

Regional Inspector General for Audit  
Bonn

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**Audit of the Albania Agricultural  
Development Program  
(Project Nos. 180-0024 and 180-0046)**

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Report No. 8-182-94-015  
September 12, 1994





U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL

AMERICAN EMBASSY

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GERMANY

September 12, 1994

MEMORANDUM

FOR: DAA/ENI/PA, Barbara Turner

FROM: RIG/A/B, John P. Competello 

SUBJECT: Audit of the Albania Agricultural Development Program  
(Project Nos. 180-0024 and 180-0046), Audit Report  
No. 8-182-94-015

This is our final report on the subject audit. In preparing the report we took into consideration your comments on the July 29, 1994 draft. We have included the comments as Appendix IV. Additionally, the amount of cost efficiencies due to deobligation and reprogramming of funds resulting from this audit are mutually agreed to be \$767,335.

Based on your actions we consider all four recommendations resolved and will close them upon receipt of evidence showing that the agreed upon actions have been taken. So that we may promptly close the recommendations, please provide us with information within 30 days concerning actions taken to implement them.

I appreciate the cooperation extended to my staff during the audit.

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# Eastern Europe



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## EXECUTIVE SUMMARY

In 1992, the United States Agency for International Development (USAID) authorized \$19.9 million to support the restructuring of Albania's agriculture sector by providing technical assistance, commodity assistance and local currency to design and implement policy reforms with special emphasis on the fertilizer production and distribution industry. USAID's Bureau for Europe and New Independent States (ENI) is responsible for accomplishing this project—known as the Albania Agriculture Development Program—and has awarded five grants worth \$17.2 million to the International Fertilizer Development Center (IFDC). Of the \$17.2 million, \$200,000 was to provide some initial technical assistance and to assess fertilizer supply and distribution, \$12.7 million was targeted for an emergency commodity import program and the remaining \$4.3 million was to finance the technical assistance needed to restructure Albania's fertilizer supply system. Under the commodity program, IFDC was to: (1) purchase, import and auction up to 50,000 metric tons of fertilizer; and (2) purchase, import, rent, and ultimately sell thirty 10-ton trucks. The proceeds from these activities were to be deposited into a special bank account, and then used for a purpose which would be mutually agreed to by ENI and the Government of Albania. Under the restructuring aspect of the project, IFDC was to provide expertise in areas such as marketing, credit financing, training, fertilizer dealer development, and technical evaluations of fertilizer factories. The commodity grants began in March 1992 and expired one year later. The technical assistance grant to restructure the fertilizer supply system began in January 1993 and the original expiration date of June 1994 was extended through December 1994.

The Office of the Regional Inspector General for Audit/Bonn conducted the audit to determine: whether ENI managed the program to ensure that the USAID-financed inputs were provided as agreed and resulted in planned outputs; and whether those outputs contributed to achieving the project's goals of alleviating a fertilizer shortage and restructuring Albania's fertilizer supply system.

The audit found that IFDC generally provided the required inputs, which were: procuring and delivering 30,000 metric tons of fertilizer (the additional 20,000 tons were not required); purchasing, delivering, and renting the thirty 10-ton trucks; and providing technical advisers to oversee the sale and distribution of the fertilizer and to support the restructuring of Albania's entire fertilizer supply system. Further, these inputs resulted in numerous planned outputs. For instance, the fertilizer helped alleviate a fertilizer shortage and generated local currency for later use in agricultural development activities; the trucks facilitated the transportation of fertilizer

within Albania; and the technical advisors illustrated how an open-market fertilizer distribution and marketing system might work, introduced credit practices to banks and potential fertilizer dealers, and assessed the economic viability of two Albanian fertilizer factories (Page 4).

Despite these positive accomplishments, the audit also found that ENI needs to: improve its management of local currency; deobligate and reprogram unliquidated obligations of expired grants; clarify its measurement standards and assess IFDC's progress towards achieving the restructuring objectives; and ensure that the key activities in the restructuring program are sustained after USAID assistance ends.

A brief summary of the main issues ENI needs to address follow:

- The program's local currency objectives will be significantly reduced because the commodities will produce about \$7 million less than planned. The reduction is due primarily to fertilizer sales producing about \$6.2 million less than planned. The local currency account also has not been maximized because the 10-ton trucks have not been sold to generate local currency and the deposits of local currency generated from fertilizer sales were not earning interest. Finally, the local currency has not been used due first to significant delays in programming its use, and then to specific implementation problems. The shortfall in local currency generation was caused by optimistic planning assumptions and a later, but prudent decision not to require a minimum price of the first two auctions of fertilizer. Additional value was lost by not following USAID's policy about depositing local currency into an interest-bearing account. As a result, the potential value of the program's local currency generations to Albania's agriculture sector has diminished. Further, the 10-ton trucks should be sold because they are not being used and are depreciating while the proceeds from their sale could augment the local currency account, and the local currency needs to be used. We recommend that ENI take action to sell the 10-ton trucks and promptly address the two current constraints to implementing the agreed upon uses of the local currency. (Page 6)
- The commodity grants expired in March 1993, but USAID's accounting system reported, as of March 1994, that two of the grants had a total of \$790,000 still unliquidated. Management noted in their comments that only one grant had an unliquidated balance and that was for \$767,335. The unliquidated funds should be deobligated and, if possible, reprogrammed. (Page 15)
- The grant to help restructure the fertilizer supply system had few clearly quantifiable indicators to measure IFDC's progress in meeting the grant's goals. Even though IFDC—via quarterly progress reports—redefined the grant's objectives so it could better report what was being accomplished, it remains unclear whether the objectives, as redefined, will accomplish the purposes of the grant. Currently, ENI plans to have an evaluation conducted to assess whether the grant was accomplishing its objectives. We recommend ENI establish an appropriate system to measure the contribution of the achievements on the overall restructuring effort. (Page 16)

- Some of the achievements under the grant may not be sustained. The question of sustainability results from a lack of clear and quantifiable indicators and insufficient time allowed to reach a level of sustainability. As a result, it is quite possible that USAID's investment in these efforts will have less of a long-term impact than planned. The interim evaluation is expected to include coverage of this area. ENI is also considering an extension of IFDC's efforts to address, in part, sustainability issues mentioned in this report. The grant was to expire at the end of June 1994, but it was extended through December 31, 1994. We recommend ENI evaluate and prioritize the restructuring program's goals in terms of what is reasonably sustainable by the end of the grant, and direct IFDC's remaining efforts toward these activities. (Page 17)

ENI concurred with the reports' findings and recommendations and is taking action to implement them. ENI expressed concern that our summary of the projects' impact was rather cursory even though we cite several project achievements. In particular, ENI stressed that USAID assistance was the single most important external support of Albania's agriculture sector which grew by 14 to 15 percent in 1993. We agree that the project achieved many of its planned outputs; however, we also believe that the impact of some of these contributions is unclear and, at this time, it is questionable whether achievements related to the restructuring of the fertilizer system are sustainable. Because of these questions, we believe it is important to not overstate the impact of these successes and to recognize that more still needs to be done to better ensure the project's overall success.

As for implementing the recommendations, ENI has provided documents that show it is attempting to implement all the recommendations. However, ENI noted that it is having trouble selling the trucks because of low demand and financing problems, and it is looking into an option to use some of the trucks as grants-in-aid to the fertilizer factories if the subsequent auctions do not generate reasonable offers. Even though ENI is experiencing problems in implementing this part of Recommendation No. 1, we consider the action it is taking sufficient for us to consider this part resolved. Thus, because of the actions being taken on all the recommendations we consider them all resolved and we will close them upon receipt of evidence showing that they have been appropriately implemented.

*Office of the Inspector General*

Office of the Inspector General  
September 12, 1994

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## ABBREVIATIONS

AgDP	Albania Agricultural Development Program
ENI	Bureau for Europe and the New Independent States, USAID
GOA	Government of Albania
IFDC	International Fertilizer Development Center
MOA	Memorandum of Agreement
SARA	Support for Agriculture Restructuring in Albania Program
USAID	United States Agency for International Development

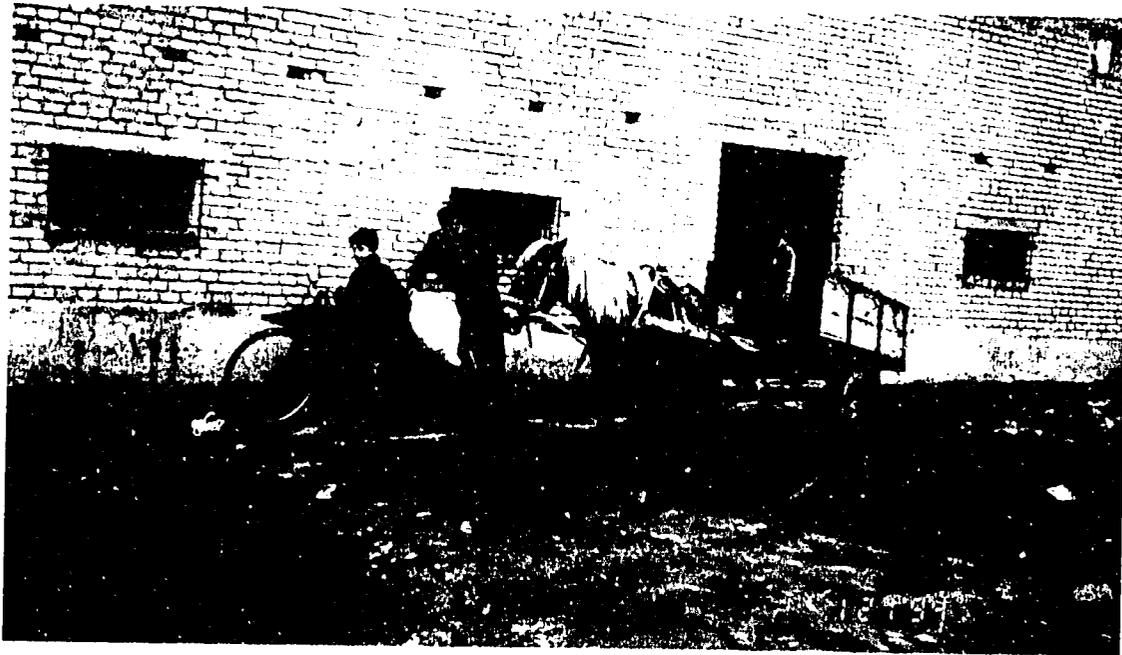
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# INTRODUCTION

## Background

Forty years of almost complete isolation culminated in what may be described as Albania's political, social, and economic collapse—including a collapse of the fertilizer distribution network. In order to support Albania's first democratic government which was elected in March 1992, the United States Agency for International Development (USAID) authorized a total of \$19.9 million to support the restructuring of Albania's agriculture sector by providing technical assistance, commodity assistance and local currency to design and implement policy reforms with special emphasis on the fertilizer production and distribution industry. Through the end of 1993, these efforts, referred to as the Agricultural Development Program (AgDP), were the core of USAID's Bureau for Europe and New Independent States' (ENI) assistance to Albania. Program activities were authorized under Project Nos. 180-0024 and 180-0046.



