

PD-AAA6-081

6264243001801

1123



Auditor General

REVIEW OF THE ENTENTE FUND'S

FOOD PRODUCTION PROJECT

In 1976 AID provided the Entente Fund with \$15 million in loan and grant funds to support a food production project being implemented by the Governments of Benin, Ivory Coast, Niger, Togo and Upper Volta. This report indicates the implementation of that project has been adversely affected by inadequate planning and management, thereby making it unlikely the project goals will be achieved.

Audit Report Number 80-31

Issue Date February 29, 1980

Area Auditor General, Washington
Agency for International Development
Washington, DC 20523

REVIEW OF THE ENTENTE FUND'S
FOOD PRODUCTION PROJECT

Audit Report No: 80-31

Issue Date: February 29, 1980

REVIEW OF THE ENTENTE FUND'S
FOOD PRODUCTION PROJECT

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
BACKGROUND	1
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	4
A. Need to Improve Overall Management of Project Activities	4
Delays in Approving Sub-Projects	4
Lack of Benchline Data to Measure Performance	5
Host Country Contributions Are Not Being Made	6
Need for Improvement in Cash Management	8
Need to Monitor Non-U.S. Procurement	9
Lack of Compliance with AID's Reporting and Auditing Requirements	10
Lack of Sub-Project Identification	11
B. Sub-Project Deficiencies	13
The Sub-Project in Upper Volta Needs to Improve its Accounting and Management Practices	13
Improvements Needed in Sub-Project Management and Accounting	14
Improper Use of Revolving Loan Fund Repayments	16
The Insurance Program Needs Better Controls	16
Need For Controls Over Purchase of Animals	18
The Future of the Veterinary Supplies Revolving Fund is in Question	18
Problems Caused by Inadequate Planning in Togo and Benin	19
Sub-Project Delays in Togo	19
Sub-Project Cuts in Benin	20
C. Inadequacies In REDSO/WA's Review and Monitoring	23
Inadequate Sub-Project Review	23
Lack of Disbursement Procedures	23
Infrequent Site Visits	24
LIST OF REPORT RECOMMENDATIONS	26
LIST OF REPORT RECIPIENTS	27

EXECUTIVE SUMMARY

Introduction

The Entente Fund is a regional financial intermediary created by the Council of Entente, comprising the Governments of Benin, Ivory Coast, Niger, Togo and Upper Volta. In 1976, AID provided a loan and grant to the Entente Fund for a food production project. The purpose of the project is to assist Entente member governments devise a strategy of assistance to small farmers aimed at increasing the level, efficiency and reliability of food production. AID funding for the project totals \$15 million, consisting of a \$10 million loan and a \$5 million grant. These funds were in turn provided in the form of loans and grants by the Entente Fund to the member governments for approved sub-project activities. The Entente Fund, as the administering agency, bears primary responsibility for the overall administration of the project. The responsibility for coordinating and administering sub-projects at the host country level rests with the respective Ministries of Agriculture and/or Rural Development in each country. AID, through its Regional Economic Development Services Office/West Africa (REDSO/WA), has oversight and evaluation responsibilities.

Purpose and Scope

The purpose of this review was to assess the results of the AID-financed project, to determine whether the project was being effectively and efficiently managed and to ascertain whether AID project funds were being properly expended and in compliance with AID policies and procedures. The results from this review are considered important to AID's continuing efforts to improve its surveillance over projects. Our examination included a review of Entente Fund and REDSO/WA records in Abidjan, Ivory Coast, as well as discussions with responsible Entente Fund, host country and AID officials. Visits were made to selected sub-project sites in Benin, Togo and Upper Volta. The examination was performed in accordance with generally accepted audit standards and procedures.

