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PROCUREMENT POLICY ADVISORY PANEL: REPORT OF THE SUBCOMMITTEE ON CASH TRANSFER IMPLEMENTATION

SUMMARY

The Procurement Policy Advisory Panel (PPAP) Subcommittee on Cash Transfer Implementation was formed in January 1991 to review issues relating to the association of commodity transactions with foreign exchange provided under A.I.D. cash transfers (CT). Work was divided into two phases: (1) gathering data about the number and amount of CTs in a sample year (FY 1990), and (2) reviewing the adequacy and appropriateness of the Agency's guidance on implementation of CTs, particularly the financing of commodities. As used in this report, the term "CT" refers to all types of cash disbursing assistance including ESF CTs, sector programs using DA, DFA, SAI or ESF funds, and any other cash-type assistance.

The Subcommittee held several meetings and conducted extensive research with LEG, the Regional Bureaus, FM, and CDIE. The information collected is on file. In FY 1990, according to FM data, disbursements were made against 57 cash activities totalling $2.453 billion. Among these were 27 CTs with a total funding level of $1.109 billion which included financing of "imports from the United States" or other goods or services as one of the eligible uses of the dollars. Regarding the other 30 CTs totalling $1.344 billion, the data did not indicate uses. The data are as accurate and complete as we could get however, they do not provide all of the informatiion that A.I.D. would need to accurately assess and report on CTs. There are no official statistics that cover all of the various kinds of cash assistance. The Subcommittee found that A.I.D. does not maintain comprehensive information on CTs or track the uses to which the U.S. dollars provided by all such assistance are attributed. That information for the most part is available only at A.I.D. field Missions for individual activities. Data had to be compiled manually by several data sources including review of individual program and project files.

The data demonstrate that CTs constitute a very large and growing proportion of A.I.D. resources. Commodity Import Programs (CIPs) compete with CTs as fast-disbursing forms of non-project assistance. CTs have recently replaced CIPs in Tanzania, Zambia, Zimbabwe, Tunisia, Kenya and, to some degree, Egypt. The Subcommittee did not, however, address the important questions of program selection (the appropriate conditions for use of CTs versus standard commodity financing modes) or "program mix" (the proper balance among the types of assistance in the Foreign Assistance Program as a whole). These issues will be resolved outside of the

PPAP by A.I.D. management. Instead, the Subcommittee focussed solely on implementation of commodity financing under CTs and considered whether the guidance relating to such implementation needs to be improved.

Some A.I.D. offices are concerned that commodity financing under CTs as currently implemented presents certain disadvantages with respect to Buy American and accountability objectives. These offices note that A.I.D. is receiving an increasing number of complaints from U.S. shipping and industrial firms; they also note continuing legislative efforts to restrict CTs, in large part on Buy American grounds. They believe that the present minimal degree of regulation of CT-financed commodity transactions can not be justified and sustained in the long term, and believe that Agency policies and practices on CT commodity financing should be improved to become more consistent with related polices for standard commodity financing and among the various Missions. Accordingly, they have raised a number of issues developed in §4 of this report. These issues include the applicability of source, origin, nationality and componentry rules; pricing rules; adequacy of verification systems; and other questions.

CT proponents note the advantages of CTs in delivering balance of payments or sectoral support and leveraging policy reform and note that current guidance enables limited staff resources to focus on substantial policy change rather than procurement details. They note that Congress has recognized the unique nature of CTs by exempting CTs from the procurement "barnacles" by statute. They believe that in view of the latitude provided by Congress, A.I.D. would needlessly divert staff from attention to achieving the underlying purposes of CTs, including host country policy change, to various procurement activities if A.I.D. itself were to impose "barnacles" on the use of dollars. They believe that existing legal and policy restrictions such as separate accounts and tracking of expenditures meet Congressional intent and enable A.I.D. to pursue its development goals while "preference" for "imports from the United States" provides the flexibility for A.I.D. to deal with conditions that vary widely between recipient countries. In their view, the primary purpose of CTs is not usually to finance commodities, rather, the dollars are tracked to the procurement of commodities to indicate their use. With respect to "Buy America" considerations, CT proponents argue that U.S. suppliers benefit in three ways. They benefit from the expanded economic activity and trade that occurs as a result of the policy changes supported by the CT; they benefit from the added foreign exchange in the economy provided by the CT; and they benefit directly when the CT dollars are utilized for imports from the U.S.

Subcommittee members are similarly split between those who support full use of CT flexibility for commodity financing with very few conditions, and those who are concerned that current CT policies are insufficient to ensure proper accountability for the transactions.

In spite of the range of opinion on related policy issues described above, the Subcommittee has agreed upon several recommendations which are set forth at the end of this report. We would like the PPAP to consider them favorably and take appropriate implementation action. The unresolved issues essentially involve policy and should be forwarded to the Policy Directorate for consideration.

1.0 BACKGROUND

1.1 What Is a CT? The term "CT" as used in this report refers to all types of assistance disbursed in the form of cash. This includes not only ESF macroeconomic/budget support and policy reform CTs, but also sector cash grants (whether with ESF, DA, DFA, or SAI funds) and performance-based cash disbursements for policy reform or other purposes. The distinguishing feature of these types of grants is immediate disbursement of the foreign exchange to the grantee (generally to a separate account) upon satisfaction of conditions precedent; the grantee is not required to submit detailed documentation on uses of the dollars prior to A.I.D. disbursement of the dollars, (although A.I.D. does not lose control of the funds once disbursed since the grantee must satisfy documentation requirements prior to actual use/withdrawal of the funds). Although CTs are generally considered a form of nonproject assistance, cash is frequently provided today under projects.

1.2 Relationship to Commodity Transactions. Foreign exchange provided by a CT may be used for a variety of purposes, including financing commodities or debt. In traditional CTs prior to late 1987, the grant funds merged with the grantee's other foreign exchange resources. The funds were usually not identified with specific commodity transactions, or were identified only by a process of "attribution", i.e. artificial post-disbursement linking of the funds to transactions that had already been completed with the grantee's own resources. Some CTs, particularly those which have been exempted from tracking, still take this approach. However, since the establishment of the requirement for separate accounts "attribution" (in this context, release of funds from the account prior to the selection of particular transactions for attribution) is seldom utilized. Rather, funds are "tracked" to specific uses through "reimbursement" (a list of transactions to be associated with the foreign exchange funds is selected prior to withdrawal of the funds from the separate account but after the transactions have occurred) or "direct financing" (funds are withdrawn from the separate account to pay for approved transactions that have not yet occurred; suppliers are often paid directly). Variations on both of these procedures are commonly used in other A.I.D. project and non-project activities. Of course, under usual A.I.D. activities there are no separate accounts and the foreign exchange is retained by A.I.D. until documentation on specific uses is provided.

1.3 Current CT Guidance. Despite the importance and extent of CT financing, A.I.D. has issued far less guidance on implementation of CTs than on standard forms of financing. There are only four main sources of Agency-wide guidance:

(1) Handbook 4, Chapter 8;[1]
(2) a 1990 FM cable on separate accounts;[2]
(3) a 1987 cable on ESF CTs;[3] and
(4) a 1983 cable on sector cash assistance.[4]

The Handbook 4 Chapter and the 1983 cable are incomplete and out-of-date, the former being completely ignored in practice. The 1987 and 1990 cables are more comprehensive and useful, but they leave many questions unanswered. In addition to the Agency-wide guidance, some Regional Bureaus have issued region-specific guidance on CTs.[5] The various policies are not integrated into Handbook 4 and leave many gaps. Operational bureaus such as the former MS Bureau had little or no input in their formulation.

__1.4 Supplier Complaints.__ U.S. commodity, services, and shipping suppliers have been increasingly complaining to A.I.D. and in public fora about a loss of business opportunities they attribute to the use of CTs rather than standard commodity financing modes. The following are illustrative examples of such complaints during the last couple of years:

--An education services company wrote to the Office of Procurement in July 1991 criticizing noncompetitive award of a $15 million dollar contract to a competitor by Namibia which the company associated with a simultaneous A.I.D. education sector CT in that amount.[6]

--A fertilizer supplier wrote the Administrator in May 1991 to complain that it was not permitted to compete under a public sector fertilizer procurement in Nicaragua funded from an ESF CT.[7] A U.S. supplier received the award but notice was not given to the entire trade through the CBD as it would have been under standard financing procedures. The case was publicized in the industry press.[8]

--The President of a major U.S.-flag bulk carrier attacked the use of CTs in a March 1991 address to maritime college alumni. The address was covered by the __Journal of Commerce__, which highlighted the CT aspect.[9]

--U.S. suppliers called MS/OP/COMS in 1990 for details about a public sector procurement of potash advertised in Pakistani newspapers as being financed under an A.I.D. program. They complained when they were informed that the Agency could not provide information on the procurement, because it was funded under a sector CT.[10]

--A U.S. charter broker wrote to the Office of Procurement in

> 1990. The broker had helped the Government of Egypt arrange a bulk grain shipment; when it billed its services, it was informed that no brokerage fee was due because its contract only covered shipments financed by A.I.D. and the shipment in question was financed under a CT.[11]

In view of these complaints, A.I.D. should be prepared to explain better how its cash transfer activities benefit U.S. exporters. A.I.D. could also respond by developing minimum standards for commodity financing under CTs that are more consistent with the standard financing modes.

