USAID/VN

LOCAL CURRENCY MANUAL

ADFM OPERATIONS DIVISION

LOCAL CURRENCY BUDGETING AND ACCOUNTING BRANCH

PIASTER BUDGETING, ACCOUNTING,

AND REPORTING

PART I

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PART I

1. LOCAL CURRENCY OBJECTIVES

The objectives for the use of local currencies and the reasons for their generation are set out in the Mutual Security Act, the Foreign Assistance Act and the Agricultural Trade Development and Assistance Act. The objectives for the control of USAID/VN Foreign Currency Programs are set out in Section 112(b) of the Budget and Accounting Procedures Act of 1950 (Public Law 81-784). The description of the approved system of control for foreign currency assets, in compliance with the U.S. Treasury and the Office of Management and Budget instructions, is documented in the AID Accounting Manual, Part III, AID Foreign Currency Programs.

The authorizing legislation above restricts the use of piasters to specific purposes. The accounting procedures and controls are established for each program entity in order that those restrictions are affected. Additionally, international and intergovernmental agreements must be followed in the handling of these resources. Separate records and reports are produced for each required subdivision of accounts or funds. The primary sources for piaster funds in Vietnam are the Commercial Import Program, the Public Law 480, Title I sales program, and purchases with USG Department of Defense (DOD) dollars.

2. PURPOSE OF THE LOCAL CURRENCY MANUAL

This instruction implements Manual Order 740.1, AID Accounting Manual, Part III, AID Foreign Currency Programs, which became effective July 1, 1969. This document is intended to be used as a working reference in carrying out USAID/VN responsibilities for administering AID programs financed by US-owned and the Government of Vietnam (GVN)-owned piasters generated in accordance with the authority provided by the Foreign Assistance Act, predecessor agency legislation, and the Agricultural Trade Development and Assistance Act. The procedures established by this instruction follow the systems prescribed in Manual Order 740.1 as approved by the Comptroller General of the United States (Comptroller General Letter No. B-158381, dated January 16, 1969).

3. TYPES OF COUNTRY USE CURRENCIES BY SOURCE

A. Counterpart Funds

The term "counterpart" identifies the piasters which are deposited to a USG controlled account in the name of the GVN pursuant to legislative requirements and provisions of bilateral agreements. These funds are owned by the GVN and the USAID approves the application of these currencies. The funds may include Type A currencies generated by Supporting Assistance to Vietnam on a grant basis under Section 609(a) of Part One of the Foreign Assistance Act of 1961, as amended, or currencies generated by Technical Cooperation and Development Grants or other currencies available under the Economic Cooperation Agreement of September 7, 1951, as amended. These funds are available for the benefit of Vietnam including the use of funds in trust for sharing of the costs of authorized activities and functions as arranged between USAID and the GVN in accordance with Section 625(b) of the Foreign Assistance Act.

B. Public Law 480, Title I Proceeds

These funds are generated under the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law (PL) 480, Title I, Section 104(c)) for grants for common defense deposited in Treasury Account No. 72FT745. These funds are available without dollar reimbursement by sale of agricultural commodities and are grants of the piaster proceeds to the GVN for common defense purposes.

4. TRUST FUND PROCEDURES

The counterpart funds taken in trust to share costs related to the conduct of technical assistance and accounted for in U.S. Treasury Account No. 72FT 800 (under the Trust Fund Agreement of 1958) will not be fully described in this instruction. A separate instruction establishing operating procedures for those funds will be forthcoming at a later date.

5. REGULATIONS AND POLICIES APPLIED

The factors considered by the USAID in establishing and installing this piaster accounting system include: (a) the relative preponderance of activity from two fund sources, (b) the ease of conversion from existing procedures and methods to the prescribed techniques, (c) the needs of the USAID's management for improved techniques and processes for reviewing, evaluating, and measuring program activity and performance, and (d) the other technical and operational purposes to be served by the installation of the system toward achieving greater efficiency and effectiveness in the conduct of foreign assistance.

The system contained here represents the USAID's participation in the Government-Wide Financial-Management Improvement Program jointly sponsored by the central agencies (the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office) and is responsive to the Presidential mandate for executive agencies to develop integrated Planning-Programming-Budget systems (See AID Program Guidance Manual, Chapter 1000, and Office of Management and Budget Circulars A-11 and A-34). In addition to commercial-type double entry accounting, the manual gives effect to accrued expenditures based on delivery of goods and services as required by the Office of Management and Budget Bulletin No. 68-10, April 26, 1968; development of project costs for foreign currency-funded program activity, including trust funds, in accordance with the basic concept applicable to dollar-funded projects; and summarization of financial conditions and results of operation in business-type financial statements.

Executive orders assigning program responsibility to AID and related delegations of authority are contained in Appendix I of Manual Order 740.1. The detailed responsibilities for AID foreign currency programs is prescribed in AID Manual, Chapter 1500. AID officials having responsibility for program approval are set forth in AID Manual Chapter 1000. The programming and monitoring responsibilities for local currencies used for military purposes are set out in a Vietnam-U.S. Agency Agreement ~~dated~~ January 24, 1970. The cus-

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tody and management of these piaster funds are in part subject to Section 1415 of the Supplemental Appropriation Act of 1953 (Public Law 547); Section 1311 of the Supplemental Appropriation Act of 1955 (Public Law 83-663), as amended by Public Law 86-79; and the Anti-Deficiency Act, Section 3679, Revised Statutes, as amended (31 United States Code 665). The programs are also in part subject to Treasury regulations (Treasury Circulars 930, 965 and 966) governing foreign exchange operations, accounting and reporting.

Responsibilities for administering the fiscal and financial aspects of AID programs financed with piasters are set forth in the AID Manual Orders 205.2, 205.2.1 and 222.1 and USAID/Vietnam, Policy and Procedures Order No. 22.2.

6. BACKGROUND INFORMATION

On September 7, 1951, the United States Government (USG) entered into an Economic Cooperation Agreement with the Government of Vietnam (GVN). The objective of that agreement was to set forth the understanding which governs the furnishing of requested economic and technical assistance by the USG. This assistance is given, recognizing that individual liberty, free institutions, and independence depend largely upon sound economic conditions and stable international economic relationships. This agreement was last amended June 7, 1962, and remains in effect.

Section One of the annex to the agreement provides provisions for grant assistance. The section establishes a Special Account in the National Bank of Vietnam (NBVN) for the deposit of piasters accruing to the GVN from sales of commodities or services supplied under such grants. The amount of the piasters to be deposited is to be at the rate specified by the USG per letter dated June 8, 1962 (amount collected other than customs duties), but is not to exceed the commensurate value of aid granted. The commensurate value shall be the rate agreed to by the International Monetary Fund or the highest rate lawfully quoted for imports into Vietnam. The GVN may be required to make advance deposits, however, the USG will give due regard to the ability of the GVN to make deposits at the rate it specifies.

7. INTRODUCTION TO THE COMMERCIAL IMPORT PROGRAM (CIP)

Piasters generated from the CIP, called Counterpart Funds, are used for the American Aid and Defense Chapters of the National Budget of Vietnam, the USAID Trust Fund requirements, and other projects outside the budget as approved by the GVN and the USG. These funds are generated as a result of the Economic Cooperation Agreement. Acting as agent under this agreement, USAID issues Program Assistance Grant Agreements obligating the Supporting Assistance appropriated funds. The Program Assistance Grant Agreement is implemented by USAID through Implementation Letters. These letters outline the basic procedures for utilizing the funds of the Program Assistance Grant Agreements. The letters also transmit the lists of eligible commodities (Positive List). Rules and procedures governing transactions to be financed under the agreement are set forth in the Commodity Procurement Instructions and Financing Requests (later incorporated into Letters of Commitment). Requests for AID/W issuance of Letters of Commitment or other disbursing authority under the agreement are made to the USAID on AID Financing Request forms.

