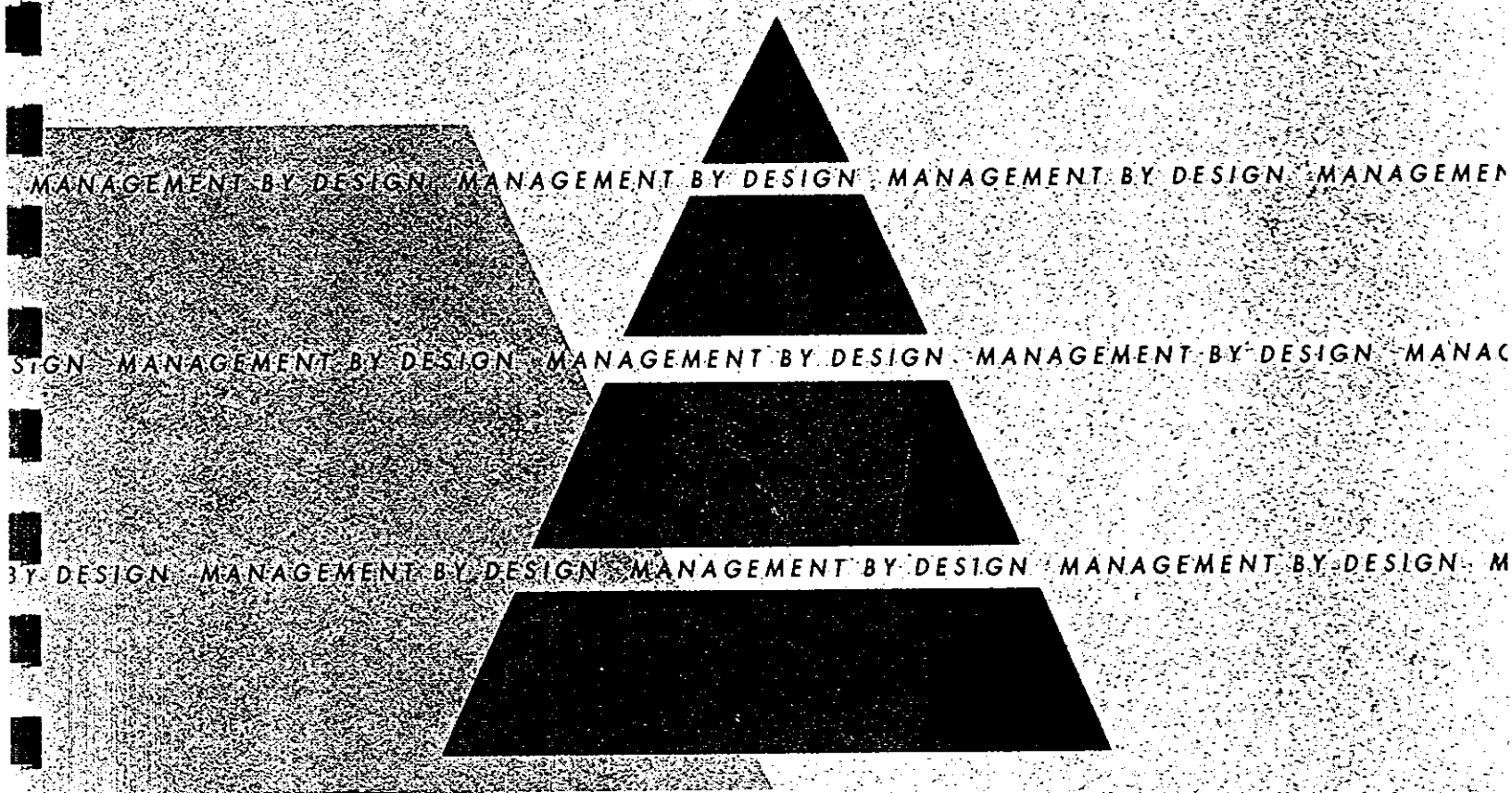
PD-ABX-204
11750

EVALUATION OF USAID/PERU's

PUBLIC LAW 480 TITLE II

FOOD MONETIZATION PROGRAM



Prepared by

Richard Billig and John R. Wolff

PDP
03.P3.
52

February 5, 1993

DATEX INC.

P03.P3
B52

PD-ABX-204

DATEX, Inc.

EVALUATION OF USAID/PERU's PUBLIC LAW 480 TITLE II FOOD MONETIZATION PROGRAM

February 5, 1993

001224

Prepared by

Richard Billig and John R. Wolff

DATEX, INC.
2101 Wilson Boulevard
Suite 100
Arlington, Va. 22201

B

ABBREVIATIONS AND ACRONYMS

A.I.D.	Agency for International Development
AID/W	Agency for International Development, Washington
ADRA	Adventist Development and Relief Agency
AER	Annual Estimate of Requirements
CARE	Cooperative for American Relief Everywhere
Caritas	Relief and Development Agency of the Catholic Church
C & F	Cost and Freight
ENCI	Empresa Nacional de Comercializacion de Insumos
ETA	Estimated Time of Arrival
FFD	The Division of Food for Development within the Office of Food and Agriculture
GOP	Government of Peru
MYOP	Multi-Year Operational Plan
NGO	Non-governmental Organizations
OFA/FFD	Office of Food and Agriculture/Food for Development Division, USAID
PACT	Private Agencies Collaborating Together
PL 480	Public Law 480
PRISMA	Projects in Information, Health, Medicine, and Agriculture
PVO	Private Voluntary Organization
SNI	Sociedad Nacional de Industrias
USAID	U.S. A.I.D. Mission to Peru
USDA	U.S. Department of Agriculture
USDA/PERU	U.S. Department of Agriculture Office in Peru