1.5 Congress. Congress is sending A.I.D. "mixed signals" on CTs. On one hand, it exempts expenditures with CT funds each year from procurement laws as part of the annual Appropriations Act. On the other hand, a number of attempts are made each year to restrict CTs either by reimposing the procurement laws or limiting the use of CTs, vis-a-vis standard financing modes. This year, the Authorization Bill contained both the Torricelli Amendment applying U.S.-Flag shipping requirements to ESF CTs and the "Boren-Bentsen-Byrd-Baucus" or "4-B" Bill, mandating cuts in ESF CTs in favor of capital projects, broadly defined. Although the bill was defeated in the House (it passed in the Senate), we are likely to see further efforts to attach these provisions to authorization or appropriation bills in the future.

1.6 Buy American Considerations. The Buy American impact of CIPs and projects is clear and tangible: U.S. tractors in the fields, U.S. vehicles on the roads, U.S. grain in the sheds, and arrival ceremonies at the docks. Absent a waiver, U.S. funds in the standard financing modes go incontestably and demonstrably for U.S. products and services. CTs, on the other hand, have a much less visible impact, even when the funds are associated with U.S. imports. A.I.D. economists stress figures that show U.S. exporters sharing proportionately, or in some cases more than proportionately, in a recipient country's increased imports. Many people remain unconvinced, however, particularly in view of the fact, which the economists themselves cite, that most recipients import far more from the U.S., both before and after the CT, than the funds they receive in the CT. Further, these people wonder why almost all other donors find it more advantageous to rely on standard financing modes rather than cash. Accordingly, there is a high degree of skepticism about CTs among Buy American advocates both inside and outside the Agency. This skepticism is expressed most graphically in the debate about how much A.I.D. should count CTs in Buy American statistics. The practice, as of the date of this report, is "zero".[12] Some Congressional interests have strongly backed this position.[13]

2.0 SUBCOMMITTEE ACTIVITIES

2.1 Establishment and Purposes of Subcommittee. The Subcommittee on Cash Transfer Implementation was formally established following the January 10, 1991 PPAP meeting. John Godden of PPC chaired the Subcommittee. A list of the members is attached (Att. A). The purpose of the Subcommittee was stated broadly as the review of "current policy issues in connection with cash transfer implementation" and the "appropriateness of current guidance on cash transfers". The Subcommittee later refined this as a two-phase review: (1) to gather and analyze the most definitive information available on CTs, particularly those CTs under which the dollars are associated with the financing of commodities; and (2) to evaluate whether changes in A.I.D. policies on CT implementation are needed.

2.2 Subcommittee Meetings. The Subcommittee held a total of two formal meetings on January 16 and February 20, 1991, which were held prior to the formulation of this draft. At these meetings, it became clear that there was a profound difference of opinion among members about CTs. Regional Bureau representatives, together with LEG and PPC/CDIE:

--strongly supported maximum use of CTs;
--opposed any efforts to restrict the flexibility of such assistance; and
--saw no need for the Subcommittee to compile detailed information on CTs.

MS and the other PPC representatives, however, together with GC/CCM, noted concerns about the following:

(1) Agency financial and management vulnerability if accountability, information or policies are inadequate or inappropriate;
(2) Buy American drawbacks of CTs, increasing U.S. industry complaints, and Congressional attempts at restrictive legislation; and
(3) The expansion of CTs and the decline of standard commodity financing modes.

The latter offices sought definitive information on the association of CTs with commodity financing and a careful review of A.I.D. policy guidance. After strong discussions during the two meetings, it was agreed that the Subcommittee would collect basic information on A.I.D. policies and practices regarding the use of CTs to finance commodities. Two further meetings were held to discuss drafts of the report.

2.3 Review of Congressional Notifications. On behalf of the Subcommittee, OP/COMS Bob Richardson reviewed FY 1990 Congressional Notifications (CNs) in LEG files in an initial effort to determine the number of active CTs in that year. A list of the CNs tentatively identified as relating to CT assistance is attached (Att. B), and the results of the research are summarized in §3.1, *infra*. The Subcommittee learned from the research that CNs cannot be used as a basis for determining the number of A.I.D. CTs during a given period. Deficiencies in the CNs are discussed in §4.4 of this report. The data are, however, useful as an "order of magnitude" indicator of A.I.D. CTs in FY 1990. Mr. Richardson presented his findings to the Subcommittee at its February 20, 1991 meeting.

2.4 Bureau Survey. In March of this year following the February 20 meeting, Regional Bureau members of the Subcommittee agreed to provide data on FY 1989 and FY 1990 CT programs within each Bureau's jurisdiction. The Bureaus are considered the primary source, outside of each individual Mission, for information on the types of programs and projects implemented by A.I.D. A survey form, with instructions, was circulated to members on March 7 (Att. C). Return of the completed form was requested by April 6. Repeated delays were experienced in obtaining information from the Bureaus, and only the LAC Bureau supplied relatively complete information in the form requested. LAC, which contacted Missions by cable, has been particularly responsive to the Subcommittee's request. Partial responses were received from the former APRE and ENE Bureaus. An incomplete response was received from AFR in late June. Since the Bureau data as a whole are incomplete, they are useful only as a partial supplement to data gleaned from other sources. The incompleteness of the data demonstrates that Bureaus also do not maintain detailed information about the number and characteristics of the various types of CTs authorized or disbursed each year.

2.5 FM Files. Other than LEG (for the CNs), POL/CDIE, and the Bureaus (for PAADs and agreements), the only A.I.D./Washington source known to the Subcommittee for comprehensive data on CT agreements is FM. FM provided the Subcommitee Chairman with a list of CT disbursements from 10/01/89 to 03/25/91; with assistance from GC/CCM, John Godden and Brian Hannon reviewed individual FM FY 1990 CT files to glean basic facts about the programs listed. The FM data failed to provide a thorough picture of the use of CTs during a given period of time. In the first place, as noted, the data are on a disbursement basis, thus impeding any comparison with authorization-based data. In the second place, the files contained only PAADs and selected disbursement records and data; they often lacked copies of the CT agreements themselves as well as information about subsequent agreements on uses such as implementation letters or other correspondence between USAIDs and recipient governments. Third, we discovered that FM generally records data by nonproject assistance numbers, while Missions often keep data by project assistance numbers. This creates potential problems in using the data (*see* §4.7, *infra*).

2.6 USAIDs. Mindful of the large number of exercises in the recent past in which A.I.D./Washington had cabled field Missions requiring information, the Subcommittee did not contact all USAIDs for data on CTs. The LAC Bureau representative did so in response to the Subcommittee's Bureau survey, and obtained useful data. Nevertheless, no systematic attempt was made to contact all Missions, in order to avoid adding further to their A.I.D./Washington reporting burden. Missions are, however, according to the experience of the Subcommittee, the only source for comprehensive information with respect to CTs. The information at Missions, of course, relates only to the Mission's own CTs. Detailed information is not maintained or aggregated in Washington. If PPAP determines that any follow-up research in this area would be advisable, we must advise that cabling the field and aggregating all of the individual responses on an ad hoc basis is the only feasible method.

2.7 PPC/CDIE. GC/CCM asked PPC/CDIE for a list of active CT agreements in November 1990, shortly before the Subcommittee was formed. Some twenty CTs were listed in CDIE's data base. However, such countries as El Salvador, Israel, Egypt, Turkey, Nicaragua and Honduras were not included in the data. Requests were also submitted by John Godden in June and July 1991. CDIE could not supply a complete list of CTs. Instead, it could only provide information on specific activities after it was given individual program or project numbers obtained from other sources. Some project numbers yielded no information at all in CDIE's records. The Subcommittee's experience demonstrates that CDIE also does not have complete or systematic data on CTs.

3.0 RESEARCH RESULTS

3.1 CN Survey. The results of the CN survey may be summarized as follows:

--681 total CNs.
--52 CTs totalling $4,742 million (life of activity), of which there are, according to the CN descriptions:
--27 that provide for financing of either or both commodities and debt (total $3,660 million);
--14 that are either exempt from dollar tracking or with uses not stated (total $438.8 million); and
--11 that finance debt only, not commodities (total $643.5 million).

These have to be considered very rough figures because the CNs were not always clear whether funds for a given activity would be disbursed as cash or not. In addition, the data will not correspond precisely with either the amount of CTs authorized in a given year (because they will include certain deobs/reobs and other actions not constituting an original authorization of funds) or the amount disbursed (because there is a lag between the time funds are authorized and the time they are actually disbursed).

3.2 FY 1990 CTs. FY 1990 saw 52 CTs valued at $4.74 billion reported to Congress in CNs. Some of the CNs reported additions to existing CTs while others reported new CTs. It was difficult to segregate the cash value of funds being added to existing CTs because many of the CT activities have combined cash and non cash/project subactivities; but the additions were not always specific as to which subactivity the funds were to be attributed. Disbursements against CTs for FY 1990 were as follows:

$2,340 million for ESF
$110.9 million for DFA
$6.20 million for DA

As stated previously however, there was no evident way of determining whether these disbursements made in FY 1990 corresponded to obligations in FY 1990. Because of experiences in some programs, albeit for other years, in which cash funds did not disburse during the same year of obligation, it would be unlikely that disbursements in a given FY necessarily matched obligations. This situation is particularly exacerbated by the use of different activity identification numbers by FM and in the CNs. (See Sect. 4.7, infra.)

4.0 Policy and Practice Issues

4.1 Introduction. This section surveys issues identified during the course of the Subcommittee's research relating to A.I.D. CT policies or practices. Further review by PPAP, or by concerned offices, may be useful in order to resolve these issues.

