

**Regional Inspector General for Audit
Dakar**

**Follow-Up Audit of USAID/Guinea's Implementation
of Recommendation Nos. 3 and 4 for the Audit of Economic
Policy Reform Program in Guinea (Audit Report No. 7-675-91-02,
dated November 23, 1990)**

**Audit Report No. 7-675-93-10
September 22, 1993**



**INSPECTOR
GENERAL**
AFRICAN DEVELOPMENT BANK

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

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

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

September 22, 1993

MEMORANDUM

FOR: Wilbur G. Thomas, USAID/Guinea Director

FROM: *Thomas B. Anklewich*
Thomas B. Anklewich, RIG/A/Dakar

SUBJECT: Follow-Up Audit of USAID/Guinea's Implementation of Recommendation Nos. 3 and 4 for the Audit of Economic Policy Reform Program in Guinea (Audit Report No. 7-675-91-02, dated November 23, 1990), Audit Report No. 7-675-93-10

Enclosed are five copies of our final report on our follow-up audit of USAID/Guinea's implementation of Recommendation Nos. 3 and 4 of the Audit of Economic Policy Reform Program in Guinea (Audit Report No. 7-675-91-02, dated November 23, 1990). As a result of our findings in the current audit, we are reopening these recommendations.

The Mission took prompt action in response to our draft audit report on the reopened recommendations by meeting with Guinean officials. Details on corrective actions taken are described in the Mission's written comments included in their entirety as Appendix I. Based on your comments, Recommendation No. 4 is resolved and can be closed once we receive evidence of the completed corrective actions. Recommendation No. 3 remains unresolved until we mutually agree upon a plan of action for the accumulation of interest on the local currency funds.

Please notify our office of the Mission's progress towards implementing these recommendations within thirty days, including documentation supporting any completed actions so that we may consider closure. The A.I.D. recommendation follow-up system requires that RIG/A/Dakar refer this matter to the Agency Follow-up Official (The Deputy Administrator) if action to close the recommendations is not taken within 30 days.

Background

Initiated in 1986, A.I.D.'s \$18.5 million Economic Policy Reform Program in Guinea was to finance technical assistance and cash transfers to support the Government of Guinea's structural adjustment efforts. The Office of the Inspector General's Audit of Economic Policy Reform Program in Guinea (Audit Report No. 7-675-91-02, dated November 23, 1990) concluded that USAID/Guinea did not follow A.I.D. procedures for handling \$5 million of local currencies generated under the cash transfer component. These procedures required that funds be "disbursed as quickly as is consistent with sound programming" and, in cases where unavoidable delays occur, that the funds be deposited into an interest-bearing bank account.

However, at the time of the audit in 1990, these local currencies had remained unprogrammed and idle in a non-interest bearing account for over three years. As a result, the program lost an estimated \$1.7 million in local currency value due to devaluation, and a key program objective--extension of credit to rural private enterprises--was not realized. The report made the following two recommendations to correct these problems:

Recommendation No. 3: We recommend that the Director, USAID/Guinea, immediately require the Government of Guinea to deposit the local currency equivalent of A.I.D.'s cash transfer of \$5 million in an interest bearing account.

Recommendation No. 4: We recommend that the Director, USAID/Guinea:

- 4.1** take immediate action to negotiate with the Government of Guinea a plan for the use of local currency credit funds (by December 31, 1990)¹; and
- 4.2** if no agreement can be reached (by the above date)¹, negotiate with the Government of Guinea to allocate the idle funds to other project activities.

In response to the above recommendations, USAID/Guinea entered into an agreement with the Government of Guinea in December 1991, reprogramming these funds in order to capitalize three rural credit lines. Based on this action, and assurances that the funds would be promptly disbursed, the recommendations were closed.

¹ The original recommendation included the December 31, 1990 date.

Results of Audit

In June 1993, we reviewed the effectiveness of USAID/Guinea's implementation of these recommendations and found that, the majority of these funds have remained idle and subject to further loss in value. A May 1993 report from the Guinean Central Bank showed that, after seventeen months of implementation, only 39 percent of the local currency had been disbursed for its intended purpose of extending credit to agriculture and craft producers. Of the three institutions which were to participate in the program, only one, Credit Rural, lent its entire allocation of funds. A second institution, Banque Populaire Maroco-Guineenne, used only 23 percent of its allotted funds and the third, Credit Mutuel, chose not to participate in the program and used none of its allocation.