Need to Improve the Entente Fund's Management

There are a number of serious problems in the planning and management of the Food Production Project. In our view, these problems are indicative of the need for stronger Entente Fund management over the various sub-project activities. These problems are briefly summarized below:

- Delays of a year or more were experienced in approving the sub-projects because AID-financed technical assistance was not provided on a timely basis; (See page 4)
- Required surveys to obtain benchline data have not been performed with the result that quantitative measurement of sub-project performance is not now possible; (See pages 5-6)

- Some Host Governments have been required to make financial contributions to sub-project activities though they are on the verge of bankruptcy; (See pages 6-7)
- Entente Fund's periodic drawdown of AID loan and grant funds has no documented basis of need, thereby resulting in the holding of idle funds; (See pages 8-9)
- No centralized accounting procedures were established by the Fund to control non-U.S. procurement; (See page 9)
- Financial audits have not been performed of sub-project activities by the Entente Fund even though this is a requirement of the AID loan and grant agreements. (See page 10)

Sub-Project Activities Are Experiencing Problems

The implementation of the sub-projects in the various Entente countries are experiencing serious problems. In the Animal Traction sub-project in Upper Volta, adequate accounting and management controls have not been established over the Animal Traction Revolving Loan Fund. The result is that the funds are being used for improper purposes, e.g. operating expenses. A similar situation was found in the Insurance Revolving Fund and Veterinary Supplies Revolving Fund. In our view, the Government of Upper Volta's precarious financial condition has contributed to this situation. The sub-project problems in Togo and Benin are attributable to poor design and planning. For example, inadequate planning has resulted in implementation delays in Togo and the scaling down of planned sub-project outputs in Benin. (See pages 13-22)

REDSO/WA Needs to Improve Its Review and Monitoring

REDSO/WA needs to improve its review and monitoring of the Food Production Project. Indicative of this have been delays in reviewing and approving project documentation as well as infrequent visits to sub-project sites. Only two site visits have been performed over a period of three years and those were not specifically designed to address the food production sub-projects. (See pages 23-25)

Conclusions and Recommendations

In our view, the potential beneficial impact resulting from this project will be obscured because benchline data to quantifiably measure results have not been developed as required. Moreover, the sub-projects have experienced inordinate delays and sound financial management techniques have not been practiced. Also, the ability of the host governments to provide their share of the financial contribution to support the sub-projects is highly questionable.

Our draft report contained 20 recommendations addressing various management problems and sub-project deficiencies. In responding to the draft report, REDSO/WA officials have taken a number of positive actions which, if properly implemented, should improve the overall management of the project. But, more needs to be done. Accordingly, we are recommending that REDSO/WA:

- request the Entente Fund to have sub-project managers submit quarterly expenditure projections to support its request for future cash needs;
- direct the Entente Fund to report and collect, on a regular basis, any interest earned on grant funded sub-projects prior to authorized disbursements;
- take appropriate action to ensure that the Entente Fund develop a procurement plan for any remaining procurement;
- work, in conjunction with the Entente Fund, to improve the accounting controls at the ORD level in Upper Volta;
- direct the Entente Fund to work with the Government of Upper Volta to improve the administration of the animal insurance program including: (1) the identification of insured animals, (2) the timely submission of insurance forms to the ORD credit manager, and (3) proper documentation on the insurance form indicating the type, cost, and date of the required veterinary services;
- direct the Entente Fund to require some form of vendor verification to support Sector Chief's expenditure claims for animals;
- ensure that the Entente Fund works with the Ministry of Rural Development to improve the operation of the Veterinary Supplies Fund by requiring: (1) prompt ORD payments to the fund and (2) more control over the supplies at the ORDs;
- increase the number of visits to the sub-project sites to adequately monitor project implementation.

Management Comments

Commenting on the draft report, REDSO/WA officials stated they agreed with the findings contained herein. Their comments were as follows:

"As you will note, we have suggested that a number of recommendations made by the audit team be considered for deletion from the final audit report. Since the departure of the audit team on September 13, 1979, the Entente Fund and REDSO/WA have taken action on a number of the 31 discussion points left with us by the audit team. In addition, the Development Alternative

Inc. (DAI), under contract with the Entente Fund, made an in-depth evaluation of the Food Production project in Upper Volta and Benin during November and early December. Their findings and recommendations have helped considerably in taking remedial measures on setting up procedures for future actions in specific problem areas, especially management and financial.

"I would like to express my sincere compliments for the highly professional manner the audit team carried out the audit. Because of their professionalism and sensitivity while visiting project sites in the three Entente countries (Upper Volta, Benin and Togo), I have received a number of favorable comments concerning their work and the way they conducted themselves while in the field. As the result, their discussion points and the draft report have been most helpful to REDSO and the Entente Fund in focusing on implementation problems and corrective actions."