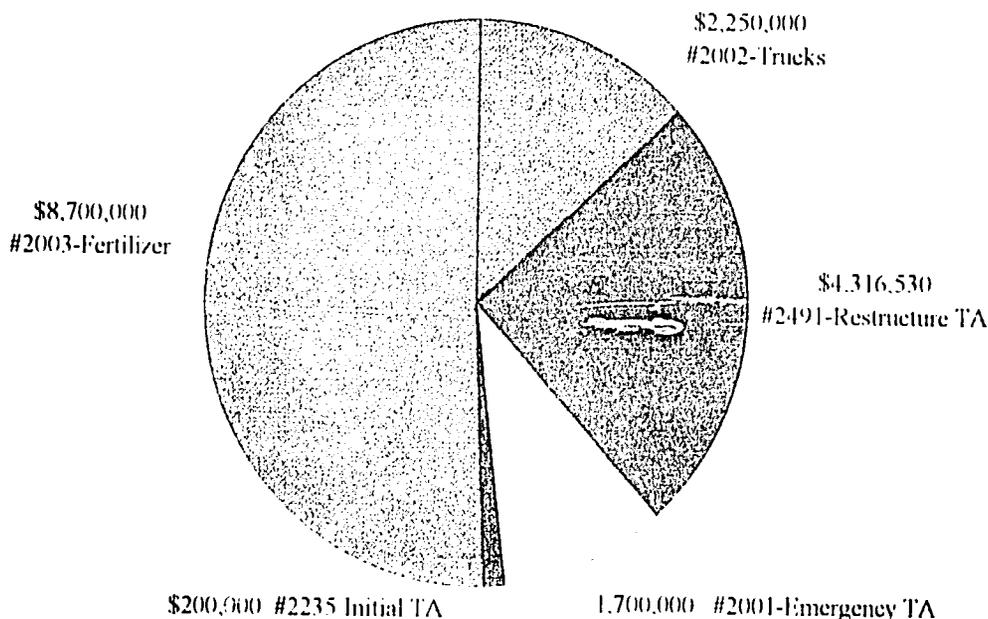
Typical transports used by Albanian farmers (Peze, Albania, January 1994)

As of March 31, 1994, USAID had awarded five grants worth \$17.2 million<sup>1</sup> to the International Fertilizer Development Center (IFDC), a Public International Organization based

<sup>1</sup> See Appendix II for a table of program obligations and expenditures according to USAID's Financial Accounting and Control System as of March 31, 1994.

in the United States. The initial grant for \$200,000 financed start-up activities related to Albania's fertilizer problems. The next three grants, totaling \$12.7 million, financed the emergency commodity import program. The last grant for \$4.3 million financed the technical assistance to restructure Albania's fertilizer supply system.

### Albania Agriculture Development Program Obligations by Grant



Under the emergency commodity import program, IFDC was to: (1) purchase, import and auction up to 50,000 metric tons of fertilizer; and (2) purchase, import, rent, and ultimately sell thirty 10-ton trucks. The trucks were brought in to support the fertilizer auctions because the in-country transport services were considered limited at that time. Spare parts and tools,<sup>2</sup> for use in truck maintenance, were also to be imported and then sold. The proceeds from the fertilizer auctions, trucking revenues and sales, and spare parts sales were to be deposited into a special bank account, and to be used later for a purpose which would be mutually agreed to by USAID and the Government of Albania. While the grants for the commodity import program started in March 1992 and expired in March 1993, some expenses were still being incurred.

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<sup>2</sup> For ease of discussion, subsequent references to spare parts and tools will be confined to spare parts.

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Under the restructuring segment, IFDC was to provide expertise in areas such as marketing, credit financing, business management, and oversee technical evaluations of fertilizer factories. This grant, with obligations of \$4.3 million, started in January 1993 and expired in June 1994. An extension was being considered to extend it through December 31, 1994, when assistance to the program is scheduled to end. (See Appendix III for more information on each grant.)

IFDC, which is headquartered in Muscle Shoals, Alabama, established an office in Tirana, Albania, to oversee and implement all in-country activities related to the emergency commodity import program and technical assistance to restructure the fertilizer supply system. IFDC's headquarters was responsible for soliciting bids for the commodities (fertilizer and trucks), awarding the contracts for the commodities, arranging for their shipment to Albania, contracting for short-term consultants, and acting as the primary liaison with ENI.

Within USAID, ENI has overall management responsibility for the Albania AgDP. The Office of the USAID Representative in Albania has responsibility for in-country program oversight and monitoring.

In addition to the five grants awarded to IFDC, a Memorandum of Agreement (MOA) between the Government of Albania (GOA) and the United States, signed March 23, 1992, clarified the roles and responsibilities of both parties and IFDC with regard to program activities. The MOA was amended twice to reflect the maximum amount of fertilizer that would be available under the program and to extend the program to March 31, 1994.

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## **Audit Objectives**

As part of its fiscal year 1994 audit plan, the Office of the Regional Inspector General for Audit/Bonn audited the Albania Agricultural Development Program to answer the following questions:

1. Did the Bureau for Europe and New Independent States manage the Albania Agricultural Development Program to ensure that USAID-financed inputs were provided as agreed and resulted in planned outputs?
2. Did the outputs contribute to achieving the Albania Agricultural Development Program goals of alleviating a fertilizer shortage and restructuring the Albanian fertilizer supply system?

## REPORT OF AUDIT FINDINGS

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**Did the Bureau for Europe and New Independent States manage the Albania Agricultural Development Program to ensure that USAID-financed inputs were provided as agreed and resulted in planned outputs?**

The Bureau for Europe and New Independent States (ENI) managed the program to ensure that the USAID-financed inputs were provided as agreed and generally resulted in planned outputs. However, there have been problems with both maximizing and programming the local currency resulting from the sale of the commodities imported under the emergency segment of the program. In addition, ENI should deobligate or reprogram the unexpended obligations of the expired grants.

The International Fertilizer Development Center (IFDC) provided the required inputs which were: procuring and delivering 30,000 metric tons of fertilizer;<sup>3</sup> purchasing and delivering thirty 10-ton trucks; providing technical advisers to oversee the sale and distribution of the fertilizer; and to support the restructuring of Albania's entire fertilizer supply system. These inputs resulted in a number of planned outputs. For example:

(a) The fertilizer:

- helped alleviate a fertilizer shortage in Albania in 1992;
- introduced Albanian farmers to diammonium phosphate fertilizer; and
- once sold, produced local currency for future Albanian agricultural activities.

(b) The 10-ton trucks:

- facilitated the transportation of imported fertilizer within Albania; and

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<sup>3</sup> The program authorized up to 50,000 metric tons of fertilizer. USAID financed the first 30,000 metric tons and determined, as of January 1994, that no more fertilizer was needed.

- generated rental income for use in future Albanian agriculture activities.

(c) The technical advisors:

- helped organize an association of independent fertilizer dealers;
- illustrated how an open-market fertilizer supply system might work in Albania;
- helped develop commercial credit practices of the banks and fertilizer dealers;



Albanian fertilizer dealer (Lezha, Albania, January 1994)

- helped influence the Government of Albania to lower the tax on the value of imported goods from 30 percent to 5 percent, thus making fertilizer imports an economically feasible alternative to the erratic and unreliable domestic production of fertilizer;
- exposed selected fertilizer dealers to the process of importing fertilizer through an actual procurement on the open market;
- sponsored a variety of business, banking, and marketing training programs for fertilizer dealers, and bank personnel;
- assessed the technical and economic viability of two Albanian fertilizer factories;
- developed and introduced a management information system to track fertilizer utilization patterns by district, crop and farm type; and

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- published a monthly agricultural newsletter and distributed it to fertilizer dealers throughout Albania.

According to officials at the Office of USAID Representative in Albania (USAID/Albania), these achievements helped increase Albania's agriculture production by about 20 percent in 1993. USAID/Albania expects an additional increase of as much as 10 percent in 1994 as a result of these activities.

Notwithstanding these positive achievements, ENI did not maximize the value of the local currency that could have been generated, nor did it take timely action to program the use of these local currency funds. Thus, the program's local currency objectives have not been achieved.