The USAID offices develop the Positive List and Commodity Procurement Instructions. The Directorate of Commercial Aid, Ministry of Economy, submits Financing Requests for AID financing of those imports. In certain instances, prior to making the application for AID financing, the importer must have advertised his proposed procurement in the "AID-Financed Export Opportunities" of the Office of Small Business in Washington. A modified "Columbia Plan" (a comprehensive listing of local importers together with the commodities in which they are interested) has been instituted for all except formal procurement. The piasters generated from these agreements are GVN-owned, but USAID-controlled piasters. The funds are referred to as Type A currencies and are generated by AID/W dollar disbursements to commercial suppliers from authorized sources in accordance with authority under Part I, Section 609*a) of the Foreign Assistance Act of 1961. The basic rules and regulations for commodity transactions financed by AID are reported in the Federal Register (Regulation I), however, the terms of each grant agreement prevail in the case of differences. The Program Assistance Grant Agreements provide for AID to pay the dollar costs for specific commodities or commodity-related services. The GVN collects the piasters from the licensed Vietnamese importers' banks at the prevailing exchange rate for the commodities, and the proceeds are deposited in the NBVN under the control of USAID's Office of the Associate Director for Financial Management (ADFM).

A. Objectives of the Program

The primary objective of the CIP is to assure that adequate supplies of basic CIP financed commodities are maintained in the Vietnamese market. The CIP helps to curb inflationary price increases and reduces the possibility of shortages and price speculation. The piasters generated under the CIP are used to support the Vietnamese civilian and military budgets and other costs involved with joint efforts as jointly agreed.

B. Commercial Import Program Piaster Generations

To the maximum extent possible, the program operates through normal commercial channels. AID and the GVN have established a system of monitoring to insure that the funds made available for financing imports are used properly, efficiently and effectively.

(1) Program Flow - Starting with the report series of the Commodity Analysis of the Office of Associate Director for Commercial and Capital Assistance, Commercial Import Program (ADCCA/CIP), and using data obtained from other offices in USAID/VN, the Program Operations Branch, ADCCA/CIP, compiles data to support the planned use of the Supporting Assistance Program Funds. Upon completion of the planning documents, the Program Operations Branch writes the Program Assistance Grant Agreement. After the agreement is initiated by ADCCA, it is routed to the other USAID offices, i.e., ADFM, the Office of the Associate Director of Economic Planning and Policy (ADEPP), and the USAID Legal Advisor for clearance. It is then routed to the USAID Director for signature and is forwarded to the Minister of Economy for review and signature. If the value of the agreement is less than $500,000, ADCCA is authorized to sign for the Director; otherwise, the draft is sent to the

Director for signature. The signature of the Minister of Economy constitutes obligation of the CIP funds. The ADCCA/CIP establishes the required indexes on the obligation document. The Director for Commercial Aid issues Financing Requests through USAID to AID/W. The Financing Requests indicate the name of the U.S. banks designated by the NBVN to receive the AID Letters of Commitment (sometimes a direct reimbursement) from AID/W. The Financing Requests also specify the commodities to be purchased and the total funding available.

(2) Office of Small Business Application Flow - In the past, the local Vietnamese importer, intending to import through the CIP, submitted an application for publication of his requirements to be advertised by the Office of Small Business. The application was sent to the Program Operations Branch where it was logged in and routed for review. If the application was eligible as to importer, commodity and prospective source, and if all other criteria were met, it was routed to the Commodity Analyst. If specifications and other matters were acceptable, it was recorded by the Program Operations Branch and returned to the importer to be sent to AID/W for publication by the Office of Small Business. The respective suppliers, responding to the advertisement, sent copies of their bids to the importer and ADCCA/CIP offices. This was required for price and bid selection evaluation by ADCCA/CIP in the license approval process. The importer had to wait 45 days after publication of its requirement before it submitted an import license application for approval.

(3) License Application Flow - The license applications are completed by the importer and submitted to its bank. Each license application must be accompanied by firm bids, normally at least three, and with an abstract of the bids showing prices and citing the importer's selection of supplier. The importer submits its application to its bank. That bank evaluates the importer's credit standing in anticipation of opening a letter of credit and undertakes to guarantee payment for the transaction. The importer's bank forwards the application to the NBVN. The NBVN assigns an application number, "logs in" the application, and forwards it to the Directorate of Commercial Aid. The Director of Commercial Aid reviews the prices, eligibility of importer, supplier, and supplier's representative and reviews past records in the importer's file. He also reviews the eligibility of the AID commodity codes, designates on the application the financing document to be used for the transaction, and specifies the terminal dates for opening a valid letter of credit. After the Director's approval, the application is submitted to the ADCCA/CIP for review. If certified eligible by the ADCCA/CIP, it is forwarded to the NBVN. Disapproved applications are returned to the Director of Commercial Aid. The Program Operations Branch codes documents from the application for computer tabulations and files a copy. The NBVN issues the approved license, tabulates its copy for computer entry and forwards it to the importer's bank with a copy to ADCCA/CIP. The importer's bank then advises the importer of license approval. The importer applies to its local bank for issuance of a letter of credit in favor of the supplier.

C. U.S. Issue of Letters of Commitment

Letters of Commitment are issued by AID/W to the NBVN-designated U.S. banks, called the Letter of Commitment Banks which, in turn, advise, confirm, or issue letters of credit to the supplier or such other procedure as is specified in the AID/W instructions for payment to the supplier. Letters of Commitment obligate AID/W to reimburse the Letter of Commitment Banks for the payments made to the supplier and specify documentation required in support of such payments. Normally when the supplier effects shipment, he receives an on-board Bill of Lading which it presents with other documents to the Letter of Commitment Bank for payment.

8. INTRODUCTION TO THE PUBLIC LAW 480, TITLE I SALES PROGRAM

All piasters generated from Public Law (PL) 480, Title I sales are either used to support the Defense Chapter of the National Budget of Vietnam or used to support the Mission operations financed through the U.S. Embassy. The amount to be provided for the Defense Chapter called Military Budget Support (MBS) is established each year by joint agreement. Defense

These funds are generated through the import of several agricultural commodities from the United States including: tobacco, cotton, wheat, rice, milk, corn ~~and~~ vegetable oils & etc.

A. PL 480 Background Information

In 1954, agricultural surpluses were a recognized U.S. problem. This problem was compounded by the shortage of international purchasing power in foreign nations needing U.S. farm commodities. This lack of dollars was a problem for the less developed countries which were not earning many dollars. Even though they needed U.S. agricultural products they could not import much from the United States. A partial solution to this problem came with the passage of Senate Bill 2475, which on July 10, 1954, became Public Law 480. Under PL 480 a foreign nation could purchase U.S. farm products with its own nonconvertible currencies.

In 1962, provisions were added for USG and foreign private trade enterprise to enter into dollar credit (DC) sales agreements. In 1966, the provision for DC sales was transferred to Title I and a new method called "convertible local currency credit" (CLCC) sales was added to this title.

Amendments to PL 480 in 1966 deleted reference to the U.S. surpluses and it became the USG policy to use its abundant agricultural productivity to combat hunger and malnutrition. It also became a part of the USG policy to use its agricultural capacity to assist countries that were determined to improve their own agricultural production.

As concern over the U.S. balance of payments grew, the sales terms stiffened. Since 1961 there has been a subsection which regulates the exchange rate used in PL 480 agreements. The language in this subsection was revised several times in an attempt to guarantee that the USG will receive a realistic rate of exchange in countries with multiple exchange rates. Also, an amendment to the act in 1966 required that the President take steps to assure a progressive transition from sales for foreign currencies to DC or CLCC sales. The transition was to be completed by the end of 1971.

B. Brief Description of the Present Act

There are four titles to the present act and in general the titles cover the following aspects:

Title I	Concessional Sales
Title II	Donations and Disaster Relief
Title III	Barter
Title IV	General Provisions and Requirements

Title I is by far the most important in terms of commodities financed under PL 480. Just over 70 per cent of all PL 480 commodities shipped have been under this title. These include: (1) local currency (LC) sales, (2) long-term DC sales to foreign governments and private trade entities, and (3) CLCC sales.

