problem remains unresolved and will require stronger action on the part of USAID/Senegal to correct and ensure that it does not occur in future ESF-VII and AEPRP-II disbursements. In light of the BCEAO's position on interest-bearing separate accounts, USAID/Senegal should seek alternative methods for disbursing its cash grants to the GOS. Having encountered the same problem with BCEAO but with a much longer transfer delay, another USAID Mission in West Africa avoided the BCEAO entirely by having the U.S. Government's Regional Accounting Management Center (RAMC) in Paris convert the dollar grant to local currency and then disbursing the local currency directly to the government's separate interest-bearing account in a commercial institution. By bypassing BCEAO, this USAID Mission has established a control for ensuring timely transfers of funds.

Mission Comments And RIG Response

The Mission felt that the problem was not one of USAID monitoring laxity but a structural problem involving the Central Bank of West African States(BCEAO) and the GOS. We have changed our draft report accordingly, and, in consideration of the fact that the Mission finally succeeded in obtaining the transfer of the $9,367 on December 19, 1991 have closed the recommendation on issuance of the report.

Issues Needing Further Study

Methodology for the first audit objective included determining whether the programming of local currency, as specified in the PAADs, was included in the program agreements. In making this determination we noted that 100 percent of local currency generated under ESF-V and ESF-VI and approximately 80 percent of that generated under ESF-VII was programmed to reimburse the GOS for debts of a general nature to firms in the private sector.

While the audit objectives for this assignment did not include determining whether

USAID/Senegal followed A.I.D.'s policies and legislation in programming the use of local currency generated under ESF programs, we discussed with USAID/Senegal Officials and consulted with the Legal Counsel of the Office of the Inspector General on whether this particular use of local currency was in accordance with Part II, Chapter 4, Section 531(d) of the Foreign Assistance Act (FAA).

This section of the FAA requires that at least 50 percent of the local currency generated by ESF programs be available to support activities consistent with the objectives of Sections 103 through 106 of the act which cover basic development programs such as agriculture; population and health; education and human resources development; and energy, private voluntary organizations, and other selected development activities. Supplemental guidance--contained in 87 State 369925--states that if ESF-generated local currencies are to be used for debt repayment, it should be programmed in accordance with section 531(d) of the FAA. We believe that the aforementioned 50 percent rule would need to be satisfied before debt repayments of a general nature should be considered for local currency programming.

USAID/Senegal officials stated that it was possible that a large portion of the private sector debt was paid to firms in the agriculture industry and thus would have met the requirements of the 50 percent rule. However, USAID/Senegal does not have evidence that the local currency was used to pay private sector debts to the agriculture sector nor did it require the GOS to do so in the program agreements.

The issue of local currency programming needs further study in order to determine whether USAID/Senegal's system for making local currency programming decisions assures A.I.D. policies and procedures are adhered to and includes controls for ensuring that applicable provisions of the FAA are considered. The Regional Inspector General for Audit Dakar will propose an audit to address this issue in its next audit plan.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of USAID/Senegal's internal controls related to each audit objective.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit. We limited our assessment to those internal controls applicable to the audit's objectives and did not attempt to provide assurance on USAID/Senegal's overall internal control structure. We classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures, determined whether they are in operation, and then assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by Agencies in establishing and maintaining internal controls. The objectives of internal controls for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data is obtained, maintained and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

The first audit objective was to determine whether USAID/Senegal negotiated program agreements that contained relevant authorizations and legal provisions required by A.I.D. policy and the Foreign Assistance Act. In answering this objective, we considered applicable internal control policies and procedures in A.I.D. Handbooks 3 and 4 and, for the purposes of this report, categorized them as follows: the agreement preparation and agreement review and clearance processes. We reviewed USAID/Senegal's internal controls relating to these processes, and our tests showed that controls were logically designed and consistently applied. However, USAID/Senegal's agreement preparation process did not include procedures for including all required provisions in grant agreements. Specifically, USAID/Senegal did not establish procedures for ensuring that time controls--such as terminal dates to disbursement for compliance with Conditions Precedent--were included in grant agreements.

Conclusions for Audit Objective Two

The second audit objective was to determine whether USAID/Senegal followed A.I.D. guidance in monitoring the fulfillment by the Government of Senegal (GOS) of Conditions Precedent in the program agreements. In answering this objective, we considered applicable internal control policies and procedures in A.I.D. Handbooks 3 and 4 and, for the purposes of this report, categorized them as follows: the communication of acceptable evidence to the GOS, the assessment of evidence submitted, and the amendments to and waivers of Conditions Precedent processes. Our assessment of A.I.D.'s controls relating to these processes showed that, while these controls were properly designed, USAID/Senegal did not follow these controls. Specifically, USAID/Senegal did not follow A.I.D. procedures such as issuing basic PILs to explain the required evidence, verifying the evidence submitted in satisfaction of CPs, and requesting the appropriate authorization to rescind and/or change CPs.