4.2 Source, Origin, Componentry and Nationality.

4.2.1 Standard Requirements. Standard forms of project and nonproject assistance impose several levels of requirements to ensure that eligible countries receive the economic benefits of A.I.D.-financed transactions. The major requirements relate to source, origin, componentry and nationality. Thus, if the applicable geographic code is 000 (U.S. only) as is the case for most procurements, a supplier must be a U.S. company or subsidiary, must produce the item in the U.S. with more than 50% U.S. components, and must ship it from this country. Although the source requirement applies as a matter of law,[14] the other tests have been added over the years as a result of A.I.D. policy decisions.

4.2.2 Current CT Policy. The question has arisen as to what degree these established A.I.D. policies should apply to commodity transactions associated with CT financing. The law does not require such application.[15] However, A.I.D. policy guidance states that the preferred use for ESF CT dollars is for "imports from the U.S.".[16] This guidance does not define "imports from the United States", but it is clear that the requirement relates only to a broadened version of source; origin, componentry, and nationality (as well as the detailed refinements of the same rule such as the bonded warehouse rule) are not included. The 1983 guidance for program sector assistance does not clearly state any such preference as to the "source" of goods.[17] Thus, it is permissible under both the 1987 and 1983 guidance not to require U.S. goods to be purchased at all with the CT foreign exchange funds, or, if purchased from the U.S., to purchase foreign-made goods with no U.S. components from non-U.S. suppliers.

4.2.3 Issues. The Subcommittee discussed the following issues:

(1) Whether source requirements should be explicitly applied in place of the present rule of "imports from the United States".

Egypt already applies a standard A.I.D. definition of "source" to commodities financed under ESF CTs.[18] Some LAC Missions seem also to do this in effect.[19] Explicitly imposing the standard source rules would clarify the meaning of the phrase "imports from the U.S.", ensure consistency among Missions, facilitate reporting of data for the new source/origin reporting system, and harmonize CT policies with standard financing modes. It would also add a requirement that goods financed out of U.S. free ports and bonded warehouses come to those ports or warehouses from the United States. This would prevent any transshipments of otherwise ineligible (non-U.S.) goods through U.S. free ports and bonded warehouses. Some Missions rely in part on certificates of origin to indicate source or origin. As explained in Att. D, Commodity Management Information Bulletin No. 91-7, there are major problems with relying on such certificates.

(2) Whether origin and commodity supplier nationality requirements should be applied to commodity transactions associated with CT financing.

Again, Egypt already requires compliance with U.S. origin rules in its ESF CTs.[20] U.S. origin also appears to be already required, or to be in the process of being required, for LAC ESF-financed CTs.[21] Finally, as noted earlier, the 1983 sector assistance guidance provides that specificity in terms of source and origin of goods is preferred, where feasible.[22] Accordingly, an across-the-board origin requirement would reflect existing practice in many countries and would result in a consistency of policy in this important area. No undue burdens would be added, as origin is relatively easy to verify and in difficult cases Commodity Management Officers or the Commodity Support Division of the A.I.D./Washington Office of Procurement can be consulted. Commodity supplier nationality is also easily verified and consideration could be given to adding this test as well. In addition, if an "origin" requirement were imposed, Missions would have data on which to base entries in the CT origin blanks of the new source/origin reporting system recently announced by AID/W.

(3) Whether componentry and service supplier nationality requirements, which are much more difficult to verify, should be applied.

The Subcommittee is not aware of any Mission that applies componentry or service supplier nationality rules to CT-financed transactions. These rules are more difficult to verify, as they often involve proprietary or complex ownership information. However, in reviewing which of the standard eligibility requirements to apply, a decision should be made regarding these rules as well.

4.3 Procurement Procedures. The Nicaragua fertilizer and Namibia sector grant cases[23] illustrate the difficulty A.I.D. has in responding to public or Congressional inquiries about the procurement procedures followed in import transactions associated with A.I.D. CT financing. The close tracking of dollars in many of the CTs (not a problem in Namibia - see Sect. 1.4) makes it difficult to disassociate the Agency from the transaction under the "free foreign exchange" rationale. In the Nicaragua case, the Mission had a practice of requiring that public sector purchasers obtain at least three competitive offers. This rule, in fact, is the general rule followed in private sector CIPs. A similar rule should be considered for procurements associated with CT financing, at least where (a) dollars are tracked, (b) public sector imports are financed, and/or (c) direct disbursement, or reimbursement of a limited number of transactions, is used. Such a policy could easily be incorporated into CT guidelines and would, as in Nicaragua, provide some defense to critical inquiries.

4.4 Pricing. The 1987 guidance on ESF CTs contains a very limited standard for reviewing the pricing of transactions.[24] The standard is a response to concerns that CTs might facilitate capital flight. There is little evidence, however, that it has any "teeth". "Over-invoicing" is not defined in the guidance nor, so far as the Subcommittee has yet ascertained, in the implementation of most CTs. In practice, this standard has no meaning beyond a general association with market prices within an undetermined range. The lack of a definition is reinforced by the practice in many Missions of relying on either Central Bank personnel or "Big 8" accounting firms to confirm whether "over-invoicing" occurs. Neither of these entities is viewed by some on the Subcommittee as an effective control point. Accordingly, in order to be effective in avoiding capital flight, A.I.D. might consider defining some sort of "reasonableness" rule (e.g., in terms of a defined, uniform range of market prices for similar commodities). The complex and difficult pricing rules of A.I.D. Regulation 1 need not and should not be applied; a more flexible but meaningful price standard could be devised.

4.5 Commodity Management Officer (CMO) Monitoring. Some Missions currently involve their CMOs in monitoring CTs with which commodity financing is associated. This practice has a number of benefits, including utilization of CMOs' knowledge of commodity production, shipping, pricing and other transaction characteristics to ensure the integrity of transactions. CMOs also have a commitment to "Buy American" principles that recipient country Central Bank Pricing Units and "Big 8" accounting firms do not share. Greater involvement of these personnel is recommended in order to ensure more accountability and less vulnerability to fraud in the commodity transactions financed. CMO monitoring would be within the limits of A.I.D. CT policies and the provisions of individual CT arrangements. It would not be the same degree of monitoring as occurs in projects or CIPs. Like projects and CIPs, however, it would provide A.I.D. with greater assurance of integrity of the transactions. The LAC Bureau does not support a broad recommendation for greater involvement of CMOs in tracking CT dollars to end use; LAC believes the problems cited do not justify such greater involvement in view of current FTE limitations.

4.6 CN Deficiencies. A number of FY 1990 CNs reviewed did not comply with A.I.D. guidance requiring all ESF CT CNs to contain a "listing of approved uses of the funds".[25] This guidance is based on a statutory direction,[26] applicable to both ESF and DA/DFA/SAI CTs, that CNs state "a detailed description of how the funds proposed to be made available will be used". Approved uses of the dollars were often not clearly identified; when the uses were identified, it was common merely to refer broadly to the 1987 guidance, which permits a variety of uses. Such CNs do not provide Congress with effective notice of the intended uses of the dollars. It may be necessary to incorporate the guidance into A.I.D. handbooks and to emphasize the need to follow it. (Att. E provides some typical examples of the wide disparities in CNs.)

4.7 FM's Recordkeeping System for CTs. The Subcommittee noted that A.I.D./Washington FM records all CT disbursements against nonproject assistance numbers. Most CTs, however, also have an activity number (i.e. project assistance number), which is the identifier used for most other purposes, particularly by the field.[27] There is however, no official "key" in AID/W whereby one can match activity number and non-project grant numbers. We understand that FM plans to initiate the use of a standardized "project/activity" number and to use the function code within the budget plan code which will identify whether funds are project or non-project in nature. Based on the Subcommittee's review we would agree that such a step would be highly useful given the potential for confusion and difficulties in aggregating and comparing data that exists when a single activity is described with two different numbers.

5.0 Recommendations

5.1 Consensus was reached by the Subcommittee on five major recommendations concerning the issues discussed herein: 1) that the Agency should clarify CT implementation policy to provide that "imports from the U.S." should at least be verified by the review of data (i.e. commercial onboard bills of lading) that evidence original shipment of commodities from the United States; 2) that additional Handbook 4 guidance should be developed to explain the background, purpose and variety of non-project assistance instruments, including CTs and CIPs, in light of the information contained in this report; 3) that the Agency should improve the Congressional Notification process to more clearly describe the purpose and effect of the individual CT; 4) that the Office of Financial Management should be asked to consider use of a single identifier approach to systematically record and track CT dollar uses and, 5) that a system be established to centrally collect data on the uses of CT dollars associated with procurement transactions.

5.2 The Subcommittee did not reach a consensus on other issues raised in Section 4, such as the role of Commodity Management Officers or whether additional standards for competition, commodity source, origin and/or price should be imposed on commodity financing under CTs. The Subcommittee recommends that these issues be considered by senior Agency management (the new Policy Directorate, in particular) along with the important program mix and program selection issues surrounding Agency selection of CTs to finance commoditios, as compared to CIPs, capital projects and other instruments in the implementation of its objectives (see Summary, para. 3). Finally, information on existing verification procedures and techniques (e.g., the use of accounting firms, reliance on certificates of origin, etc.) should be collected and reviewed.

