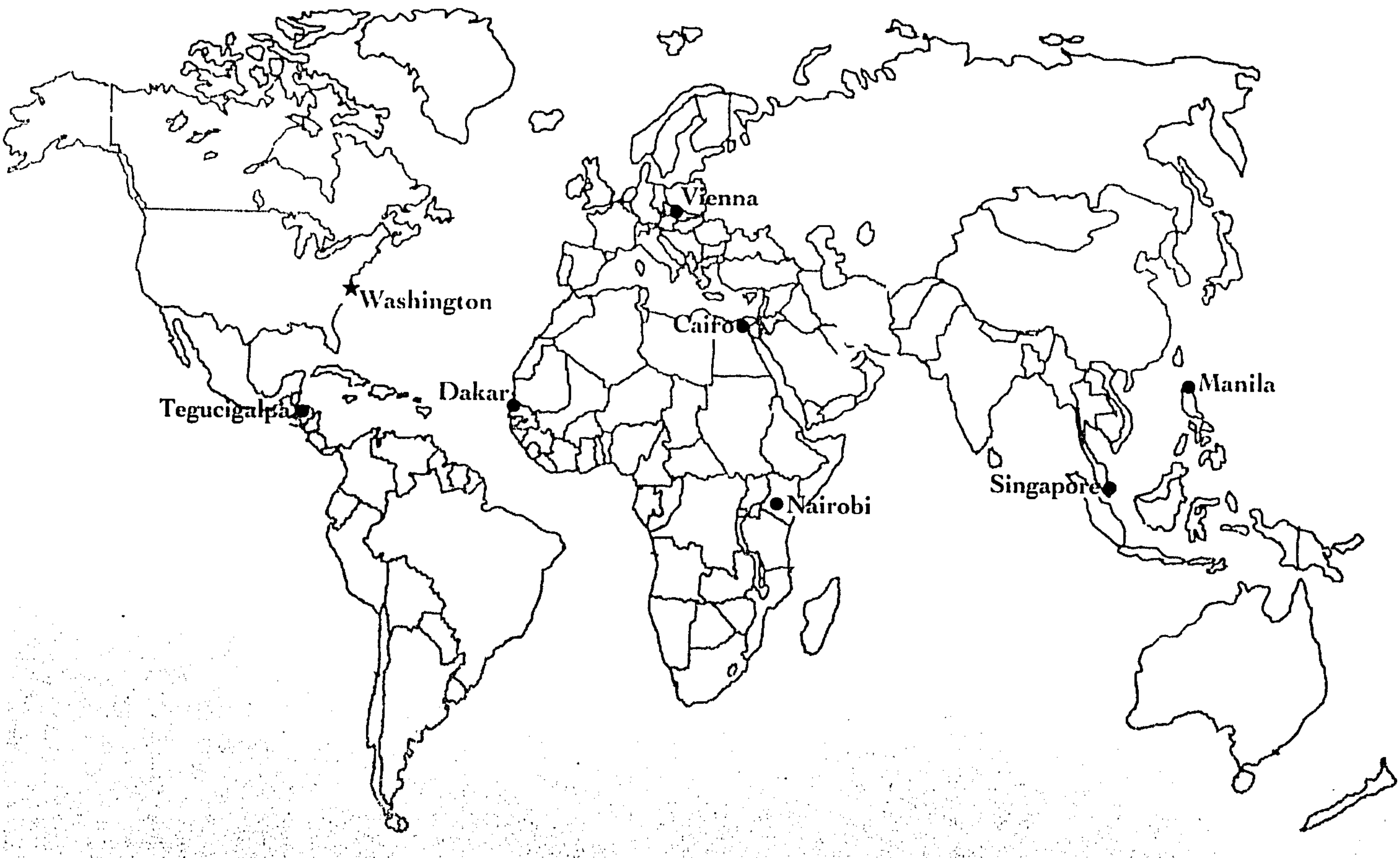
PD-ABI-915

Financial Audits

# AUDIT OF FISCAL YEAR 1993 ANNUAL FINANCIAL STATEMENT FOR USAID'S PRIVATE SECTOR INVESTMENT PROGRAM UNDER THE CFO ACT

Report No. 0-000-94-003
June 30, 1994




INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

## PRIVATE SECTOR INVESTMENT PROGRAM

REPORT OF INDEPENDENT AUDITORS
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

REPORT OF INDEPENDENT AUDITORS ON
INTERNAL CONTROL STRUCTURE

REPORT OF INDEPENDENT AUDITORS ON
COMPLIANCE WITH LAWS AND REGULATIONS

USAID's Office of Investment, in the Bureau for Private Enterprise, administers the Private Sector Investment Program. The purpose of the program is to promote private sector activity in developing countries, primarily through increasing credit to small scale businesses and cooperatives.

## Financial Statement Audit

Deloitte & Touche's audit objectives were to determine whether: (1) the financial statements for the Private Sector Investment Program were presented fairly in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles, (2) the program had an adequate internal control structure, and (3) the program complied with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by OMB and USAID.

Deloitte and Touche determined that the financial statements for the Private Sector Investment Program present fairly, in all material respects, the financial position at September 30, 1993, and the results of operations, cash flows, and budget and actual expenses for the year then ended in conformity with OMB Bulletin 93-02, "Form and Content of Agency Financial Statements."

Deloitte and Touche's Report on Internal Control Structure did not identify any reportable conditions or material weaknesses in the internal control structure of the Private Sector Investment Program.

Deloitte and Touche's Report on Compliance with Laws and Regulations indicates that, with respect to items tested, the Private Sector Investment Program complied in all material respects with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by OMB and USAID.

## Assessment of Progress in Developing Performance Measures

The USAID Office of the Inspector General reviewed USAID's performance measurement system for the Private Sector Investment Program. Our objective was to assess USAID's progress in establishing a performance measurement system with an internal control structure that includes adequate evidence as to the existence and completeness of performance information captured. Our review work was performed at USAID's Office of Investment in Washington, D.C. between February and May 1994.

In August 1992, USAID management started developing a formal automated performance measurement system, the Program Monitoring and Control Information System (PMCIS). PMCIS is intended to: (1) provide automated capability to analyze and show the impact on development by tracking utilization, demographics data, and participating bank characteristics and (2) streamline manual operations required to track and monitor programs.

As indicated in USAID Management's Program Overview, the Private Sector Investment Program was in the midst of a phase-out during the later part FY 1993. Management suspended further development of PMCIS -- a decision we considered prudent. Since the development of PMCIS was in abeyance during the later part of FY 1993, we did not perform any audit work with respect to data entered into PMCIS for FY 1993. We did, however, gain an understanding of the current status of PMCIS and examined related supporting documentation.

With the advent of the Micro and Small Enterprise Development (MSED) program in FY 1994 (a new program which assumed the PSIP portfolio and will retain key elements of PSIP), USAID management began updating PMCIS. USAID management advised us that they plan to continue the development of PMCIS in two phases. The first phase is intended to ensure the integrity and quality of the data, and the second phase is intended to further review and refine the performance indicators. We plan to review the further development of the PMCIS in our FY 1994 CFO Act audit of PSIP and/or MSED.

USAID Management's Program Overview on the Private Sector Investment Program includes a section labeled "financial performance." The section is a mixture of (1) descriptive information about the financial data and (2) specific dollar amounts, such as operating expenses, salaries and related costs, direct loan disbursements, and guarantee commitments. Amounts cited are from the financial statements and/or the same systems used to develop the statements. In light of the nature of this data, we did not perform separate audit procedures other than reviewing the financial performance data to assure that there were no obvious inconsistencies with the financial statements.

**Management's Comments**

Agency management concurred with our audit results. A copy of management's written comments to the draft audit report is attached as Appendix I.

We appreciate the courtesies and cooperation extended to both the staffs of the USAID Office of Inspector General and Deloitte and Touche during the course of this audit.

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## INDEPENDENT AUDITORS' REPORT

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the accompanying statement of financial position of the Private Sector Investment Program (PSIP) of the U.S. Agency for International Development (USAID) as of September 30, 1993, and the related statements of operations, changes in net position, cash flows, and budget and actual expenses for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these statements based on our audit. The financial statements of PSIP as of and for the year ended September 30, 1992, before the restatement described in Note 8 to the financial statements, were audited by other auditors whose report, dated June 5, 1993, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards, Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 93-02, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the 1993 financial statements referred to above present fairly, in all material respects, the financial position of PSIP at September 30, 1993, and the results of its operations, its cash flows, and its budget and actual expenses for the year then ended in conformity with the basis of accounting described in Note 1.

We also audited the adjustment described in Note 8 that was applied to restate the September 30, 1992 financial statements to give retroactive effect to the change in the method of accounting for subsidy expense. In our opinion, the adjustment is appropriate and has been properly applied.

As discussed in Note 1 to the financial statements, during 1993 management of USAID approved a phase out of the PSIP function. The PSIP portfolio and operations will be merged into a newly created program during 1994.

Deloitte & Touche

May 20, 1994

Deloitte Touche
Tohmatsu
International

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
# PRIVATE SECTOR INVESTMENT PROGRAM

## STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 1993 AND 1992
## (In Thousands)

| ASSETS | 1993 | 1992 (Restated) |
|---|---|---|
| Financial Resources: | | |
| Fund Balance with Treasury (Note 4) | $ 9,115 | $12,996 |
| Restricted Fund Balance with Treasury (Note 4) | 5,533 | 2,041 |
| Fund Balance with USAID | 137 | 274 |
| Accounts Receivable, Net - Non-Federal (Note 5) | 154 | 112 |
| Loans Receivable, Net - Non-Federal (Note 6) | 7,851 | 10,520 |
| Accounts Receivable. Federal (Note 7) | 51 | 38 |
| Total Financial Resources | 22,841 | 25,981 |
| Non-Financial Resources | 3 | 11 |
| TOTAL ASSETS | $22,844 | $25,992 |
| **LIABILITIES AND NET POSITION** | | |
| Funded Liabilities: | | |
| Accounts Payable, Non-Federal | $ 312 | $ 263 |
| Accrued Payroll and Benefits | 3 | 23 |
| Liabilities for Loan Guarantees (Note 3) | 1,096 | 1,098 |
| Subsidized Liability - Credit Reform (Notes 3 and 8) | 545 | - |
| Deferred Revenue, Non-Federal | 142 | 163 |
| Other Funded Liabilities, Federal (Note 9) | 221 | 48 |
| Total Funded Liabilities | 2,319 | 1,595 |
| Unfunded Liabilities - Accrued Leave | 24 | 36 |
| TOTAL LIABILITIES | 2,343 | 1,631 |
| NET POSITION (Note 10) | | |
| Appropriated Capital, Pre-Credit Reform | 7,119 | 14,783 |
| Appropriated Capital, Post-Credit Reform | 6,516 | 2,642 |
| Cumulative Results of Operations | 6,890 | 6,972 |
| Less: Future Funding Requirements | (24) | (36) |
| TOTAL NET POSITION | 20,501 | 24,361 |
| TOTAL LIABILITIES AND NET POSITION | $22,844 | $25,992 |

The accompanying notes are an integral part of these financial statements.