USAID/Senegal did disclose a related weakness in its 1991 Internal Control Assessment.

Conclusions for Audit Objective Three

The third audit objective was to determine whether USAID/Senegal monitored the disbursement of dollars and local currencies in accordance with A.I.D. policy guidance to ensure that these funds were used for their intended purposes and in accordance with legislation governing the use of separate accounts. In answering this audit objective, we considered applicable internal control policies and procedures in A.I.D. Handbooks 1 and 19, Controller's Guidebook, and cable guidance. For the purposes of this report we categorized these policies as follows: the transfer of funds, dollar and local currency accounting/reporting, and tracking of funds processes. We reviewed USAID/Senegal's internal controls relating to these processes, and our tests showed that they were logically designed and consistently applied. We did note that USAID/Senegal has not succeeded in persuading the GOS to establish procedures reasonably assuring timely transfer of dollar funds to the local currency accounts.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Senegal's compliance with applicable laws, agreements and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we (1) assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Senegal's compliance with Section 592 (a) and (b) of Public Law 101-167 and provisions of the Economic Support Fund (ESF) and African Economic Policy Reform Program (AEPRP) grant agreements as they affected our audit objectives. Our objective was not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Noncompliance is failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks (except for those policies which stem from provisions of laws and regulations) generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with Section 592 (a) and (b) of Public

Law 101-167 and provisions of the ESF and AEPRP program agreements is the responsibility of A.I.D. management.

Conclusions on Compliance

USAID/Senegal complied with Sections 592 (a) and (b) of Public Law 101-167 and provisions of the program agreements except for certain agreement provisions requiring Conditions Precedent (CPs) to be met before releasing funds.

There is no evidence that the following four Conditions Precedent were met prior to disbursement:

- submission of a timetable for establishing a plan of action for reducing rice imports as required by ESF-V second tranche CPs;
- starting of the SONACOS audit prior to disbursement of the first tranche of ESF-V (this CP was amended six months after the first disbursement was made);
- Government of Senegal (GOS) agreement to undertake an audit of the sugar company, CSS, prior to disbursement of the first tranche of ESF-V; and
- submission of a status report on payments of peanut seed collections by the GOS as required by a CP to the first tranche of ESF-V.

Also the release of AEPRP-II first tranche disbursement without the legal establishment of the new bank (that is, contributed capital and a license from the Central Bank) as required by a CP, constitutes non-compliance with not only the letter, but the intent and spirit of the agreement.

SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General for Audit, Dakar, audited USAID/Senegal's Economic Support Fund (ESF) V, VI, and VII programs and African Economic Policy Reform Program (AEPRP) II in accordance with generally accepted government auditing standards. The audit covered systems and procedures relating to disbursement of six dollar cash grants ($47.3 million tested of $47.3 million expended) and generation of local currency ($47.3 million tested of $47.3 million expended), as well as USAID/Senegal's agreement negotiation process and monitoring system for Conditions Precedent, from program inception in June 1987 through June 1991. The audit was conducted from March 29, 1991 through November 14, 1991 at the USAID/Senegal mission and the offices of the Ministry of Finance and the Central Bank for West African States (BCEAO).

We obtained documentary and testimonial evidence from USAID/Senegal, GOS, Central Bank, and private sector officials; assessed internal controls related to each audit objective; and verified evidence through examination of supporting documentation. The following section describes the audit methodology for answering each audit objective.

Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective, we first assessed internal controls and determined whether USAID/Senegal's agreement negotiation process was in accordance with Handbook standards and the Foreign Assistance Act. We reviewed the ESF-V, ESF-VI, ESF-VII and AEPRP-II Program Assistance Approval Documents (PAAD), A.I.D. policies contained in A.I.D. Handbook 4 on the obligation process for non-project assistance agreements AFR Headquarters

Administrative Notice 88-4, and cable guidance on ESF dollar cash transfers and host country-owned local currencies as well as and Section 592(a) and (b) of Foreign Operations, Export Financing, and Related Programs Appropriations Act to make a list of all authorizations and legal provisions that should have been included in the program agreements. All four Program Grant Agreements were tested for these required attributes to answer the audit objective.

Audit Objective Two

We reviewed documentation and discussed with program officials how USAID/Senegal defined and carried out the monitoring process for Conditions Precedent and covenants. We tested Conditions Precedent to disbursement for ESF-V, ESF-VI, ESF-VII and AEPRP-II by reviewing the evidence used by USAID/Senegal to certify that conditions and covenants were met and, in some cases, verifying the validity of the documentary evidence. As weaknesses were found in the USAID/Senegal's controls, we conducted more extensive testing to conclusively determine whether USAID/Senegal ensured that Conditions Precedent were met prior to disbursing A.I.D. funds. This expanded testing included reviewing the evidence submitted by the GOS for each of the 52 Conditions Precedent to disbursement of A.I.D. funds. Where the evidence submitted was not conclusive, we attempted to verify the accomplishment of the condition precedent by interviewing cognizant GOS, USAID/Senegal, and agricultural and banking sector officials and reviewing documents received from these officials.