C

Evaluation of USAID/PERU'S
Public Law 480 Title II
Food Monetization Program

TABLE OF CONTENTS

		Page
Part I	**Introduction**	1
	A. Executive Summary	1
	B. Background	2
	C. Objectives, Scope and Methodology	3
Part II	**Summary of Findings and Recommendations**	4
	A. The Ordering and Delivery of Title II Commodities for Monetization	4
	B. The Sales Mechanism Process	5
	C. The Financial Process	9
	1. Sales Proceeds	9
	2. Disposition of Letters of Credit	10
	3. Fund Transfers	10
	D. Effects of Cash Flow	11
	E. Internal Control Process	12
	1. Sale of Commodities	12
	2. Independent Financial Review	13
	3. Financial Audits of PVOs	14
	F. Reporting Requirements and Monitoring Activities	14
	G. Current Programming Process	15
APPENDICES		
	I. List of Recommendations	19
	II. List of Individuals Interviewed	21
	II. Scope of Work	23

d

I

INTRODUCTION

A. Executive Summary

DATEX, Inc has made a review and evaluation of the U.S. Agency for International Development in Peru (USAID) Public Law 480 (PL 480) Title II Monetization Program using the criteria established by USAID.

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

The evaluation and review of the USAID PL 480 Title II Monetization Program is focused on the current systems for requesting, allocating and monitoring the resources provided under the program, with emphasis on how the program adheres to A.I.D. regulations for local currency and commodity oversight. The evaluation review concentrated on the following seven functional areas:

- The ordering and delivery of Title II commodities for monetization
- The sales mechanism process
- The financial process
- Effects of Cash Flow
- Internal Control Process
- Reporting requirements and monitoring activities
- Current programming process

The USAID PL 480 Title II Monetization Program is accomplishing most of the program goals and objectives, but there is a need for improvement in certain areas. Overall, we found adequate controls and safeguards in the above seven functional areas.

The consultants have identified 10 recommendations for general improvement of the Monetization Program (see text and Appendix I). Most of the recommendations pertain to strengthening internal controls and making structural adjustments to the financial and programming process.

During our review we were afforded full cooperation and assistance from USAID personnel, as well as the management and staff of the participating Private Voluntary Organizations (PVOs). Project management, both at USAID and the PVOs, was responsive to all requests for information in a timely manner.

B. Background

The Monetization Program consists of agricultural commodities donated by the United States Government through its Agency for International Development (AID) under PL 480 Title II to PVOs. The commodities are then sold to generate funds to finance specific mutually agreed-upon projects or to pay the costs of the distribution of commodities donated by the United States Government under the food aid program of PL 480 Title II.

In Peru, the PVOs participating in monetization and food aid are: Cooperative for American Relief Everywhere (CARE), Adventist Development and Relief Agency (ADRA), the national relief and development agency of the catholic church (Caritas) and Projects in Information Systems, Health, Medicine and Agriculture (PRISMA). Presently, the PVO implementing the Monetization Program and the transfer of funds to each of the participating PVOs is CARE.

A.I.D. views Title II donation assistance to projects as interim assistance designed to combat hunger, alleviate malnutrition, improve economic and social development, and/or increase food production and improve its distribution.

The services of the voluntary agencies are to be used to the extent practicable in carrying out these projects. The need to integrate Title II resources with other A.I.D. and development resources in solving priority development problems requires close collaboration between the USAID staff, recipient country and the PVOs. Dialogue between representatives of the PVOs, and the recipient country is a continuing process in the development, approval and implementation of programs.

A major emphasis of A.I.D. policy dealing with Title II is the need for close and continuing attention to program management and control. Since Title II deals with the utilization of expensive and perishable resources, effective program management and control is essential. The requirement of sound program management of commodities provided under Title II applies equally to cooperating sponsors (PVOs) and U.S. government representatives.

Voluntary agencies are required by A.I.D. Regulation 11, Section 211.5(c) (1), to schedule internal reviews at mutually agreed upon intervals and to conduct or arrange to have conducted comprehensive internal reviews or a series of reviews which, when combined, will cover a complete review of their Title II program. While the internal reviews are the responsibility of the Voluntary Agencies, the procedure used to conduct the review, together with a schedule of dates that the reviews will be conducted and submitted, must be approved by the USAID Mission. It is the responsibility of the USAID Mission to see that the requirements of the

internal reviews are fully met by the voluntary agencies, that the internal reviews are conducted and that they cover all areas of the Title II program, and that they show that corrective action has been taken to recommendations made in the reviews.

C. Objectives, Scope and Methodology

The evaluation and review of the USAID PL 480 Title II Monetization Program concentrated on the current systems for requesting, allocating and monitoring the resources provided under the program, with emphasis on how the program adheres to A.I.D. regulations for local currency and commodity oversight. The evaluation review focused on the following seven functional areas:

- The ordering and delivery of Title II commodities for monetization.
- The sales mechanism process
- The financial process
- Effects of Cash Flow
- Internal Control Process
- Reporting requirements and monitoring activities
- Current programming process

The review and evaluation was conducted during the month of January 1993 and included a limited amount of selective sampling of policies, procedures and regulations to test the financial and internal controls. Our testing of these policies, procedures and regulations focused on those that were within FY 1992, in order to determine the soundness of the current systems and procedures. To accomplish the review and evaluation objectives, we visited with the USAID Mission in Peru, as well as, CARE, ADRA, Caritas, Prisma, U.S. Department of Agriculture in Peru (USDA/Peru), Banco de Credito del Peru, Sociedad Nacional de Industrias and the accounting firm of Controles y Estudios.

II

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The USAID Public Law 480 Title II Monetization Program, a joint program carried out by the USAID and the aforementioned PVOs, is accomplishing most of the program goals and objectives but, there is a need for improvement in certain areas. Overall, the consultants found adequate controls and safeguards in the seven functional areas that were focused on during the review.

A. The Ordering and Delivery of Title II Commodities for Monetization

Food commodities in deficit national production in Peru and generally available in the U.S. for Title II monetization abroad include wheat, wheat flour, edible oil, rice and corn.