### **ENI Needs to Better Manage Local Currency**

The imported commodities—fertilizer, 10-ton trucks, and spare parts—were to be sold for local currency which was then to be used to support other Albanian agricultural development activities. USAID's local currency management policies specify how local currencies should be managed, including the use of interest-bearing accounts. The program will generate about \$7 million less local currency than planned because of optimistic planning assumptions about what local currency would be generated from the sales of the fertilizer and 10-ton trucks. Further, the trucks need to be sold to complete the program's generation of local currency. In addition, about \$78,000 in interest was not realized because of delays in depositing fertilizer sales proceeds into an interest-bearing account. Furthermore, the local currency that had been generated had not been used because ENI and the Government of Albania had not, until recently, reached agreement on its use. As a result, the project's local currency generations have provided no benefit to date, and will provide fewer benefits when they are used due to their diminished value.

#### **Recommendation No. 1: We recommend that the Bureau for Europe and the New Independent States take action to:**

- 1.1 sell all the trucks and associated spare parts and deposit the sales receipts into the recently consolidated local currency account;**
- 1.2 deposit funds generated from the truck rental operations into the consolidated local currency account; and**
- 1.3 resolve the accounting system problems related to the property registration system and the programming problems related to the irrigation system which are impeding use of the local currency generations.**

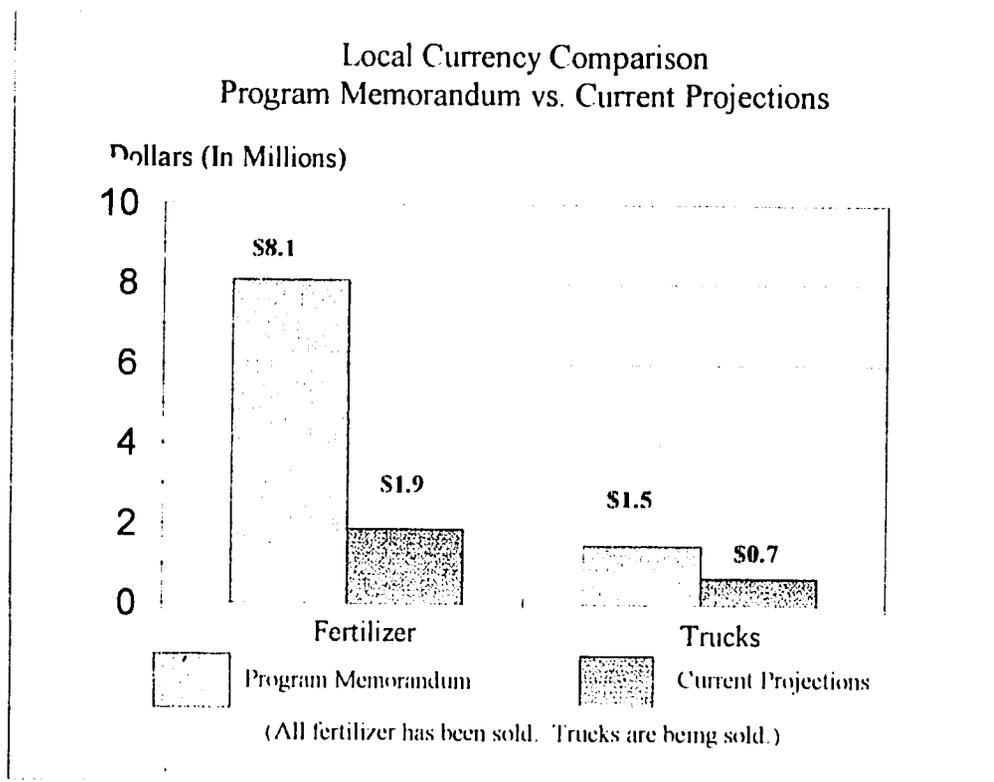
The Albania Agricultural Development Program was to support the restructuring of the Albanian agriculture sector, in part, by using local currency to provide for the capitalization of credit lines for short and medium-term loans to fertilizer dealers and small agricultural producers. Local currency would be generated through open market auctions of fertilizer and the rental and sale of the 10-ton trucks.

USAID's Financial Management Bulletin No. 2 and USAID's Policy Determination No. 18 provide specific guidance on local currency generation and account management. Both state that local currency should be disbursed as quickly as is consistent with sound programming and prevailing economic conditions. The guidelines favor placing the local currency into an interest-bearing account because they recognize that programming delays can occur. The guidelines further state that the USAID Mission Director may provide a written determination not to follow USAID's preference for using an interest-bearing account.

As to establishing, funding, and programming the local currency fund, the audit found: (1) the amount of local currency produced by the sale of fertilizer was significantly less than anticipated; (2) the 10-ton trucks have not been sold to produce local currency, even though the majority of trucks had been idle for several months, (3) local currency from the fertilizer sales had only recently been deposited into an interest-bearing account, and (4) the local currency had not been used because it had not been programmed timely.

### **Commodity Sales Will Produce Significantly Less Local Currency Than Anticipated**

Based on our analysis of the Program Memorandum and other initial program documents, it appears that the sales of fertilizer and 10-ton trucks were expected to generate \$9.6 million in local currency. However, when the projected sale proceeds of the 10-ton trucks and spare parts are added to fertilizer sale proceeds, local currency proceeds will amount to approximately \$2.6 million—about \$7 million less than originally projected.



The Program Memorandum estimated that 50,000 metric tons of fertilizer would have cost \$13.5 million and, when sold, would have generated an equivalent amount of local currency. Since only 30,000 metric tons of fertilizer were imported and sold, the original estimate should be reduced to \$8.1 million. With the trucks programmed to bring in about \$1.5 million when sold, the total local currency could have been expected to be about \$9.6 million. However, actual fertilizer sales generated only about \$1.9 million<sup>4</sup> in local currency or about \$6.2 million less than planned. ENI expected an additional \$700,000<sup>5</sup> to be generated from the sale of the 10-ton trucks. This would bring the total commodity sales proceeds up to \$2.6 million, which is the most recent estimate of local currency expected to be generated from this program. Thus, of the \$9.6 million that was expected from the sale of commodities, only \$2.6 million will be realized—a reduction of \$7 million in local currency.

There appear to be two reasons for not achieving the planned level of local currency from the fertilizer sales. The first resulted from ENI being unduly optimistic about what the program would generate in terms of local currency. The second was a decision to focus on promoting a successful open market fertilizer auction in lieu of generating a desired level of local currency from the auction.

According to the ENI project officer, because previous sector grants to Hungary, the Czech and Slovak Republics, and Bulgaria were negotiated to generate the local currency equivalent of the full value of the grant, ENI anticipated the same result in Albania. However, in those countries, USAID provided dollars—not commodities—which were exchanged for an equivalent amount of local currency. Under the Albania project, USAID provided commodities—not dollars—which were sold for local currency, but there were no assurances that the sales would generate an amount equivalent to the cost of the commodities. Thus, the generation of local currency in these other sector grants was far different from the method used in Albania; and the other sector grants were therefore not a reasonable basis upon which to project local currency generation under the Albania program.

According to the USAID/Albania Representative, as the time approached to hold the auctions, it was apparent that the GOA was not fully supportive of the auctions. This recollection of events was confirmed by the Chief-of-Party at IFDC's office in Albania (IFDC/Albania). Thus, USAID/Albania and IFDC/Albania had serious doubts just prior to the auctions as to whether they would actually be held, much less raise a desired amount of local currency. The ENI project officer had a similar recollection, but noted that only certain members of the Albanian Parliament were opposed to the program; not the entire government. The opponents complained that fertilizer should not be sold at prices higher than the government controlled price. The project officer also noted that, as things turned out, the GOA did not interfere with the auctions, but allowed them to proceed. Recognizing that there was opposition to the auctions, USAID

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<sup>4</sup> The fertilizer auctions generated 194,093,435 leks, or about \$1.9 million as of January 1994.

<sup>5</sup> We have been unable to verify the basis for the additional \$700,000. An IFDC study in March 1993 recommended that the trucks be sold for \$360,000 and the spare parts for \$60,000 for a total of \$420,000. The current plan, which does not estimate a value for spare parts, will start with a minimum bid price of \$14,000 per truck. If all trucks were bought at that price, then \$392,000 would be generated.

IFDC agreed the most important issue was to work toward successfully completing the first two auctions<sup>6</sup> regardless of the bids received.

By the second urea auction, the average winning bid price was approximately 2,500 leks (\$25) per metric ton, or 15 percent of the world price. Partly in response to the low bids during the urea auctions, IFDC set a minimum price of 15,000 leks (\$150) per metric ton for the 10,000 metric tons of diammonium phosphate. This minimum amounted to 75 percent<sup>7</sup> of the international price in September 1992, considerably better than the prices obtained at the urea auctions.

According to IFDC/Albania's Chief-of-Party, the urea bids were low because:

- Albania's economy was still in very poor shape in early 1992, and few Albanians had significant assets to draw upon;
- Albanians had been conditioned to lower prices because, prior to the auction, the GOA had restricted the price at which urea fertilizer could be sold to Albanian farmers to 2,000 leks per metric ton; and
- prior to the auction, Albania had operated a government-controlled agricultural system, and without a floor price neither ENI nor IFDC could forecast with any certainty what prices would be bid during the open-market auction for the USAID-financed fertilizer.

Because the urea auctions were probably the first forays into an open-market system, the Chief-of-Party of IFDC's Albania office said his priority was to demonstrate that an open-market system would work with the price of fertilizer being determined independently by the new dealers based on their expectations of sales to the farmers. Another priority was to interest Albanians in becoming fertilizer dealers. Hence, there was more concern about using the auctions to establish an open market system and a group of independent dealers than there was about generating a desired level of local currency. Thus, in an attempt to better assure independent participation by new private dealers, no minimum bid price was established for the urea auctions. However, for the later auction of diammonium phosphate, IFDC established a floor price to force the bid prices closer to world market and generate more local currency.