EXPORTS WORLDWIDE UNDER PL 480 BY TYPE OF AGREEMENTS, VALUE AND PERCENTAGE OF TOTAL, FISCAL YEARS 1955-69

Fiscal Year	Total	Sales For Local Currency	Long-Term Dollar and Convertible Local Currency Credit sales	Government-to-Government Donations for Disaster Relief and Economic Development	Donations Through Voluntary Relief Agencies	Barter
			Million Dollars			
1955	385	73	0	52	135	125
1956	984	439	0	63	184	298
1957	1,525	908	0	51	165	401
1958	982	658	0	51	173	100
1959	1,017	724	0	30	131	132
1960	1,116	824	0	38	105	149
1961	1,317	951	0	75	147	144
1962	1,496	1,030	19	88	161	198
1963	1,452	1,088	58	89	170	47
1964	1,415	1,056	46	81	189	43

1965	1,572	1,142	158	57	183	32
1966	1,346	866	181	87	180	32
1967	1,270	803	178	110	157	22
1968	1,287	723	306	100	152	6
1969	1,014	337	411	111	154	1
Totals	18,178	11,622	1,357	1,083	2,386	1,730
Percentages	100	63.9	7.5	6.0	13.1	9.5

C. Mechanics of Negotiating an Agreement

A Title I, PL 480 government-to-government agreement is usually initiated by a request from a foreign government. (Private trade credit sales agreements are usually negotiated in Washington, D.C. with the private entity.) The foreign government's request, with U.S. Embassy recommendations, is forwarded to Washington and all appropriate United States agencies are notified. In response to the request USDA has the responsibility of developing PL 480 proposals for interagency consideration. Position meetings within USDA are organized and conducted by a program coordinator in the Foreign Marketing Service. The proposal developed by USDA is presented to the Interagency Staff Committee on PL 480 (ISC), which USDA chairs. Other members of the ISC are State-AID, Treasury, Commerce, Defense and Office of Management and Budget.

USDA is responsible for financing sales of agricultural commodities to foreign markets and is concerned with the effects of PL 480 shipments on commercial markets. AID is concerned with the foreign country's political, economic, and social development. ~~State is concerned with the foreign country's political, economic, and social development.~~ State is concerned with economic and political foreign policy implications of PL 480. State consults with countries that have an established trade interest in the commodities included in the proposed agreements to assure them that such programs will not unduly interfere with normal commercial trade. All agencies (but especially the Office of Management and Budget and the Treasury Department) are concerned with the financial ramifications of the programs.

The ISC considers such factors as: (1) legislative requirements and objectives, (2) future USG needs for local currency in the recipient country, (3) import requirements of that country in relation to domestic production, (4) usual marketing of the United States and effects on traditional suppliers, (5) the possibilities for barter or other USG trade programs, and (6) the effect of the program upon the USG balance of payments and budget. The recipient country's internal and external financial position is analyzed to determine whether the country should purchase on a commercial or concessional sales basis and, if concessional, whether the sale should be for local currencies, long-term dollar credit, or convertible local currency credit. If an agreement includes a DC or CLCC sale, it is submitted to the National Advisory Council on International Monetary and Financial Policies.

Following clearance, negotiating instructions are prepared. These are cleared with all interested USG agencies, and transmitted by State to the U.S. Embassy, Vietnam. The Ambassador or his designees, such as the AID officials, meet with officials of the host government and negotiate the terms of the sales agreement. The USG officials contact Washington for clarification and supplementary instructions when necessary. Any changes in an agreement which develop during negotiations must be authorized by Washington. When agreement between the USG and the foreign country has been reached, the U.S. Embassy gives 72 workday hours advance notice to Washington before the agreement is signed. As soon as notice is received by USDA, Congress is notified and a public notice is released when the agreement is signed.

D. Convertible Local Currency Credit Sales (CLCC)

The law specifies that CLCC sales be made on credit terms no less favorable to the USG than those for development loans made under the Foreign Assistance Act of 1961, as amended. Currently, loans made under this act are for a minimum credit period of forty years, with a grace period not to exceed ten years. As with DC sales a minimum interest rate of two per cent applies during the grace period, and a rate of three per cent applies during the remainder of the credit period. Interest charges start from the date on which delivery is made.

In government-to-government DC or CLCC agreements, the foreign government acquires local currency through the resale of the commodity within the country. The law requires that each agreement include that these currencies may be used for the purposes that are mutually agreed upon by the two governments.

E. Currency Use Payments

As the shift from LC sales to DC sales progressed in 1967 and 1968, the USG no longer acquired enough local currencies in some countries to meet its needs. Under DC agreements, the USG does not acquire local currencies. Under CLCC agreements, the repayment in local currencies is optional, but during the grace period, the USG normally received only interest payments. Thus, if local currencies were needed by the USG, but were not available from PL 480 or other local currency accounts, they had to be purchased with dollars. This adversely affected the USG balance of payments. In the 1968 amendments to PL 480, Congress added the proviso that, except where the President determined that it would be inconsistent with the objectives of the act, he shall determine the amount of local currencies needed for uses specified in subsections (a), (b), (c), (e), and (h) of Section 104. The agreement provided for payment of such amounts in dollars or foreign currencies upon delivery of the agricultural commodities. A local currency payment under this type of arrangement has come to be known as a "currency use payment" (CUP) and credit sales agreements now provide for such a payment. According to the act, the CUP is to be made when the commodities in the agreement "are delivered". In practice, payments are required to be made upon demand by the USG after the delivery under the agreement.

A CUP may be considered as an advance payment of the earliest installments of principal and interest. Interest is calculated so that the recipient country does not pay interest on the portion of the credit represented by the CUP. The amount of local currencies to be paid as a CUP is stated as a percentage of the total value of each agreement. The percentage rate is applied to the amount of credit extended; that is, the commodity value plus any credit extended to cover transportation costs, minus any initial payment made. If 100% is paid in a CUP as for FY 72 Vietnam Sales Agreements the process is the same as the old LC sales, except CUPS are at USG option and are available upon demand. In practice the payment of the 80% applicable to Grants for Common Defense are made immediately upon receipt of supporting documentation of the CCC disbursement. The 20% applicable to US-uses is to be made only when necessary to avoid market purchases and after all other US-owned piasters have been exhausted, including those available through unfunding. The amount requested should be limited to estimated requirements for a 30-day period.

F. Exchange Rates

In PL 480 agreements with countries that maintain multiple exchange rates, the problem of which rate to use in PL 480 transactions has been a thorny one. To obtain the highest rate to be used in depositing local currencies to the account of the USG, or in converting local currencies to dollars or third-country currencies, Congress has consistently tightened the exchange rate provision of the act. The current legislation specifies that the President shall "obtain rates of exchange applicable to the sale of commodities under such agreements which are not less favorable than the highest of exchange rates legally obtainable in the respective countries and which are not less favorable than the highest of exchange rates obtainable by any other nation" (Section 103h).

G. Implementation of Sales Agreements

The following narrative gives the sequence of events in the implementation of a PL 480 sales government-to-government agreement under Title I.

(1) Negotiating and Signing the Agreement - The first step in the implementation of a sales agreement is the negotiation of the agreement and incorporating all the necessary provisions. Following all adjustments and discussions between the two governments, a final version of the agreement is signed by representatives of the two countries.

(2) Issue of Purchase Authorizations (PA) - The government of the importing country applies (through its Embassy in the United States) to USDA's Foreign Marketing Service for authorization to purchase agricultural commodities. When the Embassy of the purchasing country receives a PA, FAS Form 480, it notifies its government so that appropriate action in the recipient country can be taken.

The PA is a document which specifies the particular grade or type of commodity to be purchased, the approximate quantity, the maximum dollar amount, the periods during which contracts between importers and U.S. exporters may be entered into, the amount of initial payment required, and the time span during which deliveries must be made. Each PA receives a number which must appear on all further documents concerning the transactions. USDA issues a public announcement each time a purchase authorization is issued and U.S. exporters are thus encouraged to participate in the program.

(3) Issue of Subauthorizations (License) - The government of the importing country may issue a subauthorization to a private importer to purchase commodities pursuant to the provisions of the purchase authorization. An agency of the country's government may also act as the importer. At the same time that the recipient country's government designates an importer it designates a bank or other agency in that country as an "approved applicant" and a bank in the United States to handle all transactions. The approved applicant may be the central bank or a commercial bank. Sometimes the government of the importing country will appoint one of its own agencies as the approved applicant rather than a bank.

(4) Issue of Letters of Commitment - The importing country, through its embassy in the United States, requests the Commodity Credit Corporation (CCC) of the USDA to issue a letter of commitment to each U.S. bank designated to handle transactions. The letter of commitment names the approved applicant, the U.S. commercial bank, and the Federal Reserve Bank which is to act as an agent of CCC. This constitutes a firm commitment by CCC to reimburse the U.S. bank for payments made, or drafts accepted, under letters of credit issued by the foreign bank. The letter of commitment stipulates that the U.S. bank must submit to CCC the appropriate documents required by PL 480 regulations and by the purchase authorization. After the U.S. bank accepts the letter of commitment, CCC forwards a copy to the Vietnam Embassy.