According to monetization guidelines, the commodities and their quantities are first officially requested by each PVO via its annual estimate of requirements (AER) contained in its Multi-Year Operational Plan (MYOP) or MYOP Annual Update. These requested commodities are then reviewed, approved or adjusted and approved by USAID and the PVO before seeking AID/W approval. In Peru, however, commodity selection and quantities are decided by USAID. This decision is made after a review of each PVO monetization budget by a budget review committee consisting of the USAID offices of Food and Agriculture/Food for Development (OFA/FFD), Program, Controller and Health and the PVO.

In practice, this departure from established procedure functions adequately. However, the consultants feel that since CARE is the implementing agency in the monetization process, it should take the lead--of course in concert with OFA/FFD--in requesting and scheduling the commodities and their quantities to be imported and monetized.

Following OFA/FFD's decision, a letter is sent to CARE indicating the commodities and quantities that CARE will be responsible for importing and selling for the coming fiscal year. This letter is approved by CARE and returned to OFA/FFD. OFA/FFD then requests approval from AID/W.

CARE prepares the calls forward of commodities to be monetized. Calls forward are not necessarily made for each quarter; there may be only two calls forward for the entire fiscal year.

Bellmon issues are generally handled within the FFD monetization proposal for the multi-year period and not, as is customary, via the PVO's MYOP document. Peru's port facilities have

been determined adequate to receive the commodities for monetization. Callao port unloading capacity is about 9,800 metric tons per day and storage is sufficient to warehouse 240,000 metric tons.

Recommendation No. 1

CARE, in conjunction with the Office of Food and Agriculture/Food for Development, should play a more active role in requesting and scheduling the commodities to be imported and monetized.

B. The Sales Mechanism Process

In the case of grains or wheat flour, after commodity selection is made and then approved by AID/W, CARE places advertisements in local newspapers announcing the commodities and quantities to be sold and lets out bid requests to major potential buyers. Over the years this agency has become a knowledgeable seller in the Peruvian grain and edible oil markets.

In 1989, in the early days of monetization in Peru, CARE was obliged to sell its grains through the Empresa Nacional de Comercialización de Insumos (ENCI), the Peruvian parastatal agency responsible for the purchases of all imported grains. ENCI sold the Title II commodities to be monetized to buyers winning competitive bids. Although ENCI was supposed to have charged no commission (only handling costs), the net sales prices obtained by CARE were unsatisfactory and the sales process was extremely slow.

When the use of ENCI was no longer obligatory (1991), CARE began to deal directly with private commodity buyers. The results, according to CARE, are higher net sales prices and a more efficient operation.

In the case of oil, CARE deals with a committee of oil buyers within an association of Peruvian commodity buyers, the Sociedad Nacional de Industrias (SNI). When CARE announces to SNI that a shipment is scheduled to arrive, that organization requests price quotations from suppliers in Argentina, the principal source. This is to assure SNI's associates that they will not pay more than the lowest current market price and/or more than the lowest rate of interest. It is important to remember that neither CARE nor SNI sets the price; the market does. As extra insurance that the lowest price quoted by Argentinean sources truly reflects the market price, before the sale OFA/FFD telephones a source in New York for confirmation. For further protection, the consultants recommend that this source (or perhaps AID/W) be asked to send a telefax acknowledging the current international price for a like quantity. This telefax might be in lieu of the telephone call or in addition to it. The main concern is to be assured that the price obtained from Argentina reflects current market pricing and to have that assurance in writing.

It is possible that if CARE were to deal directly with individual Peruvian oil purchasers,

obviating the SNI, a higher price might be obtained. However, the purchasers are tied by both logic and tradition to SNI; SNI always obtains for them the lowest market price. And this arrangement is satisfactory for CARE as well; CARE is not encumbered by a difficult sales process involving many buyers; SNI handles the sales transactions in an open, transparent manner.

With grain or wheat flour the sale is made on the basis of the outturn report adjusted for actual weight at the point of sale. But only in the case of soya oil sales, and then only certain shipments, is the purchase made in port on arrival (ex-ship's tackle). Usually CARE clears grains and wheat flour from port and delivers them to a CARE warehouse. While still in the possession of CARE, samples are taken by the prospective buyers to ascertain quality. Once satisfied, the buyers consummate the sale. Private guards protect the shipment during this waiting period. Security and interim warehousing cost are paid by CARE with monetization funds.

Although it is a departure from the Monetization Field Manual guidelines, this mechanism appears to function adequately. It does, of course, expose CARE to the danger of being at the mercy of the buyers and is a contributing reason for the delay in monetization cash flow to the PVOs. But when the vessel's ETA varies more than two weeks and the quality of its cargo for monetization cannot be assured, the buyers have no other recourse than to protect themselves and purchase after arrival of the commodities.

In the case of soya oil to be monetized, the cargo can be sold ex-ship's tackle if the shipment arrives on time and the buyers have sufficient warehouse space to accommodate it. However, if arrival is delayed precipitately, the identified buyers may be forced to fill their immediate needs by purchases from Argentinean sources. In those cases--when the oil to be monetized arrives--it is put into the buyers tanks, the tanks are locked and sealed and the sale is delayed until the buyers can use the product. Again this delay in sales causes a corresponding delay in the transfer of monetization funds to the PVOs.

The sales price is dependent upon many factors, the two most critical being timely arrival and product specifications. In the case of rice, if arrival occurs at harvest time it will not only bring a lower than C & F price, but will also incur the displeasure of the host government as it is concerned with protecting its local producers. Conversely, if the product arrives during a time of relative market scarcity, the price obtained will be higher. In the case of oil, if the product is delayed to the extent that the potential buyers have to purchase substitute oil to satisfy immediate needs, tank storage and handling fees will reduce the net price obtained. Also the availability of funds for purchase might be affected by untimely commodity arrivals.