BACKGROUND

In 1959, the Chiefs of State of four West African countries (Ivory Coast, Benin, Upper Volta, and Niger) created the Entente Council in recognition of the need for a cooperative political system to replace the former French colonial arrangements. The fifth member, Togo, joined the Council in 1960. The Council of the Entente is one of the oldest existing regional organizations in West Africa.

The Council established the Mutual Aid and Loan Guaranty Fund of the Entente Council (Entente Fund) in 1966, as a financial institution responsible for carrying out the mandate of the Council in the field of economic development. The purpose of the Entente Fund is to multiply the limited resources available for economic development in the region by facilitating investment borrowing through the extension of payment guarantees. These guarantees are to counter investors' fears of coups in the Entente area. Classes of borrowers eligible for guarantees include member governments, semi-public institutions and private corporations.

The 1966 convention creating the Entente Fund, located in Abidjan, Ivory Coast, established a small Secretariat headed by an Administrative Secretary. The Secretariat of the Fund consists of six permanent positions supplemented by a limited support and clerical staff of 22. The Administrative Secretary (Congo) and his deputy (vacant) are African. The four senior advisors are expatriates (three French and one American). These expatriate advisors perform the essential management and technical tasks of the Fund, including financial management and budgetary control. Temporary positions for professional (expatriate) staff have been established to assist with project design, analysis, monitoring and supervision of sub-project directors. These temporary positions are for life-of-project only.

As of December 31, 1978, approximately \$80 million has been contributed by non-member donors for project and technical assistance. This sum is about evenly divided in loans and grants. The U.S. has contributed \$63 million, of which about \$40 million has been in loans and \$23 million in grants. The major other donor has been France.

In 1976, AID provided a loan and grant to the Entente Fund for a Food Production Project. The purpose of the project is to assist the Entente countries adjust their agricultural sector policies so as to devise a strategy of assistance to small farmers aimed at increasing the level, efficiency and reliability of food production.

AID project funding totals \$15 million consisting of a \$10 million loan (No. 689-T-007) and a \$5 million grant (No. 626-0203). These funds were provided in the form of sub-loans and sub-grants by the Entente Fund to member states for the following eight sub-projects:

<u>Sub-Project Title</u>	<u>Country</u>	<u>Loan</u>	<u>Grant</u>	<u>Total</u>
Integrated Rural Development in the Northeast	Ivory Coast	3.7	-	3.7
Notse-Dayes Food Prod.	Togo	2.4	-	2.4
La Kara Rural Development	Togo	1.3	-	1.3
Firgoun Irrigation	Niger	-	1.2	1.2
Rice Production Extension	Niger	-	.425	.425
Practical Literacy	Niger	-	.335	.335
Animal Traction	Upper Volta	-	2.0	2.0
Corn & Sorghum Prod.	Benin	<u>2.6</u>	<u>.9</u>	<u>3.5</u>
Unobligated Balance		-	.140	.140
Total		<u>10.0</u>	<u>5.0</u>	<u>15.00</u>

The Entente Fund, as the administering agency, bears primary responsibility for the overall administration of the project. Since project activities are in the more complicated agriculture sector, it was apparent that additional Entente staff was necessary. Three temporary professional positions were therefore established to work uniquely on the Food Production Project. Accordingly, within the Entente Fund, main responsibility for the Food Production Project was delegated to a three-member project management team specifically recruited for the project. This team, with the assistance of other technical personnel of the Entente Fund and consultants provided through special technical assistance funds, provides the technical and managerial expertise required for the project. Funding for this management team is provided through an AID technical assistance grant.

The responsibility for coordinating and administering sub-projects at the host country level rests within the respective Ministries of Agriculture or Rural Development in each country. These ministries coordinate the various components of sub-projects among national extension services, agricultural credit institutions marketing institutions and agricultural and sociological research institutions.