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ENDNOTES:

1. "Cash Transfer Procedures" (TM 4:1, September 30, 1975). This Chapter is very general. There are also a few references to CTs scattered throughout HB 4 as well as some other Handbooks. None of the Handbook guidance is up to date or particularly helpful.

2. 1990 STATE 194322 (June 15, 1990). This cable is not in A.I.D. Handbooks, and many Agency personnel are not aware of it.

3. 1987 STATE 325792 (October 20, 1987). This cable is also published in Handbook 1, §IV.I.

4. 1983 STATE 246904 (August 30, 1983). This cable is also published in Handbook 1, §VII.4. It does not cover DFA sector cash grants, which are probably the most numerous type of cash assistance today, but which have developed primarily in the last 4-5 years.

5. The AFR Bureau issued a cable on separate accounts [1990 STATE 050769 (February 15, 1990)], and memorandum guidance on nonproject assistance under the DFA in July 1988. A revised draft of the memorandum has been circulating for a year but has not been finalized. LAC issued a cable, 1987 STATE 148066 (May 14, 1987), on ESF CTs. The former ANE Bureau also sent out a cable, 1990 STATE 027936 (January 26, 1990), on statutory requirements for sector assistance separate accounts. The new APRE and ENE Bureaus have not yet issued any guidance on CTs.

6. Letter from R. Israel, Vice President, Education Development Center, Inc. to S. Dean, MS/OP/W/HP (July 2, 1991). A.I.D.'s response notes that CTs do not apply standard procurement rules such as competition, and that in any case the CT was exempt from tracking and thus the procurement is regarded by A.I.D. as occurring with the African government's own foreign exchange.

7. Letter from L. Shapiro, Director of Public Affairs, Phibro Energy, to Dr. Roskens (May 13, 1991). AA/LAC, J. Michel responded for A.I.D. on June 21, 1991 explaining that the procurement was financed with CT funds and standard requirements did not apply.

8. E.g., the main fertilizer industry publication, Green Markets, contained a notice as follows: "The US AID funded Nicaraguan tender award...has raised the ire of other firms wanting to participate in the tender and questioning the methodology behind the grant. The US AID tender was a special cash transfer deal where there is no bidding...."

9. Abrams, "Liberty Chief Would Like Former Aid Policy Resurrected", Journal of Commerce (March 12, 1991).

10. The Mission requested the Government of Pakistan to correct the advertisements to indicate that A.I.D. was not directly financing the program.

11. A.I.D. took the position that the shipment was not A.I.D. financed even though the CT funds were directly tracked to the shipment.

12. "U.S.A.I.D. Disbursements: Reflows to the U.S. (FY 1989)". Statistics submitted by PPC for A.I.D. to the U.S. Senate.

13. See "LEG Report" (July 23, 1991), pp. 1-2, on meeting between AA/PPC, Regi Brown and A-AA/FA, Jack Owens with Jim Bond of Foreign Operations Subcommittee of Senate Appropriations Committee to

discuss A.I.D. efforts to gather Buy American data. The report states: "Bond again noted that in analyzing this data, cash transfer assistance was to be scored as not generating any U.S. procurements, although he acknowledged the value of cash transfer assistance, noting that it can ultimately lead to more procurement of U.S. goods."

14. The applicable section is §604(a) of the Foreign Assistance Act of 1961, as amended.

15. §575(b)(2) of the FY 1991 Appropriations Act excludes CTs from the application of §604(a) and similar laws.

16. ¶ 5 of the 1987 cable, *supra* note 3. *See also* the LAC guidance, which provides that "AA/LAC has determined that unless there are exceptional circumstances, dollars should be used for private sector imports of essential goods and services from the U.S. This should be feasible in all recipient countries where the central bank allocates foreign exchange. In countries where this use is not feasible, generally countries where the central bank is not a source of foreign exchange for private sector imports, the preferred uses are for essential public sector imports and for auctions which meet the criteria established in the reftel [1987 STATE 52618]."

17. The 1983 guidance states that "The degree of specificity necessary in programming the use of the foreign exchange must be determined by the purpose of the program and the details of the country situation. Where possible, specificity in terms of categories of goods to be purchased **or source/origin of such goods, such as U.S. procurement**, is preferred. However, in some cases, either because of the traditional trade patterns of a particular country or because specific commodity programs would decrease substantially the rate at which foreign exchange is disbursed and thus diminish the effectiveness of the program, it is not necessary to specify the use of the foreign exchange. In such a situation, it must be demonstrated that tying assistance to U.S. procurement decreases the effectiveness of the sector program." ¶ 13, *supra* note 4. (Emphasis added.)

18. *See*, *e.g.*, 1990 CAIRO 12107 (June 12, 1990). This cable gives the text of the CN for the FY 1990 Egypt ESF CT. It provides, in part, as follows:

> "Proceeds for the CT will be used for the following:
> (1) to purchase commodities of **U.S. source and origin as those terms are defined by A.I.D.**" (Emphasis added.)

19. For example, the responses to the LAC Bureau field survey stated that qualifying imports under the ESF CT have to be of U.S. "source and origin".

20. *Supra* note 20.

21. As cited in note 21, _supra_, Nicaragua and other LAC Missions reporting in response to the field survey already generally require U.S. origin for goods financed under ESF CTs, at least in practice.

22. _Quoted in_ note 19, _supra_.

23. Notes 8 and 6, _supra_.

24. The guidance states that "Where needed, the import approval and verification process should include a price checking arrangement to assure that U.S. funds are not being used to effect capital flight through overinvoicing." HB 1B, _supra_ note 3, p. 3.

25. Fry & Kammerer, Memorandum dated August 8, 1988, p. 2.

26. The current provision is §575(b)(3) of the FY 1991 Appropriations Act. In the FY 1990 Appropriations Act, the pertinent citation is §592(b).

27. For example, a Gambia CT agreement was reported in a CN as project number 635-0233. However, it was disbursed by FM under program activity number 625-K-602.

Attachment A
-1-

Attachment A: List of Members

PPAP Subcommittee on Cash Transfer Implementation

Chair: John Godden, AA/PPC/SA

Barbara Bennett, LEG

Gordon Bertolin, AFR/PD

Jeff Evans, LAC/DR

Tom Geiger, GC/LAC

Brian Hannon, PPC/PDPR

Tom Johnson, ENE

John Lewis, MS/PPE

Joe Lieberson, PPC/CDIE

Gene Morris, APRE/DR/PD

Tom O'Keefe, AA/PPC

Scott C. Overall, GC/CCM

Bob Richardson, MS/OP/COMS

ATTACHMENT B.

FY '90 CONGRESSIONAL NOTIFICATIONS FOR CASH TRANSFERS AND SECTOR CASH ACTIVITIES

SOURCES OF FUNDS	COUNTRY	IDENTIFIER CODE	CONGRESSIONAL NOTIFICATION NUMBER
DFA	UGANDA	617-0133	666
SAI	PHILIPPINES	492-0457	659
ESF	EGYPT	263-K-620	617
ESF	EGYPT	263-0182	615
ESF	PHILIPPINES	492-0436	614
DFA	NIGER	683-0257/6265	608
EHR/ESF	PAKISTAN	391-0497	607
ESF	PAKISTAN	391-0492	606
ESF	PAKISTAN	391-0514	596
SAI	PHILIPPINES	492-0458	590
ESF	GUATEMALA	520-0385	579
ESF	EGYPT	263-0202	572
DFA	CAMEROON	631-0074/0082	570
ESF	CARIB. REG.	538-0141	566
ESF	COTE D'IVOIRE	681-0002	565
ESF	CHAD	677-0051	562
ARDN/EHR/PSEE	EL SALVADOR	519-0368/9999	541,366,189
ARDN/PSEE	ROCAP	596-0123	536
ESF	JAMAICA	532-0154	535
DFA	GUINEA	675-0222	515
SAI	PHILIPPINES	492-0444	500
ESF	DJIBOUTI	603-0022/0023	482
DFA/ESF	MALAWI	612-0233	479
DFA	BOTSWANA	633-0249	478
ESF	EGYPT	263-0215	438
ESF	JORDON	278-K-646	418
DA	HAITI	521-0235	415
ESF	EGYPT	263-K-619	407
DFA	GHANA	631-0119	390
DFA	CAMEROON	631-0068	374
ESF	PANAMA	525-0303	355
ESF	PANAMA	525-0304	354
DFA	GUINEA BISSAU	657-0013/0016	348
ARDN/DFA	GHANA	641-0017	347
DFA	GAMBIA	635-0233/0234	343
ESF	S. PAC. REG.	879-0011	
ESF	THAILAND	493-0346/K602	302
ESF	EL SALVADOR	519-0356	279
ESF	COSTA RICA	515-0245	250
ESF	NICARAGUA	524-0300	232
DFA	BURUNDI	695-0124/0125	223
ESF	BOLIVIA	511-0576	222
DFA	KENYA	615-0242/0250	221
ESF	HONDURAS	522-0358	183

SOURCES OF FUNDS	COUNTRY	IDENTIFIER CODE	CONGRESSIONAL NOTIFICATION NUMBER
ESF	PORTUGAL	150-K-616	162
DFA	SENAGAL	685-0292/0299	159
ESF	PHILIPPINES	492-0430	118
ESF	GUYANA	504-0099	110
ESF	TURKEY	277-K-614	99
ESF/ARDN	PHILIPPINES	492-0374	67
ESF	POLAND	181-0008	54
ESF	ISRAEL	271-K-628	1

CASH TRANSFER IMPLEMENTATION SURVEY

1. Project/Nonproject Assistance Agreement Number/Title

2. Date Signed

3. Total Amount

4. Country or Countries

5. ESF; DA Sector; DFA Sector; Other (Specify)

6. Eligible Use(s) of Dollars as Stated in Agreement:
   A. Imports Only
   B. Debt Repayment Only
   C. Imports or Debt Repayment
   D. Other (Specify)

7. Commodity Financing Details as Stated in Agreement:
   A. Imports from the U.S. and Other Countries
   B. Imports from the U.S.
      1. "Imports from the U.S."
      2. "U.S. source"
      3. "U.S. origin"
      4. "U.S. source and origin as defined in A.I.D. Handbooks"
      5. Other (specify)

8. Disbursement Methods
   [State where methods are specified, i.e. Agreement, NPIL, or other document]
   A. Reimbursement
   B. Direct Disbursement to Suppliers
   C. Other (Describe)

9. Actual Disbursement Data
   [Give any actual disbursement data available, by FY, with as much detail as is available as to use]

10. Verification System(s)
   [Describe how commodity financing requirements such as source of commodity and pricing are verified in terms of extent of reviews, who does reviews (Mission staff or contractor), standards of reviews, etc.]