The Government of Peru (GOP) Ministry of Agriculture and USDA/Peru are the official sources of information regarding market projections which would affect the demand for imported Title II commodities to be monetized. But, according to CARE, the information needed is often not timely or complete. The USDA is often influenced by political considerations which conflict with Title II monetization. For example, it is very sensitive to the interests of the rice growers

in the United States and those interests do not always reflect the interests of USAID in monetizing that product. A 1991 shipment of approximately 24,000 metric tons of rice arrived two months after the requested ETA at the height of the local rice harvest. Not only did this delay force a reduced price but the requested specifications were not honored, thus further reducing the price obtained; instead of a high quality grade 2, the rice analysis determined it to be grade 4 or 5, and in some samples taken, no grade was awarded. The reasons for this are complex, but the situation does point to a lack of coordination between AID and USDA, both locally and in Washington.

Recommendation No. 2

Before every monetization, the Office of Food and Agriculture/Food for Development should request from reliable U.S. sources, written confirmation of the current international price of the agricultural commodities in question.

Recommendation No. 3

AID/Washington and USDA, and Office of Food and Agriculture/Food for Development and USDA/Peru should endeavor to achieve closer coordination in matters regarding commodities for monetization.

The reality of the current sales mechanism for grains and wheat flour is that it obfuscates the transparency of the sales transaction, placing the seller in jeopardy of negative criticism. In contracting for commodity sale before arrival, the operation is clean and clear. But when the sale must be made after the commodity arrives in-country, CARE is put at an obvious disadvantage to the benefit of the buyers. The buyers could dictate a price lower than market value which might have to be accepted by CARE in order to move the commodity.

The consultants are not aware of any surfaced criticism in this regard, but the potential danger still exists. CARE, not USAID, would then be the principal target. If, however, the buyers could be assured of timely arrival and that the product specifications detailed in the sales contract would conform to the actual product being shipped, the sales could be made before commodity arrival.

The question of a possible disincentive to local production can be quickly resolved. In the case of wheat or wheat flour, according to USDA/Peru, Peru produces less than ten percent of its annual consumption. Some 1,000,000 metric tons are imported annually. The production potential is limited because of a shortage of tillable land in the mountain areas where wheat is cultivated. About 34 percent of the 205,000 metric tons of edible oil consumed annually in Peru is imported so the relatively small amount of Title II soya oil imported for monetization does not negatively affect local production capabilities. Regarding rice, Peru consumes about 861,000

metric tons annually and imports some 48 percent. With yellow corn, the local production is in the area of 135,000 metric tons with 300,000 metric tons of imports needed to satisfy demand.

It should be noted that OFA/FFD is aware of other donated food commodities (principally Canadian canola oil) to be monetized and takes this into consideration in preparing the Bellmon analysis.

The present sales mechanism, whereby one PVO (CARE) among the four participating in the monetization program, imports and sells all Title II commodities to be monetized, appears to be the most logical and least expensive system to be applied. Other alternatives probably would not be any more cost effective and would not reduce marketing difficulties.

Sales Mechanism Alternatives for Consideration:

The contracting by USAID of a private sector entity. This would undoubtedly result in a higher cost than that currently charged by CARE for its monetization efforts. For FY 1992, CARE began to apply a fee of $100,000 (payable in monetization funds). This represented .57 percent of the monetized value of the commodities. Even though CARE is now requesting a fixed percentage of 1.5 percent of the monetized value, a private entity probably would not take on the job for less than three percent. And it is doubtful that a private firm could accomplish the task as well as CARE, given CARE's dedication to integrity and its vested interest as a beneficiary of the monetization proceeds.

Sales by each PVO for its own programmatic needs. A number of problems arise in considering this alternative: 1) the fee would probably be no lower than CARE charges or proposes to charge. 2) the agencies would be competing with each other for market share. 3) it is doubtful whether the other agencies have the monetizing capability or, with some, that they would want to take on the job. 4) a doubt may exist as to the legality of a local PVO such as Caritas or Prisma monetizing Title II commodities.

Direct sales by USAID. It is not considered within the province of USAID to involve itself in direct sales of Title II commodities except in cases of emergency. If this restriction were waived, this alternative might be acceptable provided additional personnel could be contracted. CARE's time might be better spent exclusively tending to its development and feeding activities. The USAID time spent in monitoring CARE's commodity monetization could be devoted to monetization implementation. However, the workload of OFA/FFD personnel appears already excessive and taking on the monetization task would certainly require more staff, something presently prohibited by budgetary limitations.

Appointing another one of the concerned PVOs as sole sales agent. This alternative can be quickly dismissed because of the relative lack of experience or capability of the other PVOs. Again, the authority of a local PVO such as Caritas or Prisma to legally monetize Title II commodities might be questioned. This alternative would, in any case, merely substitute the use

of an unknown entity for CARE, now considered by USAID and the other PVOs as doing a good job at monetization.

Appointing an "outside" PVO to handle monetization. This alternative has already been chosen. Beginning in 1994 or 1995, Private Agencies Collaborating Together (PACT) will be the entity in charge. There is concern among some of the food-aid PVOs that PACT might not possess the required expertise to undertake monetization. This possible shortcoming can be resolved by PACT through the hiring of a monetization expert. Developing a feeling for the Peruvian grain and oil markets, however, will take some time and will require initial assistance from OFA/FFD and CARE.

As indicated earlier, among the alternatives described, the consultants lean towards the status quo, that is, that CARE remain the monetizing agent. The possibility is academic, however, as USAID has awarded a six-year Cooperative Agreement (the PVO Support Project) to PACT to both act as monetizing and USAID monitoring agent for the four food-aid PVOs.

PACT's role as a monitoring agent will involve the investigation and approval of various projects for AID funding presented by local non-governmental organizations (NGOs) and the four food-aid PVOs. PACT will also provide technical assistance to strengthen project coordination among the NGOs and PVOs. One of the objectives of the PVO Support Grant is to reduce USAID's workload in monitoring the monetization component of Title II commodities. PACT will act as monetization management coordinator between USAID and the four PVOs now receiving monetization proceeds, besides taking over CARE's role as monetizing agent.