Audit Objective Three

To accomplish the third audit objective, we first met with responsible officials to discuss USAID/Senegal's system for monitoring the disbursement process including the receipt, review and verification of required reports and follow-up action procedures. This system was reviewed and checked for conformance to A.I.D. guidance on monitoring ESF dollar cash transfers and host country owned local currency as well as separate account legislation. We then reviewed USAID/Senegal's Internal Control Assessments up to 1991 for monitoring and non-project assistance to learn about any reported system weaknesses and determine the extent of audit testing. Our audit testing included a review of 100 percent of the dollar and local currency bank statements and disbursement reports for ESF-V, ESF-VI, ESF-VII and AEPRP-II to determine whether: (a) funds were deposited into the required separate accounts, (b) the accounts were interest-bearing, (c) interest earned was transferred and used for the same purpose as the principal, and (d) the local currency equivalent was credited at the highest lawful dollar exchange rate.

MEMORANDUM

APPENDIX II

DATE: March 26, 1992

REPLY TO
ATTN OF: Julius E. Coles, Director, USAID/Senegal

SUBJECT: USAID/Senegal's Response to RIG Draft Audit of A.I.D.'s Economic Support Fund and African Economic Policy Reform Programs in Senegal from 1987 through 1990

TO: Paul Armstrong, Regional Inspector General for Dakar

USAID/Senegal does not agree with many of the conclusions and recommendations contained in the subject report.

We believe that the Banking Sector Reform Project was well planned and managed, consistent with Africa Bureau DFA guidance for structural adjustment programs, and that the program is well on the way to having met its 'End of Project Status (EOPS)' goals. Rather than lagging behind, the program is clearly on 'schedule'.

Non-Project sector assistance, under which the Banking Sector Reform Program may be classified, is qualitatively unlike project assistance. Project assistance is normally measured in sequential milestones against which progress is assessed; under project assistance and non-project CIP programs, time phased planned disbursement dates are valid management controls; not so a program for policy and institutional change of the magnitude of the Banking Sector Reform Program. Rather, under this far-ranging sector reform program a flexibile approach is called for as governments are encouraged to make policy changes through the stick of the CP process followed by the carrot of the disbursement of dollar assistance.

Program progress depends upon the Mission managers' success in changing attitudes toward new policy orientations; while a time line of progress is anticipated, ongoing evaluation of progress, as CPs are satisfied and funds released, provides the milestones for reassessment of structural and attitude change accompanied by success in achieving end of progress status.

The program manager continuously reassessed progress made toward restructuring the banking sector and quarterly the Program Implementation Review Committee conducted a more formal review of program progress. Indeed, this is the approach anticipated by the Development Fund for Africa guidance.

Specific comments on each of the recommendations follow:

COMMENTS ON PP 4-7 RECOMMENDATION 1 AND ASSOCIATED FINDINGS

The Report concludes on page 4 that the Mission did not follow A.I.D. policy/guidance relating to time controls for disbursements on the grounds that the AEPRP-II Program Agreement does not contain terminal disbursement dates (TDD) for meeting conditions precedent to disbursement. In support of this position, the Report then cites A.I.D. Handbook 4 requirement that "the agreed upon timing of assistance to be provided should be included in the cash grant agreement". And it continues:

> "This guidance for cash grant agreement negotiation process also states that firm agreement on the conditions of cash grant assistance is at least as important as it is in the case of A.I.D. Commodity Import Program (CIP)."

Based on the assumptions that USAID/Senegal did not follow the A.I.D. requirement of setting time controls for meeting the CPS under the subject Program and on the assumption that the AEPRP-II Program is seriously behind schedule and the feasibility of it should be re-examined, the Audit Report recommends that the Mission carry out the corrective actions in Recommendation 1.

In our view, the premises on which Recommendation No. 1 is based are erroneous and the policies cited in support of the premises are not applicable to the AEPRP-II program.

The AEPRP-II Program is a non-project sector assistance (NPA) program authorized and funded under the Development Fund for Africa (DFA). Non-project sector assistance programs, and program agreements for NPA programs funded under the DFA (like the AEPRP-II program) are not governed by Handbook 4 policies and requirements. Rather, they are governed by the "Revised NPA Guidance" dated 8/15/90, issued by the Africa Bureau.

Section I of the Revised NPA Guidance states in pertinent part:

> Existing A.I.D. guidance on non-project (or program) assistance is embodied in two primary sources: Handbook 4 and Handbook 1, Part VII. Neither is adequate to meet the requirements of the Development Fund for Africa (DFA). Handbook 4 is appropriate only for ESF balance of payments programs designed as Cash Transfer Programs and Commodity Import Programs. Handbook 1, Part VII provides guidance for Program Sector Assistance, but it is incomplete and out-of-date. (Emphasis added.)