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
# PRIVATE SECTOR INVESTMENT PROGRAM

## STATEMENTS OF OPERATIONS
## YEARS ENDED SEPTEMBER 30, 1993 AND 1992
## (In Thousands)

| | 1993 | 1992 (Restated) |
|---|---|---|
| REVENUES AND FINANCING SOURCES: | | |
| Appropriations Expensed | $ 3,130 | $ 2,822 |
| Interest and Penalties, Non-Federal | 419 | 847 |
| Interest, Federal | 17 | - |
| Other Revenues and Financing Sources | 522 | 256 |
| Total Revenues and Financing Sources | 4,088 | 3,925 |
| EXPENSES: | | |
| Program or Operating Expenses (Note 11) | 2,163 | 2,399 |
| Interest, Federal | 17 | - |
| Lender Training Expenses (Note 12) | 458 | 412 |
| Provision for Subsidy Expense - Credit Reform | 497 | - |
| Provision for Bad Debts - Pre-Credit Reform | 319 | 624 |
| Funded Expenses | 3,454 | 3,435 |
| Excess of Revenues and Financing Sources Over Funded Expenses | 634 | 490 |
| Less: Unfunded Expenses | (12) | (11) |
| Excess of Revenues and Financing Sources Over Total Expenses | $ 622 | $ 479 |

The accompanying notes are an integral part of these financial statements.

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
## PRIVATE SECTOR INVESTMENT PROGRAM

### STATEMENTS OF CHANGES IN NET POSITION
### YEARS ENDED SEPTEMBER 30, 1993 AND 1992
### ( In Thousands)

| | Appropriated Capital | | | | | |
|---|---|---|---|---|---|---|
| | Pre-Credit Reform | Post-Credit Reform | Cumulative Results of Operations | Reserve Capital | Future Funding Requirement | Net Position |
| BALANCE AT OCTOBER 1, 1991 | $ 22,883 | | $ 5,439 | $ 1,054 | $(47) | $ 29,329 |
| Unobligated Funds Returned to Treasury | (8,100) | | | | | (8,100) |
| Appropriations Received | | $ 3,983 | | | | 3,983 |
| General USAID Appropriations | | 1,481 | | | | 1,481 |
| Appropriations Expensed | | (2,822) | | | | (2,822) |
| Excess of Revenues and Financing Sources over Funded Expenses | | | 479 | | | 479 |
| Unfunded Expenses | | | | | 11 | 11 |
| Capital Unrestricted Due to Credit Reform | | | 1,054 | (1,054) | | - |
| BALANCE AT SEPTEMBER 30, 1992 (RESTATED) | 14,783 | 2,642 | 6,972 | | (36) | 24,361 |
| Unobligated Funds Returned to Treasury | (7,664) | | (704) | | | (8,368) |
| Appropriations Received | | 5,404 | | | | 5,404 |
| General USAID Appropriations | | 1,600 | | | | 1,600 |
| Appropriations Expensed | | (3,130) | | | | (3,130) |
| Excess of Revenues and Financing Sources over Funded Expenses | | | 622 | | | 622 |
| Unfunded Expenses | | | | | 12 | 12 |
| BALANCE AT SEPTEMBER 30, 1993 | $ 7,119 | $ 6,516 | $ 6,890 | $ | $(24) | $ 20,501 |

The accompanying notes are an integral part of these financial statements.

## U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
## PRIVATE SECTOR INVESTMENT PROGRAM

### STATEMENTS OF CASH FLOWS
### YEARS ENDED SEPTEMBER 30, 1993, AND 1992
### (In Thousands)

| | 1993 | 1992 (Restated) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of Revenues and Financing Sources over Funded Expenses | $ 622 | $ 479 |
| Adjustments Affecting Cash Flows: | | |
| Provision for Subsidy Expense - Credit Reform | 545 | - |
| Provision for Bad Debts - Pre-Credit Reform | 319 | 624 |
| Claim Losses Realized | (242) | (48) |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable, Non-Federal | (19) | 143 |
| (Increase) in Accounts Receivable, Federal | (14) | - |
| Decrease (Increase) in Other Assets | 8 | (11) |
| Increase (Decrease) in Accounts Payable, Non-Federal | 167 | (8) |
| (Decrease) Increase in Other Liabilities | (5) | 48 |
| (Decrease) Increase in Deferred Revenue, Non-Federal | (21) | 26 |
| Net Cash Provided by Operating Activities | 1,360 | 1,253 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Unobligated Funds Returned to Treasury | (8,190) | (8,100) |
| Appropriations Received | 5,404 | 3,983 |
| General USAID Appropriations | 1,600 | 1,481 |
| Loan Disbursements and Capitalization of Interest | (323) | (721) |
| Loan Principal Repayments | 2,890 | 3,663 |
| Appropriations Expensed | (3,130) | (2,822) |
| Increase in Restricted Fund Balance at Treasury | (3,492) | (2,041) |
| Net Cash Used in Financing Activities | (5,241) | (4,557) |
| Net Cash Used in Operating and Financing Activities | (3,881) | (3,304) |
| Fund Balance with Treasury, Beginning of Year | 12,996 | 16,300 |
| Fund Balance with Treasury, End of Year | $ 9,115 | $ 12,996 |

The accompanying notes are an integral part of these financial statements.

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
# PRIVATE SECTOR INVESTMENT PROGRAM

## STATEMENTS OF BUDGET AND ACTUAL EXPENSES
## YEARS ENDED SEPTEMBER 30, 1993 AND 1992
## (In Thousands)

| | 1993 | 1992 (Restated) |
|---|---|---|
| Budget Resources | $10,140 | $12,124 |
| Budget Obligation | (3,863) | (1,986) |
| Total Unobligated Balance | 6,277 | 10,138 |
| | | |
| Budget Reconciliation: | | |
| Total Expenses | $ 3,454 | $ 3,435 |
| Budget resources expended which are not included in actual expenses: | | |
| Loan Disbursements and Capitalization of Interest | 323 | 721 |
| Expenses not covered by budgetary authority: | | |
| (Increase) in Payables | (162) | (40) |
| Decrease (Increase) in Deferred Revenue | 21 | (26) |
| Increase (Decrease) in Receivables | 33 | (132) |
| Items not requiring outlays: | | |
| Benefit (Provision) for Subsidy Expense - Credit Reform | (545) | |
| Provision for Bad Debts - Pre-Credit Reform | (319) | (624) |
| Claim Losses Realized | 242 | 48 |
| Less Reimbursements: | | |
| Loan Principal Repayments | (2,890) | (3,663) |
| Revenues and Financing Sources | (4,088) | (3,925) |
| Accrued Expenditures, Direct | $ (3,931) | $ (4,206) |

The accompanying notes are an integral part of these financial statements.

# U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
# PRIVATE SECTOR INVESTMENT PROGRAM

## NOTES TO THE FINANCIAL STATEMENTS
## YEARS ENDED SEPTEMBER 30, 1993, AND 1992

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*A. Reporting Entity*

The Private Sector Investment Program (PSIP) is administered by the Bureau for Private Enterprise of the U.S. Agency for International Development (USAID), an agency of the U.S. Government, and operated with funding provided by (a) PSIP's subsidy appropriation; (b) PSIP's administrative expense appropriation; (c) Private Sector Revolving Fund; (d) the Functional Development Assistance Fund; (e) USAID's operating expenses appropriation; and (f) Guarantee budget authority. USAID's Loan Management Division of the Official of Financial Management performs the accounting functions for PSIP.

In 1983, a Private Sector Revolving Fund was established to promote economic growth led by the private sector by increasing the flow of credit and cooperatives in developing countries. The Revolving Fund was authorized by the International Security and Development Assistance Authorization Act of 1983, which added Section 108 to the Foreign Assistance Act of 1961, as amended. Provisions of the legislation state that funded loans should:

- have a demonstration effect;
- be innovative;
- be financially viable;
- support enterprises which will maximize the development impact on the host country;
- provide support and services not generally available to small business enterprises; and
- provide capital at or near the interest rate available to the recipient.

In addition, the legislation provides that not more than $3 million may be available for any one project and, further, that not more than 20 percent of the assets may be dedicated to any one country.

The Omnibus Trade and Competitiveness Act of 1988 added Loan Guarantee Authority to the Direct Lending Authority of the Revolving Fund. Congress intended that loan guarantees, backed by the full faith and credit of the U.S. Government, would help mobilize credit in developing country financial markets for private sector growth. Because PSIP shares the risk associated with lending in the small business sector, private lending institutions operating in developing countries are encouraged to extend more market rate financing to small businesses.

PSIP is subject to the Federal Credit Reform Act of 1990 (PL 101-508) (Credit Reform), which became effective as of October 1, 1991. The primary objective of Credit Reform was to identify the costs inherent in federal credit programs so that they may be compared more easily with the costs of other federal spending. Consequently, commencing in 1992, the PSIP's activities were funded through direct appropriation provided for that year only rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

In fiscal year 1993, the Administration decided to request no direct funding for PSIP in fiscal year 1994 and beyond. As a result, a comprehensive phase-out plan for the program was approved by USAID's senior management. However, recognizing the importance of micro and small businesses to economic growth and desiring to increase the access of micro and small enterprises to financial markets, USAID's senior management instructed the unit to preserve and repackage the "best elements" of PSIP for use in efforts to encourage broad-based, economic growth. The result, commencing in fiscal year 1994, is the Micro and Small Enterprises Development Program. The PSIP portfolio will be incorporated in the Micro and Small Enterprise Development Program.