Agency for International Development
Washington, D.C. 20523

ATTACHMENT "D"

July 22, 1991

MEMORANDUM

TO: Commodity Management and Procurement Staff

FROM: MS/OP/COMS, Joyce E. Frame Joyce E. Frame

SUBJECT: United States Chamber of Commerce Commercial Invoice Origin Certificates

COMMODITY MANAGEMENT INFORMATION BULLETIN 91-7

Suppliers are generally required to submit commercial invoices as payment documents for A.I.D.-financed procurements. Although not required by A.I.D., such commercial invoices often contain certificates of origin by United States Chambers of Commerce (USCOCs). GC/CCM and MS/OP/COMS/M recently made some inquires to find out more about these certifications, and this CMIB describes the results of our research.

Certificates of origin are signed by local USCOCs upon request by individuals or organizations shipping goods from the United States. The requestor is required to pay a small fee for the services. The Certificate may be a separate document or may be appended to the commercial export invoice. An example of a recently encountered form reads as follows:

> "The undersigned _________ (Owner or Agent), does hereby declare for the above named shipper, the goods as described above were shipped on the above date and consigned as indicated and are products of the United States of America
> Dated at ________ on the ___ day of ________, 19___
>
> Sworn to before me this _________ day of _________, 19___
> [Followed by signatures of notary and "Owner or Agent".]

> **The __________, a recognized Chamber of Commerce under the laws of the State of _________, has examined the manufacturer's invoice or shipper's affidavit concerning the origin of the merchandise, and according to the best of its knowledge and belief, finds that the products named originated in the United States of North America."**

[Bracketed material added.]

The nature and effect of these certificates came into question in a recent case. First, one of a supplier's defenses to a bill for collection issued by MS/OP/COMS/M for an origin violation under the Egypt CIP was that it relied on this certification, procured by its freight forwarder. The supplier was a tertiary seller (trading company) and never actually saw the goods sold, since it was located on the East Coast while the goods were being shipped from the Gulf of Mexico. A.I.D. rejected the supplier's defense on the grounds that (a) the forwarder said it made and procured the certification based solely on information provided by the supplier; and (b) the certification occurred long after the supplier signed its purchase contract and obtained the goods (there was no "reliance" on the certification). A.I.D. also demanded an explanation from the forwarder as to the basis on which it secured the inaccurate certificate. The forwarder responded by tendering a new and different certificate, long after shipment (no shipping date need be indicated on the form), stating the correct-and ineligible--origin! This demonstrates the ease with which certificates (even multiple, inconsistent certificates covering the same shipment) may be obtained as well as their unreliability.

The certificates may also be an issue in implementation of some cash transfers involving commodity puchases. A.I.D. often requires that dollar expenditures from the separate account be spent for "imports from the United States". In order to verify that goods financed with the dollars qualify as such imports, Missions use several methods including local Central Bank scrutiny of documents; retention of a contractor to review documents; and review of documents by Mission personnel such as the CMO. One indicator which is sometimes cited for U.S. importation is the presence of a USCOC certification on the commercial invoice.

MS/OP/COMS contacted the umbrella organization, the United States Chamber of Commerce, for information as to whether there are any "guidelines" for USCOCs in making certifications. It was told that there are no guidelines or other rules; it is a matter left up to each USCOC.

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GC/CCM contacted the Balt[illegible]ton USCOCs. The upshot of these contact[illegible] no investigation of any kind concerning the [illegible]ficate. Blank forms are sold to anyone. The [illegible]ately on the piece of paper (commercial invoice [illegible]fidavit) placed before them. In this respect [illegible] little more than a notarization.

The Washington Chamber [illegible] certificate does not mean that goods are of [illegible].I.D. defines the term (i.e., production [illegible] that the goods--based on the document present[illegible] are said to be planned for shipment from the [illegible]

From the above, it is cl[illegible] certificates have no value as evidence of comp[illegible].I.D. project or CIP "origin" requirements. [illegible] have limited value as some evidence of compliance with A.I.[illegible] "source" (shipment from) requirements or re[illegible]ments th[illegible]goods be "imported from the United States". This [illegible]lue, however, is questionable given the lack of independent verification of the document presented to the certifying official by a [illegible] purporting to be shipper or its agent.

In the CIP case mentioned above, [illegible]her the supplier, its forwarder, nor the USCOC ever [illegible] goods. Thus they never saw the "Made in the U.K." [illegible]ntly displayed on the side of the forklift truck tha[illegible] supplied! A.I.D. remedied this violation by di[illegible] and securing a refund.

CMOs and other commodity [illegible] should be aware of the basis and limitations [illegible] certificates of origin. These certificates shou[illegible] with the much stronger and more detail[illegible] and certifications in A.I.D. Supplier's Ce[illegible]

MS/OP/COMS and GC/CCM wou[illegible]espond to any further questions about the certificates.

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ATTACHMENT "E"

DEC 15 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY:	Poland
PROJECT TITLE:	Polish Stabilization Fund
PROJECT NUMBER:	181-0008
FY 1990 REVISED CP REFERENCE:	None
APPROPRIATION CATEGORY:	Economic Support Fund
LIFE-OF-PROJECT FUNDING:	$200,000,000 Grant
INTENDED FY 1990 OBLIGATION:	$200,000,000 Grant

This is to advise that A.I.D. intends to allocate to the Department of the Treasury $200 million to be obligated in an agreement with the Government of Poland (GOP) as the contribution of the United States to the Polish Stabilization Fund for Poland. The applicable authorization statute (Support For East European Democracy Act of 1989) requires that any such use of funds be notified to Congress at least 15 days in advance of obligation.

The $200 million will be the USG contribution to an estimated $1 billion Polish Stabilization Fund which will complement an IMF standby arrangement. The Fund will be supported by other major donors, including the Federal Republic of Germany, France, Great Britain, Italy, Canada and Japan. The Fund will support the efforts of the GOP to restructure its economy toward an open, competitive, market-oriented system. Specifically, the Fund will provide a supplemental source of foreign exchange to support the GOP plan to establish a new foreign exchange regime, with the Polish currency (zloty) convertible for current account transactions. This foreign exchange regime will be a critical part of the GOP reform program, and its success is essential to the overall reform effort.

A.I.D. will allocate the funds to the Department of the Treasury pursuant to the provisions of Section 632 of the Foreign Assistance Act of 1961 and Section 107 of the Support for East European Democracy Act of 1989. The Department of the Treasury will then obligate the $200 million through the execution of a bilateral agreement with the GOP consistent with a multilateral Memorandum of Agreement between the GOP and contributors to the Fund.

Annex: Activity Data Sheet

AGENCY FOR INTERNA
ACTIVITY [

AM: POLAND

ıomic Stabilization Fund	FUNDING SOURCE Economic Support Funds (ESF)
NUMBER 181-0008 NEW ☒ GRANT ☒ LOAN ☐ CONTINUING ☐	PRIOR REFERENCE None

Purpose: To promote economic stabilization and restructuring efforts in Poland by cooperating with other donors in the establishment of an Economic Stabilization Fund to support a new exchange rate regime.

Background: The Government of Poland (GOP) is committed to an ambitious program to restructure the Polish economy and establish an open, competitive, market-oriented system. Success in this effort is essential to the long term viability of the first non-Communist government in Poland since the Second World War and to the democratic reform movement.

The GOP is finalizing details of an IMF stabilization program, supported by an IMF standby arrangement. The program aims to bring down the rate of inflation by cutting the government budget deficit and controlling wage increases. At the same time, the government will control credit creation by introducing positive real interest rates. Structural reform of the economy will be implemented more slowly, but will start ...h price decontrol and eliminate most trade controls and ...idies.

... element of the program will be establishment of convertibility of the zloty for current international transactions. There will be a large devaluation of the zloty at the start of the stabilization program and the fixing of this exchange rate for a period of time. Successful implementation of these measures will support a stabilization of the Polish currency and an improvement of the trade balance and it will play a major role in establishing public confidence in the government's willingness to carry out a comprehensive reform program.

Project Description. The USG and other donors will establish an Economic Stabilization Fund of approximately $1 billion to support GOP policies aimed at liberalization of payments and transfers for international transactions. This Fund supplements resources made available by the IMF and will constitute a reserve to be drawn on only in the event the GOP requires additional foreign exchange to defend the value of the zloty. The Fund will be administered by an Executive Committee, comprised of representatives of the contributing countries. Its term will be one year, with the possibility of extension for a further period.