(5) Sales Contract - The designated importer contracts with a U.S. exporter for purchase of the commodity. The importer may choose his supplier by any criterion he wishes, but must inform him that the transaction is taking place under PL 480 and must acquaint him with the terms of the purchase authorization. The contract price, mutually agreed upon by the importer and supplier, must not exceed the prevailing range of export market prices which is determined by USDA. Compliance with this regulation is verified by USDA. For all commodities, the exporter is required to submit the contract to USDA for review and approval. The exporter must present the signed price approval notice, along with other required documents, to the U.S. bank to receive payment.

(6) Request for Letter of Credit - The importer applies to the designated bank in his country for a letter of credit in favor of his ~~chosen~~ selected supplier. A letter of credit is a financial document issued by a bank which agrees to honor drafts drawn upon it by specified persons, usually the exporter in exchange for a bill of lading and other documents.

(7) Issue of Letters of Credit - The letter of credit is issued by the foreign bank and confirmed or advised by the U.S. bank. A "confirmed" letter of credit constitutes a commitment of both the issuing bank and the confirming bank that payment will be made if the terms of the credit are met. An "advised" letter of credit constitutes a commitment by the issuing bank only. Both types of credits must be irrevocable and as such cannot be canceled or altered prior to their expiration dates without the consent of the beneficiaries. For both types of credit, CCC is committed to reimburse the U.S. bank for eligible payments made. CCC is not committed to reimburse the U.S. bank for the portion of the sale covered by any initial payment. After a letter of credit has been confirmed or advised by the U.S. bank, the bank notifies the exporter that he may draw upon an account established for this purpose.

(8) Purchase of Commodities - The exporter buys the commodity from regular commercial sources including CCC.

(9) Loading and Shipping Commodities - The importer arranges for ocean shipping if commodities are to be shipped free on board, or free along side. If the shipment is to be cost and freight, or cost, insurance, and freight, the vessel is booked by the U.S. supplier. In any case, the shipping company delivers a bill of lading to the exporter when the items are loaded. A bill of lading is a receipt for the commodities loaded on board, signed by the ship's master or other duly authorized person. It is a document of title of ownership to the goods described in the bill. This document subsequently passes from one entity to another as described below. It also serves as evidence of the terms of carriage agreed upon.

(10) Exporter is Paid - The exporter presents a copy of the bill of lading, weight and inspection certificates, and other required documents to the U.S. bank. He receives payment, in dollars, at the price agreed upon in the sales contract and within the terms of the letter of credit.

(11) U.S. Bank Transactions - The U.S. bank presents the documents required by CCC to the Federal Reserve Bank named in the letter of commitment. The Federal Reserve Bank pays dollars to the U.S. bank, or credits its account.

(12) Foreign Bank Notified - The U.S. bank notifies the foreign bank of the transaction and transmits the original negotiable bill of lading and other documents.

(13) Foreign Bank and Importer Transactions - Upon receipt of the bill of lading, the foreign bank notifies the importer.

Under a local currency sales agreement and for currency use payments, the NBVN is required to transfer local currency to the account of the U.S. Disbursing Officer (USDO) immediately upon receipt of documentation from the U.S. bank. This constitutes payment to the USG.

Under an agreement where the terms are government-to-government dollar credit or convertible local currency credit with no currency use payment, the importer pays local currency to his government through the designated bank. The bank transfers these funds to the account of the recipient government. The government must then pay dollars in subsequent years, as required by the sales agreement, or in the case of CLCC agreement, local currencies if the USG so desires.

The procedure for a CLCC agreement that contains provisions for a currency use payment is for the CUP to be made upon demand of the USG. The foreign government makes the CUP available to the USG in local currencies rather than paying dollars or local currency at a later date.

(14) Importer Claims Commodities - After receipt of the negotiable bill of lading, the importer may use it to claim the goods when they arrive.

(15) Distribution of Commodities - The importer sells the commodity within the recipient country through normal commercial channels. If the importer is a government agency or a State grading corporation, it may decide to stockpile the commodities for eventual distribution in time of need.

H. Disbursing Officer's Holding Account

The National Bank of Vietnam (NBVN) which holds the account of the USDO credits that account with the local currencies generated by the sale of commodities under a PL 480 LC sales agreement. In the accounting system of the USG, these funds move into a Treasury holding account (Number 20FT680) a special "collection" or "master" account.

The first two numbers in the Treasury's account symbols refer to the agency that has administrative control over the currencies. The agencies involved with PL 480 currencies and their account numbers are: Treasury (20); AID (72); HEW (75); and Defense (97). The letters FT stand for Foreign Transactions and mean that funds were obtained by the USG without being purchased with dollars. The last three digits are referred to as the "main" part of the specific account number. Various types of accounts fall within a specific block of numbers.

The Treasury Department has custody of and is responsible for the accounting for all foreign currencies received under PL 480. The deposits are audited by CCC which certifies the amount of local currency and USG dollars involved, and other particulars. After certification, transfer authorizations are issued by the Treasury Department or the USDO to distribute the currencies according to the terms of the LC sales agreement. A refund reserve (usually two per cent) may be maintained in the collection accounts to satisfy claims for refunds because of shortages, spoilage, etc. Thus, all currencies (except for the refund reserve) are transferred, generally once a month, from the collection accounts to agency accounts for use in various programs. Local currencies transferred to the sales account (20FT400) can be used (with a corresponding change to a dollar appropriation) to meet any official obligation of any USG agency with operations in the recipient country. This is in accordance with Subsection 104(a) and such funds are referred to as non-restricted funds. Funds for some specific programs like 104(b), (i), and (j) are also transferred to this account.

Funds to be loaned or granted by the USG are classified as country-use currencies. The detailed administration of these funds is usually outside the direct control of the USG at the time they are used to purchase goods and services. The USG exercises indirect or general control establishing limitations and restrictions on the use of these funds. Country-use currencies may be spent for the direct benefit of the recipient country, although there is no legal requirement that this be the case. The benefit may be mutual as in the case of grants under 104(c) for common defense.

9. THE PURCHASE OF PIASTERS WITH DOD DOLLARS (AID/DOD REALIGNMENT PROGRAM)

The principal feature of this type of piaster generation is that piasters are purchased by the USDO with a dollar check drawn against U.S. Treasury Accounts. These funds may be to support programs that are a part of the GVN National Budget or out-of-budget items. The purchase of piasters with dollar checks generates free foreign exchange dollars for the GVN. These dollars may be used for any imports as the GVN may desire and procurement of commodities or services is not tied to U.S. sources.

The following is a listing of some of the USAID agreements which are supported with piasters purchased with DOD dollars under the AID/DOD Realignment Program:

Project No.	Title of Activity
310-294	Highways Improvement
710-299	Public Safety Telecommunications
995-334	Chieu Hoi Support
710-352	National Police Support
995-332	Central Pacif. and Devel. Council
995-332	Rural Development Cadre

In these funding situations the agency controlling the funds (ADFM Dollar Accounts Branch) requests that the USDO purchase the piasters from the NBVN and deposit the piasters in his NBVN account (No. 41-24-04). These funds are then transferred to the Counterpart Accounts or other accounts. When an AAC program is to be funded by reimbursement from dollars, the DGBFA requests the piaster releases to the GVN Ministry Accounts in the GVN Treasury.

10. MISCELLANEOUS COUNTERPART FUND GENERATIONS

In addition to counterpart funds being derived from importer deposits, and dollar purchases of piasters, funds from other sources are deposited to the Counterpart Accounts. These include loan repayments, claim collections, etc. Proceeds from auction sale of USAID financed property are also deposited in the Counterpart Accounts. For those funds it has been agreed that VN$1 million of these funds will be maintained in NBVN Account No. 13-35, Fund for Maintenance and Repair of USAID Financed Property. Excess funds from that account are transferred to the Counterpart Special Account No. 44-20. There are several other types of project commodity sales where deposits become receivable to the 44-20 account.

In addition to the Type A counterpart funds there have been deposits referred to as Type C funds. These funds represent proceeds from sales of commodities furnished for the disaster relief and other provisions of PL 480, Title II. These funds are GVN-owned and US-controlled and may be used for mutually agreed purposes. They were deposited in the NBVN account No. 43-01-41. The balance of that account had been over VN$207 million for some time, but action was taken to loan the funds to the Rural Banking System Development Fund of the Agriculture Development Bank.