As previously noted, at the time of the original audit, \$1.7 million in equivalent local currency had been lost, due to the devaluation of the Guinean Franc (GF) against the U.S. dollar. Since the completion of the original audit, an additional \$1,031,500 has been lost due to the continuing devaluation of the Guinean currency against the U.S. dollar. As shown below, this brings total losses of local currency in equivalent U.S. dollars to \$2,731,500--55 percent of the original \$5 million--since generation of the local currencies in 1987.

Local Currencies generated under the Cash Transfer Component of this Project (audited figures)

Funds Lent	\$ 882,600	GF 842,000,000
Idle/Unused Currency	1,371,100	1,308,000,000
Devaluation Loss	2,731,500	
Unreconciled ²	<u>14,800</u>	<u>14,125,000</u>
Total	<u>\$5,000,000</u>	GF <u>2,164,125,000</u>

Correspondence from the latter two institutions indicate their unwillingness to assume the risk of borrower default, a key requirement in the programming agreement, and therefore they have not significantly employed their allotted credit lines.

²In addition, reports from the Central Bank do not reconcile with generations identified under Project Implementation Letter (PIL) No. 7, dated March 6, 1992, leaving 14.125 million Guinean Francs (\$14,800) unaccounted for.

Since the Government of Guinea had not complied with its reporting requirements for the usage of the lines of credit, USAID/Guinea was not able to timely detect the non-usage of these funds and to take effective programmatic actions to increase their usage. For example, mission correspondence shows that as of June 1992 USAID/Guinea had received none of the required monthly reports from the Guinean Central Bank and only four such reports were provided since that date. Also, Guinea's Central Bank has only produced two of three required semiannual reports. Further, the Mission was not receiving account statements from the Guinean Central Bank on these local currencies. Although an audit for these local currencies is included in the Mission Audit Inventory, as due in 1994, periodic audits of these local currencies have not occurred.

As a result, we believe the underlying causes for these two recommendations persist. Active lending of the project's local currency loan fund is not taking place, and these funds remain deposited in a noninterest-bearing account and continue to lose their initial U.S. dollar value.

Since the local currency program currently appears to be stalemated, and the intent of Recommendation Nos. 3 and 4 of the original report have not been achieved, we have reopened those recommendations.

Mission Comments and Our Evaluation

USAID/Guinea concurred with the recommendations.

In response to Recommendation No. 4., the Mission Director has met with Government of Guinea (GOG) officials to negotiate an amendment to the Economic Reform Project Agreement to allow Non-Governmental Organizations to be eligible to receive loans from this project. The Mission stated that the inclusion of these loan recipients will result in increased lending activity for these local currency funds. We consider this recommendation resolved. Closure of Recommendation No. 4 will occur upon receipt of evidence of the execution of an amended program agreement between USAID/Guinea and the Government of Guinea.

Regarding Recommendation No. 3, the Mission has held discussions with the Guinean Central Bank, over the possibility of depositing these local currency funds in an interest-bearing account, or investing these funds in GOG bonds. Since the Mission has not reached an agreement with the Central Bank on the method used to gain interest on these funds, we consider this recommendation as unresolved. RIG/A/Dakar will consider resolution of the recommendation upon receipt of evidence that an agreement has been reached between the Mission and the Central Bank on the method used for accumulating

interest on the local currency funds. Closure of Recommendation No. 3 will occur upon receipt of evidence that these local currency funds have been redeposited into an interest-bearing account or invested in an interest paying instrument.



MANAGEMENT COMMENTS

FAX TRANSMITTAL
(FAX # 224-44-19-85) OR, 874-9-151-7437

TO: WALTER SHEPHERD, A/RIG/A/DAKAR

FAX NUMBER: (224) 23-61-55 No. of Pages (incl this sheet): (3)

FROM: PETER KLOSKEY (SAK) OFFICE: CONTROLLER/OFM

SUBJECT: ECONOMIC REFORM AUDIT DATE: 13 AUG 93

MESSAGE: REF: RECOMMENDATIONS 3 AND 4,
AUDIT REPORT 7-675-91-02, DTG 23 NOV 90

In response to your FAX of August 9, 1993, the following memoranda is intended to illustrate the latest Mission effort to resolve the Recommendations you have referred to in your FAX.