*B. Basis of Presentation*

The financial statements have been prepared to report the financial position and results of operations of PSIP, as required by the Chief Financial Officers Act of 1990. These statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 93-02, *Form and Content of Agency Financial Statements*. OMB Bulletin No. 93-02 is considered to be a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The difference between GAAP and Bulletin No. 93-02 as it applies to PSIP is in the accounting for the effects of Credit Reform.

As more fully described in Note 8, loss reserves for guarantees under Credit Reform are established when loans under guarantees are disbursed, and are calculated as the net present value of all expected costs to PSIP resulting from those guarantees, except for administrative costs, less the net present value of all revenues to be generated from those guarantees. This methodology is required by Credit Reform guidelines. Under GAAP, however, reserves are established when a loss is expected to occur, which is not necessarily upon commitment, and the costs of defaults are not present valued. In addition, under GAAP, future revenues are not considered in calculating the reserve and administrative costs would be included, where material.

*C. Basis of Accounting*

Transactions are recorded on a accrual accounting basis and are also recorded on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and control over the use of federal funds.

*D. Cash Equivalents*

For purpose of the Statements of Cash Flows, PSIP's Fund Balance with Treasury is considered to be cash equivalents.

*E. Restricted Fund Balance with Treasury*

Restricted unobligated balance amounts relate to expired authority, and holdings which have not been transferred into the general fund as of September 30, 1993, which are unavailable for use. The expired unobligated balances retain their fiscal year identity for five fiscal years. At the end of the five year period, the unobligated balances are closed.

*F. Fund Balance with USAID*

USAID holds funds with the U.S. Treasury from which it pays operating expenses that are not paid by the PSIP's operating expenses fund. At year-end, amounts remaining which are obligated by USAID to pay for the PSIP's Accounts Payable and Accrued Payroll and Benefits are reflected on the statement of financial position as the Fund Balance with USAID.

*G. Loans Receivable*

Loans receivable consist of direct loans made to developing country borrowers and to institutions to increase the flow of credit to individuals and entities in developing countries. In addition, PSIP makes loans to U.S. institutions, which then issue standby letters-of-credit to banks in developing countries to help increase the flow of credit to indigenous small businesses in the developing country.

Loans receivable are recorded net of an allowance for uncollectible amounts (Note 3). The estimated amount for the allowance for doubtful accounts is based upon past experience, present market conditions, and an analysis of the outstanding balance.

Loan set-offs occur when the developing country bank draws on a standby letter-of-credit as a result of defaults by their borrowers. In this instance, the amount drawn down on the standby letter-of-credit will not be repaid to PSIP by the U.S. institution and the balance of loans receivable is reduced by the amount of the set-off.

Loan balances which are delinquent for 90 days or more are placed in a non-accrual status. Any accrued but unpaid interest receivable on such loan balances is eliminated through an adjustment against current period interest income.

PSIP did not make any new loans in 1993, but did modify one loan, and recorded a related subsidy.

*H. Liabilities*

Liabilities represent the amount of monies or other resources that are likely to be paid by PSIP as the result of a transaction or event that has already occurred. However, no liability can be paid by PSIP absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities, since there is no certainty that the appropriation will be enacted.

*I. Liabilities for Loan Guarantees and Subsidized Liability*

The Liabilities for Loan Guarantees provides for losses inherent in the guarantee operation for pre-Credit Reform activity. These liabilities represent a general reserve, available to absorb losses related to loan guarantees on loans outstanding. The loan guarantees are off-balance sheet commitments (Note 3). The provision for losses on guarantees is based on management's evaluation of the participating financial institution, underlying transaction risk, as well as a review of the country risk.

The Subsidized Liability - Credit Reform is the estimated long-term costs to the Government of loan guarantees, calculated on a net present value basis, for post-Credit Reform activity. The subsidy is accrued when loans are disbursed under guarantees, and is reestimated annually.

*J. Claims*

Claims are recognized when defaults under PSIP guarantees are reported to management. Claims payable are included in the Statement of Financial Position as Accounts Payable, Federal and Non-Federal, as appropriate.

*K. Deferred Revenues*

Origination fees and facility fees in excess of direct origination costs are deferred and recognized over the life of the guarantee as an adjustment to fee income.

*L. Accrued Leave*

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rate. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of unvested leave are expended as taken.

*M. Unfunded Liabilities and Future Funding Requirements*

Future Funding Requirements consist of the outstanding balance of accrued leave at the end of the fiscal year. Unfunded Expenses balance is comprised of the increase or decrease for the fiscal year in the accrued annual leave liability. These expenses will be funded through appropriations to USAID in the years in which the leave is taken by employees.

*N. Other Revenues and Financing Sources*

Other Revenues and Financing Sources represent fees earned on both direct loans and outstanding guarantee balances.

*O. Statement of Cash Flows*

Where operating activities are financed by non-cash transactions, they are not reflected in the Statement of Cash Flows. The increase in Accrued Payroll and Benefits and a portion of the Accounts Payable, Non-Federal, are funded by the increase in Fund Balance with USAID. The increase in the Accrued Annual Leave Liability is funded by the increase in Future Funding Requirements.

## 2. CREDIT REFORM

The Federal Credit Reform Act of 1990, which became effective on October 1, 1991, has significantly changed the manner in which PSIP finances its credit activities. The primary purpose of this Act is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending.

In fiscal year 1993, the program received appropriations totaling $5.404 million. Of that amount, $4.057 million represented the annual subsidy to cover the estimated subsidy cost of new guarantee activity, and $1.347 million represented amounts appropriated to pay the operating and administrative costs related to carrying out PSIP activity.

## 3. COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

PSIP is subject to risk for financial instruments not included in its Statement of Financial Position. These financial instruments are guarantees on loans which provide principal protection to lenders in developing countries against risks of lending to borrowers. These guarantees may not exceed $3 million each, nor exceed 50 percent of the cost of the activity to be financed to any one borrower. PSIP and the private lender share equally in the risk of default, and in any collateral or recoveries taken or realized by a lending bank. Total financial guarantees committed by PSIP were $72.3 million and $105.8 million at September 30, 1993 and 1992, respectively.

Guarantees committed on or after October 1, 1991 (commitments totaling $20.0 million for 12 projects) are subject to Credit Reform. The primary objective of Credit Reform is to identify the true costs inherent in federal credit programs so that they may be compared more easily with the costs of other federal spending. As guarantees are issued, liabilities for guarantee losses are established and funded through appropriated subsidies. A reserve of $545 thousand was established against this amount. Although the method of calculating this reserve differs from GAAP, the resulting amount of the reserve does not differ materially from a GAAP-based reserve.

A summary of guarantees committed and used, and related reserves at September 30, 1993, is as follows (in thousands):

| | USAID GUARANTEE COMMITTED | USAID GUARANTEE UTILIZED | RESERVE |
|---|---|---|---|
| Pre-Credit Reform | $ 52,309 | $ 10,255 | $1,096 |
| Post-Credit Reform | 20,000 | 5,765 | 545 |
| | $ 72,309 | $ 16,020 | $1,641 |

## 4. FUND BALANCE WITH TREASURY AND RESTRICTED FUNDS

Fund Balance with Treasury represents undisbursed obligations for PSIP's account with the U.S. Treasury. Prior to September 30, 1991, the Fund Balance with Treasury also included unobligated funds. As of September 30, 1991, all unobligated funds were transferred to the general fund, and there have been no further appropriations other than permanent indefinite appropriations for actual and estimated defaults on guarantees occurring prior to October 1, 1991, and for subsidy costs of Credit Reform Appropriations. Accordingly, $8.2 million of unobligated funds for PSIP were transferred to Treasury in fiscal year 1993 and $8.1 million were transferred in 1992. In addition, $178 thousand will be transferred to Treasury in 1994.

Because these unobligated funds were no longer available for use by PSIP, the Fund Balance with Treasury, Appropriated Capital, and Cumulative Results of Operations have been reduced by these amounts at September 30, 1993 and 1992. The Fund Balances at September 30, 1993 and 1992 are as follows (in thousands):

| | September 30, 1993 | | | September 30, 1992 | | |
|---|---|---|---|---|---|---|
| | Available | Restricted | Total | Available | Restricted | Total |
| Revolving Funds | $7,951 | $ 178 | $ 8,129 | $12,394 | $ - | $12,394 |
| Appropriated Funds | 1,164 | 5,355 | 6,519 | 602 | 2,041 | 2,643 |
| Total | $9,115 | $5,533 | $14,648 | $12,996 | $2,041 | $15,037 |

## 5. ACCOUNTS RECEIVABLE, NON-FEDERAL

Accounts receivable, Non-Federal, represents accrued interest earned on the loans receivable and accrued fees earned on both direct loans and outstanding guaranty balances. The balances at September 30, 1993 and 1992, are as follows (in thousands):

| | 1993 | 1992 |
|---|---|---|
| Accounts Receivable, Non-Federal | $163 | $ 325 |
| Less: Allowance for Doubtful Accounts | (9) | (213) |
| Accounts Receivable, Non-Federal | $154 | $ 112 |

## 6. LOANS RECEIVABLE, NON-FEDERAL

Loans Receivable represents direct loans to borrowers. Loans are accounted for as receivable when funds are disbursed. Loans Receivable is reduced by an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is based upon past experience, present market conditions, and analyses of outstanding balances. Loans receivable, net of allowance for doubtful accounts, by geographical area at September 30, 1993 and 1992, consists of the following (in thousands):

| | 1993 | 1992 |
|---|---|---|
| Africa | $ 3,467 | $ 4,592 |
| Asia | 4,482 | 5,837 |
| Latin America & Caribbean | 4,197 | 5,203 |
| Multi-Regional/Country | 283 | 142 |
| Total Loans Receivable | 12,429 | 15,774 |
| Less: Allowance for Doubtful Accounts | (4,578) | (5,254) |
| Loans Receivable, net | $ 7,851 | $10,520 |

Changes to the Allowance for Doubtful Accounts for the years ended September 30, 1993 and 1992 was as follows (in thousands):

| | 1993 | 1992 |
|---|---|---|
| Allowance, beginning of year | $5,254 | $5,312 |
| Provision charged to operations | 103 | 367 |
| Loan Set-offs | (779) | (425) |
| Allowance, end of year | $4,578 | $5,254 |

PSIP has a loan to Masstock Zambia recorded in the amount of $1,125,000 which represents the original loan in the amount of $2,983,586 less a reserve for loan loss of $1,858,586. This net loan was transferred to another government agency subsequent to FY 93 year-end. Management of PSIP believes that the remaining value of this loan will be collected from the borrower and that no additional reserve is necessary.