AID, through its Regional Economic Development Services Office/West Africa (REDSO/WA), has a number of oversight and evaluation responsibilities. These responsibilities include the review and approval of all sub-projects; the review and approval of all long-term contracts financed by the AID technical assistance grant; the review of semi-annual reports

from the Entente Fund; and the arrangements for special annual evaluations with the Entente Fund and one annual meeting between AID and the Entente Fund to review the evaluation results.

Scope

The scope of this examination was to assess the results of the Food Production Project, to determine whether the project was being effectively and efficiently managed and to ascertain whether the Entente Fund expended AID project funds properly and in compliance with AID policies and procedures. Our examination included a review of Entente Fund and REDSO/WA records in Abidjan, Ivory Coast, as well as discussions with responsible Entente Fund, host country and AID officials. Visits were made to selected sub-project sites in Benin, Togo and Upper Volta. The examination was performed in accordance with generally accepted auditing standards and procedures.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. Need to Improve Overall Management of Project Activities

We found several weaknesses in the implementation of the Food Production Project. These weaknesses, in our view, indicate that the Entente Fund, in conjunction with the participating host countries, needs to improve its overall management of the sub-project activities. Long delays, for example, were experienced in approving the sub-projects thereby contributing to a year's slippage in the implementation schedule. The required surveys to obtain benchline data have not been performed with the result that quantitative measurement of sub-project performance is not possible. Some of the host countries are not making the required contributions to implement the sub-projects. Salient comments on these and other findings are discussed below.

Delays in Approving Sub-Projects

Delays in approving sub-projects has led to a year's slippage in the implementation schedule.

To participate in the project, the participating governments were to submit sub-project proposals to the Entente Fund. The Entente Fund was then to assess the eligibility of these sub-project proposals pursuant to such criteria as the following:

- (a) The sub-project must address food production needs oriented primarily towards small farmers and other domestic consumption.
- (b) The sub-project must direct production efforts toward small farmers as the primary means of expanding food production.
- (c) No subsidies for agricultural inputs will be financed by project funds, except under special circumstances, such as the demonstration of the use of local phosphate fertilizers, etc.

AID approval of each sub-project was to be obtained by the Entente Fund prior to the obligation of funds.

The Project Paper, AID's basic design and strategy document, indicates that the participating governments had insufficient capacity to design the sub-projects. The paper accordingly states that the development of sub-projects would require close collaboration between the Entente Fund's project management team and member state officials. Yet, we found that after the AID loan and grant agreements were signed in November 1976, the Entente countries prepared and submitted sub-project proposals without input from the project management team. The reason was that the management team did not arrive in Abidjan until September 1977. Consequently, many sub-project proposals were inadequate and most had to be rewritten after the team's arrival. In our view, had the AID

technical assistance agreement been signed earlier, allowing sufficient time to recruit the necessary personnel, the project management team would have been able to help develop the sub-project proposals.

Approval delays within REDSO/WA added to the problem. For example, in August 1978, there were 28 letters and requests regarding sub-project processing from the Entente Fund that had not been answered by REDSO/WA. Some of the letters dated back to April and May of that year. The primary reason for the backlog was the incomplete staffing of REDSO/WA's Entente Fund Unit. Responsibility for the Entente Fund projects changed hands within REDSO/WA three times in two years. There was consequently no continuous commitment to the program during a very critical phase. Contributing to the problem was the fact that REDSO/WA personnel, assigned to review sub-project proposals, were frequently out of town traveling to AID Missions. This absence often added weeks to the review process.

In a draft of this report we had recommended that REDSO/WA, in conjunction with the Entente Fund, take the necessary action to ensure that future sub-projects are developed as planned and reviewed expeditiously. Responding to that recommendation, REDSO stated:

"It is true that delays occurred for the reasons discussed in the draft audit report. REDSO/WA's Entente Fund Project Management Staff (EFPMS) was understaffed almost continuously from its January 1977 inception until the August 1979 arrival of Mr. Rogers. Actually since August 1978 the backlog of paperwork has been cleared up to the point that at the present time the unanswered pieces of correspondence primarily rest within the Entente Fund (EF). We cannot foresee a recurrence of a paper backlog within REDSO/WA as long as EFPMS remains fully staffed (two DH and one PSC). It is our intention it remains so. This holds true as well for the Entente project management team.