(1) First, in a memo from PPD, Sally R. Sharp, to OFM, P. Klosky, entitled "Audit Recommendation No. 4 - Economic Policy Reform Project", dated August 11, 1993, a meeting between GOG officials and the USAID/Guinea Mission Director is described, wherein the effort to revise the program to draw down the idle program funds is highlighted.

(2) Second, portions of a memo entitled "Meeting with the BCRG Governor", dated July 20, 1993, contains comments made as a result of the meeting mentioned in point (1), above. The memo wording shown describes the proposed actions to be taken on both Audit Recommendations.

Both pieces of correspondence suggest that RIG/A/DAKAR may wish to wait for the outcome of these latest proposed actions, which may result in the resolution of these Recommendations.

After you have read the following memoranda, please let us know of your upcoming plans in this regard.

SPKC9302.

AUG 13 1993

(1) MEMORANDUM

DATE: August 11, 1993
 TO: OFM, P. Klosky
 FROM: PPD, Sally R. Sharp
 SUBJECT: Audit Recommendations No. 4 - Economic Policy Reform Project

Regarding the subject audit recommendations Nos. 3 and 4, Mission Director Wilbur Thomas met with the Central Bank Governor on July 19 (you have a copy of the Memcon of this meeting prepared by GDO Asst LaPeriere) in which he explained the audit recommendations - Nos. 3 and 4. Since that time, a revised program agreement has been sent to Central Bank for approval. The revised agreement broadens the participation of the organizations in the credit program. The two organizations added are - PRIDE and female managed NGOS focussing on productive enterprises. These organizations have been actively seeking credit and should cause a rapid draw down on the line of credit.

In light of these developments, I think you should inform RIG/Dakar that recommendation No. 4 should not be reopened and that we will keep them apprised of future developments (draw downs on the account).

cc: WGThomas, DIR
 TEPark, DDIR

(2) MEMORANDUM

DATE: July 20, 1993
 TO: See distribution
 FROM: André Laperrière, PM
 THRU: S. Sharp, A/GDO
 RE: Meeting with the BCRG Governor.

Yesterday July 19, a meeting was held at the BCRG, involving:

USAID: - Wilbur G. Thomas, MDIR
 - André Laperrière, GDO/PM
 BCRG: - Kerfalla Yansané, BCRG Governor
 - Cellou Diallo, Studies Dept. Chief
 - Facinet Fofana, Advisor to the Governor
 - Sekou Soumah, MIS Chief
 - Governor's personal secretary.

The purpose of the meeting was to review the status of USAID assistance activities at the BCRG, as well as to explore new possible interventions. The following issues were discussed:

Credit lines: (P.E.C. 4)

Both USAID and the BCRG shared the same concern: some funds that the Mission would like to be used for credit to entrepreneurs are not being used enough. In particular, the credit line opened by USAID at the BPMG is not moving, nor are the funds originally planned for Credit Mutuel. Both USAID and the BCRG would like to reallocate these funds to another program, where they could be effectively used. In order to do that, the BCRG Governor agreed in principle to sign a modification to the original agreement in order to broaden its scope, giving it more flexibility.

As far as finding an appropriate destination for the funds to be reallocated, two programs were specified:

- Pride: Its success leads to the conclusion that more funds should be injected in this program, in order to expand it either/both geographically (to cover more regions) or vertically (higher ceiling on the loans). (ACTION: GDO will work with PRIDE in order to define how much more funding they can absorb).
- Credit line for women entrepreneurs. The Governor described information he received from an American NGO that could participate (along with the recipient) in setting up guarantees for loans designed for women entrepreneurs. USAID could also participate to this, along with the American NGO, according to a plan that will be proposed by the BCRG.

Counterpart funds: (P.E.C. 3)

The Mission expressed its concern (shared by our auditors) to the effect that counterpart funds should be in an interest-bearing account, thus our desire to transfer them in a commercial bank. As an alternative, USAID expressed interest in purchasing Government bonds that are now becoming on sale.

The Governor said he had no objection (in principle) to the purchase of GOG bonds, but that he and his team had to analyze the potential impact of such a large purchase, before he could express a final opinion on the matter.