The Chief-of-Party, IFDC/Albania, also noted a great measure of resistance to paying the minimum price for diammonium phosphate. Albanians had never used this fertilizer and were skeptical of its potential benefits. In addition, a negative publicity campaign was waged to thwart the auction's success. These conditions significantly dampened participation at the September 1992 auction for the diammonium phosphate—only 3,500 metric tons were sold—and

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<sup>6</sup> In total, three auctions took place. The first two auctions each offered 10,000 metric tons of urea. The third auction offered 10,000 metric tons of diammonium phosphate.

<sup>7</sup> The minimum price of 15,000 leks per metric ton, which was set for the September 1992 auction, was slightly altered for all sales after January 1993. The price per ton went up to 16,000 leks if less than five, 10-ton lots were purchased.

most purchases were at the minimum price. However, the use of diammonium phosphate bought at auction resulted in higher crop yields, and led to later over-the-counter sales of the remaining diammonium phosphate.

### **Idle 10-ton Trucks Should Be Sold**

The 28 operable 10-ton trucks<sup>8</sup> should have been sold because their primary purpose for being brought to Albania—to minimize the transportation problems anticipated in conjunction with the auctions—essentially ended on November 9, 1992. Since then the trucks have been used periodically, but in projects not related to their original purpose. Since February, when all of the trucks were last used together, 10 were used periodically and the remainder were placed in open storage. In addition, IFDC was still incurring some truck expenses related to operations and insurance. An earlier sale of the trucks would have reduced these costs and would have minimized the depreciation that occurs over time whether they are operated or not.



10-ton trucks in storage at the Fier factory (December 1993)

The Program Memorandum estimated that the original 30 trucks and spare parts would be sold for \$1.5 million, but later estimates have been substantially lower. USAID's most recent evaluation in May 1994 recommended that the first lot of five trucks be sold with a minimum bid requirement of \$14,000 per truck. If all 28 trucks were sold at \$14,000 each, then \$392,000 in local currency would be raised. Additional local currency is also expected from the sale of spare parts and equipment; however, an estimate was not included in the May 1994 evaluation. The evaluation does note that adjustments to the floor price of \$14,000 may be needed depending upon the response to the first auction. The evaluation notes that the floor price is still significantly higher than what most Albanians have paid for trucks, but also notes that the

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<sup>8</sup> Of the 30 trucks imported, 28 are in saleable condition while 2 were totally destroyed in driving accidents and can only be cannibalized for parts.

USAID-trucks are comparatively large, in good condition, and desired by fertilizer dealers and others who want trucks. Another constraint the report acknowledges is the current policy of two Albanian banks not to lend money to buy trucks. However, the report goes on to state that the banks may not enforce this policy for the USAID-trucks.

Besides no longer being required for distributing program fertilizer the trucks are not being fully utilized. Four trucks are in use at the Lac fertilizer factory<sup>9</sup> and six others are in periodic use elsewhere. Not only are these trucks incurring wear-and-tear through normal operations, they are being exposed to potential loss because of the hazards of driving in Albania. (Two trucks were destroyed in driving accidents even though they were being operated by "trained" drivers and under the direct supervision of IFDC.) The other trucks were not being used. These trucks are in open storage and are therefore subject to potential pilferage and weather related damage, such as corrosion. In addition, the idle trucks can incur losses such as dead batteries because the engines are not operated.



The two destroyed 10-ton trucks (Tirana, December 1993)

In our opinion, most of these vehicles could have been put up for sale immediately after the unsold diammonium phosphate was last moved into the warehouses in November 1992. After this activity, IFDC's records showed that their trucks were not being used to any large extent and there was no longer any material concern about the availability of transportation—the reason the trucks were in Albania in the first place. IFDC, nonetheless, has kept some of the trucks in use to keep them productive and obtain some value for them until they are sold. While IFDC/Albania recommended in March 1993 how best to sell the trucks, it did not formally request permission from ENI to sell the vehicles until October 1993. ENI did not agree to sell the trucks because it believed—as late as January 1994—the trucks might still be needed to

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<sup>9</sup> There are two fertilizer factories in Albania and both are government owned. They are located in the towns of Lac and Fier.

support potential imports of USAID-financed fertilizer. While it may have been prudent to keep some of the trucks, as there was concern about having additional auctions, there was no need to keep all of the trucks. ENI and IFDC should have begun selling all but the few trucks that they were still using. This would have reduced the operations and insurance expenses of over \$26,000 that IFDC incurred for the trucks in 1993, and would have come at a time when the GOA had more liberal credit practices and the fertilizer dealers, who were viewed then as the likely buyers, had access to greater resources.

Because ENI held off on its decision to sell the trucks, IFDC did not plan on selling them until January 1994. However, the sales were postponed to July 1994 and were to proceed in a series of five auctions with each auction offering five or six trucks. This delay was due, in part, to the GOA tightening credit and the contract awarded by the more financially stable fertilizer dealers to import fertilizer. Thus, the intended purchasers, the fertilizer dealers, do not have the financial resources to both import fertilizer and purchase the trucks. The ENI project officer recently forwarded to IFDC the recommendations from USAID's procurement office related to modifying IFDC's plan for selling the trucks.

Since there is, in our opinion, no further need to provide transportation support to buyers at USAID auctions, the purpose of the trucks now is to generate local currency. While the fertilizer dealers have been the anticipated buyers, we do not believe a need exists to limit the sale of trucks to them or even to the agriculture sector. Thus, we believe the trucks should be sold as expeditiously as possible to the highest bidder.

#### **Interest-Bearing Account Should Have Been Used**

The \$1.9 million in local currency from the fertilizer sales has lost value because it was not deposited in an interest-bearing account in accordance with USAID's Policy Determination No. 18. According to the ENI project officer, the local currency from the sales of fertilizer were deposited into an interest-bearing account effective April 1, 1994, almost two years after the first auction. While the policy allows the Mission Director to make a written determination to deviate from the policy, we have not found, nor have we been provided with evidence, that the Mission Director for the Regional Mission for Europe did so.

The ENI project officer stated ENI always intended to place the funds generated from the fertilizer auctions<sup>10</sup> in an interest-bearing account after the use for it was decided. However, for over two years the use of the funds had not been determined, and for almost two years the funds remained in a non-interest-bearing account. While the ENI project officer acknowledged that it has taken much longer than expected to place the funds in an interest-bearing account, he also believed that the Memorandum of Agreement<sup>11</sup> between the USAID and the GOA is ENI's "written determination" to defer the use of an interest-bearing account. However, as the project

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<sup>10</sup> Truck freight revenues had been deposited into an interest-bearing account but they comprise only one-half of one percent of the local currency generated.

<sup>11</sup> The agreement, signed March 23, 1992, clarified the roles and responsibilities of both parties and IFDC with regard to program activities.

officer also pointed out, the issue of using or not using an interest-bearing account is not mentioned anywhere in the Memorandum of Agreement. For the Memorandum of Agreement to be a valid "written determination" in support of not using an interest-bearing account, we believe that the agreement should specifically state that an interest-bearing account would not be used, and be supported by a sound, documented rationale. Thus, this document does not meet the criteria.

USAID/Albania and IFDC/Albania officials also stated that it was GOA policy not to pay interest on accounts to which the GOA had no access. We were unable to independently verify this GOA policy, and neither USAID/Albania nor IFDC/Albania could provide us any official documentation supporting this contention.

Had the receipts from the sales of the 30,000 metric tons of fertilizer been placed in an interest-bearing account similar to the account for truck freight revenues,<sup>12</sup> we estimate an additional \$78,000 could have been generated for the program. In addition, to better control all USAID local currency generations, the proceeds related to truck freight revenues and sales should be consolidated with the fertilizer proceeds in a single interest-bearing account.

#### **Local Currency Should Be Programmed and Used**

There is about \$1.9 million in local currency from the sales of fertilizer available for use. Of the \$1.9 million, almost \$1.0 million has lain idle since September 1992. USAID's Financial Management Bulletin No. 2 and Policy Determination No. 18 both urge that local currency be programmed and used promptly.

According to the ENI project officer, on April 25, 1994, the Albanian Council of Ministers approved the use of local currency for implementation of a property registration system and rehabilitation of the national irrigation system. The project office also noted that the property registration effort is expected to start as soon as acceptable accounting procedures are established, but the irrigation program requires further discussion as it is not among those activities to be supported by another ENI project—Support for Agriculture Restructuring in Albania (SARA). SARA has been identified as the recipient of the local currency generated by the Albania Agricultural Development Program. The project officer planned to visit Albania to resolve programming issues related to irrigation.

An agreement between the United States and the GOA concerning the use of the local currency had not been reached until April 1994. Prior to the agreement, USAID/Albania and IFDC/Albania recognized that the local currency was idle and submitted formal proposals to ENI for interim uses on June 25, 1992 and June 1, 1993. The 1993 proposal sought to employ about 65 percent of the local currency then on deposit for a credit program to entice dealers to purchase the 1993 production of domestically produced urea fertilizer for use during the 1994 crop season. The purpose of the proposal was to help the local fertilizer factories continue

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<sup>12</sup> Truck freight revenues were earning 3 percent annual interest compounded quarterly.

operations during a slow period, thus increasing the amount of fertilizer available for the 1994 season. The USAID/Albania Representative stated that the funds for the credit program would not be commingled with any other funds so that accountability could be assured. According to the ENI project officer, this proposal was rejected because it was off-budget and increased credit which was contrary to the macro-stabilization objectives. However, the Program Memorandum states that the local currency can be used for capitalization of credit lines through the commercial banking system for short and medium-term credits in support of fertilizer dealers. In addition to being rejected for the aforementioned reasons, the project officer noted that both proposals also were rejected, in part, because ENI had already determined that the local currency would be used to support the SARA project.

We believe that interim uses for the funds should have been sought to maximize the value of the local currency. The account had been accumulating funds since April 1992 but was not earning interest while inflation had risen 30.9 percent in 1993. In January 1994, almost two years after the first deposit of local currency, ENI formally proposed that the local currency be used as the GOA's contribution to the Land Tenure Center under the SARA project.