U.S. FINANCING (In thousands of dollars)

	Obligations	Expenditures
...h September 30, 1988	-	-
Estimated Fiscal Year 1989	-	-
Estimated Through September 30, 1989	-	-
		Future Year Obligations

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CP 81-05 (4-85)

PROPOSED OBLIGATION (In thousands of dollars)		
FY 90		LIFE OF PROJECT (Auth.) $200,000
INITIAL OBLIGATION FY 90	ESTIMATED FINAL OBLIGATION FY 90	ESTIMATED COMPLETION DATE OF PROJECT FY 91

COUNTRY
PR

A Memorandum of Understanding (MOU) between the GOP and contributing countries will establish the specific terms and conditions under which the GOP may draw upon Fund resources. Agreement on an IMF program is an essential condition which underlies the operation of the Fund, and continuing GOP compliance to that program will be a basic requirement. The GOP will submit periodic reports to the Executive Committee which will be used as one basis for monitoring the success of the Fund.

A.I.D. will allocate the $200 million USG contribution to the Department of the Treasury under the provisions of Section 632 of the Foreign Assistance Act of 1961 and Section 107 of the Support for East European Democracy Act of 1989. The Department of the Treasury will then obligate the $200 million through the execution of a bilateral agreement with the GOP.

Relation of Project to A.I.D. Country Strategy: Democratization and economic reform in Poland are major USG foreign policy objectives. The Polish Stabilization Fund is central to this effort and to the creation of open markets and an open society. The establishment of the Fund is clearly consistent with USG foreign policy and A.I.D.'s strategy for its economic assistance program in Poland.

Beneficiaries: The people of Poland will benefit from a stable and more freely convertible currency, and from the increased private sector investments and trade which will result.

Host Country and Other Donors: The USG contribution will constitute approximately 20 percent of the total Fund. Other major donors will include the Federal Republic of Germany, France, Great Britain, Italy, Japan and Canada. The Government of Poland will be required to use a portion of its own foreign exchange holdings as it uses Fund resources.

Major Outputs:	All Years
Economic stabilization is attained.	X

A.I.D.-Financed Inputs:	Life-of-Project ($000)
Grant	$200,000

	PRINCIPAL CONTRACTORS OR AGENCIES
Unliquidated	

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23 JUL 1990

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AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY:	Philippines
PROJECT TITLE:	Natural Resources Management Program
PROJECT NUMBER:	492-0444
FY 1990 CP REFERENCE:	Asia & Near East, Annex II, pp. 219, 227
APPROPRIATION CATEGORY:	Special Assistance Initiatives (SAI)
LIFE-OF-PROJECT FUNDING:	$125,000,000 SAI Grant
INTENDED FY 1990 OBLIGATION:	$30,000,000 SAI Grant

This is to advise that A.I.D. intends to obligate $30,000,000 in Special Assistance Initiatives funds for FY 1990 for the Natural Resources Management Program. The FY 1990 Congressional Presentation listed this project under the title Environmental and Natural Resource Management (492-XX04) with a proposed obligation of $5,000,000 Agriculture, Rural Development & Nutrition grant funds. Life-of-project funding will be $125,000,000.

The purpose of the project is: (a) to promote the ecological sustainability of the Philippines' natural resources with special attention to tropical rain forests and biodiversity; and (b) to increase economic efficiency in the forest products and wood processing industries.

Annex: Activity Data Sheet

P. M: Philippines **ACTIVITY DA**

TITLE Natural Resources Management Program		FUNDING SOURCE Special Development Initiatives
NUMBER 492-0444 GRANT [X] LOAN [ ]	NEW [X] CONTINUING [ ]	PRIOR REFERENCE FY 1990 CP, Asia & Near East, Annex II, PP. 219, 227

Purpose: (a) to promote the economic and ecological sustainability of the Philippines' natural resources with special attention to tropical rain forests and biodiversity; and (b) to increase economic efficiency in the forest products and wood processing industries.

Background: The Philippines is increasingly becoming resource-poor as years of exploitation of natural resources have taken their toll. This is particularly evident in the tropical rain forests. Due largely to disincentives to the management of forests as renewable resources, the primary objective of forest users has been the rapid and inefficient extraction of the resource. The results are soil erosion due to destructive logging methods and slash-and-burn agriculture, reduced availability of upland agricultural land, loss of watershed integrity, and damage to downstream agriculture and fisheries. It is estimated that at the current rate of extraction all Philippine tropical hardwood forest will be logged over within seven years, resulting in disruption of several segments of the economy, loss of biodiversity, and further soil erosion. Adoption of sustainable forest management practices, coupled with policy reforms that allow the forest products and wood processing sector to restructure according to the principles of economic efficiency, could assure the future of the forestry sector, provide continued direct employment to 300,000 people and improve the economy by over one billion dollars.

Project Description: As the Philippines continues to intensify utilization of natural resources to support economic growth, policy changes are required that protect this finite resource base as well as reform the forest products/wood processing industry into a viable and efficient sector. Such reforms, the major thrust of the program, will include increasing forest charges to promote careful logging and to provide funds to increase forest protection, banning logging in old growth forests, empowering local communities to manage forests, and increasing wood recovery efficiency. The program will include: technical assistance, research and support for protected areas development and management, training and professional development, environmental education and public awareness promotion; creation of an ecological information base and surveys; technical assistance in policy formation; and research in the area of commercial forest regeneration. A debt for environment swap involving U.S. and local non-government organization (NGO) participation may be used to implement components of this program.

GUIDELINES FOR THIS ??

U.S. FINANCING (In thousands of dollars)

	Obligations	Expenditures
Through September 30, 1988	-	-
Estimated Fiscal Year 1989	-	-
Estimated Through September 30, 1989	-	-
		Future Year Obligations
Proposed Fiscal Year 1990	30,000	95,000

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CP 81-06 (4-85)

	PROPOSED OBLIGATION (In thousands of dollars)		
	FY 90 30,000		LIFE OF PROJECT (Auth.) 125,000
ar	INITIAL OBLIGATION FY 90	ESTIMATED FINAL OBLIGATION FY 94	ESTIMATED COMPLETION DATE OF PROJECT FY 95

Relationship of Project to A.I.D. Country Strategy: The program assists the Philippines to achieve economic growth by providing incentives for public and private enterprise to participate in forestry activities which will reverse deforestation. The role of private enterprise will be expanded as a means to establish an industrial base for forest development, improve the production efficiency of forests and promote efficient utilization in conversion and consumption of forest products.

Beneficiaries: The Government of the Philippines (GOP) will have better natural resource management and enforcement systems, the forest products industry a more rational economic environment offering continuing employment, and communities located near forested areas will benefit from greater participation in social forestry management.

Host Country and Other Donors: The GOP's contribution under this program is expected to total a minimum of $70 million over the five-year period. The donor community has increased funding levels from approximately $73 million (1980-83) to over $460 million since 1986. As a result, A.I.D. has collaborated closely with the other donors, particularly the World Bank, the Asian Development Bank, and the Japanese, in the design of this program.

Major Outputs: (All Years)
The management of tropical rain forests as renewable resources; increased private sector and NGO participation in the management of secondary growth forests; a policy environment which enhances the economic efficiency of the forest product and wood processing sector; increased GOP revenues generated from the wood products industry to cover the recurring costs of the program; and strengthened GOP institutional capability to formulate and implement programs and policies.

WHAT IS THIS, REALLY ???

A.I.D.-Financed Inputs	Life of Project ($000)
Policy Reform	75,000 ??
Resources Protection	25,000
Technical Assistance, Training, Research	20,000
Evaluation, Monitoring & Audit	5,000
Total	125,000

	PRINCIPAL CONTRACTORS OR AGENCIES
Unliquidated	
-	
[illegible]	
-	
Estimated Total Cost	
125,000	

"E"

30 MAR 1990

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AGENCY FOR INTERNATIONAL DEVELOPMENT

ADVICE OF PROGRAM CHANGE

Country:	Kenya
Project Title:	Kenya Market Development Program
Project Number:	615-0242 and 615-0250
FY 1990 CP Reference:	Annex I, page 188
Appropriation Category:	Development Fund for Africa (DFA)
Life of Project Funding:	$15,000,000 DFA (Grant)
Intended FY 1990 Obligation:	$5,000,000 DFA (Grant)

This is to advise that A.I.D. intends to obligate $5,000,000 for the Kenya Market Development Program. This is a FY 1990 new start.

A.I.D. grant funds will encourage major policy reforms in agricultural marketing efficiency and will provide technical assistance, training and commodities in support of such policy changes. There will be $10,000,000 of non-project assistance and $5,000,000 for the technical assistance, training and commodities.

The purpose of the program is to develop a more efficient national maize and bean marketing system that will provide greater price incentives for farmers.

Attached: Activity Data Sheet

: KENYA

AGENCY FOR INTERNA
ACTIVITY D

n. Kenya Market Development Program	FUNDING SOURCE DFA
NUMBER 615-0242/0250 GRANT [X] LOAN [ ] — NEW [X] CONTINUING [ ]	PRIOR REFERENCE NONE

Purpose: To develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers.