Some of the PVOs interviewed expressed concern that bringing in another PVO to monetize and monitor activities will further bureaucratize the sales, funds transfer and reporting process. The consultants appreciate this point of view but feel that the promise of reducing the USAID workload by utilizing a monitoring and monetizing agent outweighs the concern of encumbering the bureaucratic process and that the use of a project coordinating agent could actually streamline the reporting process.

C. The Financial Process

The financial process applicable to the PL 480 Monetization Program is rather complex because of the number of organizations and individuals involved in the program. However, considering the lack of banking liquidity in Peru the process is functioning quite well.

1. Sales Proceeds

The most important aspect of the entire process is the selling of commodities furnished by the U. S. Government. When a grain sale is finalized, and approved by the OFA/FFD, the buyer will normally pay 10-20 percent of the sale price in cash, with the balance in the form of an interest bearing letter of credit (promissory note) guaranteed by a warranty letter. Oil sales are

usually totally financed by credit terms.

It would be more beneficial for the programs being funded by the sales proceeds if the entire amount of proceeds were paid in cash. However, according to the USDA/Peru, the use of letters of credit is customary for Peruvian buyers importing U.S. agricultural products.

The cash down payments are deposited by the buyers directly into a CARE monetization account (central account) opened with the Banco de Credito del Peru. When the buyers make the deposits they notify CARE, which, in turn, confirms with the bank that the money has in fact been deposited.

2. Disposition of Letters of Credit

When necessary to dispose of letters of credit, CARE contacts the bank and negotiates their sale at discounted rates. By discounting the letters of credit, funds are made available for the planned programs. However, the sales and discount rates are based on the bank's terms and conditions and does not leave much room for negotiation. It is currently planned that CARE hold the letters of credit until maturity.

3. Fund Transfers

To maintain stability of currency, the proceeds deposited into the bank are subsequently transferred into a U.S. dollar account in the name of CARE. But, even though the account is in CARE's name, the OFA/FFD is the only office that can authorize CARE to transfer the funds to the respective PVOs.

When OFA/FFD authorizes the transfer of funds to the respective PVOs, the bank will transfer into a dollar account in the name of the four participating PVOs. The PVOs then retransfer the funds as needed into a Peruvian soles account for use in carrying out the approved projects.

In the case of ADRA, Caritas and Prisma, the accounting and disbursement of funds are all centrally controlled and maintained in their Lima metropolitan area headquarters. Whereas with CARE, the funds are reallocated to the six regional offices and commingled with their other program funding into one bank account. The commingling of funds on the surface gives the appearance that all controls and identification are lost but, this may not necessarily be true. The consultants believe that the accounting firm of Controles y Estudios should review the CARE regional offices commingling of funds and advise both CARE and USAID if the funds are readily identifiable and used for program purposes.

Recommendation No. 4

The Office of Food and Agriculture/Food for Development and CARE should request Controles y Estudios to address the issue of regional office fund

commingling and determine if there are adequate controls for identification and application to program approved projects.

D. Effects of Cash Flow

The most serious problem encountered in the PL 480 Title II Monetization Program is in the area of cash flow for the participating PVOs.

Requests for shipment of specified commodities and their delivery originate with CARE for submission to OFA/FFD for review and clearance. Depending upon commodity availability, the OFA/FFD may amend these requests. They may be further amended by AID/W, subject to USDA clearance.

Over the past several years many of the shipments of commodities have been delayed which means CARE was unable to sell the commodities within the required projected time frame needed to fund the PVOs planned program activities. When the funds are unavailable when needed, the PVOs must either curtail planned programs or defer their implementation until the funds are available. Some of the apparent causes for the delays in obtaining adequate funding for the program related projects are:

- Timely projections of Peru commodity needs not furnished by USDA/Peru
- Delays in processing by A.I.D and USDA
- Improper scheduling of shipments
- Too few shipments
- Late or unanticipated early arrivals of shipments
- Inferior quality of commodities shipped
- Sales at the warehouse on buyers' terms instead of at the port
- Buyers of the commodities are paying 10-20 percent of the purchase price in cash and the balance in interest bearing promissory notes
- Delay in accepting warranty letters by the Banco de Credito del Peru

Without visiting AID/W, the USDA and CARE/New York it is extremely difficult to pinpoint where the delays originate.

To illustrate the extent of the delays in the shipment of commodities and the impact they have on the generation of local currency, summarized below are the 1992 planned and actual shipment arrivals of edible cooking oil:

Name of Vessel	Estimated Arrival Date	Actual Arrival Date
Poseidon	May, 1992	May, 1992
Lightning	June, 1992	July 7, 1992

Ponciana	July, 1992	July 9, 1992

As noted above, one shipment was on time, the second shipment was one month late, and the third shipment arrived two days after the second shipment which meant that CARE was flooded with cooking oil during the early part of July. As can be readily understood, there would be a delay in generating adequate cash flow for the planned programs.

Recommendation No 5

The Office of Food and Agriculture/Food for Development, in conjunction with AID/Washington, should reassess the call forward procedures, and mutually agree on procedures that will ameliorate the delays in shipping commodities under the Title II Monetization Program. In addition, CARE should be promptly notified of the delivery dates, be assured of the quality of the commodities shipped, and make preparation for selling the commodities as soon as possible upon arrival.

E. Internal Control Process

During our review and evaluation of USAID/Peru's PL 480 Title II Monetization Program we found that the internal control practices and procedures being applied are acceptable. However, there is still room for improvement to help safeguard and protect the funds generated by the sales of U.S. Government donated food and edible cooking oil. Illustrations of the internal control practices and procedures being utilized under the Monetization Program are explained in the following paragraphs:

1. Sale of Commodities

When the commodities are received in-country, the buyers are normally selected on the basis of a bidding process. In the case of grains, flour and rice, the bidding does not take place until after the commodities are received in-country and are inspected. In the case of edible cooking oil, the sale is normally consummated prior to arrival in-country. CARE negotiates the selling price, but OFA/FFD must approve the price before it can be finalized.