11. USAID/VN LOCAL CURRENCY BUDGETING AND ACCOUNTING

A. Overall Responsibility and Organizational Location

The Local Currency Budget and Accounts Branch is responsible for the financial management of a comprehensive system of budgeting and accounting (The Consolidated Assistance Fund) which records and controls all the local currency resources available to the USAID to carry out its economic development, social and defense programs. The Branch forecasts resource availability, evaluates local currency requirements, projects generations of piasters for the Military Budget Support and American Aid Chapters of the GVN National Budget Trust Fund and other items in annual LC agreement. It develops budgets, performs self audits, and issues reports on all local currency financial activities. The Branch proposes improvements in local currency operations to assure efficiency and effectiveness. It establishes and maintains contacts for coordination of financial aspects between appropriate AID, CORDS, MACV and GVN offices to assist management with its system of project administration to assure achievement of objectives.

The Local Currency Budget and Accounts Branch reports directly to the Assistant Director for Financial Management - Operations.

B. Branch Duties and Responsibilities

(1) Operation of local currency Trust Fund accounting system, posting fund reservations, obligations and expenditures.

(2) Provides the USAID with uniform guidance and procedures for financial management of US-owned PL 480, Title I local currency and GVN-owned local currency held by the USAID including counterpart funds.

(3) Formulates and prescribes appropriate system of internal control over local currencies which includes billings for deposits, processing claims, and certifies transfers between USG agencies.

(4) Maintains the Consolidated Assistance Fund which includes estimating fund availability by analysis of CIP and PL 480 program progress of implementation and US dollar funding and recording local currency commitments and releases for agreed program and project support.

(5) Conducts self audits of records and reports developed in the Branch and reviews local currency information for funds released to other activities to determine adequacy of procedures for proper use of local currency resources.

(6) Maintains operating liaison with the Directorate General of Budget and Foreign Aid, the Ministry of Finance, Director General of Treasury and Central Accounting, the National Bank of Vietnam and the USDO.

(7) Provides guidance within ADFM on local currency exchange rates for generations, payments and related matters and assists in USAID's financial policy by coordinating activities with the ADEPP, ADPROG, and the GVN offices.

(8) Assists in the developing of cost estimates and justifying Trust Fund budgets.

(9) Coordinates local currency planning and budgeting with the Program Office in the development of projects, and provides historical expenditure data. Keeps technically informed of USAID policies and programs related to local currency portion of project operations.

C. Local Currency Budget and Accounts Branch Organization Structure

(See Page 17)

BRANCH CHIEF
Administrative Assistant

- Accounting Section Chief
  - Typist
- Deposit & Release Control Unit
  - GVN-Owned
  - USG-Owned
- Direct Project Support Unit
  - Trust Fund
  - AAC Funds-in-Trust
  - Special Funds-in-Trust
  - Other Funds-in-Trust
- Indirect Technical Support Unit
  - Local Salaries & Allowances
  - Rents and Utilities
  - Sector Tech. Support
  - Other Tech. Support

- Budgeting Section Chief
  - Typist
- Fund Availability Unit
  - Generation Estimation Public Law 480, CIP, Other
  - Commitment Planning Master Agreements and Other Agreement Records
- Program Reports Unit
  - Budget Implementation
  - Status of Commitments
  - Tech. Support Reports
- Commitment and Obligation Analysis Unit

There are two new units in the revised organization structure that are of particular importance to the improvement of operations of the Branch. These units are described as follows:

(1) <u>Deposit and Release Control Unit</u> - Different deposit and release procedures are used for each type of fund source and consideration was not being given to the full utilization of all available sources of funding in an expeditious manner. All generations were not anticipated and the Local Currency Branch was often not aware of due deposits. We developed uniform record keeping procedures for all fund deposits and releases. Releases for substantive requirements are now made in as expeditious a manner as possible, using standardized release forms to reduce the typing of transmittal letters. All deposits are anticipated and there are uniform billing and follow-up procedures established for overdue deposits. The available funds are placed in the GVN Treasury and accounted for until receipt of reports of disbursement made directly to the suppliers of goods and services.

(2) <u>Fund Availability Unit</u> - ADFM had been estimating piaster generations from the CIP and PL 480, Title I. These are major elements of piaster generations, however, there are other significant sources of piaster funds. In order that proper planning and budgeting for local currency use is to be performed, all significant sources of generations are to be considered and generations will be predicted six to eighteen months in advance. Records are now maintained of actual generations in relation to estimates with a periodic reevaluation of prediction procedures. In order to develop

all inclusive and accurate piaster generation estimates, ADFM has developed formal procedures and processes for estimating the piaster generations and maintain records of generations for planning revisions. With this reliable system of estimating piaster availability, USAID can be better assured that it can meet its local currency commitments.

ADFM is now maintaining complete records of local currency outstanding commitments. In the past, several current and prior year commitments were not being satisfied and some commitments could not be met because of lack of available funds. Records of the total resources in relation to outstanding commitments are now readily available and priorities for releases are now established. ADFM established and is maintaining records to make the above information readily available to ADPROG and other interested USAID offices for decision making purposes.

12. USES OR APPLICATION OF LOCAL CURRENCY FUNDS

Following is a general discussion about the uses of local currencies available to the USAID/Vietnam.

A. Use of Counterpart Generations

The Economic Cooperation Agreement specifies the provisions for handling and use of piasters generated under assistance agreements. Part 3, of Section I of the Annex to that agreement, establishes a provision for using the piasters for USAID and the Office of Civil Operations and Rural Development Support (CORDS) administrative expenses. Part 4 establishes a provision for in-country commodity transportation costs. Part 5 establishes that the GVN may draw upon any remaining piasters in the special account for such purposes beneficial to Vietnam and connected with the purposes of this agreement as may be agreed to by the USG.

Each calendar year a Local Currency Letter of Understanding (Master Local Currency Agreement) is developed. This letter specifies the joint agreement for the application of counterpart funds and other piaster funds available to the USG. The letter is based on estimated piaster generations since the amount which will be generated is not precisely known before the start of the calendar year. The largest part of the counterpart funds and all the Military uses portion of the PL 480, Title I funds have been allocated each year to support the GVN National Budget.

B. Revised Procedures for the Counterpart Suspense Accounts

After 1962 deposits from importers were no longer made directly to the Counterpart Special Account (Number 44-20), but to Counterpart Suspense Accounts. Transfers were made to the Counterpart Special Account based on billings developed by ADFM based on the W-214 report. As a result of this change, a permanent suspense fund was established which delayed the availability of counterpart generations by about three months. On the average, about three billion piasters were in these suspense accounts. The use of the suspense accounts resulted in transferring the detailed accounting for importers' deposits from USAID to the NBVN. It has been necessary from time to time for ADFM to request the NBVN to advance funds from those accounts so ADFM could meet its requirements for release of funds. In order to reduce the pipeline quantity of funds held by the NBVN the necessary arrangements were made for the NBVN to advance, on the first and 15th day of each month, the total balance in the Counterpart Suspense Accounts, to the Consolidated Assistance Fund. The billings based on the W-214 reports were continued monthly and used by the NBVN to clear its accounts and to reduce the amount in advanced status.

This procedure reduced the pipeline quantity of funds by an estimated $30 million by speeding up the availability of funds for release. It also eased the pressure on the Local Currency Branch to get the reports from Washington and develop the billings. It reduced the pressure on NBVN to review the billings and make the deposits. Since deposits are being made by importers on a daily basis, NBVN refunds to importers are no problem.

C. Development of Local Currency Agreements

Based on the written budget guidelines and financial plans, local currency master agreements should be developed and approved by January 1, the start of the budget year. If possible the master agreements should be signed prior to budget submission on September 30 for approval of the National Budget, by the GVN National Assembly. The master local currency agreements should be inclusive of all USAID budget year piaster commitments for USAID owned and controlled piasters. Each calendar year the master agreement should be the one and only overall local currency plan for budget execution in the calendar year and be supported in detail by the project agreements as they are developed. This would require all new obligations under prior local currency agreements to end when obligations start under the new master agreement. The Moss Amendment of 1966 requires that USAID approve the use of piasters prior to their inclusion in the Vietnamese Budget.

D. Budget Guidelines for USAID Planned Support of GVN Budgets

In the past, ADPROG and ADEPP have not developed written budget guidelines for the USAID planned support of the GVN National Budget. ADPROG personnel discuss the future civil budget development with the others involved, but there is no official documentation available to ADFM of the level of support approved by USAID for the civil budget prior to its passage by the National Assembly. The master local currency agreements or letters of understanding are developed later and approved; however, these agreements are much too late to be useful to ADFM as a basis for control of local currency operations. The commitments and procedures to be followed are already in effect by the time ADFM gets a look at the draft agreement. By that time the level of agreed support has been established, the GVN has passed the budget, project agreements are being developed, the GVN is expending funds and ADFM may have already released some of the committed amounts based on the amounts shown in the civil budget. About the same condition is true for the Ministry of National Defense Budget, except that the Military Assistance Command, Vietnam (MACV) issues some narrative guidelines.