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Section III of the Revised NPA Guidances provides:

> This Africa Bureau guidance builds on existing A.I.D. policies, procedural requirements, and guidance to provide a framework for the design of non-project assistance (NPA), or sector program assistance, under the Development Fund for Africa. <u>It is applicable to only one special form of non-project assistance, i.e., non-project sector assistance financed under the DFA</u>. It does not cover ESF non-project assistance which must be programmed and justified on the basis of Handbook 4 requirements. However, when appropriate, the Bureau urges missions to apply the analytic requirements outlined in this guidance to ESF NPA. (Emphasis added.)

The requirement and policy cited in the Audit Report relating to TDDs in Handbook 4 is applicable to ESF and CIP program agreements. The Audit Report erroneously assumes that this Handbook 4 requirement is applicable to the AEPRP-II program. It is not. While the Mission agrees that establishing terminal disbursement dates for meeting CPS is one of many useful tools for monitoring the host country's progress in achieving program objectives, there is no requirement or policy in the Revised NPA Guidance that TDDs for meeting CPS be used in DFA-funded NPA program agreements. We also do not believe there is any legitimate basis for imposing this Handbook 4 requirement on DFA-NPA programs such as the AEPRP-II Program. As noted in the Revised NPA Guidance, the requirements of Handbook 4 are <u>only</u> appropriate for ESF-cash transfers and CIPS - <u>not</u> for NPA programs financed under the DFA.

Because the Auditors incorrectly apply Handbook 4 requirements for ESF funded cash transfers to our DFA funded AEPRP-II program, they reach the erroneous conclusion that USAID/Senegal did not comply with A.I.D. policy. Based on a review of the facts and interpretation of applicable guidance we conclude that:

(1) USAID/Senegal should not and did not follow Handbook 4 guidance in preparing the AEPRP-II program grant agreement. The Mission followed the Revised NPA Guidance applicable to DFA-funded NPA programs;

(2) The Revised NPA Guidance does not require that DFA-NPA program grant agreements include TDDs for meeting CPS; and

(3) The AEPRP-II Program Agreement <u>as written</u>, is wholly consistent with A.I.D. requirements and policies governing non-project sector assistance programs under the DFA.

As a legal matter, terminal dates such as TDDs or Program Assistance Completion Dates (PACDs) are binding on the parties to an agreement. For this reason, they are not incorporated in the AEPRP-II Program Agreement in the form of a terminal date.

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COMMENTS ON PAGES 7-11: RECOMMENDATION 2 AND ASSOCIATED FINDINGS

The report is critical of Mission monitoring of Conditions Precedent, concluding on page 8 that policy reform evidence was not verified and, in 12 out of 52 cases, did not ensure that CPs were met prior to disbursing funds. However, on page 9 the report states that these 12 CPs "were either not ensured as met by USAID/Senegal prior to disbursing A.I.D. funds or the evidence submitted was not adequate to verify actions had indeed been taken." Further, on page 20, the report specifies that four CPs were not met. The report's allegations are clearly inconsistent.

The report states (page 7) that the Mission's system for monitoring Conditions Prededent (CPs) did not meet standards as specified in A.I.D. handbook guidance. The Mission is further criticized for not having in place a monitoring system with controls to assure that evidence submitted by the GOS is adequate to verify that required actions were indeed taken. Under the caption entitled 'USAID/Senegal Needs to Improve its Monitoring of Conditions Precedent', (page 8) the auditors state that the Mission did not verify policy reform evidence submitted by the GOS prior to disbursing funds.

The report further criticizes the Mission for disbursing funds when one of the relevant CPs required the establishment of a bank, stating "the bank is still not operational..." This finding is used as a basis for recommending the USAID/Senegal Director seek guidance from the AA/Africa as to whether the program should be amended due to the "...resulting changes in the end of program status...".

The findings concerning the monitoring system and Mission decision making process, if valid, would appear to cover a generic problem applicable to other programs. These findings are not valid, however, and in fact the Mission indeed has in place a monitoring system designed to assure that sufficient progress is being made at any given time to assure that CP requirements are satisfied. This system includes:

-- ongoing contacts between cognizant staff and host country officials, ranging from informal phone calls to formal committee meetings;
-- internal project committee meetings as required;
-- internal Project/Program Implementation Reviews, including broader Mission representation than the project committee, which have increased in frequency in recent years;
-- internal Executive Committee Program Reviews when major decisions are required;
-- Project/Program Implementation Letters for formal communications to the Government.

A.I.D. controls were applied to ensure compliance with CP's. The best available evidence was sought to document such compliance. When USAID, using its best judgment, has found the evidence supplied by the Government inadequate, it has sought further information. USAID has carefully monitored, verified and documented compliance with CPs, drawing upon all the resources available in the Mission. This monitoring system is applied not only when a disbursement is imminent, but continuously throughout the life of the program.