When the terms and conditions of the sale are finalized, the buyer deposits the initial down payment cash proceeds directly into a CARE/Peru food monetization account opened with the Banco de Credito del Peru. The balance of the sale proceeds is made through an interest bearing letter of credit. Once the deposit is made into the central bank account, the buyer notifies CARE. CARE confirms with the bank that the deposit has been made and verifies the amount.

The bank then transfers the funds from a Peruvian soles account into a U.S. dollar account. After receiving authorization from the OFA/FFD, the bank will in turn transfer the funds to a dollar account in the name of the respective PVOs participating in the program. The transfer

is split on the basis of an allocation determined by the OFA/FFD.

CARE does not have any direct access to the funds generated from the sale of commodities until an allocation, authorized by USAID, is made by the bank for its respective programs.

2. Independent Financial Review

Based on a bidding process, CARE entered into a contract with the firm of Controles y Estudios to periodically perform an independent financial review of all monetization sales proceeds, distribution of the funds to the four PVOs, and use of the funds by the PVOs.

The reports prepared by Controles y Estudios are forwarded to OFA/FFD which focuses on the liquidation of the funds. They will normally not approve additional transfers until there is progress in the use of available funds on hand.

The accounting activities for Prisma, Caritas and ADRA are all centralized in the metropolitan area of Lima. But CARE has six regional offices with each office having its own accounting activity. The Controles y Estudios agreement does not provide for field visits in order to review the income and expenditures incurred and recorded by the six CARE regional offices.

Consequently, every two or three months a CARE employee from each of the six regional offices must hand carry the financial documentation to Lima for review by Controles y Estudios. This means that there is a risk that the documentation might be lost or misplaced. It would seem more logical to amend the Controles y Estudios contract to fund field visits to the regional offices for performing the required reviews. Since the travel by the regional office representatives and the services of Controles y Estudios are both funded by the proceeds generated by the PL 480 sales, it should not result in higher cost if the Controles y Estudios agreement is amended to allow travel to the field offices.

CARE notes the following as reasons for reconsidering its accountants' travel to Lima:

- requires the field office accountant to be away from his duties for a length of time usually a week every three months.
- requires the field office accountant to bring all pertinent documents to CARE/Lima, thus endangering document security.
- does not allow the Controles y Estudios accountants to obtain a proper perspective of CARE activity in the field.

In addition, USAID and CARE should initiate action to arrange for a review and evaluation of Controles y Estudios' performance, as well as a review of their costing and billing procedures under the existing Monetization Program contract.

Recommendation No. 6

The Controles y Estudios contract should be amended to provide funding for travel to the CARE regional offices in order to perform the financial reviews at the locations where the expenditures are incurred and where the documentation is located and maintained.

Recommendation No. 7

The Office of Food and Agriculture/Food for Development and CARE should arrange for a review and evaluation of Controles y Estudios' performance and costing procedures under their existing Monetization Program contract.

3. Financial Audits of PVOs

Periodically an independent international accounting firm performs a financial audit of the PL 480 Title II Monetization Program managed by the various participating organizations. The objectives of the audits are to determine the following: the organization's fund accountability statement presents fairly, in all material respects, the financial activities of the organization; adequacy of the internal control structure; compliance with the terms of the program agreement and applicable laws and regulations and the adequacy of management to effectively administer the PL 480 Title II Monetization Program.

During the consultants' review and evaluation it was determined that the sponsoring PVOs are complying with this requirement.

F. Reporting Requirements and Monitoring Activities

Per the A.I.D. Monetization Field Manual and A.I.D. Regulation 11, the PVOs benefiting from monetization are required to conduct periodic internal reviews and annual reports. Annual internal reviews are accomplished by Controles y Estudios, but annual progress reports are performed in-house and submitted by each of the four PVOs. As with the MYOPs, the annual progress reports omit description of the monetization process, e.g., how the food was sold and the price received for the commodities. This information is, however, developed in the internal reviews. Since CARE is the monetizing agent, its annual progress reporting should cover this process, although, for clarity, the other three PVOs should make mention of the procedure.

From reviewing the FY 1992 annual progress reports, the consultants can verify that project activities and progress towards goals (other than monetization) are covered well.

Recommendation No. 8

CARE should describe the monetization process in its MYOP and annual progress reports. The other PVOs should mention it briefly in those documents.

The use of Controles y Estudios provides USAID with independently gathered project information on all four PVOs, with concentration of effort on the transfer and use of monetization funds. Controles y Estudios reviews the monthly financial activity of each PVO, examining monthly payments and vouchers from all PVO offices to ascertain their completeness and appropriateness for the programs as well as examining bank statements. Controles y Estudios provides a separate annual report for each PVO to USAID. The firm also participates in the reviews of the MYOPs of the PVOs. Another independent accounting firm conducts formal accounting reviews of each PVO at the end of a monetization period, usually for each fiscal year.

USAID bases the bulk of its internal controls on information received from these two accounting firms. By way of example, if a report from Controles y Estudios indicates an incomplete liquidation of funds during an inordinate period of time, USAID will delay further funding advances until the liquidation in question is finalized.

The office of the USAID Controller does not review the monthly reports of Controles y Estudios nor does it take an active part in USAID's internal controls of the monetization mechanism. The consultants believe that the limited role of the Controllers office at this time--as a member of the committee on PVO monetization budget approval--is sufficient and that involving that office in a more active participatory role would merely complicate the internal controls and reduce the agility of the system.

The role of the USDA/Peru has been mentioned. USDA/Peru provides information when requested by OFA/FFD but there is little coordination other than that the office clears USAID requests for commodities to be monetized.