ADFM is working with the other USAID offices to develop formal <u>financial</u> budget guidelines to be written and approved prior to June 30 of each year and be made available to ADFM. These guidelines should indicate the estimated total amount of local currency support, and disclose the first sublevel breakdown, based on anticipated USAID funding capabilities during the budget year. These guidelines would become ADFM's basis for control of local currency until such time as more detailed plans are developed. Currently ADFM has no basis of control until well into the budget year.

E. <u>The American Aid Chapters (AAC) Funds</u>

The AAC is the counterpart piaster support portion of the GVN National Budget devoted to civil programs. The AAC is a part of the National Budget for projects sponsored in conjunction with USAID/CORDS.

The AACs of the GVN National Budget are supported by funds primarily generated under the USAID CIP (Counterpart) and U.S. DOD dollar purchases of piasters. The AAC Budget is determined by negotiations between the GVN Directorate General for Budget and Foreign Aid (DGBFA) and the several GVN Ministries/Directorates and USAID/CORDS. These negotiations are held during the latter part of DGBFA's budget preparation cycle (usually August) and involve a series of meetings to which the various GVN Ministries and USAID/CORDS Technical Divisions concerned are invited. Once the AAC Budget is approved by both DGBFA and ADPROG, in detail, it is submitted to the GVN Legislature as an integral part of the National Budget (but without details).

After the National Budget is passed by the Legislature, the GVN and USAID formally agree to the amount of the official commitment of support to be provided with local currency. This is done with a Local Currency Letter of Understanding which is signed by the Director General for Budget and Foreign Aid and the USAID Director. The Letter of Understanding also details the procedures to be followed that year by both the GVN and USAID in administering all piaster funds including the AAC.

The AAC is intended primarily as an investment chapter in the GVN National Budget and any intended uses for AAC funds must be considered in this light. The majority of the GVN National Budget is concerned with the operational costs of the government, and limited GVN resources make it difficult to provide for direct investments. It is this gap that the AAC is designed to fill.

The AAC should primarily support Budget Article 71-79, Direct Investments, which ranges from construction to the purchase of certain machinery and equipment. Budget Article 31-39, Materials and Managing Services, can also be considered eligible for AAC financing if the operational supplies and services are required on a non-continuing basis and are directly related to a USAID project activity. Budget Article 51-59, Ordinary Transfers, is funded by DOD purchased piasters and involves transfer of funds to the Provinces. Any operational expenditures of a continuing nature for the central Ministries should be funded by the GVN. No funding should be considered for Article 11-19, Salaries and Allowances, and use of the AAC for any Articles other than Budget Article 51-59 and 71-79 are discouraged.

The AAC Budget contains a certain specified amount of money, called the AAC Reserve, which is not allocated by project. The Reserve is intended as a contingency fund to support requirements that could not be foreseen at the time of the budget preparation. The Reserve is not intended to be used to supplement piaster requirements found insufficiently funded because of inadequate planning. In all cases requests for use of the Reserve, if they are to be approved, will require strong justification as to the immediate need and the unplannable nature of that need.

AAC funds, both regular and reserve, are documented by ProAgs. The ProAg is prepared by the Technical Division/CORDS Directorate concerned and ADPROG. A properly prepared Pro Ag must include a budget showing piaster amounts by GVN budget article. The ProAg is cleared by the appropriate USAID/CORDS offices and GVN Ministries, and upon being signed by DGBFA and ADPROG becomes an official detailed agreement for use of the piaster funds. The piaster funds must be obligated by the recipient GVN agency before the AAC piasters are available for the intended use. This obligation of funds is subject to all GVN regulations and deadlines required by their National Budget and accounting system.

Problems in the use of AAC funds in relation to GVN regulations arise primarily in regard to the final obligation deadline and the reprogramming of prior year funds. The final date for obligation by the GVN is November 15 of the calendar year in question. Special waiver can be granted by DGBFA in certain cases to extend that date to December 15. No funds can be obligated subsequent to December 15 for any purpose. ProAgs involving AAC piasters should be signed by DGBFA and ADPROG by October 31 of the calendar year in order to allow the GVN Agency sufficient time to make or adjust the actual obligation. For those cases qualifying for a special waiver, the ProAg signature deadline would be November 30.

Reprogramming prior year funds can be done only within the limits of the particular ProAg; in other words, funds in a given ProAg can be reprogrammed only by changing the purpose intended for funds in that same ProAg. The total amount of funds cannot be increased, but ProAg revisions are needed to change GVN budget articles by over twenty per cent of the total amount of that ProAg. The total amount of a ProAg can be decreased by a revision in the amount of funds unneeded, unused or used for a non-approved purpose, however, such reductions in prior year funds are not available for reprogramming. They are not available for the year in which they were originally committed (the prior year) because GVN regulations prohibit obligations after December 15 of the prior year. They are not available for the current year because the total amount of the AAC in the GVN budget is fixed at the time of budget approval and cannot be increased without a supplementary budget approved by the National Assembly. These are GVN funds and if unused in accordance with the above procedures the funds remain subject to use pursuant to other GVN/USG agreements.

The controlling documents for use of the funds are the budget and project agreements established between the USAID/CORDS and the GVN Ministries. The funds are administered according to the project agreements (and project implementation orders if administered in trust) which include detailed budgets, work plans, disbursement procedures and reporting requirements. ADFM evaluates the appropriateness of the project agreements and availability of funds. The original budget development, and issue of project implementation orders, are performed by the USAID CORDS technical division staff and their counterparts in the GVN agencies and ministries. These are reviewed by the USAID Program Office and CORDS Plans, Policy and Program Office and approved by the USAID and DGBFA. In performance of the projects the GVN obligates its own funds. The DGBFA reports monthly to the USAID on the financial status of the projects. Based on these reports and request from ADPROG, ADFM releases Counterpart Funds as advances to the GVN. The releases authorize the GVN Treasury to transfer the funds from the Consolidated Assistance Fund to the GVN. Copies of the letter requests for actual transfer of funds are sent to DGBFA and the USAID Program Office. When the transfer is effected by the Treasury, ADFM is provided an advice of transfer. In some cases the AAC Budget amounts are transferred to the USAID Trust Accounts for disbursement by ADFM. ADFM accounts for the AAC Funds advanced to the GVN until final expenditure reports are received and accepted by ADFM.

F. Revised Procedures for the American Aid Chapter's Funds and Other Project Funds

Most AAC funds are expended by the GVN in accordance with their expenditure procedures and such procedures as are incorporated in the project agreements. Non-budget project funds such as the local procurement funds, agriculture credit funds, etc., are controlled only by the provisions established by the USAID in the project agreements and project implementation orders. The project documentation for use of these funds, therefore, needs to incorporate additional control provisions such as are applied by the GVN for their budget execution. Additionally, AAC funds administered by the USAID from the trust accounts have no effective GVN restrictions on their administration. Project documentation for these funds needs to be more explicit as to the controls to be applied, such as periods of service or delivery, final contracting dates, final contribution dates, etc. This requires more effective review of the project implementation orders prior to approval by ADFM. We assure that AAC Funds taken in trust are placed under contract or otherwise implemented in a timely manner.

Because of the small amount of AAC Funds processed through the Trust Accounts, the process is not of significant value to project performance but leads to confusion and special accounting problems. Action is being taken so that this type of funding arrangement can be discontinued. The project documentation for these funds should incorporate the needed controls on local currency administered by the USAID similar to those for dollar funds. Currently ADFM is not using the piaster control aspect in existing project documentation because it is not clear whether the controls were meant to apply to both dollars and piasters and because of general documentation inconsistency.

Project funds administered by others should not be released until the currency is clearly needed and reclaims should be made in all instances where the funds are not used in accordance with the agreements. Until calendar year 1966, ADFM maintained individual records on funds released by project agreement. After that date the individual release records were kept by the DGBFA and checked by ADPROG. The ADPROG local currency staff had been relying on DGBFA to keep the detailed release records. The local staff of the ADPROG office was transferred to ADFM on September 1, 1971. ADFM re-established control of releases for each project agreement. This information was necessary to the maintenance of records on outstanding commitments. For CY 1972 and subsequent funding the accounting procedures were modified considerably by establishment of the Consolidated Assistance Fund.