## 7. ACCOUNTS RECEIVABLE, FEDERAL

Accounts Receivable, Federal represents utilization and facility fees received by the USAID Missions, from the banks which have not yet been remitted to PSIP.

## 8. LIABILITIES FOR LOAN GUARANTEES AND SUBSIDIZED LIABILITY

As discussed in Note 2, PSIP is subject to the Federal Credit Reform Act of 1990, which became effective on October 1, 1991. As guarantees are issued, PSIP records a guarantee reserve based on the present value of the estimated net cash out flows (if any) to be paid by PSIP as a result of the loan guarantees. This guarantee reserve is funded through Credit Reform appropriations. In 1992, a reserve of $588 thousand was established for guarantees committed. During 1993, additional guidance under Statement of Federal Financial Accounting Standards Number 2 (SFFAS #2) was provided which indicated that the subsidy cost estimate should be made based on loans disbursed under guarantees issued. The 1992 subsidy expense was restated to reflect the appropriate application of SFFAS #2. There was no subsidy expense in 1992 based on this interpretation. Subsidy cost for 1993 was estimated less recognition of deferred income on loan fees for the year, using the additional guidance. The calculations of subsidy liability at September 30, 1993 and 1992, are as follows (in thousands):

| | 1993 | 1992 |
|---|---|---|
| The present value of the cost of estimated defaults on guaranteed loans disbursed | $ 720 | $ - |
| The present value of the estimated fees to be collected on loans disbursed | (175) | - |
| Subsidized Liability - Credit Reform | $ 545 | $ - |

Guarantees committed prior to October 1, 1991, are not subjected to Credit Reform. The activity in the reserve for claim losses during fiscal years 1993, and 1992, is as follows (in thousands):

| | 1993 | 1992 |
|---|---|---|
| Reserve, beginning of year | $1,098 | $1,054 |
| Provision Charged to Operations | 240 | 92 |
| Claim Losses Realized | (242) | (48) |
| Reserve, end of year | $1,096 | $1,098 |

## 9. OTHER FUNDED LIABILITIES, FEDERAL

Other Funded Liabilities, Federal are as follows at September 30, 1993 and 1992 (in thousands):

| | 1993 | 1992 |
|---|---|---|
| Unobligated funds - transferable to Treasury | $ 221 | $ - |
| Other Funded Liabilities | - | 48 |
| | $ 221 | $ 48 |

## 10. NET POSITION

Appropriated cap.tal is disclosed separately for Pre-Credit Reform and for Post-Credit Reform to reflect the effects of Credit Reform on PSIP's net position. Capital accumulated through September 30, 1991 can only be used to finance credit activities which were originated prior to September 30, 1991. Capital appropriated in fiscal years 1992 and beyond, under Credit Reform, is designated for specific years' credit activities. The fiscal year 1993 Appropriated capital related to Post-Credit Reform is $6.5 million. Of this amount, $5.3 million is appropriated for previously committed guarantees, and $1.2 million is available for future guarantee commitments.

Cumulative results of operations for PSIP included the revenues and expenses of the Private Sector Revolving Fund since inception. As discussed in Note 4, the unobligated funds for PSIP were transferred to Treasury in accordance with Credit Reform. Prior to fiscal year 1993, appropriated capital has been reduced by the transfer amount. However, in fiscal year 1993, $7.6 million of appropriated capital and $704 thousand of cumulative results of operations have been reduced to reflect the transfer amount.

## 11. OPERATING EXPENSES

Operating Expenses by object classification for fiscal years 1993 and 1992 are as follows (in thousands):

| Objection classification | 1993 | 1992 |
|---|---|---|
| Salaries and Benefits | $ 696 | $ 894 |
| Contractual Services | 842 | 800 |
| Operational Travel | 59 | 85 |
| Overhead | 338 | 497 |
| Rent | 62 | 0 |
| Audit Cost and Other Expenses | 166 | 123 |
| Total Operating Expenses | $2,163 | $2,399 |

## 12. LENDER TRAINING EXPENSES

PSIP contracts with a private firm to conduct a lender training program. This program is designed to enhance the skills of personnel in the financial services sector in developing countries. The lender training activity is the only function performed by PSIP that does not pertain to providing credit, and as result it is separately disclosed on the Statement of Operations.

## 13. RETIREMENT PLAN

PSIP employees are covered by the Civil Services Retirement System (CSRS) or the Federal Employee Retirement System (FERS). For the CSRS, 7 percent of the employee's gross earnings was withheld and PSIP contributed a matching amount. For the FERS, 0.8 percent of employees' gross earnings was withheld and PSIP contributed approximately 13 percent. Employees subject to FERS also have an additional 7.65 percent of employees' gross earnings withheld for Social Security.

Employees may elect to participate the Thrift Saving Plan (TSP). Under this plan, CSRS employees may elect to have up to 10 percent of gross earnings withheld. FERS employee elections are partially matched up to a total of 5 percent of earnings. FERS employees also receive an automatic 1 percent USAID matching contribution.

Although PSIP funds a portion of employee pension benefits and makes necessary payroll withholdings, it has no liability for future payments to employees under the programs, nor is it responsible for reporting the assets, actuarial data, accumulated plan benefits, or any unfunded pension liability of the retirement plan. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board. Data regarding actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

## 14. INTRA-GOVERNMENTAL TRANSACTIONS

PSIP is subject to the financial decisions and management and controls of USAID, which in turn is subject to the financial decisions and management controls of OMB. As a result of these relationships, PSIP's operations may not be conducted nor its financial position reported as they would be if PSIP were an autonomous entity.

PSIP provides training in credit management to program participants. This aspect of the program provides a benefit not only to PSIP but also to USAID Missions. PSIP does not receive any reimbursements for this benefit.

As discussed in Note 13, PSIP does not account for those aspects of the pension liability, assets, and expenses which are the responsibility of the Office of Personnel Management and the Federal Retirement Thrift Investment Board.

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## INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the financial statements of the Private Sector Investment Program (PSIP) of the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1993, and have issued our report thereon dated May 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of PSIP for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

In addition to the objectives referred to in the following paragraph of this report, the management of USAID is responsible for providing reasonable assurance that data which support performance measures reported in the "Overview of the Reporting Entity" are properly recorded and accounted for to permit preparation of reliable and complete performance information. Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*, requires that auditors obtain an understanding of the internal control structure and assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving this objective. The scope of our auditing procedures did not include obtaining and evaluating evidential matter to access control risk concerning USAID management's assertion regarding performance measures. This requirement was addressed by the USAID Office of Inspector General as reported in its transmittal letter regarding the audit report of PSIP for the year ended September 30, 1993.

The management of USAID is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements in accordance with generally accepted accounting principles;
- Transactions are executed in accordance with management's authorization;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition;
- Transactions, including those related to obligations and costs, are executed in compliance with:
  - Laws and regulations that could have a direct and material effect on the financial statements, and
  - Any other laws and regulations that OMB, entity management, or the Inspector General of USAID have identified as being significant, and for which compliance can be objectively measured and evaluated.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

**Controls used in administering compliance with laws and regulations**

General requirements;
Specific requirements.

**Accounting applications**

Origination of guarantees;
Claims receivable and cash receipts;
Purchases and disbursements;
Salaries and benefits;
Appropriations;
Project monitoring;
Financial statement preparation and reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Private Sector Investment Program
Internal Control Structure Report
Concluded

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We also noted other matters involving the internal control structure and its operation used to comply with laws and regulations applicable to PSIP which we have reported to management of USAID in a separate letter dated May 20, 1994.

This report is intended for the information of Congress, the USAID Office of the Inspector General, and the management of USAID. This restriction is not intended to limit the distribution of this report when it becomes a matter of public record.

Deloitte & Touche
May 20, 1994



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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT OF FINANCIAL STATEMENTS

To the Administrator
and the Inspector General of the
U.S. Agency for International Development:

We have audited the financial statements of the Private Sector Investment Program (PSIP) administered by the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1993, and have issued our report thereon dated May 20, 1994.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to PSIP is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of PSIP's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Laws and regulations applicable to PSIP include:

- Eligibility provisions of Title III of the Foreign Assistance Act of 1961, as amended;
- The Chief Financial Officers Act of 1990;
- The Budget and Accounting Procedures Act of 1950;
- The Federal Managers' Financial Integrity Act of 1982;
- The Debt Collection Act of 1982;
- The Prompt Payment Act of 1982 as amended;
- The Federal Credit Reform Act of 1990.

Private Sector Investment Program
Compliance with Laws and Regulations
Concluded

The results of our tests of compliance indicate that, with respect to the items tested, PSIP complied, in all material respects, with the provisions referred to in the fourth paragraph of this report; and with respect to items not tested, nothing came to our attention that caused us to believe that PSIP had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of USAID in a separate letter dated May 20, 1994.

This report is intended for the information of the Congress, the USAID Office of the Inspector General, and the management of USAID. This is not intended to limit distribution of this report when it becomes a matter of public record.

Deloitte & Touche

May 20, 1994



Deloitte & Touche

# USAID Management's Program Overview of the Private Sector Investment Program

## PROGRAM OVERVIEW: FISCAL YEAR 1993

### Executive Summary

The Private Sector Investment Program (PSIP) underwent great change in fiscal year 1993. The USAID Policy Office notified PSIP's managers, USAID's Office of Investment, that no funding would be requested for the program in FY 1994 or beyond. In addition, professional staff were reduced by more than fifty percent (50%). As a result, FY 1993 was primarily devoted to the preparation of a phase-out plan for PSIP. Planned changes to PSIP's performance measurement systems were suspended and only a limited number of new project commitments with important developmental potential were approved.

The preparation of the phase-out plan gave USAID management an opportunity to review the PSIP portfolio and to identify those elements making the greatest contribution to economic growth. Beginning in FY 1994, based on decisions by the Administrator, the best elements of the program were retained and reformulated as the Micro and Small Enterprise Development Program (MSED). MSED uses a combination of training and partial guarantees to try to build long-term, sustainable links between formal financial institutions and small and microenterprises otherwise lacking full access to formal credit markets.