The allegation that "USAID/Senegal did not verify policy reform evidence" is not accurate. USAID verified that CP's were satisfied, through analyzing the documentation provided by the GOS as well as through direct knowledge of staff responsible for the programs and through contacts with cognizant GOS and other donor officials. It should be noted, however, that CP's do not in and of themselves constitute policy reform. They are measures which are taken in support of a changed policy orientation. To the best of AID's ability, they reflect the fundamental changes which the Government is willing to undertake to improve the conditions of economic development. In recognition of that reality, USAID/Senegal combined an understanding of policy orientation with documentation supplemented by staff deliberations to reach its judgements.

Recommendation No. 2 - the establishment of a new bank:

The issue as to whether the failure to open a new bank seriously alters the end of program status permeates much of the Audit report and contributes significantly to an adversarial tone throughout the report. The objectively verifiable indicators identified in the PAAD logframe shed light on this question.

The indicators of achievement of program purpose -- those for which USAID management can reasonably be held accountable in a project sense and which govern the end-of-program status -- deal with the health of the banking sector as a whole and the availability of credit. The number or size of banks operating at the end of the program is not an indicator. At the output level, the indicators of privatization, restructuring, and improved management of banks focus on: removing the GOS as a majority owner in any bank, reducing GOS ownership in individual banks to 25 percent or less, and reducing its position in the system as a whole to less than 12 percent. The fundamental objective was not to create a bank, but to reduce the share of the government in the banking sector.

The audit asserts the AEPRP II end of program status has been altered. Rather than being altered or weakened, the program has made substantial progress toward meeting its objectives, demonstrated as follows:

--23 out of a total of 28 conditions have been met, two years into the three year program; significant progress has been made on at least three additional conditions (Plan of Action for credit to SMEs and agriculture, Plan of Action to increase the flexibility of the administered system for determining bank by bank credit ceilings, and fifth tranche recovery target).

--six out of eight failing banks have been closed and two have been restructured. The government share in remaining banks has been reduced to 25 percent or less (5 percent in one case) and its position in the sector as a whole to less than 12 percent.

--liquidity has been restored to the banking system.

--bad debt recovery, although slow by some measures, nevertheless by December 1991 had reached over 85 percent of USAID's target for the last tranche disbursement.

--interest rates have been liberalized, sectoral credit allocations have been abolished, and prior authorization of loans has been eliminated.

--the share of government in domestic credit has fallen from 26.4 percent in 1988 to 22 percent in 1990.

With this kind of record two years into this three year program, USAID believes it deserves credit for taking on the inherently risky and uncharted course of banking sector reform in this pilot effort for the Africa Bureau.

The failure to bring the new bank into operation will have minimal impact on the end of program status. The Mission considered the establishment and operation of the new bank important, especially as a symbol reflecting privatization of the banking sector. It also had a short term concern about the management of the performing loans of the liquidated banks and a desire to minimize disruption to those clients involved by transferring this portfolio to the new bank. However, this portfolio was only FCFA 17 million out of the total FCFA 180 million of total loans outstanding in the liquidated banks.

As set forth in the PAAD, the new bank was to consolidate the performing assets of four former public banks. However, USAID recognized the possibility that it might not become operational even after it had been established. This was a risk inherent in the CP. USAID wanted the GOS to take steps within its power to promote private banking. On the other hand, the Government did not have the power to license a new bank (a BCEAO prerogative) or secure the participation of a private foreign partner.

The Mission was faced with a difficult choice regarding the CP which required "...evidence of the establishment of a new bank...together with copies of the new bank's manual of operating procedures, initial balance sheet, and projected income statement..." The evidence presented by the GOS included documents of the bank's statutes, operating procedures, initial balance sheet, and projected income statement, as well as the establishment of a Board of Directors. These documents conformed to Senegalese law for establishment of a financial institution.

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Given the apparent intent of the GOS to proceed with the new bank and evidence of completion of a good faith first step, the Mission made a decision based on the evidence at hand, fully expecting a fully operational bank within a relatively short period of time. Unfortunately, the bank failed, as stated by the auditors, to become operational. Private Senegalese investors have now undertaken efforts to create a majority Senegalese-owned bank following the failure of the government-sponsored attempt.

Mission management considered the evidence presented as being sufficient to meet the conditions regarding the new bank. As a result, USAID was under no requirement to seek approval for change or modification to the CP on establishment of a new bank. Since the bank, however desirable, did not affect the EOPS, such action would serve no useful purpose at this time.

Recommendation 2.1 and 2.2 should be eliminated. The End of Program Status was not affected by the absence of the desired bank. The Mission has recently issued a Mission Order regarding clearance of CPs.