G. <u>Out-of-Budget Funds</u>

(1) <u>Special Funds</u> - These funds are not a part of any regular budget and the requirements funded are usually of an unforeseen nature or represent unprogrammed requirements. This allows funding of activities that would not otherwise be supported. The use of the Special Fund is dependent upon approval by the GVN Prime Minister and the USAID Director. The use of the Special Funds is established by bilateral agreement setting forth objectives, responsibilities of both parties in execution of a work plan, and any specific financial regulations and procedures applicable to the use of the funds. Once the general agreement on use of the Special Funds for a particular project is accomplished, the project managers are named and individual agreements are written that actually transfer the funds to the agency which is to administer them. This flexibility in programming and freedom from sluggish GVN budgetary procedures provided the USG and GVN with a means of accomplishing priority programs.

(2) <u>Revised Procedures for the Prime Minister's Special Funds</u> - Since 1966 counterpart funds have been committed for Special Fund operation. These funds were allocated and released to the Prime Minis-

ter's Office by USAID, (GVN Treasury Account No. 6404) based on the master local currency agreements. The project agreements sub-allocate part of the funds to other agencies including USAID. The Special Funds allocated to USAID are held in the USAID Trust Accounts along with Trust Funds and other Funds-In-Trust.

Special Funds were released to the Prime Minister's Office in advance of established needs. The Economic Cooperation Agreement indicates that counterpart funds (other than Trust Funds and funds for in-country transportation of project commodities) may only be released by USAID "... for such purposes beneficial to Vietnam, and connected with the purposes of this Agreement as may be agreed to from time to time..."

In consideration of that agreement and the USAID's desire not to release funds to start projects on which the needs are not clearly established, we recommended that Special Funds not be released until the purpose for their use is established and agreed to by USAID. This now prevents the use of such funds for purposes not agreed to by the USAID and the holding of funds in unallocated reserves for long periods of time. Additionally, we recommended that any refunds be returned to the USAID's control not to the Prime Minister as in the past.

(3) Trust Funds - The Trust Fund was established under Part 3, Section I of the Annex to the Economic Cooperation Agreement. The provision states that the USG may notify the GVN of its "... local currency requirements for administrative expenditures incident to the furnishing of assistance under this agreement..." and the GVN will, thereon, make such funds available out of the Counterpart Accounts as may be requested by the USG. On August 15, 1958, a Trust Fund Agreement was signed establishing the fund and further clarifying the types of costs that may be charged to this fund. Each calendar year the letter of understanding specifies the use of estimated available local currencies. This agreement includes the amount of Counterpart piasters to be transferred to the USAID and held in trust.

Under the terms of the Agreement, the Trust Fund may be used for the following types of expenditures.

(a) Expenditures such as living allowances, housing costs, transportation of household goods and personal effects and travel both within and outside (where accepted by the carrier) of Vietnam, providing such costs are incurred in local currency and are incurred by or on behalf of the USG direct hire, local national, and contract employees.

(b) Other USAID local currency costs associated with providing AID assistance, such as the purchase of supplies and equipment for the USAID needs rather than the implementation of projects, the rental of office space as well as the maintenance, repair and improvement of buildings and utilities obtained for the purpose of providing office space for the USAID operations and living quarters for non-Vietnamese employees engaged in the USAID activities.

(c) Local currency costs connected with training of Vietnamese nationals under the USAID programs.

It is important to distinguish in Paragraph (b) above between supplies and equipment required to enable AID to perform its functions and supplies and equipment required to fulfill or implement an assistance project for the host country. The former may be funded with Trust Funds, whereas the latter should be funded through AAC funds. In the case of a project calling for the construction of a building, a bag of cement would not be appropriate for Trust Fund funding nor would any other construction supplies required for the construction. On the other hand, the purchase of a calculating machine to be used by the USG project adminstrator would be appropriate.

In order to comply with the USAID's responsibility as a trustee of the GVN funds advanced under the Trust Account Agreement, the following guidelines are observed:

> All requests for expenditures from the Trust Account will be prepared in conformity with a strict interpretation of the above, particularly Paragraphs (a) and (c). ADM/MAS will exercise approval authority for expenditures under Paragraph (a), and those expenditures under Paragraph (b) which relate to office space, improvements and utilities for the USAID operations and living quarters for non-Vietnamese employees. ADPROG will exercise approval authority for expenditures under Paragraph (c). ADFM will clear such approvals during the processing of appropriate project or other documentation.

Since the USAID is a trustee under the Trust Fund Agreement, administering GVN-owned counterpart funds advanced for specified purposes set out in the agreement, the USAID may not use these funds for other purposes without the GVN prior agreement. The Trust Funds are derived generally from the counterpart funds established under Section 2 of the Annex to the Economic Cooperation Agreement of September 7, 1951. The use of counterpart funds for purposes beneficial to Vietnam and connected with purposes of the Economic Cooperation Agreement may be undertaken by the GVN as agreed to from time to time between the GVN and USAID. Hence, the use of Trust Funds for purposes other than those expressly authorized in the Trust Fund Agreement would require prior approval by appropriate GVN authorities. In such circumstances, it represents counterpart funds being used, as such, instead of for the USAID and related requirements under the Trust Fund Agreement.

This provision serves to outline the exceptional conditions and procedures under which Trust Funds may be used for local currency financing of projects which ordinarily should be funded out of AAC funds in the GVN budget.

(a) Obligation of Trust Funds for project support activities will be accomplished by completion of a ProAg, ProAg revision or PIO/T, as appropriate, signed by the Directorate General for Budget and Foreign Aid for the GVN and the Director or the Associate Director for Program for USAID. ProAgs authorizing Trust Funds for project contract support must be accompanied by a PIO/T.

(b) The office seeking the use of Trust Funds under these conditions and procedures must submit: (1) a justification explaining why the proposed activity is not being funded out of AAC funds or other local currencies available to the GVN and why it is necessary to obtain local currency funding through these sources instead of waiting for funds to become available to the GVN for use in the proposed activity, (2) a written agreement showing the GVN approval and recommendation of the proposed funding out of Trust Funds, (3) a certification by ADFM and ADPROG that the required funds may be released from Trust Funds without adversely affecting the USAID's needs, and (4) an understanding from the GVN ministry involved and DGBFA that the funds will be reimbursed to the Trust Fund Account by DGBFA when funds become available under the GVN budget process. The ProAg and/or PIO/T must include a detailed explanation as to how the funds will be expended.

(c) Technical Divisions/CORDS Directorates seeking the use of Trust Funds as herein outlined may prefer to submit documents in draft for review prior to preparation of the final document.

(d) Where the ProAg is completed in final form and cleared by ADPROG-PO/PE, it is submitted to ADFM for review and prevalidation of funds and then to the Technical Division CORDS Directorate for final clearance. Following all USAID CORDS clearances, the document is submitted to the GVN for appropriate clearances and signature by the DGBFA. It is then returned to ADPROG for final approval and signature (by the Director, if appropriate). Following the requisite signatures, ADFM is authorized to disburse Trust Funds in accordance with its established procedures.

The current Trust Fund Agreement dated August 15, 1958, had one substantial deviation from the prescribed form of Manual Order 1512.3.

That deviation was in regard to the use of Trust Funds for USAID VN administrative personnel local currency costs. The Economic Cooperation Agreement does not exclude these costs from the type of costs to be paid from the Trust Fund, however, the Trust Fund Agreement excluded them. Since December 1968 each USAID has been under instruction (Manual Order 1512.3) to seek amendment to the existing Trust Fund Agreements that specifically exclude USAID administrative expenses. As a result of ADFM efforts, this amendment was made on May 8, 1972.

The USAID is not complying with the current Trust Fund Agreement in two respects: (1) we are not rendering an annual accounting to the GVN, and (2) we are not maintaining satisfactory monetary property records of property purchased with Trust Funds. Efforts are continuing to establish monetary property records, however, ADFM must hold its efforts until ADM produces the necessary records including inventories and unit prices. We are also developing reports to the GVN on the use of Trust Funds that will meet their requirements.