To recap, as a result of optimistic assumptions the amount of local currency produced will be \$7 million less than expected. Additional local currency also was not generated because the fertilizer sale proceeds were not deposited into an interest-bearing account for two-years. Further, no interim uses were found for the local currency, which could have generated a tangible benefit for the Albania program and offset to some extent the diminishing value of the funds because of the country's relatively high rate of inflation.

#### Management Comments and Our Evaluation

Management agreed with the finding and was in the process of implementing all three parts of the recommendation. We consider the actions that management indicates it is undertaking as sufficient to consider all parts of the recommendation resolved.

In attempting to implement part No. 1.1 of recommendation, management stated that no bids were made during the first two auctions of trucks and it is now considering another option in addition to continuing with auctions. Management noted that the sales were probably inhibited by two factors: (1) less demand for the trucks due to the greater availability of in-country transportation, and (2) the Albanian banks not providing credit for the purchase of trucks. The first auction had a floor price of \$14,000 per truck and offered five trucks. The second auction also offered five trucks, but lowered the floor price to \$10,700. A third auction is planned which will have no floor price but reserve the right to reject any and all bids. The banks have indicated that they will allow their branches to provide loans to purchase trucks. If the auction does not produce reasonable bids, management said that it will consider using some trucks as grants-in-aid to the fertilizer factories. We appreciate the problems that management is having in selling the trucks, and encourage it to consider all available legal options to maximizing the benefits of these trucks to Albania to include selling the trucks to appropriate buyers outside of Albania. An IFDC employee working on a similar USAID program in Romania recently told us that there may be a demand for the trucks in Romania. This part of the recommendation can be closed when we are provided with evidence that the trucks have been appropriately disposed of and the sale proceeds deposited into the project's local currency account.

In regard to part No. 1.2, management said it was reconciling the account from truck freight revenues and will transfer these funds to the interest-bearing, local currency account. We can close part two of the recommendation upon receipt of documentation to support that all truck freight revenues have been deposited into the consolidated local currency account.

Concerning part No. 1.3, management also said it was taking steps to resolve the two remaining issues related to the joint programming of the local currency. For the first issue, USAID is in the process of determining that the Government of Albania's Project Management Unit meets USAID's second level accountability standards. For the second issue, assuming that USAID agrees with both programming options and the ENI Controller's attestation for one or both options, then the Government of Albania will countersign a Project Implementation Letter confirming its agreement with the use of funds. We consider this part resolved and we can close it upon receipt of a copy of the attestation of the acceptability of Project Management Unit's accounting system and a copy of the Project Implementation Letter signed by the Government of Albania.

### **Deobligate and Reprogram Unliquidated Obligations**

The unliquidated obligations related to the expired grants should be deobligated and reprogrammed in accordance with USAID financial management procedures.

**Recommendation No. 2: We recommend that the Bureau for Europe and the New Independent States take action to deobligate unliquidated obligations related to expired grants, and where possible, reprogram the funds.**

According to USAID's Financial Accounting and Control System report of March 31, 1994, obligations of almost \$3 million were unliquidated. Of this amount, \$790,000 related to two of the commodity grants (Nos. 180-0024-G-00-2002 and -2003) and almost \$2.2 million related to the technical assistance grant. While the commodity grants expired in March 1993, the ENI project officer advised us the technical assistance grant, which was to expire in June 1994, has been extended through December 1994.

According to USAID Handbook No. 19 on Financial Management, unliquidated obligations must be promptly deobligated when the grant expires. Under certain circumstances the deobligated funds can be reprogrammed for other purposes. The unliquidated obligations related to the expired grants should be deobligated and, if possible, reprogrammed.

### **Management Comments and Our Evaluation**

Management agrees with the finding and is completing closeout reports for the commodity grants. Management noted that the technical assistance grant has been extended through December 1994 and its unliquidated obligations are still needed. According to management's comments, only one of the two grants (No. 180-0046-G-00-2002) had an outstanding unliquidated obligation and that the entire balance of \$767,335 would be deobligated and then be reprogrammed to support IFDC's technical assistance efforts to assist the Government of Albania restructure the fertilizer sector. We consider this recommendation resolved and we will

close it when we receive evidence that the commodity grants have been closed out, their unliquidated obligations reprogrammed, and the technical assistance grant has been extended.

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**Did the outputs contribute to achieving the Albania Agricultural Development Program goals of alleviating a fertilizer shortage and restructuring the entire Albania fertilizer supply system?**

The outputs, as discussed under the previous objective, did contribute to alleviating a fertilizer shortage in 1992, developing an open-market system, and restructuring Albania's fertilizer supply system, although the extent of that contribution is unclear. In addition, it is questionable whether the achievements related to restructuring Albania's fertilizer supply system are sustainable.

**ENI Needs to Clarify and Measure Progress  
Toward Achieving Program Objective:**

The Regional Mission for Europe's Mission Order No. 503 and USAID Handbook 3 require program managers to provide specific performance factors and time frames so progress can be measured toward achieving objectives and their impact on program goals. Some of the restructuring grant's objectives were not clear and there was no system for measuring grant progress or impact. As a result, it is unclear whether or to what extent the restructuring grant has achieved its overall objective of restructuring the entire fertilizer system in Albania.

**Recommendation No. 3: We recommend that the Bureau for Europe and the New Independent States establish an appropriate system to measure the contribution of accomplishments under the restructuring grant to achieve the overall restructuring objective in Albania.**

The Regional Mission for Europe, which was merged into ENI and provided procedural guidance for this project, issued Mission Order No. 503 to formally modify USAID procedures which they were then operating under. Mission Order No. 503 states that the Program Description for every Project Implementation Order/Technical Services (PIO/T) describe the specific performance factors and time frames against which the grantee's progress can be measured. The Regional Mission for Europe adapted its Mission Order No. 503 from USAID Handbook 3 which "links evaluation to design and requires that project designs provide a basis for the assessment of performance."

We found that the restructuring grant had few, clearly quantifiable indicators to measure IFDC's progress in meeting the grant's goals. A few of the grant's requirements had quantifiable indicators, such as the requirement to perform technical evaluations on the two domestic fertilizer factories. Most other requirements were not as clear, such as the first sub-task which states:

Assess, design, and promote responsive and cost effective agri-input distribution, with interventions that focus on private sector-driven, open-market economies assuring the element of competition, a market information system (MIS),

dealer/distribution/importer education, deregulation as required, subsidy elimination, commercial bank development along with viable credit procedures and improved efficiency on crop production.

This sub-task does not clearly state what IFDC is to accomplish, nor does it clearly identify how tasks should be measured to determine whether they have been successfully accomplished.

The Chief-of-Party, IFDC/Albania, stated that he redefined the grant's objectives in the quarterly progress reports to ENI so that he could better show what was being accomplished. In the first quarterly performance report, some long-term objectives were identified along with short-term goals against which long-term progress could be measured. For example, one of IFDC's long-term objectives was to develop and institutionalize a marketing information system for agricultural inputs and establish linkages to the private sector. IFDC then stated four short-term objectives which would accomplish the long-term objective. Each report thereafter kept the long-term objective but modified the short-term objectives. While IFDC's effort at quantifying redefined objectives is commendable, their redefined objectives are not clearly linked to the grant's objectives. Thus, it is not clear whether IFDC's redefined objectives will accomplish the objectives of the grant.

In addition, USAID/Albania had no formal monitoring plan to assess whether IFDC was accomplishing the objectives of the technical assistance grant. The ENI project officer stated that he also had no written monitoring plan to evaluate IFDC's performance and progress in meeting technical assistance grant objectives. Per the project officer, the design of the Agricultural Development Program recognized that IFDC might not be able to accomplish all of the grant's goals by June 1994, the end of the grant. The project officer also noted that they had hoped to have an evaluation team review whether the program objectives had been met and if they were sustainable. Current plans call for the interim evaluation to begin around July or August 1994.

Because the restructuring grant had few quantifiable indicators and, again according to the project officer, an expectation that some unspecified program components might not be achieved, ENI could not measure with any real certainty that the outputs from the grant were achieving the restructuring program's goals. While IFDC redefined the grant's objectives, it is not clear that progress toward these redefinitions would achieve the program's goals. For the planned evaluation to provide ENI with meaningful data concerning the program's progress, ENI needs to establish an appropriate system to measure the contribution of the achievements towards the overall restructuring effort.

#### Management Comments and Our Evaluation

Management agrees with the finding and recommendation and proposed using an industrial organization model to measure the contribution of the restructuring grant's accomplishments to the overall agricultural objective in Albania. Management stated that this model was commonly used by U.S. economists to examine economic structure, conduct, and performance at the market level. Management proposed to include this model in the statement of work for an evaluation of the achievements made in restructuring the fertilizer manufacturing industry, the fertilizer importing and wholesaling industry, and the fertilizer retailing industry. Based on their response,

we consider the recommendation resolved. We will close the recommendation when we are provided with evidence that scope of work has been incorporated into the contract for the evaluation.

**ENI Needs to Ensure That  
Key Activities Are Sustainable**

The purpose of the restructuring technical assistance grant was to support the Government of Albania's restructuring of the entire fertilizer supply system. To be successful, results of the restructuring program have to be sustainable. However, we found that some achievements under the grant will not be sustained. This situation is due to factors within and outside of ENI's span of control. The combination of not establishing clear and quantifiable indicators and not budgeting sufficient time to accomplish the program's objectives created the possibility that some program activities will not be sustained after program funding ends. As a result, it is quite possible that USAID's investment in these efforts will have less of a long-term impact than planned.