Background: Agriculture is critical to Kenya achieving sustainable, broad-based economic growth. This sector employs 70% of the total Kenyan workforce, contributes 30% of the GDP and generates almost 70% of the country's foreign exchange earnings. While Kenyan farmers currently supply nearly all of Kenya's food needs, a 3.8% population growth rate demands improvement in agricultural productivity. A.I.D. and Government of Kenya (GOK) analysis of the sector has identified the lack of a well-developed marketing system as a major unaddressed constraint to increased productivity. The Kenya Market Development Program (KMDP) is designed to address this constraint.

Program Description: To achieve a more efficient national maize and bean marketing system, the GOK, under this Program, i ') removing movement controls on maize and beans, b) oping systems for regular dissemination of agriculture market price information and c) increasing GOK expenditures for rehabilitation of rural farm-to-market roads by 10% annually.

Movement decontrol will significantly reduce overhead costs--resulting in higher prices to producers, lower prices to consumers and more attractive margins to traders. By allowing smallholders to sell or hold, depending on market conditions, and still be assured of food security, market information systems assure that smallholders can obtain better prices for their produce. Vehicle repairs due to bad roads are a major expense to traders--expense that is passed on to producer and consumer. Better road will improve prices to both producer and consumer.

To finance technical assistance, training and commodities for the four year Program, the GOK is contributing $33 million from their budget and A.I.D. is combining both Development Fund for Africa (DFA) assistance and a multi-year PL 480 Food for Progress (FFPR) program. Short and long-term technical assistance will be provided to the Ministries of Public Works and Agriculture, the University of Nairobi and Egerton University to strengthen institutional linkages between the universities and the GOK in identifying and implementing agricultural policy reforms and for monitoring and measuring

U.S. FINANCING (In thousands of dollars)

	Obligations	Expenditures
Through September 30, 1988		
Estimated Fiscal Year 1989	-	-
Estimated Through September 30, 1989	-	-
Proposed Fiscal Year 1990	-	-

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Country:
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CP 81-05 (4-85)

PROPOSED OBLIGATION (In thousands of dollars)		
FY 90 5,000		LIFE OF PROJECT (Auth.) 15,000
INITIAL OBLIGATION FY 90	ESTIMATED FINAL OBLIGATION FY 93	ESTIMATED COMPLETION DATE OF PROJECT FY 93

the impact of these reforms on all participants in the marketing system.

Disbursement of the $10 million of DFA is tied to meeting the policy reform conditionality. Deposited into a separate account, the $10 million will be used by the GOK for general imports and/or repayment of international debt, according to established Agency guidance. The GOK will also counter-deposit the local currency equivalent of the $10 million into a special account, which will support sector program objectives. GOK budget support will rehabilitate and maintain intermarket roads.

Relationship to A.I.D. Country Strategy: Increasing agricultural productivity and farm incomes through improving agricultural marketing efficiency and accelerating development and transfer of improved technologies is one of A.I.D.'s major strategies.

Beneficiaries: The primary beneficiaries of the program will be the smallholder farmers, for whom maize and beans are cash crops as well as food crops. Most smallholders are poor and a majority are women. Consumers, small scale millers and traders will also benefit as improved marketing efficiency lowers costs.

Host Country and Other Donors: The EEC, World Bank and GOK are improving the efficiency of the National Cereals and Produce Board and increasing the private sector's role in the formal sector cereals marketing. Although 11 donors are financing construction/rehabilitation of different types of roads, they are not focussing on the roads targeted by this Program, the roads linking local markets to intermediate market centers. The other donors are just beginning to focus on reforms related to policy reform in the transport sector.

Major Outputs: (a) Free movement of maize and beans throughout Kenya; (b) market prices and other useful information readily available and (c) 1500 kilometers of market roads rehabilitated and maintained.

A.I.D. - Financed Inputs

	Life of Program ($000)
Non-Project Assistance	$10,000
Technical Assistance	5,000
Total	$15,000

Unliquidated	PRINCIPAL CONTRACTORS OR AGENCIES
-	
[redacted]	
-	
Estimated Total Cost	

"E" 22 JUN 1990

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY:	Jordan
PROJECT TITLE:	Export Sector Assistance Program
PROJECT NUMBER:	278-K646
FY 1990 CP REFERENCE:	Asia & Near East, Annex II, pp. 151,154
APPROPRIATION CATEGORY:	Economic Support Funds (ESF)
LIFE-OF-PROJECT FUNDING:	$62,000,000 ESF Grant
INTENDED FY 1990 OBLIGATION:	$25,849,500 ESF Grant

This is to advise that A.I.D. intends to obligate $25,849,500 in Economic Support Fund (ESF) grant funds in FY 1990 for the Export Sector Assistance Program. This new program was listed as the Commodity Import Program II (CIP II) 278-K646 in the FY 90 Congressional Presentation with life-of-project funding of $18,000,000 ESF grant funds; however, A.I.D. intends to increase life-of-project funding from $18,000,000 to $62,000,000 for the Export Sector Assistance Program.

The purpose of this program is to strengthen and expand Jordan's private sector manufacturing and agribusiness exports by helping Jordan restructure its administrative, regulatory, financial and institutional policies so that an open-market, outward-oriented trade approach prevails.

Annex: Activity Data Sheet

ATIONAL DEVELOPMENT
ATA SHEET

CP 91-05 (4-88)

PROPOSED OBLIGATION (In thousands of dollars)		
FY 25,850		LIFE OF PROJECT (Auth.) 62,000
INITIAL OBLIGATION FY 90	ESTIMATED FINAL OBLIGATION FY 92	ESTIMATED COMPLETION DATE OF PROJECT FY 93

Host Country and Other Donors: The Central Bank, the Ministry of Planning, and the Ministry of Finance support A.I.D.'s assistance to the Private sector via such export sector assistance. The World Bank is working with the GOJ on overall economic restructuring and A.I.D's Export Sector Assistance will complement the World Bank's activities.

Beneficiaries: Jordanian private sector firms and individuals engaging in value-added manufacturing and services for local market and export.

Major Outputs: Increased local private sector manufacture and services for the local market and export.

A.I.D.-Financed Inputs:

	Life of Project ($000)
Policy-linked disbursements in U.S. dollars	62,000

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Unliquidated
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Estimated Total Cost
62,000

PRINCIPAL CONTRACTORS OR AGENCIES

AGENCY FOR INTERN
ACTIVITY

P M: Jordan

TITLE	FUNDING SOURCE
Export Sector Assistance Program	Economic Support Fund

NUMBER 278-K646 GRANT [x] LOAN [ ]	NEW [x] CONTINUING [ ]	PRIOR REFERENCE FY 1990 CP Planned Program Summary Sheet

Purpose: The purpose of this program is to strengthen and expand Jordanian private sector manufacturing and agribusiness exports by helping Jordan restructure its administrative, regulatory, financial and institutional policies so that an open-market, outward-oriented trade approach prevails.

Project Description: Until recently, the Jordanian economy relied heavily on foreign sources of income to finance growth. However, the steady decline in the real price of oil has significantly reduced worker remittance income and grants from the Gulf states. As a result, Jordan confronted serious balance of payments problems, culminating in an International Monetary Fund standby agreement requiring currency devaluation and fiscal austerity measures. The Government of Jordan (GOJ) has recently introduced a series of economic policy reforms to liberalize the economy. These measures include simplification of business licensing and registration, reduction in tariff protection, encouragement of investment, and promotion of exports -- all aimed at stimulating sustained private enterprise development. A.I.D.'s Export Sector Assistance program will focus on GOJ policies impacting on export activity and seek GOJ agreement to adjust these policies or establish new policies to promote and enhance export activity. This program will contribute to the private sector's ability to manufacture and export goods and services. It will contribute to Jordan's economic stability through generation of foreign exchange earned from exports, and through enhanced economic productivity. Program funds will be disbursed to the GOJ based on progress towards implementing key policies designed to improve export performance.

Relationship of Project to A.I.D. Country Strategy: The CDSS places its primary emphasis on the development of the private sector. This project will contribute greatly toward improving incentives and opportunities for private sector exports.

USE OF DOLLARS SPECIFICALLY?

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures
Through September 30, 1988	-	-
Estimated Fiscal Year 1989	-	-
Estimated Through September 30, 1989	-	-
		Future Year Obligations
Proposed Fiscal Year 1990	25,850	36,150

26 JUL 1990

"E"

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date:

Country	: Jamaica
Project Title	: Production and Employment X
Project Number	: 532-0154
FY 1990 CP Reference	: Annex III, page 190
Appropriation Category	: Economic Support Fund (ESF)
Life-of-Project Funding	: $13,728,000
Intended FY 1990 Obligation	: $13,728,000

This is to advise that A.I.D. intends to obligate an additional $8,750,000 of Economic Support Funds in FY 1990 for the Production and Employment X Program in Jamaica. These ESF funds are available pursuant to the FY 1990 Dire Emergency Supplemental Appropriations Act.

The purpose of this program is to provide additional balance of payments assistance to support the structural adjustment and economic reform measures being undertaken by the Government of Jamaica.

Annex: Activity Data Sheet

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AGENCY FOR INTERNATIONAL
ACTIVITY DATA SH

Jamaica

Production and Employment X		FUNDING SOURCE: Economic Support Fund (ESF)
NUMBER 532-0154 GRANT ☒ LOAN ☐	NEW ☒ CONTINUING ☐	PRIOR REFERENCE: CN #215 dated 3/30/90

Purpose: To provide additional balance of payments assistance to support the structural adjustment and economic policy reform measures being undertaken by the Government of Jamaica (GOJ).