In operation of the Trust Fund, ADFM transfers funds from the Counterpart Accounts to the Trust Accounts by letter request. These requests are made on a periodic basis, up to the amount provided in the annual letter of understanding (Master Local Currency Agreement). The deposit is effected by the Treasury Crediting on request the Counterpart Account No. 7915KL and debiting Trust Fund Account No. 7916KL in the GVN Treasury. When the funds are needed for obligation, ADFM transfers the funds to the USDO's Account No. 6414 in the Treasury. The USDO then issues Standard Form 459 to Washington covering the accountability for U.S. Treasury Account 72FT800 and provides a copy to ADFM. The Trust Funds are then allotted, obligated, and disbursed in accordance with prescribed AID regulations. AID/W controller instructions require that we transfer these funds to the USDO prior to making obligations. The Trust Fund is not governed by the GVN budget procedures, however, expenditures may be audited by the USAID or the GVN.

In addition to the funds for administrative expenses, there are cases where the GVN finances certain local currency costs of projects through the Trust Fund. These funds are approved in the AAC budget or elsewhere and administered and disbursed by ADFM through the Trust Accounts. ADFM maintains separate accounting and reporting on these funds. The following Trust Fund Accounts are used for funds under the USDO accountability and control for US Treasury Account No. 72FT800:

- GVN Treasury Account No. 6414
- Bank of America Account No. 001, VN$950 Million; Which is Replenished from Account No. 6414

- Bank of America Account No. 060, VN$100 Million Time Deposit 1/
- Chase Manhattan Bank Account No. 0508, VN$300 Million, Time Deposit 1/

1/ Time Deposit Interest Becomes Part of the Trust Fund.

(4) Revised Procedures for USAID Trust Funds

(a) Control of Funds - Presently these funds are handled like no-year appropriations and remain available until expended. The only restriction on the use of these funds according to the Economic Cooperation Agreement is that they should cover costs which relate to the economic development efforts of the Mission. We recommended that the USAID Trust Funds be transferred to the USDO only as needed to cover obligational requirements. These funds should be maintained in the GVN Treasury Account and transfers to Commercial Banks should only be performed to meet immediate disbursing requirements.

(b) Budgeting and Accounting - The budgeting, accounting and reporting for Trust Funds is now divided between general indirect technical assistance and direct support of specific project agreements. The types of documentation required for Trust Fund expenditures are of two basic types: Those where project documentation is required (bilateral) and those where project documentation is not used (unilateral). The bilateral agreement expenditures are identifiable by project implementation order numbers and are applicable to specific projects. The other expenditures are now primarily identified by miscellaneous obligation document number and are identifiable as project 000 (Technical Support).

In order to reduce the technical skill level required to work with these two types of documentation, and to simplify record keeping and reporting, the current Trust Fund Staff is to be divided along those conceptual lines. The unilateral documentation efforts are primarily initiated by ADM and CORDS. The bilateral agreement efforts are administered by the GVN and the Technical Divisions. Efforts are being made, for the long term, to eliminate instances of "bilateral agreement funds-in-trust", in favor of Vietnamization of program administration. This will allow the USAID staff reduction since the USAID not only accounts for these funds but also contracts and disburses them.

ADFM should assist in efforts being made to develop meaningful piaster technical support budgets. This work should be in cooperation with the ADM and the Regional Offices. ADFM is now developing desired status of budget performance reporting on the execution of existing budgets.

H. US-Owned Piaster Fund Accountability

PL 480, Title I funds are US-owned funds and become available to the Mission without reimbursement to the Department of Agriculture for its payments to the commodity suppliers in the United States. The funds in the NBVN are also accounted for in the accounts of the U.S. Treasury. This procedure is as follows: The USDO advises the Commodity Credit Corporation, and the U.S. Treasury in Washington by SF 459 of the deposit to NBVN Account No. 20FT680, for Local Currency Sales and No. 20FT670 for Convertible Local Currency Credit Collections from Sale of Agricultural Commodities. The USDO processes a Foreign Currency Transfer Authorization, Form TF 848, which transfers the authority for the funds in the Account No. 20FT680 and 20FT670 to the USDO Treasury Account Nos. 72FT745 and 20FT400. The first account, No. 72FT745, for Section 104c commond defense, is for reporting accountability on Military Budget Support Funds and the Account No. 20FT400 is for reporting accountability for U.S. Mission Funds Section 104a and j. The division of funds between the two accounts above, as established in the Title I Sales Agreements, was made by the U.S. Treasury until recently when the transfer authority was delegated to the USDO, Saigon. Currently the agreements specify an 80/20 division, with the larger portion going for Military Budget Support. The USDO furnishes ADFM with one photo copy of the TF848 authorizations. The USDO also provides ADFM with a copy of the monthly report SF1218 Statement of Accountability and Account Current. This form is used by the USDO to support his transfer of funds to his Foreign Service Accountability Account. The transfer authorizations are used by ADFM as the basis to increase the allotment for its records on the 72FT745 Account by the amount designated.

I. Military Budget Support Process

A master agreement for local currency is developed each calendar year on the basis of expected piaster generations. This agreement is signed by the USG and the GVN specifying anticipated funding levels for the USG support chapters of the GVN National Budget. The programming and monitoring responsibilities for these funds are specified in an internal U.S. Mission agreement dated January 24, 1970. Annual planning for the Defense Chapter of the National Budget begins with jointly developed and approved narrative budget guidelines normally published during March preceding the calendar year. About three months later (in June), the GVN proposed Defense Chapter is forwarded to MACV. It undergoes a review by the U.S. Military Budget Officers assigned to each Republic of Vietnam Armed Forces operating agency, the MACV Budget Screening Board and the MACV Budget Advisory Committee. The jointly approved Defense Chapter is then formalized as part of the National Budget.

A part of the Defense Chapter is funded from Title I piaster proceeds and Counterpart Funds which are called Military Joint Support Funds. Control over these funds is exercised by the MACV Comptroller by monthly status of funds reports and on-site inspections. These funds may be obligated during the calendar year and the obligations must be liquidated within the next succeeding year at the latest, provided they are re-obligated within the next year budget chapter after having been disassociated from the original budget year. The GVN requests release of the Joint Support Funds to reimburse the liquidations made in the preceding months based on monthly reports. Based on MACV's recommendations the ADPROG recommends the release of the funds within the funding limitations indicated in the project agreement.

This is performed by ADFM preparing and processing a voucher payable to the Ministry of Finance. The USDO draws a check on NBVN Account No. 41-24-04 and ADFM transmits the check with covering letter to the Ministry of Finance. Copies of the letter are sent to seven other addressees. The Ministry of Finance deposits the check with the GVN Treasury. The USDO also records the release in his records on U.S. Treasury Account No. 72FT745. GVN Treasury Account No. 7917 KL has been established in the Consolidated Assistance Fund but is not currently in operation.

J. Assistance-In-Kind (AIK) Funds

A portion of the Joint Support Funds provided for the Defense Chapter of the National Budget is used through agreement ;to support the USG and other Free World Forces in Vietnam. This support includes goods and services for administrative and logistical support. To expedite execution of this support, the GVN has authorized the USG forces to procure the necessary support related goods and services directly rather than doing so through the GVN. Although the AIK funds are administered by MACV, a GVN General Treasury Account No. 197 for AID funds has been established in the name of a GVN Army Officer. This officer is appointed by the Director General for Finance and Audit, Ministry of Defense, to assume the duties of AIK custodian. All checks drawn from this account for goods and services, to include salaries of MACV local national employees, must be countersigned by the MACV Comptroller or his duly appointed representative. The Ministry of National Defense allocates funds each year to meet AIK requirements based on recommendation of MACV Comptroller. In case of delay in budget approval, and in view of requirements for the AIK funds at the beginning of each year, the funds may be advanced by DGBFA and placed in the AIK account, pending reimbursement later from the USAID piaster funds. These funds may be used only to procure goods and services that are available in Vietnam and expenditures are subject to the GVN and MACV audit. A portion of these funds have been programmed by CORDS for high impact pacification, military civil action and PSYWAR projects. This portion of AIK funds called pacification funds includes three subdivisions.

(1) The US/FWMAF Civil Actions and PSYWAR Fund is used for civic action projects.

(2) The Advisory Pacification Fund is used for small pacification projects.

(3) The CORDS Contingency Fund is used for large pacification projects that exceed VN$100,000 per project.

L. Other Purposes

The GVN and the USG may provide other uses for Counterpart Funds. Release of such funds is made in accordance with the agreed procedures. In the past years allocations were made to such funds as the Rural Banking System Development Fund, Local Procurement Fund, etc.