The Overview and Program Performance sections describe the events of FY 1993 in greater detail. These sections summarize PSIP's FY 1993 operations, and highlight significant subsequent events.

### The Private Sector Investment Program

Recognizing the pivotal role of private enterprise in fostering broad-based economic growth, Congress in 1983 enacted Section 108 of the Foreign Assistance Act of 1961 to create the Private Sector Investment Program (formerly the Private Sector Revolving Fund). The Private Sector Investment Program was designed to promote private sector activity in developing countries, primarily through increasing the flow of credit to small, private sector enterprises.

The PSIP portfolio is administered by the U.S. Agency for International Development (USAID). Its programs and activities are managed through USAID's Bureau for Private Enterprise/Office of Investment (PRE/I).

### Legislative Mandate and Mission of PSIP

PSIP was intended to facilitate development that would be sustainable over the long term without continuous reliance on outside assistance. With its primary focus on small business development, PSIP was designed to: (1) stimulate growth and expansion of private enterprise activity in Less Developed Countries (LDCs) by facilitating access to credit; (2) create innovative financing mechanisms to serve as models and assist the private sector development efforts of local USAID Missions; and (3) change the behavior of local, private financial institutions by helping them develop new markets and learn new lending techniques.

Section 108 (c) (2) of the enabling legislation stipulates that PSIP should provide assistance at or near the interest rate available to the recipient to those projects which:

- have a demonstration effect;
- are innovative;
- are financially viable;
- maximize development impact appropriate to the host country;
- are primarily directed to making support and services available to small business enterprises.

## Phase Out

Fiscal year 1993 marked the commencement of the phase out of PSIP. In FY 1993, the Administration made known its decision to request no direct funding for PSIP in FY 1994 and beyond. Staff were cut from nine, full-time professional staff to three investment officers. In addition to the three investment officers, the program was managed by an acting director assigned on detail from the Office of the General Counsel. This was determined to be the minimum staff level required for essential monitoring of the portfolio as the phase out was initiated.

Because of these decisions, remaining staff were tasked with preparing a comprehensive phase-out plan for the program. The plan, approved by USAID's senior management, balanced the decision to reduce program obligations rapidly and responsibly with the need to honor U.S. Government commitments and the desire to preserve positive, development impact.

In addition to approving the phase-out plan, USAID's senior management authorized the investment staff to commit certain new activities that had been under consideration prior to the decision to end PSIP funding. These included the modification of a loan to ACCION International for microenterprise lending, and guarantees to support the flow of credit to small and micro, black-owned businesses in South Africa.

## Building Links Between Credit Markets and Micro and Small Enterprises

The preparation of the phase-out plan required a comprehensive review of all portfolio commitments, and discussions with participating intermediary financial institutions and relevant USAID missions. This review provided additional insight into those components of the program yielding the greatest development impact; namely, the combined use of partial guarantees and training to encourage financial institutions in USAID-assisted countries to increase credit flows to indigenous small and micro enterprises previously lacking full access to financial markets.

## Subsequent Events

Recognizing the importance of micro and small businesses to economic growth and desiring to increase the access of micro and small enterprises to financial markets, USAID's senior management instructed the unit to preserve and repackage PSIP's "best elements" for use in efforts to encourage broad-based, economic growth. The result, commencing in FY 1994, is the Micro and Small Enterprise Development Program (MSED). The PSIP portfolio has been incorporated into MSED, with most terminations to be implemented as set forth in the phase-out plan. Modifications to the plan will be permitted to reflect the development of MSED and changing circumstances in the field. New project commitments under MSED will be designed to achieve the objective of building sustainable links between financial institutions and small and micro businesses in developing nations. Unlike PSIP, MSED will focus exclusively on addressing the financial needs of small and micro businesses.

## PSIP FACILITIES

In response to a legislative mandate to be "innovative," PSIP established a wide array of direct loan and guarantee vehicles in an effort to meet the changing needs of the private sector in the developing world. Many of these facilities have been slated for termination or restructuring under the phase out. While direct loans continued to be part of the portfolio for select development purposes, guarantees have become overwhelmingly the most significant element of program activity. PSIP facilities included:

### *Direct Loans*

- Resource Mobilization Guarantee (To be de-emphasized under MSED) -- to mobilize blocked local currencies for loans to indigenous small businesses.

- Direct Project Loans (Limited use anticipated under MSED) -- used to finance developmentally desirable private sector projects in LDCs.

- Loan Backed Guarantees/Letters of Credit (To be terminated under the PSIP phase out) -- used before PSIP had the authority to issue guarantees directly, these loans secured letters of credit in favor of LDC financial institutions making loans to indigenous small businesses.

*Guarantees*

• Loan Portfolio Guarantees (restructured under MSED to assist micro, as well as small enterprises) -- the primary tool of the program, designed to share risk with financial institutions to encourage them to increase credit flows to small business.

• Bond Guarantees (To be continued under MSED)-- designed to help introduce an important financial instrument to LDC financial markets and expand the capital available for small business lending.

• Franchise Guarantees (To be subsumed under Loan Portfolio Guarantees under MSED) -- to assist developing nation entrepreneurs begin small businesses by creating links with U.S. franchises.

• Export Finance (Forfait) Guarantees (Terminated in FY 1993) -- designed to deepen developing nation capital markets and generate U.S. exports.

• Resource Mobilization Guarantees (To be restructured under MSED to support micro, as well as small, enterprises) -- designed to redirect liquidity from companies, pension funds and the insurance industry to the small business sector.

• Privatization Guarantees (Merged with Loan Portfolio Guarantees under MSED) – designed to support privatizations in USAID-assisted countries.

Bank Training Program

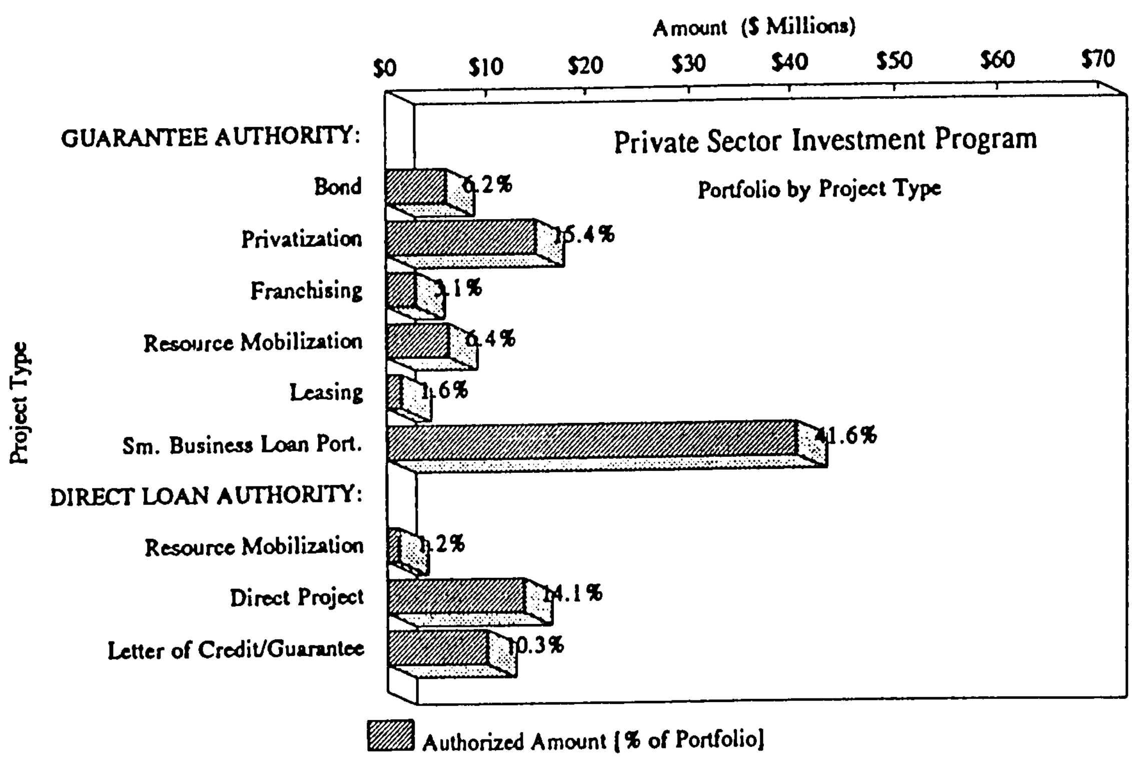
Supplementing PSIP's guarantee and direct loan programs is a Bank Training Program. This program, which is performed by a private firm under contract to USAID, was designed to complement the loan/guarantee program with a two-fold purpose: 1) to work with intermediary financial institutions to increase their capacity to evaluate, structure and manage small business loans, emphasizing cash-flow based lending techniques to counter the traditional LDC bank requirement for high collateral; and 2) to help small business owners improve their financial management techniques, as well as increase their knowledge of how to obtain and repay loans successfully. Because of the importance of combining training with partial guarantees to give banks needed tools to lend to small and micro enterprises on a continuing basis, bank and small business training will be continued and expanded under MSED.

## PSIP Portfolio Size and Composition

**Graphic A - PSIP Portfolio Summary***
as of September 30, 1993

| Authority Type | Project Type | No. of Projects | Authorized Amount ($ millions) | % of Portfolio |
|---|---|---|---|---|
| *Guarantee Authority:* | | | | |
| | Bond | 3 | $6.0 | 6.2% |
| | Privatization | 3 | 15.0 | 15.4% |
| | Franchising | 1 | 3.0 | 3.1% |
| | Resource Mobilization | 4 | 6.3 | 6.4% |
| | Leasing | 2 | 1.6 | 1.6% |
| | Small Business Loan Portfolio | 30 | 40.5 | 41.6% |
| | **Subtotal - Guarantees:** | 43 | $72.3 | 74.3% |
| *Direct Loan Authority:*** | | | | |
| | Resource Mobilization | 1 | $1.2 | 1.2% |
| | Direct Project | 6 | 13.8 | 14.1% |
| | Letter of Credit/Guarantee | 7 | 10.0 | 10.3% |
| | **Subtotal - Direct Loans:** | 14 | $25.0 | 25.7% |
| **Total - PSIP Portfolio:** | | 57 | $97.3 | 100.0% |

* Includes active facilities as of 09/30/93, not including grant of $517,000 to ACCION.
** Includes a direct loan to Thai Venture Capital for $876,354 that was fully repaid in FY 94 and another direct loan to Masstock for $2,983,583 that was transferred to OPIC in FY 94.