**Recommendation No. 4: We recommend that the Bureau for Europe and the New Independent States evaluate and prioritize the restructuring program's goals in terms of what is reasonably sustainable by the end of the grant, and direct the International Fertilizer Development Center's remaining efforts toward these activities.**

The purpose of IFDC's grant for technical assistance is to provide "support to the Government of Albania's program to restructure the entire fertilizer supply system (production, marketing/distribution, and importation) in Albania." The goal, according to the cover letter to the grant award, is to transform the fertilizer subsector and integrate it with the world fertilizer market. Attachment 2 to the grant notes that its purpose is to develop the capabilities of fertilizer wholesalers and retailers in Albania to operate efficiently and effectively through open-market competition and in an environmentally sound manner.

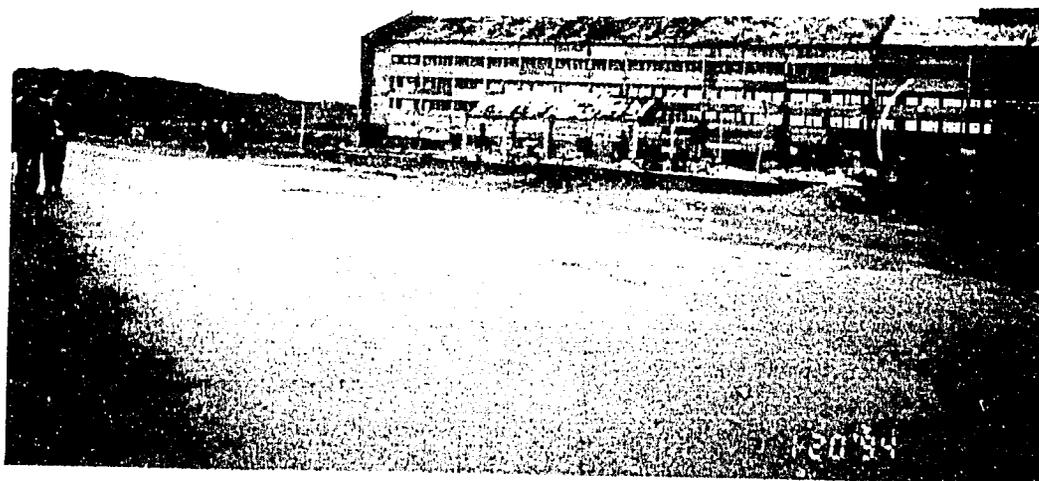
We interviewed several fertilizer dealers, IFDC/Albania officials, and Albanian bankers concerning the sustainability of the IFDC's various efforts. We have also observed the interaction between IFDC and the dealers association, and we witnessed some of the events leading to the dealers contracting to import fertilizer. Based on these interviews and observations, we are concerned that IFDC's efforts to restructure the entire Albanian Fertilizer supply system may not be fully sustainable at the end of IFDC's grant (December 31, 1994) or at the Program Assistance Completion Date (September 30, 1995).

We believe the fertilizer dealers rely extensively on IFDC to solve many of their problems, such as importing fertilizer, getting factual and timely agribusiness information; and negotiating deals with domestic fertilizer factories and Albanian banks. For example, the recent importation contract awarded by fertilizer dealers was their first, but they could not have managed it without IFDC's intervention. It appears that the dealers do not have a reasonable or firm grasp of what is required to successfully import fertilizer without the intervention of specialists, such as IFDC was able to provide. The importation effort also demonstrated the fractious nature of the membership which could lead to a splintering of the association. As only five dealers were

allowed to participate as principals in the importation, several of the "excluded" dealers expressed their distrust and contempt for the principals, both during interviews with the auditors and during an open meeting of the association about the then-impending deal. It appears that only their respect for what IFDC can do for them has kept the association from fracturing into several less effective groups.

There also are conditions outside the direct control of IFDC and ENI that could impede further development of the entire fertilizer supply system. For example:

- The International Monetary Fund is requiring the GOA to tighten its credit policies which will likely retard the credit programs initiated by IFDC, and make it more difficult for dealers to buy fertilizer or the 10-ton trucks.
- The GOA or factory management may not follow the recommendations identified in the evaluations of the domestic fertilizer factories. These include decisions on diverting additional natural gas to the Fier fertilizer factory or to the national energy organization, and on closing the Lac fertilizer factory because it is considered inefficient and environmentally unsound.



Lac factory with exposed raw materials (January 1994)

As mentioned earlier, we found that the restructuring grant had few quantifiable indicators. In addition, the grant was to be completed originally within 18 months. We believe that the combination of a lack of quantifiable indicators and the short time frame for accomplishing all the objectives is the major factor which will lead to non-sustainability of the program. For instance, only a few dealers have participated in the only attempt at a commercial import, one of the goals of the program. However, IFDC, and not these dealers, actually did the work related to the import. The dealers, while exposed to the importation process, may not be competent enough to manage the next commercial import of fertilizer. Nonetheless, the grant does not provide a quantifiable indicator related to sustainability and the dealers need more exposure before they can manage an importation with minimal outside assistance.

According to the ENI project officer, sustainability issues will be addressed by the interim evaluation which will recommend reasonable targets regarding further structural change which will assure acceptable conduct and lead to sustained improvements. He also noted that the interim evaluation would make recommendations about the relative effectiveness of IFDC's efforts and identify where those efforts should be focused. While the grant is scheduled to end on December 31, 1994, ENI is considering extending IFDC's efforts through the Program Assistance Completion Date of September 30, 1995. According to the ENI project officer, the efforts will address, in part, those sustainability issues we brought to the Bureau's attention and will help it determine where to focus IFDC's remaining efforts.

We did not attempt to determine whether the objectives of the grant would be sustainable by the end of the grant period. However, there are indications, as expressed above, that some activities started by IFDC cannot or will not be sustained after December 1994. These included, but are not limited to: the dealers' association, the monthly newsletter, the closure of the Lac factory, and the use of the additional natural gas for the Fier factory. Because of these uncertainties, ENI needs to prioritize and evaluate the restructuring program's goals in terms of what is reasonably sustainable by the end of the grant and direct IFDC's efforts toward these activities.

#### Management Comments and Our Evaluation

Management concurred with our recommendation and is taking action to implement it. Based on its response, we consider the recommendation resolved and we can close it upon receipt of evidence that an evaluation has been conducted, the sustainable activities have been prioritized and IFDC has been directed to work toward making the prioritized activities sustainable. While management agreed with our recommendation, it believes that we have understated the project's impact. In its response, management noted that the Albanian agriculture sector, with about 14 percent growth was one of three sectors that led the country's growth in 1993 and USAID's assistance was the single most important external support for the agricultural sector. Management further claims that the project developed a network of knowledgeable, private sector fertilizer dealers who are successfully meeting farmers' demand through domestic and international procurement of inputs. However, as noted above, management did not establish quantifiable indicators to measure progress, and there are issues outside of management's control which could negatively impact the program. The evidence gathered during the audit indicates that the fertilizer dealers are learning, but at this stage in their development cannot be considered capable of making material and sustainable contributions without substantial outside assistance.

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## SCOPE AND METHODOLOGY

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### Scope

We audited the five USAID grants awarded to IFDC in accordance with generally accepted government auditing standards. These five grants, financed under Project Nos. 180-0024 and 180-0046, cover the period from December 6, 1991, through December 31, 1994 and encompass ENI's Albania Agricultural Development Program. We conducted the audit from November 15, 1993, through May 26, 1994. We performed our field work in the Office of the USAID Representative in Albania (USAID/Albania) and IFDC's office in Albania (IFDC/Albania). Our field work included site visits to 6 of Albania's 36 districts to interview fertilizer dealers, farmers, and bankers who worked in the following eight districts: Shkodra, Lezha, Kruja, Tirana, Kavaja, Lushnja, Fier, and Elbasan. The selection of the six districts was determined on a judgmental basis. In addition, we visited the Albanian fertilizer factory in the city of Fier to inventory and examine 24 of the thirty 10-ton trucks. We also visited the storage warehouse compound outside of Tirana to inventory, on a judgmental basis, the spare parts and tools that were brought into Albania with the 10-ton trucks. While at the compound, we also examined the two 10-ton trucks which were destroyed in driving accidents.

According to USAID's Financial Accounting and Control System report (unaudited), as of March 31, 1994, USAID authorized and obligated \$17,166,530, and disbursed \$14,202,481 for the five IFDC grants. As noted earlier, IFDC was still accruing expenses related to the storage and maintenance of the 10-ton trucks. An issue of whether these expenses are being charged against the appropriate grant is being considered separately from this audit. We also reviewed expenditures that IFDC/Albania controlled, which were incurred under the Technical Assistance Grant (180-0046-G-00-2491) from January 1, 1993 through October 30, 1993. We did not review any financial records maintained at IFDC's headquarters in Muscle Shoals, Alabama. IFDC headquarters maintained the records for about 97.5 percent of all funds disbursed and IFDC/Albania controlled the remainder which amounted to \$340,000.

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### Methodology

We reviewed USAID project documentation, such as the grants to IFDC and the Memorandum of Agreement between the United States and Albania, to determine if the design and objectives of the implementing documents were consistent with those established in the Program Memorandum for the Albania Agricultural Development Program. We used USAID's Financial Management Bulletin No. 2 and Policy Determination No. 18 to establish criteria for the use of

local currency. We also reviewed IFDC's: progress and special reports to ENI about activities such as the urea auctions, use of 10-ton trucks, and fertilizer conditions in Albania; documents related to the importation of fertilizer and trucks including source and origin documents; banking and reconciliation records for the fertilizer sales and truck rental proceeds; and records on training programs offered. We also reviewed IFDC's internal controls over locally controlled expenditures; local currency generations; auction procedures; and storage and use of 10-ton trucks, spare parts and tools.