COMMENTS ON PAGES 13-14: RECOMMENDATION 3 AND ASSOCIATED FINDINGS

The audit report cites the need for the Mission to strengthen its cash grant disbursement procedures. This finding and associated recommendation 3 (pp.13-14) is based on observations that interest of $9,367 was earned by the BCEAO while a deposit of $14.5 million remained in an interest bearing account at Citibank/New York.

The report incorrectly states that procedures were not followed for ensuring the timely transfer of dollar funds from the U.S. to the local currency bank accounts in Senegal. We believe the auditors are unable to cite any procedural breakdowns by USAID/Senegal's monitoring of cash disbursements under the program. Rather, the problem with respect to this issue is structural. The Central Bank of West African States is not subject to direction by either USAID/Senegal nor the GOS. As an independent bank for all Members States of the West African Monetary Authority (WAMU), it functions as an independent central monetary authority for all such states and does not take direction with respect to its operations from any given Government. The BCEAO is of course accountable to all members for its policies and performance, but not for day to day operations.

In the instance of the deposit which was not transferred to the GOS' account for ten days, the Mission closely followed this transaction and discovered that transfer of funds had been delayed. USAID/Senegal was aware of the delay by the BCEAO in transferring funds. As is our procedure, we requested and obtained bank statements, from which we verified that the transfer had been delayed; we then requested, not once but repeatedly, that the GOS take action to have the interest transferred to the local currency account. The report should be clear that all reasonable procedures were followed, but that the GOS, until recently, was unable to elicit action from the BCEAO.

Fortunately, the BCEAO on December 19, 1991 transferred the $9,367 as required under the agreement.

Since the earned interest of $9,367 has been transferred as recommended by recommendation 3.1, we request that this recommendation be deleted. With respect to recommendation 3.2, we will quiry the Africa Bureau on the acceptability of investigating arrangements through the RCO/Paris to disburse funds in local currency directly to the GOS. We should note that our existing procedures are based on Africa Bureau guidelines covering DFA cash grant assistance; thus, the need to seek authority to pursue the arrangement cited in recommendation 3.2.

OBSERVATIONS ON MISSION PROCEDURES

The following comments are organized by page number and address audit report findings/comments primarily associated with Mission procedures for clearance of CPs and the summary presented in Appendix III (see attachment for USAID comments on RIG statements on documentation/evidence accepted to satisfy CP requirements).

PAGE 9

Under the first full paragraph on this page, the statement is made that 12 out of 52 CPs were poorly monitored and/or verified.

The narrative is misleading, as is the Appendix III table. Language in the narrative and the table is not consistent. The table is clear regarding only one CP which allegedly was not met, ESF VI condition 2.3.b.i.1. The narrative claims that "in certain cases" CPs were not met prior to disbursement and goes on (pp. 9- 10) to make:

1) a faulty judgment on AEPRP II;
2) inaccurate assertions on ESF VI perequation and ESF V rice import reduction respectively; and
3) an unwarranted assimilation of two covenants to CPs, in addition to
4) one clear allegation of unwarranted disbursement on ESF V.

The latter cannot be identified in the Appendix table.

The four cases at the end of Appendix III use different language: what is the distinction between "underlying evidence was not documented" and "without documenting any evidence that the CP had been met"?

Our summary response to claims of insufficient or no evidence for CP's, presented in the Appendix III table, follows (table attachment to this response provides more detailed response regarding evidence submitted):

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-- the two ESF VI CP's converted to covenants do not belong on this list;
-- in any event those two covenants have been satisfied and continue to be monitored by AID in the context of the proposed Agricultural Sector Grant;
-- the CP on the new bank was met;
-- one CP (ESF VI, 2.3.b.i.1) was in fact not fully satisfied at the time of disbursement. It is incorrect and misleading to state that it was not satisfied at all. The perequation payment made was 87 percent of the amount due. The balance was provided six days after disbursement.

The report asserts that underlying evidence for eight CP's was not documented.

USAID data supports the following:

For AEPRP II, Conditions 2.3.b.1 and b.4 are documented.
For ESF VI, Condition 2.4.b.ii.1 is documented.
Condition 2.4.c.ii.2 is documented.
For ESF V, Condition 2.3.C.1 is documented.
Condition 2.4.B is documented.
For ESF V, Conditions 2.3.C.3 and 2.3.C.4 could have been better documented.

This review shows that management of conditions under non-project assistance has been good overall and has improved over time. Out of 52 CP's one was not fully met as claimed by the GOS, and two could have been better documented. Blanket allegations of poor management are unwarranted.