## PSIP Management and Portfolio Distribution

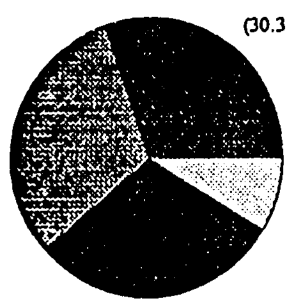
The Office of Investment works in conjunction with USAID Missions in all geographical regions, as well as with other USAID Bureaus and Offices, primarily to address the credit needs of the private sector in developing countries. Graphic B illustrates the regional scope of PSIP's activities on September 30, 1993. This chart reflects the initiation of the PSIP phase-out plan.

Graphic B - Summary by Geographic Region*

| Region | Total Commitments/ Obligations ($ Millions) | % of Portfolio | No. of Projects |
|---|---|---|---|
| *Africa & Near East* | $29.5 | 30.3% | 22 |
| *Asia* | 30.1 | 31.0% | 19 |
| *Latin America & Caribbean* | 29.3 | 30.1% | 13 |
| *Worldwide* | 8.4 | 8.6% | 3 |
| TOTALS: | $97.3 | 100.0% | 57 |

* Includes active facilities as of 09/30/93, not including grant of $517,000 to ACCION.
Includes a direct loan to Thai Venture Capital for $876,354 that was fully repaid in FY 94 and another direct loan to Masstock for $2,983,583 that was transferred to OPIC in FY 94.

PSIP Regional Distribution
(Percentage of Portfolio)




BEST AVAILABLE DOCUMENT

## Credit Reform

Funding for the Private Sector Investment Program began with annual direct appropriations to a revolving fund beginning in FY 1984 and ending in FY 1989. These totalled $76.0 million. With the enactment of Credit Reform legislation, which governs all U.S. Government loan and guarantee programs, prior Revolving Fund assets were no longer available for new PSIP activities. Under the rules and principles of credit reform, first effective in FY 1992, budget authority is appropriated for the estimated "true cost" (also referred to as the "subsidy" cost) of new loan and guarantee projects. The estimated true cost is calculated for each project based on the present value of the estimated net cash outlays over the project's life. With approval from USAID's senior management, in FY 1993 the Office of Investment obligated $743,000 in appropriated budget authority to support $8.5 million in new loan guarantees (guaranteeing 50% of $17 million in loans) and the modification of a $2 million loan to ACCION International. As required by Credit Reform, in addition to USAID general appropriations, operating expenses, overhead, audit and travel costs were funded by appropriations to the PSIP program.

## PROGRAM PERFORMANCE

### 1993 Operational Summary: Phase Out; Limited New Commitments

Fiscal year 1993 was primarily devoted to developing and initiating a phase-out plan for PSIP. With approval from USAID's senior management, the Office of Investment committed a few, select projects with strong development potential that had been under consideration prior to receiving notification of the phase out.

New commitments in FY 1993 supported specific initiatives identified by office staff in cooperation with relevant USAID Missions. These included loan guarantee facilities to increase the flow of credit to small and micro, black-owned enterprises in South Africa, and a facility for the Philippines to increase credit primarily to small, rural enterprises. Two Bond Guarantee facilities were obligated for Bolivia, to meet commitments previously approved and to assist the USAID mission in its efforts to broaden and deepen Bolivia's capital markets. The proceeds of the bonds will be used exclusively for lending to small, Bolivian businesses. Another important activity for the office in FY 1993 was the modification of a loan to ACCION International, designed to provide additional resources for microenterprise lending throughout Latin America. In addition to the loan, a total of $8.5 million in guarantee authority was committed in FY 1993. The total appropriation obligated for all project activities was $743,000, including the cost of modifying the loan to ACCION International.

In summary, the program's resources were used to:

- increase credit flows to small and microenterprises in South Africa and the Philippines;
- introduce a new credit instrument to Bolivia's financial markets while increasing resources for small business lending; and,
- increase financing available for microenterprises in Latin America.

The following facilities were committed in FY 1993:

| Project Type | No. of New Projects | Amount ($ millions) |
|---|---|---|
| *Guarantees:* | | |
| • Loan Portfolio | 2 | $ 4.0 |
| • Increases to FY92 LPGs | 2 | 1.5 |
| • Bond | 2 | 3.0 |
| *Direct Loans:* | | |
| • Modification of FY91 Loan | 1 | 2.0 |
| **Total:** | 7 | $10.5 |

## Performance Review

## Fiscal Year 1993 Indicators -- the Phase Out

Because of the decision to end new funding for PSIP, the primary activity for much of FY 1993 was the development of the program's phase-out strategy. The result is reflected in the Agency-approved Phase-Out Strategy. Accordingly, performance of the unit for FY 1993 must be measured in large part against implementation of the plan. The chart below indicates the level of program activity to be terminated in FY 1993 according to the plan and the actual level that was terminated.

PRIVATE SECTOR INVESTMENT PROGRAM PHASE-OUT STRATEGY
Summary of Scheduled & Completed Fiscal Year 1993 Project Phase-outs

| | | Scheduled (as of 05/26/93*) | | | Completed (as of 09/30/93) | | | |
|---|---|---|---|---|---|---|---|---|
| Type of PSIP Project | Abbrv. | No. of Projects | Total Amount (in $ Millions) | | No. of Projects | % Completed | Total Amount (in $ Millions) | % Completed |
| Loan Portfolio Guarantee | LPG | 18 | $24.75 | | 17 | 94% | $21.00 | 85% |
| Loan Guarantee | LNG | 3 | 1.12 | | 3 | 100% | 1.12 | 100% |
| Forfait Guarantee | FOR | 4 | 9.42 | | 4 | 100% | 9.42 | 100% |
| Resource Mobilization Guarantee+ | RMG | 2 | 4.00 | | 0 | 0% | 0.00 | 0% |
| Direct Project Loans | DIL | 4 | 4.30 | | 4 | 100% | 4.30 | 100% |
| Privatization Guarantee | PRV | 0 | 0.00 | | n/a | n/a | n/a | n/a |
| Franchise Guarantee | FRA | 0 | 0.00 | | n/a | n/a | n/a | n/a |
| TOTALS: | | 31 | $43.59 | | 28 | 90% | 35.84 | 82% |

* The PSIP Phase-out Strategy was approved by the Acting Deputy Administrator of USAID on May 26, 1993. This reflects reductions in the portfolio from 9/30/92 to 9/30/93.

+ Termination was postponed in order to ensure that the Financial Institutions had not place loans under coverage. KECL was terminated in early FY1994.

This chart demonstrates that the Investment Office implemented the phase out substantially as planned. Departures from the original plan reflected changing circumstances in the host country and/or changes in the performance of individual facilities, and the need to modify implementation accordingly. Authority to make needed modifications was included in the Agency-approved plan. The most significant departure from the phase-out plan occurred with respect to the termination dates initially recommended for the Resource Mobilization Guarantees. The office subsequently determined that it was appropriate to extend these termination periods to ensure that any loans already placed under the guarantees would remain covered.

## Impact of the Phase Out on Development of Program Indicators

Background. The Program underwent its first independent audit for FY 1991 during FY 1992. The audit report recommended, in part, that the Office of Investment "establish baseline data from which program impact could be measured and establish quantifiable program targets and objectives together with a timetable for achieving these targets and objectives." Further, the auditors recommended that the Office identify performance indicators and automate the data collection process so that the data could be compiled, recorded, and updated on an on-going basis. The Office established a plan and implementation timetable to identify and measure performance indicators.

Recognizing the need for a system to collect data and assist in performance measurement, in August 1992, the Office contracted for an automated system to be designed to organize previously collected data in a logical format. This program is named the Performance Monitoring and Control Information System (PMCIS).

**Program data were being entered into the system when the phase out was approved. Because of the planned phase out, management decided that it would be prudent to suspend new expenditures to improve the performance indicator system. As set forth in its FY 1992 Audit of the program, the Office of the Inspector General concurred in this decision.**

Because development of the automated system was suspended as a result of the phase out, management has continued to rely on previously existing, manual systems to track program data. Accordingly, indicators were identified that could be measured using systems in place during fiscal years 1992 and 1993. These indicators are shown in Graphic C.

The program indicators are organized by the developmental goal to be achieved. As the chart shows, the goals are in four primary areas: Financial Markets Development, Intermediary Financial Institutions, Small Business Development, and PRE Risk Management.

## Graphic C
## Private Sector Investment Program
## PERFORMANCE INDICATORS

| Performance Measurement | Description |
|---|---|
| **Goal: Financial Market Development** | |
| Types of Facilities | The profile of the Program's variety of financial packages from year to year. |
| Utilization of Program | Comparison of active project utilization in US $ to the amount of the U.S. Government's obligation. Projects authorized in FY93 will have projected baseline targets for each facility. |
| **Goal: Intermediary Financial Institution** | |
| Intermediary Financial Institution Participants | The number of institutions with PSIP facilities. |
| **Goal: Small Business Development** | |
| Number of Training Attendees | PSIP's ability to enhance the capacity of financial institutions to increase small business lending as measured by numbers of banking employees attending PSIP-sponsored banking training courses. |
| Dollars of Training | PSIP's input to training bankers in less developed countries in terms of dollars. |
| Number of Countries Receiving Training | PSIP's contribution to Mission agendas through training local financial sectors in small business lending. |
| Change in Number and/or Size of Loan to Small Enterprises | As a result of the Program, the increase in the amount of credit made available to individual small business borrowers. |
| **Goal: PRE Risk Management** | |
| Risk of Facilities | The change in the profile of PSIP portfolio risk as determined by quarterly credit reviews. |
| Canceled/ Deobligated Facilities | Tracks the number and amounts of canceled and deobligated projects as the result of risk management. |
| Completed Facilities | Depicts completed projects where no additional assistance is needed. |
| Current Loans and Guarantees/Total Portfolio | An internal measurement of the Investment Office's activity. |
| Average Subsidy | Measures the amount set aside for cost of the project compared to the amount of contingent liability and the amount of assistance provided. |

## Financial Market Development

### Types of Facilities

One strength of PSIP was its ability to provide new and innovative tools for supporting sustainable economic growth in less developed countries. The variety of guarantee or loan products indicated the flexibility of the program in reaching markets that could not be reached through conventional methods of assistance. For example, in response to the need for innovative facilities, the Office of Investment developed the bond guarantee program and targeted specific small business lending activities under the LPG such as micro-enterprise and franchise lending. Each of these facilities is intended to have a positive "demonstration effect" on the local market economy.