As far as interest-bearing accounts for the CF, he said he shared our auditor's concern in wanting to at least maintain the real value of these funds through the generation of interest on it. Then he phrased a question that appears to be a "near proposition", verifying whether the objective was to "have this money in an account that would generate enough interest to maintain the funds current real value"; to this question, the Mission answered yes.

(E. O. M.)

AGENCY FOR INTERNATIONAL DEVELOPMENT
CONAKRY, GUINEA

APPENDIX I



FAX TRANSMITTAL
(Fax # 224-64-19-85) AND 874-9-151-7437

TO: THOMAS B. ANKLEWICH, RIG/A/DAKAR	
FAX NUMBER: (221) 23-61-55	No. of Pages (incl this sheet): 5
FROM: PETER KLOSKY	OFFICE: OFM/CONT
SUBJECT: SEE BELOW	DATE: 26 AUG 93

MESSAGE:

SUBJECT: (1) REOPENING OF CLOSED
RECOMMENDATION NOS. 3 AND 4 OF AUDIT REPORT
7-675-91-02, AUDIT OF ECONOMIC REFORM PROGRAM IN
GUINEA.

REF: (A) DAKAR 9034

1. IN RESPONSE TO PARAGRAPH 1. OF REFTEL (A), USAID/GUINEA IS SENDING ATTACHED FAX DATA TO RIG/A/DAKAR THIS DATE (08/25/93.) THIS FAX DATA CONSISTS OF FOUR (4) ADDITIONAL PAGES OF DOCUMENTATION CONCERNING THE RECOMMENDATIONS IN SUBJECT (1) AUDIT REPORT.

2. INCLUDED IN THIS DOCUMENTATION IS A LETTER, DATED 30 JULY 1993, WHICH COVERS A QUOTE CONVENTION DE PRET UNQUOTE OF ONE PAGE AND SIGNED BY THE USAID/GUINEA MISSION DIRECTOR. IN ADDITION, THERE IS A RESPONSE TO THE REFERENCED CONVENTION DE PRET FROM THE BANQUE CENTRALE REPUBLIQUE DE GUINEE, WHICH IS DATED 23 AOUT 1993.

3. PLEASE REVIEW THE FAX DOCUMENTATION DESCRIBED ABOVE AS IT RELATES TO REFTEL (A), AND ADVISE US OF ANY COMMENTS YOU HAVE. USAID/GUINEA IS NOW PREPARING A RESPONSE TO THE LETTER FROM THE GOVERNMENT OF GUINEA TO USAID, LETTER NUMBER 00421, DATED 23 AUGUST 1993. A COPY OF THIS LETTER IS INCLUDED IN THE FAX DOCUMENTATION. WE WILL FORWARD THIS RESPONSE TO YOU WHEN IT IS COMPLETED.

4. USAID/GUINEA WILL CONTINUE TO PURSUE A SATISFACTORY IMPLEMENTATION OF YOUR AUDIT RECOMMENDATIONS. THANK YOU FOR YOUR REPORTS AND INPUT. (SPKC9307).

AUG 27 1993

C O N V E N T I O N D E P R E T
ENTRE L'USAID ET LA BCRG
AID PROJET NO. 675-0217



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT



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GUINEA

APPENDIX

Le 30 Juillet 1993

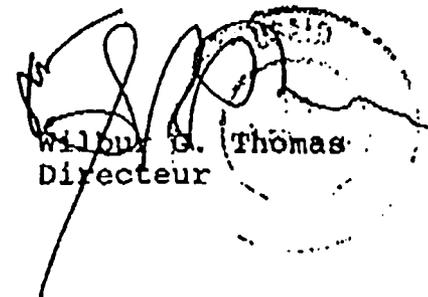
Monsieur Kerfalla Yansané
Gouverneur de la Banque Centrale
Conakry

Monsieur le Gouverneur,

Comme indiqué au cours de notre rencontre du 19 Juillet 1993 relative a la ligne de crédit de l'USAID mise a la disposition de la Banque Centrale au titre du Projet No. 675-0217, je vous fais parvenir sous ce pli une copie de l'amendement a cet Accord (Projet AID No. 675-0217) constatant les changements convenus d'un commun accord, a savoir, élargir la participation au programme pour inclure PRIDE et les Organisations Non-Gouvernementales (ONG) Féminines.