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ATTACHMENT

Subject: RIG/Dakar audit of ESP V, ESP VI and AEPRP II

RIG Observations	USAID responses
AEPRP II (1st tranche)	
CP 2.3. a.3. requiring the establishment of a new bank was certified as met by USAID/ Senegal $12 million in AID funds were disbursed even though the new bank was not operational due to the BCEAO refusal to license the bank and the lack of investment capital	The bank was legally established on Sept. 11, 1989, based upon a notarized decree in conformity with Senegal's commercial code. It was capitalized at CFAF 2 Billion. The absence of a technical partner to subscribe to the 19 percent of shares set aside for this purpose was one reason for the BCEAO's refusal to grant a license. That CP had never required the bank to be operational before the disbursement of the first tranche of $12 million. Central Bank's refusal was officially notified in late July 1990, eight months after the release of the first tranche.
CP 2.3. b.1 requiring evidence of the establishment accounting firms of a data base analyzing the non performing assets of the problem banks was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the data base has been established underlying evidence was not documented.	PRM files contain a copy of a letter dated Jan 11, 1990 from the accounting firm saying that the data base had been completed. In addition, the evidence was documented by the "Rapport de Synthese" of the audit sent to USAID by the World Bank. That report was made available to RIG.
CP 2.3.b.4. requiring evidence that recoveries of bad debts in problem banks since Oct 1, 1988 have equaled or exceeded CFAF 4 billion was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the amount have been recovered. Underlying evidence was not documented.	Evidence was not a letter of attestation from the GOS but rather three letters of attestation from: - the Coordinator of the public banks, saying by letter dated Dec. 1st 1989, that CFAF 2,568 billion had been collected from Oct. 1st, 88 to Sept 30, 89. - the Administrator of USB, saying by letter dated Dec. 8, 1989 that CFAF 1,6 billion had been collected from Oct. 1st, 88 to Sept 30, 89. - the Comptroller of BIAOs, saying by letter dated Nov 7, 1989 that CFAF 1,218 billion had been collected from Oct. 1st 88 to Sept 30, 89. According to these three sources, the amount recovered totalled CFAF 5.3 billion well beyond the amount required by the CP. An independent audit carried out in October 1991 confirmed that CFAF 4.9 billion had been collected from Oct 1st 88 to March 89. The audit covered (except for BIAOS) a period which was shorter than the one considered by the GOS.

RIG Observations	USAID responses
ESF VI (second tranche)	
C.P.4.C.I.2 Requiring the GOS to present recommendations on modalities and timing for the disengagement of the SAED from milling and primary marketing of rice in the Senegal River Valley was changed to a covenant by USAID/Senegal in order to disburse the second tranche of ESF VI. This covenant had still not been met at the time of audit.	The draft of SAED's 4th letter of mission issued in March 1991 provided a timetable for SAED disengagement from rice milling and marketing. Complete privatization has been planned to be effective as of June 30, 1992. The draft letter of mission was available before the audit and was provided to RIG. The Mission continue to follow the impact of this covenant, particularly by including privatization of rice marketing as a primary component of our proposed Ag Sector Grant.
CP.2.4.c.ii 1 Requiring the GOS to prepare an action plan for encouraging expansion of private sector agro industry in the Senegal River Valley was changed to a covenant by USAID Senegal in order to disburse the second tranche of ESF VI. This covenant had still not been met at the time of audit.	The draft letter of mission of SAED has in addition planned to privatize other sectors including: - tomato production & marketing - seed storage - production and marketing of feed The Mission continues to follow the impact of this covenant.
CP 2.4.b.ii.1: requiring the GOS to confirm its timetable for progressive reduction and elimination of the subsidy for treatment for peanut seeds was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the required actions had been taken. Underlying evidence was not documented.	The progressive reduction and elimination by 1989/90 of the GOS subsidy for the treatment of peanut seeds was planned under the "Plan triennal semencier" issued in 1986. That plan was made available to RIG. The 88/89 crop season was the last year before a complete elimination of the GOS subsidy. The GOS confirmed by letter that only 0.35 billion of CFAF was budgeted for 88/89, compared with CFAF 0.50 billion in 87/88 and CFAF 1 billion in 86/87.