Besides reviewing documentation to gain a better understanding of the program and determine its current status, we interviewed:

- the USAID Representative to Albania and the USAID/Albania Agriculture Specialist who have on-site responsibility for the program;
- the Washington-based ENI Project Officer who has primary responsibility for this program;
- the Chief-of-Party, the Marketing Specialist, and the Finance/Credit Director who conducted the program in Albania;
- five bankers from regional offices of the Rural Commercial Bank;
- 35 fertilizer dealers and farmers;
- the Washington-based ENI Project Officer for USAID's Support for Agricultural Restructuring in Albania program and the Grantee's Project Coordinator (this interview related to the intended use of the local currency which was generated from the Agricultural Development Program); and
- the Vice-Minister of Agriculture, Government of Albania.

During our interviews with the bankers, fertilizer dealers, and farmers, we were assisted by IFDC interpreters .

For our financial review of IFDC's locally-paid expenditures in Albania, we examined a judgmental sample of source documents for expenditures over \$500 incurred from January 1, 1993 through October 30, 1993. Our sample was \$172,200 or 51 percent of the grant's approximately \$340,000 total expenditures for this period. We reviewed these documents to determine if locally-paid expenditures had source documents and were properly classified, authorized and recorded in the proper period.

**SCHEDULE OF GRANT  
TIMEFRAMES, OBLIGATIONS  
AND EXPENDITURES**

Obligations and Expenditures  
According to the Financial Accounting and Control System Report  
of March 31, 1994  
(Unaudited)

Grant No.	Description	Start Date	Ending Date	Obligations	Expenditures
2235	Initial TA	12/6/91	4/4/92	\$ 200,000	\$ 200,000
2001	Emergency TA	* 3/6/92	3/23/93	\$ 1,700,000	\$ 1,700,000
2002	Trucks	* 3/23/92	3/23/93	\$ 2,250,000	\$ 1,485,221
2003	Fertilizer	* 3/23/92	3/23/93	\$ 8,700,000	\$ 8,674,418
2491	Restructure TA	** 1/1/93	12/31/94	\$ 4,316,530	\$ 2,142,842
<b>TOTAL</b>				<b>\$ 17,166,530</b>	<b>\$ 14,202,481</b>

Footnotes & Abbreviation:

- \* = For grants 2001, 2002 and 2003, locally-paid expenditures were still accruing after grant ending date.
- \*\* = The grant was signed April 9, 1993, but allowed costs from January 1, 1993.
- TA = Technical Assistance

Note: According to management's comments of August 31, 1994, only grant #2002 has an unliquidated balance which was \$767,335.

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**SUMMARY OF INTERNATIONAL  
FERTILIZER DEVELOPMENT  
CENTER GRANTS**

**INITIAL TECHNICAL ASSISTANCE — Grant No. 180-0024-G-00-2235**

- This was the preliminary grant to IFDC to provide assistance related to improving the fertilizer situation in Albania.

**EMERGENCY ASSISTANCE (three grants)**

**Emergency Technical Assistance — Grant No. 180-0024-G-00-2001**

The objective of this grant to IFDC is to assist the Government of Albania (GOA) to implement an emergency program of fertilizer imports and distribution by open market auction. This grant was to:

- procure and transport up to 50,000 metric tons of fertilizer and 30 trucks from the United States to Albania;
- introduce a fertilizer management information system to track sales and utilization patterns by district, crop and farm type;
- conduct a fertilizer dealer development training program to address fertilizer distribution and sales activities; and
- manage the open-market auctions and truck operations during this emergency fertilizer program.

**Trucks — Grant No. 180-0046-G-00-2002**

The purpose of this particular grant was to remove immediate, in-country constraints to transportation of the fertilizer being imported. This grant was to:

- use the 30 imported trucks to form a basic transportation pool under the control of the IFDC; and in addition to import movements,
- transport fertilizer from:
  - the main port to the districts;
  - the domestic factories to the districts;
  - coastal ships in the minor ports; and
  - other urgent movements where local transport was inadequate.

**Fertilizer — Grant No. 180-0046-G-00-2003**

The purpose of this program was to make available essential fertilizers to Albanian agriculture by importing up to 50,000 metric tons and auctioning the commodity in appropriate-sized lots to private Albanian dealers for resale to private farmers. All proceeds from auctions of the fertilizer, rental of trucks and final sale of trucks were to be deposited in a separate, restricted-access account at the State Bank of Albania to be jointly programmed by USAID and the Government of Albania. IFDC's responsibilities included:

- arranging for purchase and shipment of the fertilizer in the U.S.,
- taking title and receiving the commodities in Albania,
- storing the fertilizer as necessary,
- conducting auctions of the commodities, and
- monitoring the distribution, resale, and final use of the fertilizers.

**RESTRUCTURING TECHNICAL ASSISTANCE — Grant No. 180-0046-G-00-2491**

The purpose of this Grant is to fund the IFDC's support to the GOA's program to restructure the entire fertilizer supply system (production, marketing and distribution, and importation) in Albania. In particular, its purpose is to develop the capability of private-sector wholesale and retail dealers in agricultural inputs in Albania to operate efficiently and effectively through open-market competition and in an environmentally sound manner. The focus of the technical assistance activities was to be on policy adjustments, strategy definition, and strategy implementation. The areas to be covered by this grant included:

- privatization of agricultural inputs and marketing systems,
- development of a fertilizer-supply strategy, and
- development of an economically and environmentally sound production system.

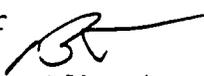


U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

APPENDIX IV  
Page 1 of 8

**MEMORANDUM**

**TO:** RIG/A/BONN, John Competello

**FROM:** ENI/DAA, Barbara Turner 

**SUBJECT:** Draft Audit Report of the Albania Agricultural Development Program (Project Nos. 180-0046 and 180-0024)

We have completed our review of the subject draft report and appreciate the opportunity to comment. We agree with the recommendations that have been made, and actions are underway that fully respond to each of them. Below we describe these actions in relation to your recommendations and believe that our actions are sufficient to resolve all recommendations and close one of the four recommendations. We conclude our response with comments on the draft report which you may wish to consider to further clarify the report and its findings.

However, prior to the discussion of our specific response, I would like to make a general comment regarding the audit finding per the second objective; "Did the outputs contribute to achieving the Albania Agricultural Development Program goals of alleviating a fertilizer shortage and restructuring the Albania fertilizer supply system?" In this context, let me share with you the partial text of a statement regarding the project that was sent by the ENI Bureau to Administrator Atwood and selected members of congress in response to a request for information on the USAID activities in Albania.

" Albania's GDP grew by an astounding 10-11% in real terms in 1993 according to a March 10, 1994 IMF estimate. Agriculture, transport and construction led the way, with agricultural growth estimated at 14-15%. Agriculture constitutes over half of Albania's economy. Nearly all growth has been in the private sector.

Our assistance was the single most important external support of the tough GOA agriculture reform program which brought about these results. Since 1991 we have provided \$15 million worth of agriculture technical assistance and fertilizer. This program privatized the supply and distribution of agricultural inputs while providing essential fertilizer precisely when it was needed to achieve the growth in crop yields. No other donor came close to the U.S. in terms of our program's size and influence. As a result of our effort, a network of knowledgeable, private sector fertilizer dealers now exist who are successfully meeting farmers' demand through domestic and international procurement of inputs."

In contrast to this statement regarding the project's impact to date, the draft audit report, after listing fourteen planned outputs that were achieved on pages 4, 5 and 6, provides this rather cursory summary paragraph regarding impact to date on page 15.

"The outputs did contribute to alleviating a fertilizer shortage in 1992, developing an open-market system, and restructuring Albania's fertilizer supply system, although the extent of that contribution is unclear. In addition, it is questionable whether the achievements related to the restructuring Albania's fertilizer supply system are sustainable."

I would hope that the final report could reflect a more positive sense of the project's achievement than as currently drafted.

#### COMMENTS ON THE RECOMMENDATIONS

Recommendation No. 1: We recommend that the Bureau for Europe and the New Independent States take action to:

1.1 sell the trucks and spare parts and deposit the sales receipts into the recently consolidated local currency account;

We agree and believe that ENI has taken action which will result in initial truck sales and deposit of the sales receipts during September 1994. ENI actions that have been taken to date and will lead to the September sales are as follows.

The International Fertilizer Development Center (IFDC) plan to sell the trucks was completed in October 1993 and called for the first auction of five trucks in November 1993. As noted in the audit report, we delayed sales of any of the trucks until it was

clear that they would not be required to move emergency fertilizer imports for the 1993/94 wheat crop due to arrive in March of 1994. In late January, when the decision to cancel the IFDC tender was taken, ENI began a thorough review of the issues involved with the truck sales. In May, a USAID procurement officer visited Albania and reviewed the IFDC proposal and filed a report with several recommendations which were shared with the IFDC. On June 3, 1994, the IFDC requested permission to proceed with the sale of the trucks based on a revised proposal. ENI agreed and the first auction was to be held late June/early July.

Thus far, two open market auctions have been held by the IFDC; the first was held on July 13, 1994, and the second was held on August 2, 1994. In the first auction for five trucks, the IFDC advertised widely for approximately two weeks prior to the auction and included a reservation price of Lek 1.4 million (\$14,000) per truck. Given the substantially increased availability of transportation vehicles (cars and trucks) in Albania, the three state commercial banks would not extend credit to buyers participating in the auction. The IFDC received no bids in the first auction. In the second auction for five trucks, the IFDC again advertised widely but dropped the reservation price to Lek 1.0 million (\$10,700) per truck. Banks had not modified their policy regarding lending for vehicles, and again the IFDC received no bids.