Innovation will continue to be important under MSED. But, rather than create new applications of the guarantee for different development purposes (e.g., privatization), the Office will strive to be creative in finding ways to use guarantees and loans to increase the flow of credit to micro and small businesses. Initially, there will be a reduction in the types of facilities as the program concentrates on micro and small business lending activities and winds down or terminates other activities (e.g., forfait facilities).

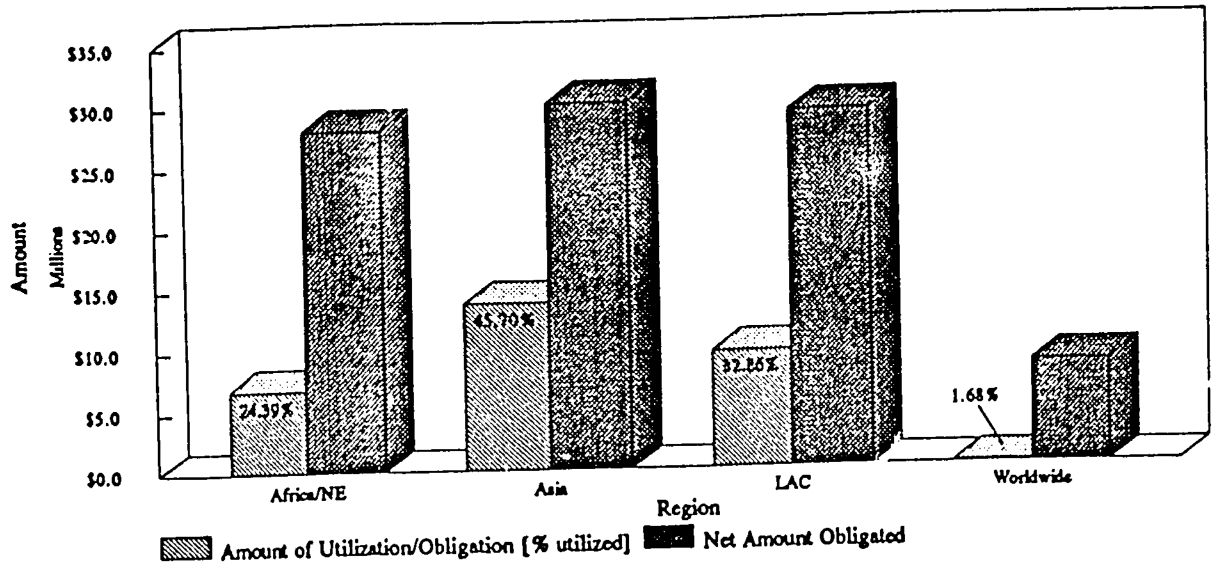
### Utilization

The effectiveness of the program is represented, in part, by utilization (i.e., total amount of direct loans disbursed compared to amount obligated, and outstanding subloan balances compared to maximum covered portfolio amounts for guarantees). Graphic D shows the amount of FY 1993 year-end assistance compared to outstanding obligations. Utilization in FY 1993 was 31.69%, an increase from the FY 1992 level of 23.94%. Even though showing an increase from the prior year, FY 1993 utilization was negatively affected by the phase out: certain facilities with strong utilization were allowed to expire without renewal; in addition, some banks were reluctant to place additional loans under guarantee coverage until the uncertainty surrounding the program was resolved.

The total amount of credit mobilized under guarantees and the balance of direct project loans on September 30, 1993 was $54,164,330. This reflects only the outstanding balances of loans under coverage (guarantees) or receivable (direct loans) *on that date*, which actually understates the use of the guarantee facilities: the guarantee facilities are designed to permit banks to place loans under coverage, remove them as they are repaid or otherwise deemed not to need coverage, and place *other* loans under the guarantee. Thus, while the outstanding balances of the loans under coverage on any given date may be low, the *cumulative use* over the life of the facility may be significantly higher. Cumulative utilization on September 30, 1993 was $146.72 million.

## Graphic D

Utilization by Region




## Intermediary Financial Institutions

### Intermediary Financial Institution Participants

In fiscal year 1993, three institutions were added to the portfolio and two guarantee facilities originally committed in FY 1992 were given increases in coverage. One institution formerly participating under a loan-backed guarantee facility was approved for a Loan Portfolio Guarantee (LPG) facility. They are listed in the table below. In total, 48 separate financial institutions had active PSIP facilities at the end of 1993 (in addition to these financial institutions, nine Private Voluntary Organizations or Non-Governmental Organizations, many of which also provide credit to small businesses, had active PSIP facilities at the end of FY 1993). This compares with 81 financial institutions participating at the end of FY 1992. The decline is attributable to the implementation of the phase out.

**Africa**

Nedcor Bank, S.A. -- Increase to Existing FY 1992 Guarantee to Support Disadvantaged, Black Microenterprises
Future Bank, S.A. -- Increase to Existing FY 1992 Guarantee to Support Disadvantaged, Black Small Businesses
First National Bank of S. Africa, S.A. -- Guarantee to Support Disadvantaged, Black Franchisors

**Asia**

Far East Bank and Trust Company -- Guarantee to Support Small & Micro Business Lending

**Latin America & the Caribbean**

Banco Boliviano Americano, S.A. -- Bond Guarantee to Broaden and Deepen Financial Markets
Banco Nacional de Bolivia, S.A. -- Bond Guarantee to Broaden and Deepen Financial Markets

With the phase out, management reviewed carefully all active facilities and recommended termination or non-renewal of those facilities not meeting office performance objectives. The implementation of the phase out will continue to result in a shrinkage in the number of banks participating, eventually to be balanced by new facilities committed under MSED.

**Small Business Development Goal**

Training: Number of Attendees, Dollars Spent, Number of Countries

PSIP supports small business lending in less developed countries with tools other than guarantees and loans. To augment the guarantees, the Office of Investment contracts with a private firm to conduct a training program to educate bankers and entrepreneurs in less developed countries in analyzing, administering, and applying for small business enterprise loans. The training is funded by program funds allocated separately from PSIP's credit appropriation. PRE/I hosted training in six countries in FY 1993 with 326 individuals attending. This compares with 214 attendees in six countries in FY 1992. The total spent in FY1993 was approximately $458,000, a 13% increase from FY1992.

Subloan Trend Measurements

The primary objective of the program is to increase credit flows to small businesses. Success in achieving this impact is measured in two ways. These are:

- net change in number of subloans (shows whether more credit has been made available); and,
- net change in the median size of subloans (shows whether banks are making loans to smaller borrowers).

The data for these indicators did not have a statistical significance to permit reporting in FY 1992. Because of the phase out, further development and testing of the data was suspended in FY 1993. When funding for PSIP was re-instated in FY 1994, data entry and data quality assurance resumed. Based on a data quality assurance level of approximately 75%, the Office of Investment has generated the following indicators. The numbers show activity on September 30, 1992 and 1993, respectively. Again, it is important to note that the data integrity tests are still in process and no firm conclusions on performance will be derived from this information until the tests are completed.

| Item | FY 1992 | FY 1993 |
|---|---|---|
| Number of active subloans | 2,000 | 3162 |
| Number of cumulative subloans | NA | 5168 |
| Median size of cumulative subloans | NA | $946.80 |

NA = Not Available

## PRE Risk Management

### Risk of Facilities

Prior to authorizing any project, PRE/I reviews the project proposal with respect to both risk and development impact. The risk assessment includes a review of the capacity of the IFI to make and administer loans, the country risk and the risks associated with the underlying loans. Under the requirements of Credit Reform, this assessment is translated into the estimated cost (or "subsidy") of the project to the U.S. Government. The facilities are reviewed on a quarterly basis thereafter to identify any financial or performance issues that might change the risk of that project. Under the phase out, the portfolio profile flattened considerably as high and low risk facilities were terminated or allowed to expire. The largest amount of project dollars are in the medium risk category, with high-risk projects second in dollar amount and the smallest amount of project dollars in the low risk category.

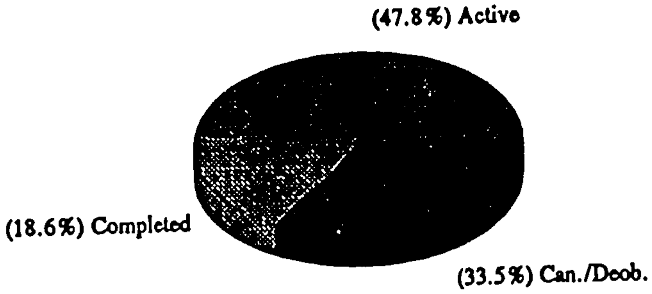
Fiscal year 1993 was devoted to the phase out of PSIP. Accordingly, only a few select projects were committed. All of the new projects were medium risk.

### Program Status: Active and Inactive Projects

As depicted in Graphic G, 47.8% of U.S. commitments under PSIP were active in FY 1993, 18.6% were completed, and 33.5% were canceled or deobligated. In FY 1992 the figures were approximately 92% active, 3% completed and 4% cancelled or deobligated. The decline in the FY 1993 figures reflects the effects of the PSIP phase out.

Graphic G

PSIP Portfolio Activity for FY 1993



Budget Authority

Budget authority required for the program reflects the expected cost to the U.S. Government of each project, which, under Credit Reform, is the difference between the net present value of cash inflows and the net present value of cash outflows. This estimated cost is also referred to as the "subsidy" cost of the program. For FY 1992 authorized projects, $588,000 in budget authority was obligated. Because the 1992 projects were the first to have subsidy determined, there are no comparative data from previous years. FY 1993 commitments resulted in the obligation of $743,000 in budget authority.