Background: The GOJ is struggling to sustain continued economic gains while meeting the conditions of difficult structural adjustment programs worked out with the multilateral lenders and donor countries. Since negotiating an IMF Stand-By agreement early in the year, Jamaica has devalued the Jamaican dollar, increased electricity rates by a third, substantially increased most basic food prices, expanded access of exporters to foreign exchange, modified somewhat its restrictive motor vehicle import policies, continued divestment of Government-owned enterprises and improved reporting and monitoring of public entities. The GOJ appears determined to maintain the central features of its economic policy reforms, including privatization of Government assets and certain services and reform of the foreign exchange regime.

U lying trends in the economy remain generally favorable as a na/bauxite sales and tourism receipts continue to buoy overall activity. Unfortunately, inflation appears to have moved back to the 20 percent annual rate range. Real incomes are once again falling dramatically for significant segments of the population, and employment gains are disappearing, thus nullifying a previous mitigating factor among lower income groups. The crushing weight of a large external debt burden increasingly is being matched by growing domestic debt service resulting from high internal interest rates, further aggravating the already serious Jamaican income distribution problem. Such factors make the reduction of all debt a central imperative and argue strongly for private sector ownership and control of all but the most basic Government functions.

Program Description: The foreign exchange to be provided through this cash transfer program amendment will assist in the adjustment and development of the Jamaican economy and in meeting Jamaica's external debt commitments. In exchange for this assistance, A.I.D. will pursue a policy dialogue agenda with the GOJ which is expected to concentrate on implementation of its privatization program and reform of the foreign exchange system.

Areas of conditionality being considered for the stabilization program are for satisfactory progress with the Government's p tization program and reform of the foreign exchange

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U.S. FINANCING (In thousands of dollars)

	Obligations	Expenditures	Unliquid
Through September 30,			
Estimated Fiscal Year			
Estimated Through September 30,			
		Future Year Obligations	Estimated T
Proposed Fiscal Year 1990	13,728	–	13,728

AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

CP 81-06 (4-85)

...NG SOURCE	PROPOSED OBLIGATION (In thousands of dollars)		
...nomic Support Fund (ESF)	FY 90 13,728		LIFE OF PROJECT (Auth.) 13,728
...REFERENCE	INITIAL OBLIGATION	ESTIMATED FINAL OBLIGATION	ESTIMATED COMPLETION DATE OF PROJECT
#215 dated 3/30/90	FY 90	FY 90	FY 91

payments assistance
:conomic policy reform
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regime. This will include continued asset divestment for such traditional assets as hotels, as well as major privatization steps in difficult sectors such as transportation, power and water. The planned exchange regime reforms will seek to reduce exchange controls and move towards a free market-determined exchange rate.

Obligation of additional funds is expected to take place before the end of September 1990. The dollars will be used by the GOJ for payment of non-military debt service obligations to international financial institutions and the U.S. Government. The local currency provided by the GOJ to offset this assistance will be used to support elements of the privatization program and to further the objective of increasing private sector investment in Jamaica. Separate bank accounts will be established to manage these funds.

Relationship of Project to A.I.D. Country Strategy: The Country Strategy identifies its most important priority as the support of structural adjustment along with an assistance package to cushion its impact on the poor. The proposed program supports this priority by providing a cash transfer to help in stabilizing Jamaica's economy and by encouraging economic policy reforms designed to increase efficiency and reduce the drain of publicly-held entities on the Government's budget.

Host Country and Other Donors: A.I.D., the IMF and the World Bank are the principal donors providing economic support to the GOJ. A.I.D. will continue to coordinate closely with all major donors in implementing the stabilization program.

Beneficiaries: A healthier economy, resulting from reduction of the GOJ's debt burden, privatization of Government assets and reform of the foreign exchange regime, will benefit the entire Jamaican population.

Major Outputs:	All Years
Further progress in privatizing publicly held entities and foreign exchange reforms	X

A.I.D.-Financed Inputs:	Life-of-Project ($000)
Balance of payments	13,728

...n thousands of dollars)

...ations	Expenditures	Unliquidated
		-
		[redacted]
	Future Year Obligations	Estimated Total Cost
28	–	13,728

PRINCIPAL CONTRACTORS OR AGENCIES

PD-ABJ-303
isn 90329

CNs should be improved to describe more clearly the purpose and effect of each CT; and

FM should develop a single identifier system for CTs to facilitate aggregation of information on CTs and the uses of CT dollars.

A.I.D. should establish a central system to collect data on the uses of CT dollars associated with procurement transactions.

Other important issues raised by Subcommittee members, but on which consensus was not reached, included the following:

Desirability of applying current or modified source, origin, and nationality requirements to commodity financing associated with CTs;

The need to apply minimum competition and pricing standards to such financing; and

The appropriate role of Commodity Management Officers.

As the report indicates, United States commodity and transportation suppliers, as well as certain Congressional interests, are questioning CTs in situations in which they expect the procedures and demonstrable "Buy American" impact of standard commodity financing. Whatever the benefits of CTs in general or as associated with commodity financing in particular, it is necessary for A.I.D. to evaluate the adequacy and appropriateness of our guidance on CT implementation.

The report raises important issues which the Policy Directorate may want to consider. After you have had a chance to read the report, I would like to discuss with you the issues raised, and how and in what manner to deal with them.

Attachment
a/s

cc: AA/FA, Richard A. Ames
A/AA/OPS, Howard M. Fry
AA/NE, Reginald Brown
FA/PPE, James Murphy
GC/CCM, Ken Fries

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

11/22/91

MEMORANDUM

TO: DAA/FA, John F. Owens

FROM SA/AA/NE, John W. Godden JWGodden

SUBJECT: REPORT OF THE SUBCOMMITTE ON IMPLEMETATION OF CASH TRANSFERS

Please find attached the report of the Subcommittee on cash transfer (CT) implementation, together with recommendations for the PPAP committee. This final version of the report takes into account all relevant comments received in the two prior drafts.

The report required a substantial amount of work by Subcommittee members who were often divided by contrasting opinions about CTs. We believe however, that our report provides a detailed basis for a better understanding of the relevant issues, and at the same time makes a worthwhile contribution to the debate surrounding the use of CTs to finance commodities.

In compiling this report I particularly appreciated the detailed drafting work of GC/Scott Overall and the input from OP/Bob Richardson, LAC/Jeff Evans and others. The report includes both consensus recommendations and recommendations on which no consensus was achieved. Details are outlined in Section 4 of the Report, pp. 9-12.

1. A.I.D. should clarify CT implementation policy to provide that "imports from the United States" should at least be verified by the review data (i.e., commercial bills of lading), that evidence original shipment of commodities from the United States. (* See footnote).

2. Additional guidance should be developed in Handbook 4 to explain the background, purpose and variety of non-project assistance instruments including CTs and CIPs, in light of the information contained in the Subcommittee report.

3. A.I.D. should improve the Congressional Notification (CN) process to more clearly describe the purpose and effect of individual CTs.

4. The Office of Financial Management should proceed with plans to develop a single identifier approach to systematically record and track CT dollar uses.

5. That a central system be established to collect data on the uses of CT dollars associated with procurement transactions.

The Subcommittee did not reach a consensus on other major issues raised in Section 4 of the Report. These included the role of Commodity Management Officers and whether additional standards for competition, commodity source, origin and/or price should be applied to commodity financing under CTs. The Subcommittee recommends that these issues along with the issues of program mix, program selection, and verification techniques for CTs be considered by senior agency management (in particular, the new Policy Directorate). Please let me know if we can help you prepare any follow-up communications to POL or other offices.

* An exception may be required in certain African countries where particular document tracking may be problematic.

Attachment: A/S

Clearances:

LEG, B. Bennett
OP/COMS, R. Richardson
AFR/DR/PD, G. Bertolin
LAC/DR, J. Evans
GC/CCM, S. Overall
NE/DP, T. O'Keefe

cc: MS/PPE, J. Murphy
GC/CCM, K. Fries
PFM/FM/A, R. Bonnaffon
POL, M. Hanratty

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USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

DEC 11 1991

MEMORANDUM

TO: D/POL, Kathryn Morgan

FROM: DAA/FA, John F. Owens

SUBJECT: Report of the Procurement Policy Advisory Panel Subcommittee on Cash Transfer Implementation

I have attached for your information and action as appropriate a copy of the subject report submitted to me on November 22, 1991. The report reviews cash transfer (CT) implementation practices and procedures, information sources, and issues. It is the most detailed survey of its kind to date, and I highly recommend it for your attention.

The Subcommittee concerned itself solely with CT implementation, in particular the association of CT dollars with the financing of commodities. It did not deal with the related issues of program selection (determining the appropriate type of nonproject assistance mode for a specific activity) and program mix (the appropriate mix of the various types of nonproject assistance in a given country, or in the foreign assistance program as a whole). It also did not review in depth the actual methods being used by Missions to verify the eligibility of transactions selected for association with CT financing.

The Subcommittee was decidedly split between proponents of CTs and those concerned that the growing use of CTs to finance commodities without the policies and safeguards of standard financing methods increases Agency vulnerability. Consensus recommendations were that:

> A.I.D. should clarify that the term "imports from the United States" in the CT guidance should at least include documents such as bills of lading that evidence original shipment of commodities from the United States;
>
> Handbook 4 should be revised to contain additional guidance on CTs and other nonproject assistance modes taking into account the information contained in the Subcommittee report;