Based on the experience to date, the IFDC is scheduling a third auction with no reservation price but will retain the option to reject any and all bids. The IFDC has also been advised that if regional banks wish to offer credit, the commercial bank headquarters will not object. ENI has encouraged the IFDC to accept any responsive bids, and we are therefore optimistic that the first five trucks will be sold in September. In addition, we are examining the option of grants-in-aid of some trucks to the fertilizer factories if it appears that the depressed state of the market precludes sales of all vehicles at reasonable prices.

ENI will provide to RIG/BONN a copy of the September IFDC auction report for the first five trucks and a copy of the deposit slip of the sale receipts into the consolidated local currency account as evidence that the recommended action has been taken and Recommendation No. 1.1 can be closed.

**1.2 deposit funds generated from the truck rental operations into the consolidated local currency account; and**

We agree and the IFDC is in the process of a final reconciliation of the account. When it is completed, the IFDC will close out the account by transferring all the funds to the interest bearing local currency Account No. 3674 in the Rural Commercial Bank. The IFDC has been delayed in closing out this account as a result of outstanding receivables which recently have been collected.

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ENI will provide a copy of the reconciliation report and a copy of the deposit slip to RIG/BONN as evidence that the recommended action has been taken and Recommendation No. 1.2 can be closed.

**1.3 resolve the problems currently impeding use of local currency generations.**

We agree and steps have been taken to resolve the two remaining issues related to the joint programming of the local currencies in support of Government of Albania counterpart costs in land privatization activities under Component 1 of the SARA project (180-0049). First, upon successful completion of a DCAA pre-award audit of the Project Management Unit (PMU), the ENI Controller will issue an attestation that the PMU meets USAID's second level accountability standards. (The PMU is the independent agency of the Government of Albania charged with the responsibility to implement the Albanian Land Market Action Plan.) In addition to the review of the PMU, the Government has also requested a pre-award audit review to support joint programming of funds to a Ministry of Agriculture and Food irrigation scheme. Second, given that USAID agrees with both programming options and with the attestation by the ENI Controller for one or both options, the Government of Albania will then countersign a SARA Project Implementation Letter confirming its agreement. Local currency funds will then be budgeted and distributed through the newly established Albania budget procedures.

ENI will provide a copy of the Controller's attestation related to USAID's second level accountability requirements and a copy of the countersigned PIL to RIG/BONN as evidence that the recommended action has been taken and that Recommendation No.1.3 can be closed.

**Recommendation No.2: We recommend that the Bureau for Europe and the New Independent States take action to deobligate unliquidated obligations related to expired grants and where possible, reprogram the funds.**

We agree and 'closeout reports for Grant No. 2001, Grant No. 2002 and Grant No. 2003 are currently being completed. Under the truck import grant (Grant No. 2002), \$767,335 of unliquidated obligations will be reprogrammed to support the IFDC as it completes its efforts to assist the Government of Albania restructure the fertilizer sector.

ENI will provide a copies of the three grant closeout reports to RIG/BONN as evidence that the recommended action has been taken and that Recommendation No. 2 can be closed.

**Recommendation No 3:** We recommend that the Bureau for Europe and the New Independent States establish an appropriate system to measure the contribution of the achievements on the overall restructuring effort.

We agree and propose that the "appropriate system" to measure the contribution of the IFDC activities under the various grants and the achievements to date on the overall restructuring effort should be the "industrial organization" model. This model is the analytical paradigm commonly employed by US economists to examine economic structure, conduct and performance at the market level (local, national, regional or global market). The study of industrial organization specifically addresses issues of: industrial structure - including barriers to entry, product differentiation, concentration ratios and growth in demand; industrial conduct - including price policy, product policy and coercive behavior all promoting or restricting competition; and industrial performance - including employment, equity, efficiency, stability and progressiveness. In the case of this project in Albania, we would apply the model to examine achievements made in restructuring the fertilizer manufacturing industry, the fertilizer importing and wholesaling industry, and the fertilizer retailing industry.

This proposed analysis of the industrial organization of Albania's fertilizer sector to generate indicators of progress on economic restructuring is included in the scope of work for the external evaluation being scheduled for the first quarter of FY 95. ENI is attaching a copy of the scope of work as evidence that the recommended action has been taken and that Recommendation No. 3 can be closed upon the issuance of the audit report.

**Recommendation No 4:** We recommend that the Bureau for Europe and the New Independent States evaluate and prioritize the restructuring program's goals in terms of what is reasonably sustainable by the end of the grant, and direct the International Fertilizer Development Center's remaining efforts toward these activities.

We agree and believe that the proposed evaluation will assist USAID, the Government of Albania, and the IFDC to prioritize objectives and direct the remaining resources under the project to those activities viewed as critical to sustaining an open market in fertilizers in Albania. This effort has already begun with the OAR/Tirana revising and updating its overall development strategy and concluding that further support for fertilizer manufacturing was required to stabilize nitrogen fertilizer supplies and continue recovery in the agriculture sector. The Government of Albania agrees with the OAR/Tirana assessment of priorities and has also requested assistance to close down its

phosphate fertilizer plant because of economic and environmental concerns. The IFDC has also reviewed its priorities and has submitted to USAID a proposal to complete the task of restructuring the Albania fertilizer sector on a sustainable basis. Based on these actions, ENI has started the process of programming the final tranche of support to the IFDC. The external evaluation will contribute to refining the design of this final grant to the IFDC in support of restructuring Albania's fertilizer sector.

ENI is attaching a copy of the ENI strategy cable summarizing the result of the strategy review and referencing support to the fertilizer factory, a copy of the IFDC proposal for additional support and, as aforementioned, a copy of the external evaluation scope of work as evidence that the recommended action for ENI to evaluate and prioritize the restructuring program's goals in terms of what is reasonably sustainable by the end of the project and to direct the IFDC's remaining efforts toward these activities has been taken and that Recommendation No. 4 can be closed upon issuance of the evaluation report.

#### SPECIFIC COMMENTS ON THE DRAFT REPORT

Page i, paragraph 1 - The draft report begins by stating that USAID authorized \$19.5 million for use in Albania "to support an emergency commodity import program and to provide technical assistance to restructure that country's fertilizer supply system." This suggests that the program had a dual objective by emphasizing two of the project's three assistance instruments rather than the project's purpose. From the Program Memorandum, "The purpose of the program is to support the restructuring of the Albanian agriculture sector through the provision of technical assistance, commodity assistance and local currency to design and implement policy reforms with special emphasis on the fertilizer production and distribution industry." We recommend that you introduce the project's purpose in the executive summary to avoid any misinterpretation that the commodity import activity was independent of the fertilizer sector restructuring objective.

Page i, line 1 - The ADP-A project (180-0046) is authorized at \$18,000,000. In addition, the RAA project supported a technical assistance grant to address domestic fertilizer production and logistics constraints (Grant No. 2235) at \$200,000 and a technical assistance grant to support the emergency fertilizer import operations (Grant No. 2001) at \$1,700,000. Thus, the level authorized should be cited as \$19.9 million rather than \$19.5 million.

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Page i, line 6 - One technical assistance grant (Grant No. 2001) and two commodity assistance grants (Grant No. 2002 and Grant No. 2003) for a total level of support of \$12,650,000 were directed towards the emergency fertilizer import program rather than \$12.9 million as the draft reports states. Of the two remaining grants, Grant No. 2235 at \$.2 million was directed specifically at removing domestic constraints in fertilizer production and distribution, and Grant No. 2491 at \$4.3 million was directed "... to fund the IFDC's support to the Government of Albania's program to restructure the entire fertilizer supply system (production, marketing/distribution, and importation) in Albania."

Page i, line 16 - The beginning and end dates of only one of the three technical assistance grants is mentioned (Grant No. 2491), and its beginning date was January 1, 1993 rather than March 1993. You may wish to clarify the beginning and end dates of the other two technical assistance grants such that it is clear that technical assistance to the government in restructuring its fertilizer industry was provided throughout the program period. That is, Grant No. 2235 provided for technical assistance for the period December 10, 1991 to April 9, 1992 and Grant No. 2001 provided for technical assistance for the period March 6, 1992 to March 23, 1993.

Page 2, line 5 - We suggest that you add a phrase to the sentence to clarify that the "next three grants" not only financed the emergency commodity import program but also major activities in restructuring the supply system.

Page 2, line 9 - The trucks were never to be rented as auxiliary transport. The trucks were to be operated by the IFDC at full commercial freight rates to supplement the limited transport services available in Albania in early 1992.

Page 2, line 11 - Freight or trucking revenues should replace "truck rentals".

Page 3, para'2 - This discussion suggests that no restructuring assistance was provided by IFDC until Grant No. 2491 began in January 1993. As indicated earlier, such assistance also was provided in Grant No. 2235 beginning in December 1991 and Grant No. 2001 beginning in March 1992. Also, Grant No. 2491 did not expire in June but was extended through December 31, 1994.

Page 6, line 3 - The term rental income should be replaced with freight revenues.

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Page 7, last para - The Program Memorandum proposed to program local currencies into bank credit lines to support the fertilizer sector "as necessary". This was the subject of considerable debate within USAID with some agency economists arguing that there should be no expansion of credit in the economy. They argued that the funds should not be programmed back into the economy or alternatively only programmed at a later date when the economy had stabilized. While this argument was not accepted by USAID, it is not completely without merit. Thus, the draft report may want introduce a caveat that states that except for benefits to the national economy resulting from the funds not being reintroduced into the economy, the local currency generations have provided no benefit to date.

Page 8, line 9 - The word rental should be replaced with freight revenues.

Appendix II, table - Grant No. 2235 was not a design grant as indicated. It was a grant provided to assist the government to address domestic fertilizer production and distribution constraints.

Appendix III, page 1 - Grant No. 2235 should not be listed as a design grant but rather Emergency TA.

Appendix III, page 2 - The first purpose bullet under "trucks" is missing the word "to" in "trucks to form", and the phrase "to import movements" is unclear.

Audit Note: Minor editorial comments have been deleted.

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