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RIG Observations	USAID responses
CP. 2...4.c.ii.2: requiring the GOS to present initial implementation of the plan the agricultural credit function of SAED was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the required actions had been taken. Underlying evidence was not documented.	The disengagement of SAED from credit functions was planned under its 3rd letter of mission issued in Nov. 1987. USAID received a copy of an internal letter dated June 21, 1989 sent by the Minister of Rural Development to the Minister of Finance saying that CNCAS and other banks had started replacing SAED in credit activities. Such evidence was considered satisfactory.
ESF VI (1st tranche)	
CP 2.3.b.i.1 Requiring the GOS to pay wheat perequation in full was certified as met by USAID/Senegal by accepting letter of attestation that the payment had been made. The audit found that the payment had not been made prior to USAID/Senegal disbursing funds.	The amount of wheat perequation to be paid by millers was estimated at some CFAF 1.9 billion by the GOS. USAID received evidence through checks issued by millers for actual payments of CFAF 1,861 billion. Of that amount, CFAF 250 million was documented by checks dated January 11, 1989, six days after the release of the funds.
ESF V	
CP 2.4.B Requiring the GOS to submit a timetable for establishing a plan of action for reducing rice imports was certified as met by USAID/Senegal without documenting any evidence that the CP had been met.	USAID/Senegal and the GOS agreed to undertake a study to promote locally produced cereals and establish an action plan for reducing rice imports. That study was funded by USAID. It did not provide a formal action plan, but gave various options for promoting local cereals and reducing rice imports. This study was made available to RIG
CP 2.3.c.1 Requiring the GOS to present a status report on payments of peanut seed collections was certified as met by USAID/Senegal without documenting any evidence that the CP had been met.	The report prepared for the attention of the Inter-Ministerial Council on agricultural issues held on April 30, 1987 provided data showing that credit for peanut seed had been fully reimbursed. This evidence was made available to RIG.
CP 2.3.C.3. Requiring the GOS to have started an audit on SONACOS was certified as met by USAID/Senegal without documenting any evidence that the CP had been met.	The SONACOS audit which was to be funded by the World Bank was delayed, because of disagreements with the GOS on the terms of reference. The audit was finally funded by the french CCCE. The disbursement was made based upon the availability of the terms of reference. The terms of reference as well as the final report of the audit were made available to RIG.

RIG Observations	USAID responses
CP 2.3.C.4. Requiring the GOS to have agreed to undertake an audit of CSS was certified as met by USAID without documenting any evidence that the CP had been met.	The GOS gave verbally its agreement to USAID in the context of a meeting of the policy dialogue committee established to jointly discuss and monitor policy reform progress. A copy of the study completed in December 1987 was made available to RIG.

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List of Twelve CPs Either Not Met By Disbursement Date, Or Where Inadequate Or Inappropriate Submissions Were Accepted

Program	CP Status	Date
AEPRP-II	CP 2.3.a.3. requiring the establishment of a new bank was certified as met by USAID/Senegal. $12 million in A.I.D. funds were disbursed even though the new bank was not operational due to the Central Bank's refusal to license the bank and the lack of investment capital. Not met.	01/90
AEPRP-II	CP 2.3.b.1 requiring evidence of the establishment by independent accounting firms of a data base analyzing the non-performing assets of the problem banks was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the database had been established. Underlying evidence was not documented. Inadequate evidence.	01/90
AEPRP-II	CP 2.3.b.4 requiring evidence that recoveries of bad debts in the problem banks since October 1, 1988 have equaled or exceeded CFA 4 billion was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the amount had been recovered. Underlying evidence was not documented. Inadequate evidence.	01/90
ESF-VI	CP 2.4.c.i.2 requiring the GOS to present recommendations on modalities and timing for the disengagement of the SAED from milling and primary marketing of rice in the Senegal River Valley was changed to a covenant by USAID/Senegal in order to disburse the second tranche of ESF-VI. This covenant had still not been met at the time of audit. Not met.	12/89
ESF-VI	CP 2.4.c.ii.1 requiring the GOS to prepare an action plan for encouraging expansion of private sector agro-industry in the Senegal River Valley was changed to a covenant by USAID/Senegal in order to disburse the second tranche of ESF-VI. This covenant had still not been met at the time of audit. Not met.	12/89
ESF-VI	CP 2.4.b.ii.1 requiring the GOS to confirm its timetable for progressive reduction and elimination of the subsidy for treatment of peanut seeds was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the required actions had been taken. Underlying evidence was not documented. Inadequate evidence.	12/89
ESF-VI	CP 2.4.c.ii.2 requiring the GOS to present initial implementation of the plan for replacing the agricultural credit function of SAED was certified as met by USAID/Senegal by accepting a letter of attestation from the GOS that the required actions had been taken. Underlying evidence was not documented. Inadequate evidence.	12/89
ESF-VI	CP 2.3.b.i.1 requiring the GOS to collect the wheat perequation in full was certified as met by USAID/Senegal by accepting a letter of attestation that the payment had been made. The audit found that the payment had not been made prior to USAID/Senegal disbursing funds. Not met prior to disbursement.	01/89
ESF-V	CP 2.4.B requiring the GOS to submit a timetable for establishing a plan of action for reducing rice imports was certified as met by USAID/Senegal without documenting any evidence that the CP had been met. Inappropriate evidence.	01/88
ESF-V	CP 2.3.C.1 requiring the GOS to present a status report on payments of peanut seed collections was certified as met by USAID/Senegal without documenting any evidence that the CP had been met. Inadequate evidence.	06/87
ESF-V	CP 2.3.C.3 requiring the GOS to have started an audit on SONACOS was certified as met by USAID/Senegal without documenting any evidence that the CP had been met. Inadequate evidence.	06/87
ESF-V	CP 2.3.C.4 requiring the GOS to have agreed to undertake an audit of CSS was certified as met by USAID/Senegal without documenting any evidence that the CP had been met. Inappropriate evidence (verbal agreement accepted).	06/87

APPENDIX IV

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