G. Current Programming Process

PVO programs and projects involving the use of Title II monetization funds are approved initially by the PVO director, usually with the concurrence, in principle, of PVO headquarters. Then approval is sought from USAID/Peru and officially by the PVO headquarters. The AER for monetization generally follows the same path except that it also must be approved by AID/W.

The latest programming guidelines promulgated in the A.I.D. Monetization Field Manual, (August, 1988) and the latest revision of A.I.D. Regulation 11 (May 7, 1992), allow for a good deal more flexibility on the part of the PVOs in their programming the use of A.I.D. Title II

monetized funds than was permitted in the 1980's. Regulation 11 now states that besides using funds for commodity transport, storage and distribution, as previously permitted, the funds also may be used to, "Implement income generating, community development, health, nutrition, cooperative development, agricultural and other developmental activities agreed upon by AID and the cooperating sponsor."

Complementing this expanded interpretation of expense coverage is the Mission's own Food Assistance Strategy of June, 1992 wherein it is stated, "The food assistance resources that will be available to Peru will decline over the next five years. This will not be a problem as long as the decline in resources is in synch with the improvements in the Peruvian economy. As resources decline, more attention will have to be paid to better targeting the remaining resources and to using them more effectively to deal with long-term development problems (This is particularly true of Title II resources)."

Resources provided by the monetization of Title II commodities for FY 1993 will not contribute to the increased level of program activity as originally planned by the PVOs. A balance of unused funds from FY 1992 added to the value of the commodities to be monetized in FY 1993 will produce roughly the same revenue as in FY 1992 but, because of inflation, the FY 1993 monetization proceeds will not go as far as they did in FY 1992. So, in effect, the funding for this current fiscal year will be lower in real terms.

Due to the shortfall in real terms of PVO-requested Title II monetization funding, and notwithstanding the stated direction of the USAID's Food Assistance Strategy, OFA/FFD made the decision to insure that the available funding is first applied to logistics costs of moving and storing direct distribution Title II food commodities.

Obviously, donated direct distribution of food is of paramount importance at this stage of Peru's development. But it can also be argued that projects of a more developmental nature should take precedence. Given the history of Title II monetization, however, it is apparent that the primary use of Title II monetization funding has always been to provide for food distribution logistics needs. It is often to fill the gap caused by a host country's inability to contribute its own funds for that purpose.

One of the objectives of multi-year planning by the PVOs is to assure the annual availability of food commodities for direct distribution. Over the years this has been accomplished to a great extent. With the monetization program included in the MYOP, multi-year planning should also guarantee a sufficient level of monetization funding to support not only direct food distribution but a portion of the expenses of other projects involving interventions to increase food security, i.e., agricultural production and income generation.

Another difficulty that the consultants became aware of is the manner in which the monetized funds are to be allocated among the four PVOs participating in the program. According to OFA/FFD, the proceeds from Title II monetization will be allotted to the PVOs based on their involvement in direct feeding (logistics costs). Therefore, as an example, Caritas may receive

a larger slice of the monetization pie because it has the largest direct distribution program. On the other hand, ADRA, CARE and Prisma, which have other discrete development programs with the use of food as a developmental resource, might receive less funding based on logistics costs even though their overall expense to operate these programs might be much higher than the Caritas program of direct feeding.

The consultants recommend that this decision on the part of USAID be reconsidered. Perhaps overall costs per PVO project involving direct food distribution might be considered as well as the normal logistics costs involved in direct food distribution for that project.

Recommendation No. 9

The Office of Food and Agriculture/Food for Development should stress the need to AID/W to provide guaranteed monetization resources to assist in funding programs planned in the MYOPs of the PVOs.

Recommendation No. 10

The Office of Food and Agriculture/Food for Development should reconsider its decision to allocate Title II monetization proceeds to the participating PVOs based on their logistics costs for direct feeding activities.

Responsibilities for the sales process clearly fall into CARE's operations although USAID does participate strongly as an interested party by granting bid acceptance approval. This ostensibly removes the onus of complete responsibility from CARE, although this agency remains the closest target for any criticism arriving out of the monetization process.

As previously mentioned, monetization budgets are approved by a committee made up of the USAID offices of Agriculture, Program, Health and Controller and the PVO seeking budget approval.

The transfers of monetization funds from CARE's central account to each PVO account and thence to local currency accounts are allocated and regulated by USAID. Disbursements are effected by each PVO but are eventually reviewed by Controles y Estudios for their appropriateness to funding by monetization and to the PVO budget.

Visitations to PVO project sites are the responsibility of each of the three OFA/FFD Project Development Specialists. Visits are programmed at periodic intervals. The ideal visitation schedule is once per month but because of the office workload each Project Development Specialist only manages to average one visit per quarter. Senior personnel often each accompany a Specialist on his inspection trip. Although each Specialist is normally assigned to

only one or two PVOs, if there are projects of other PVOs nearby, he will accomplish these visits as well.

It is the opinion of the consultants that USAID's participation in the programming process assures adequate oversight.

Evaluation of USAID/Peru's
Public Law 480 Title II
Food Monetization Program

APPENDIX I

List of Recommendations

	Page
Recommendation No. 1	**5**
CARE, in conjunction with the Office of Food and Agriculture/Food for Development, should play a more active role in requesting and scheduling the commodities to be imported and monetized.	
Recommendation No. 2	**7**
Before every monetization, the Office of Food and Agriculture/Food for Development should request from reliable U.S. sources written confirmation of the current international price of the commodities in question.	
Recommendation No. 3	**7**
AID/Washington and USDA, and Office of Food and Agriculture/Food for Development and USDA/Peru should endeavor to achieve closer coordination in matters regarding commodities for monetization.	
Recommendation No. 4	**10**
The Office of Food and Agriculture/Food for Development CARE should request Controles y Estudios to address the issue of regional office fund commingling and determine if there are adequate controls for identification and application to program approved projects.	
Recommendation No 5	**12**
The Office of Food and Agriculture/Food for Development, in conjunction with AID/Washington, should reassess the call forward procedures, and mutually agree on procedures	

that will ameliorate the delays in shipping commodities under the Title II Monetization Program. In addition, CARE/Peru should be promptly notified of the delivery dates, be assured of the quality of the commodities shipped, and make preparation for selling the commodities as soon as possible upon arrival.