Veillez souscrire votre approbation en signant les pages de signature des six (6) copies ci-jointes. Priere de bien vouloir faire retourner l'originale signée et quatre (4) copies.

Tout en vous souhaitant bonne réception, je vous prie de croire, Monsieur le Gouverneur, a l'expression de ma considération distinguée.


Wilbur G. Thomas
Directeur

SRS/mct
417/93

Le but de cet amendement est d'ajouter les noms de Pride et des ONG Féminines à titre de participants de ce programme:

Page 1, paragraphe 5 amendez à lire:

- Que le montant de prêt est destiné à être retrocédé par la B.C.R.G. au Crédit Rural et Agricole, au Crédit Mutuel, à la Banque Populaire Maroco-Guinéenne, au Pride et aux ONGs féminines afin de leur permettre d'octroyer des prêts à des promoteurs locaux dans les secteurs sus-visés, étant précisé que ces prêts subsidiaires feront l'objet d'un accord spécifique entre la BCRG et chacun de ces établissements de crédit et de production ci-dessus cités.

Amendé 2 Article 1er - Objet du Contrat: amendez a lire:

L'USAID ouvre à la BCRG qui accepte, un crédit non remboursable d'un montant en Francs Guinéens équivalent à 5 millions de Dollars US, destiné exclusivement à l'octroi des prêts subsidiaires en monnaie nationale par les établissements de crédit suivants:

- Le Crédit Rural et Agricole,
- Le Crédit Mutuel
- La Banque Populaire Maroco-Guinéenne (B.P.M.G.)
- Le Pride
- Les ONGs Féminines

Toutes les autres provisions de cet accord original restent exécutoires et en vigueur.

POUR LE GOUVERNEMENT DES
ETATS-UNIS D'AMERIQUE

POUR LE GOUVERNEMENT DE
LA REPUBLIQUE DE GUINEE

Signature



Wilbur G. Thomas

Signature

Kerfala Yansané

Titre: Directeur
de l'USAID

Titre: Gouverneur
de la Banque
Centrale

July 30, 1993



1271

APPENDIX I

RÉPUBLIQUE DE GUINÉE

BANQUE CENTRALE
B.P 692 CONAKRY

Conakry, le 23 AOUT 1993

N° 00421 /DCB/MK/MS

Le Directeur du Crédit et des Banques

Monsieur le Directeur
de l'USAID
Agence de CONAKRY

Objet : Avenant à la Convention
USAID/GUINEE.

USAID-GUINEA
ACTION <u>GD0</u>
DUE <u>09/01</u>
ACTION TAKE <u>✓</u>
DATE _____
INFO <u>PPD</u>

24 AUG 1993

Monsieur le Directeur,

Nous avons bien reçu votre lettre en date du 30 juillet 1993 relative à l'Avenant à la convention de prêt n° 675-0217 pour la participation du Projet PRIDE et des Organisations Non Gouvernementales féminines au Programme.

Cette correspondance a retenu notre meilleure attention et nous vous en remercions.

Comme nous vous l'avions indiqué dans notre lettre n° 204 du 14 mai 1993 dont copie ci-jointe, le taux d'utilisation de cette ligne est très faible au regard du potentiel des besoins d'investissement du secteur privé Guinéen.

C'est pourquoi, nous suggérons que la ligne USAID soit éligible à toutes les activités économiques sauf le commerce général.

Il conviendrait également de prévoir, une clause restrictive pour limiter l'accès à la ligne aux seules entreprises dont le capital est majoritairement détenu par les Guinéens.

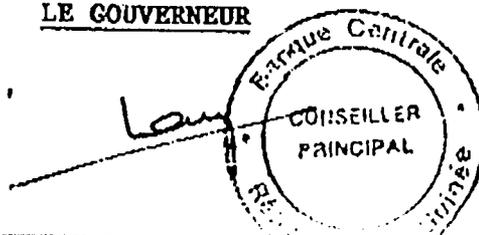
Nous vous remercions de bien vouloir tenir compte de ces deux remarques dans le projet d'Avenant.

Veuillez agréer, Monsieur le Directeur, l'expression de notre considération distinguée.

P.J. : 1

LE GOUVERNEUR

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APPENDIX II

Report Distribution

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