**Performance Indicators: Subsequent Events**

As discussed above (Overview, page 3), beginning in FY 1994 the elements of PSIP considered to have the greatest potential for development impact were retained and reformulated as the Micro and Small Enterprise Development Program (MSED). An appropriation was passed in FY 1994 giving MSED funding to undertake new program activities.

Upon receiving authority and funding to implement MSED in FY 1994, management began a review of existing performance indicator systems and data. Beginning in FY 1994, data entry for the small business loan portfolio guarantee program -- which had been suspended in June 1993 under the phase out -- was re-initiated. Data integrity tests were then begun, to give management a clearer understanding of the set of data that could be relied upon for performance measurement. Data integrity tests remain the most important effort in FY 1994. As of April 1994, approximately 75% of the data had been entered into the system. However, quality assurance reviews must be performed on the data entered. While MSED will continue to collect a wide range of information from the transaction reports collected for each guaranteed loan, performance indicators will be based solely on those data that have been tested for accuracy.

In FY 1994, management also began a review of the existing performance indicators, and concluded that they should be separated into two, separate categories: (a) development impact indicators and (b) internal management/risk indicators. Development impact indicators will be revised to reflect MSED's desire to encourage formal financial institutions to increase credit flows to small and micro businesses. For example, the program intends to report on the number of small business lending units that have been established in participating financial institutions. This will provide an indication as to the extent to which small business lending has become integral to the institutions' lending portfolios. Management has also begun a review of the existing automated system to determine how it can be improved to be a more useful tool. Any improvements to the existing system, however, will be made only after assessing the anticipated benefits of the change, as compared to its cost.

## FINANCIAL PERFORMANCE

### Financial Resources and Results of Operations

The accompanying financial statements summarize PSIP's financial position, disclose the cost of operations and the changes in net position during fiscal years 1993 and 1992, present all significant cash flows during the 2 fiscal years, and provide comparisons of budget and actual expenses.

The total cost for PSIP during FY 1993 was $2.1 million. This included overhead, rent and audit costs charged by USAID to the program.

More than 57 percent of these costs were financed through PSIP's direct appropriation, and the remainder came from USAID's Functional Development Assistance Fund and general appropriation.

During FY 1993, salaries and related costs totalled $696,000, or 33% of PSIP's total cost. 32% of PSIP's total cost was contractual services. The remaining 35% included operational travel, overhead and other items. These costs were incurred to manage the portfolio of $97.3 million.

As discussed in the program overview, in FY 1993, the Administration made its decision to request no direct funding for PSIP in FY 1994 and beyond. Accordingly, a phase out plan for PSIP was approved by USAID's senior management. Because of the phase out plan, staff were cut from nine to six. As a result, the overall costs for PSIP declined by 9%.

### Credit Reform

PSIP is subject to the Credit Reform Act of 1990 (PL 101-508). Under this law, federal credit programs, commencing in FY 1992, must have appropriations to cover anticipated costs; an appropriate amount must be set aside as a reserve when the credit transaction is obligated. Prior to FY 1992, PSIP set aside a loan loss reserve in a Revolving Fund to cover anticipated losses.

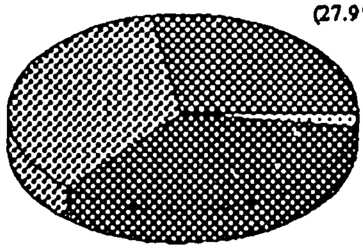
### Direct Loans - Financial Performance

The funding for the PSIP's Direct Loan Authority began in FY 1984. However, since FY 1988, guarantees have become the primary tool of PSIP. Direct loans are made selectively to finance pilot projects where a guarantee alone is not sufficient to mobilize local sources of capital. Therefore, the amount of direct loan activity has been decreasing.

For the nine years ending September 30, 1993, PSIP's loan disbursements amounted to $41.9 million. This represents approximately 79% of dollars obligated through loan agreements. Repayment of principal amounted to $27.5 million. Direct loan defaults, net of recoveries, were $1.9 million. The unpaid loan balance is $12.5 million. The graphic H illustrates the regional distribution of unpaid loan balance.

As a result of an analysis of the $ 12.5 million balance outstanding, a $4.6 million loan loss reserve has been established.

Graphic H
Loans Receivable by Regional Distribution

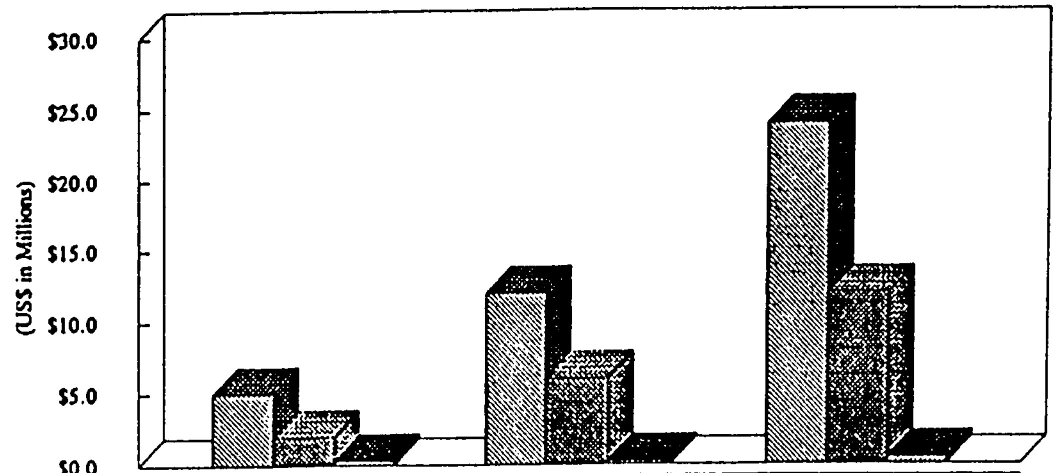





## Guarantee - Financial Performance

In FY 1993, three new guarantees were added to the portfolio and two guarantee facilities originally committed in FY 1992 were given increases in coverage. With these increases, the commitments under Credit Reform totalled $20 million with 12 projects. The total subsidy costs were $1.1 million. On average every $1 of subsidy held in reserve was used to support $18 in guarantees. Because guarantees are limited to 50 percent the principal amount of the loan made, each dollar of subsidy can result in $36 of extended credit. The subsidy calculation was based on the present value of the estimated net cash flows to be paid by PSIP as a result of the loan guarantees.

## Graphic I
## PSIP-Credit Reform Guarantee Activity

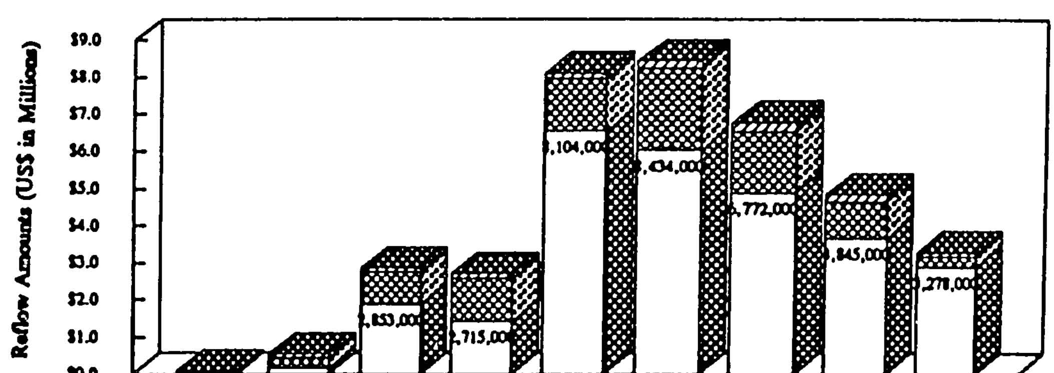



| Program Type | Privatization | Bond | LPG |
|---|---|---|---|
| Max. Guar. Port. | 5,000,000 | 12,000,000 | 24,000,000 |
| Tot. Guar. Commit. | 2,000,000 | 6,000,000 | 12,000,000 |
| Subsidy Committed | 362,000 | 257,000 | 460,000 |

Guarantees totalling $52.3 million, committed prior to FY 1992, are not subject to the Credit Reform Act. As of September 30, 1993, $1.i million was established as a reserve to provide for future losses on these guarantees. Over the last two years, the actual claims were funded through PSIP's cash reflows ( principal, interest, fees collected) with the excess being transferred to the U.S.Treasury. Graphic J shows PSIP's cash reflows from inception of the program.

BEST AVAILABLE DOCUMENT

## Graphic J
## Total PSIP Portfolio Cash Reflows




| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|---|---|---|
| Principal | 0 | 152,000 | 1,878,000 | 1,436,000 | 6,549,000 | 6,022,000 | 4,889,000 | 3,664,000 | 2,890,000 |
| Interest | 74,000 | 296,000 | 862,000 | 1,134,000 | 1,406,000 | 2,214,000 | 1,643,000 | 957,000 | 291,000 |
| Fees | 15,000 | 94,000 | 113,000 | 145,000 | 149,000 | 198,000 | 240,000 | 224,000 | 97,000 |

## Financial Management Initiatives

Over the past two years, USAID has made progress in carrying out the Chief Financial Officers (CFO) act. Some of the goals of the CFO Act are to:

- Provide Program Functional Managers with the financial data and related tools they need to function as sound financial managers.
- Improve the integrity and timeliness of financial management and reporting throughout USAID.
- Improve the efficiency of financial and administrative management operations, through streamlined and integrated systems throughout USAID.
- Ensure that all Agency financial systems conform to OMB Circular A-127 and JFMIP Core financial systems requirement.
- Develop upgraded management information systems for budgeting and program budgeting and program management.

The development and implementation of an integrated financial management system remains a major priority for the USAID's Financial Management.

# APPENDICES

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAY 27 1994

Appendix I

MEMORANDUM

TO: IG/A/FA, B. Reginald Howard

FROM: AA/M, Donald K. Charney
G/EG, John L. Wilkinson

SUBJECT: Draft Audit Report on USAID's Private Sector Investment Program's (PSIP) Annual Financial Statement

We concur with the findings of the FY 1993 independent audit.

Staff wishes to express their appreciation for the professional work of the audit team.



320 Twenty-First Street, N.W., Washington, D.C. 20523

Appendix II

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