Recommendation No. 6 **14**

The Controles y Estudios contract should be amended to provide funding for travel to the CARE regional offices in order to perform the financial reviews at the locations where the expenditures are incurred and where the documentation is located and maintained.

Recommendation No. 7 **14**

The Office of Food and Agriculture/Food for Development and CARE should arrange for a review and evaluation of Controles y Estudios' performance and costing procedures under their existing Monetization Program contract.

Recommendation No. 8 **15**

CARE should describe the monetization process in its MYOP and annual progress reports. The other PVOs should mention it briefly in those documents.

Recommendation No. 9 **17**

The Office of Food and Agriculture/Food for Development should stress the need to AID/W to provide guaranteed monetization resources to assist in funding programs planned in the MYOPs of the PVOs.

Recommendation No. 10 **17**

The USAID Office of Food and Agriculture/Food for Development should reconsider its decision to allocate Title II monetization proceeds to the participating PVOs based on their involvement in direct feeding activities.

EVALUATION OF USAID/PERU's
PUBLIC LAW 480 TITLE II
FOOD MONETIZATION PROGRAM

APPENDIX II

List of Individuals Interviewed

USAID/Peru

George Wachtenheim, USAID Director
Michael Kerst, Chief, Food for Development
George Baldino, Deputy Chief, Food for Development
Raul Tapia, Project Development Specialist
Alfredo Gutierrez, Project Development Specialist
Mario Quiroga, Project Development Specialist
Jerry Martin, Financial Analyst, USAID Controllers Office

CARE

Dr. Sandra Laumark, Country Director
Leo MacGillivray, Assistant Country Director
Raul Sanchez, Financial Manager
Jose Aquino, Commodity Sales
Thomas Alcedo, Former Country Director

ADRA

Edwin Baumgartner, Executive Director

Caritas

Vilma Montanez, Director of Food and Projects
Carlos Venturo, Director of Administration and Finance
Lucho Campo, Chief of Food Department

Prisma

Dr. Josephine Gilman, Executive Director

Banco de Credito del Peru

Fernando Cossio Reyes, Manager

Sociedad Nacional de Industrias

Alejandro Daly Arbulu, Manager

Controles y Estudios

Eduardo Mejia
Gonzalo Govea

U.S. Department of Agriculture

Leonidas Bill Emerson, Agricultural Attache
Orlando Olcese, Agriculture Specialist

APPENDIX III

Scope of Work

Article I - Title

Program Development and Support
Evaluation of USAID/Peru Food AID Program

Article II - Objective

The contractors will conduct an in-depth review of the USAID/Peru PL 480 Title II monetization program and evaluate current management and programming systems. This review will focus on what the current systems are for requesting, allocating, and monitoring the resources provided under the monetization program. It will comment specifically on how the program adheres to A.I.D. regulations for local currency and commodity oversight and make recommendations on how this might be improved and simplified.

Article III - Scope of Work

The contractors shall address the following issues:

1. The ordering and delivery of Title II commodities for monetization. Describe the process from call forward to delivery and make recommendations on how to improve performance. The review will include an examination of how commodity selection and Bellmon issues are handled, and it will make recommendations on how to improve timeliness of deliveries. It is especially important that this evaluation cover the issue of cash flow and address the problem of liquidity in financing delivery cost of direct distribution commodities. These recommendations should be realistic, taking into account the A.I.D./W procedures, the role of USDA in ordering and commodity selection, and the port practices in Peru.

2. The sales mechanism will be examined and compared with feasible alternatives. This section should include a discussion and analysis of the current mechanism. It will also address whether the current system is cost effective, gets the best possible price and generates the maximum amount of sales proceeds, provides the requisite transparency in the sales transaction, and whether such sales constitute a disincentive to local production.

In the examination of the alternatives (e.g., direct bilateral program with sales by a private sector entity, sales by each concerned PVO to cover its programmatic needs, sales by one PVO with deposits to a central account, combination with the Title III program), the consultants will discuss advantages and disadvantages. They should make clear recommendations which take into consideration FFP regulations, A.I.D./W budget allocation process, and USAID monitoring capability.

3. The study will closely examine the financial process from sales proceeds deposit in the bank to pay out for project expenditures. This is especially important, and the consultants will examine the letter of credit system, discounting procedures, the transfers from the central account or the project accounts, and the transfers from project accounts for expenditures.

Reporting requirements and monitoring activities should be studied with a view to simplification while maintaining the necessary internal controls. The consultants will examine the USAID monitoring system for this process and the use of an independent accounting firm to follow up. They will advise on the adequacy of the USAID internal controls to achieve regulatory oversight. They will advise on the adequacy of the USAID internal controls to achieve regulatory oversight. They will advise if such controls can be simplified. They will also make recommendations on the proper role of the various USAID offices in the management of the Title II monetization program.

4. The current programming process for the Title II monetization program. This section will describe this system and make recommendations for improving and streamlining the procedures, while assuring the maximum input from Mission offices and the PVOs themselves. The study should look at the chain of functions involved in Title II programming and management: who approves programs and projects, how responsibilities are divided on the sales process itself, who approves the budget, who approves transfers, and who approves disbursements. The internal controls for this process should be effective and assure adequate oversight of USG resources.

Article IV - Reports and Deliverables

The consultants will provide a draft of their report to the USAID Title II Committee two full work days before their departure for comments and clarifications. They will leave a final report in English for the Mission and six hard copies and one floppy disk. The report will have an executive summary and a separate section on recommendations.