"In view of the fact that REDSO's EFPMS is finally fully staffed, and that the project design and review workload is drastically reduced (as opposed to our implementation monitoring role which has drastically increased), the history of project approval delays and paper backlog will not repeat itself."

In view of REDSO/WA's response, the recommendation was deleted from this report.

Lack of Benchline Data to Measure Performance

Surveys to obtain benchline data needed for evaluating sub-project performance have not been made for all sub-projects.

The Project Paper states that provision for conducting a baseline survey should be outlined in the sub-project proposals. Sociological research

groups, in collaboration with implementing agencies, will be the principal parties in carrying out these studies, with the assistance of the project management team and such outside consultants as necessary. Obviously, without this baseline data, it is difficult, if not impossible, to measure sub-project performance. Our review of the sub-project in Upper Volta indicated that no such baseline studies had been performed.

The objective of the Animal Traction sub-project in Upper Volta is to increase the per-inhabitant basic food production intended for domestic consumption. Yet, there is no plan to measure such increases nor does the sub-project paper mention any quantitative increases in food production.

We visited farmers in the Bobo-Dioulasso agricultural district who were participating in the Animal Traction program. When asked if food production had increased from their participation in the program, the farmers indicated that they did not know about production increases but they were plowing more land with traction equipment. The plowing of more land, however, does not necessarily mean more food production.

Officials at the agricultural district headquarters in Bobo-Dioulasso were also asked about production increases. They, too, responded that food production had increased but were unable to state by how much, or even how the increase was measured. Thus, we were unable to determine what results were obtained from the sub-project.

Lack of baseline data will no doubt confront the Entente Fund and REDSO/WA in its evaluation of the project. Accordingly, in our view, these baseline studies should be undertaken immediately for all sub-projects where such data is not now available.

A draft of this report had recommended that studies be undertaken where such data is not available. In responding to that recommendation, REDSO/WA stated that it and the Entente Fund are now developing evaluation guidelines which will pinpoint elements to be focussed on in each sub-project. In view of that action, no recommendation was made in this report.

Host Country Contributions Are Not Being Made

The Governments of Upper Volta and Togo have not made their financial contributions as required under the sub-project agreements.

The Project Paper states that:

"The Entente member countries will provide a contribution of approximately 20 percent of sub-project costs. This participation will ensure that the government is committed to the project."

The Government of Upper Volta agreed to provide CFA 156,100,000 (the equivalent of \$743,000)* in local currency to its sub-project. Approximately CFA 41,000,000 (\$195,000) was to be provided in the form of salaries and other operational expenses. The remainder of CFA 115,000,000 (\$548,000) was to be provided from the National Development Bank Account for Animal Traction.

The Government of Upper Volta's use of the National Development Bank Account for Animal Traction raises a serious question about its contribution. Foreign aid funds from a number of donor countries and international organizations for Animal Traction are deposited into this revolving fund account. Included in this account are funds provided from AID's Integrated Rural Development Project. This indicated to us that Upper Volta plans to make its contribution to the Animal Traction sub-project with AID and other foreign assistance funds.

We discussed this matter with the U.S. Ambassador to Upper Volta and the Country Representative for the United Nations Development Program. Both officials informed us that the Government is virtually bankrupt. Nor, in the opinion of these officials, was the Government able to make a contribution from its treasury.

The Government of Togo agreed to contribute CFA 115,220,000 (the equivalent of \$549,000) to meet its sub-project obligations. Like Upper Volta, the Government of Togo is also having financial difficulties. It is thus unlikely that the Government of Togo will be able to make its required contribution.

In view of this situation, we found it unrealistic for the Project Paper to require these countries to make financial contributions to the sub-projects. Such requirements ignore the financial realities of both countries which are among the least developed in the world. Therefore, like AID bilateral assistance in these countries, we believe the cost sharing provisions should have been waived.

In a draft of this report we had recommended that the Entente Fund explore the possibility of waiving such contributions in those cases where there exists a genuine inability to meet the obligation. REDSO/WA, in its response to the draft report stated:

* The currency in all of the Entente States is the CFA (African Financial Community Frank). The exchange rate between the CFA frank and the U.S. dollar varies throughout the project's life. At the time of our review the exchange rate was CFA 210 = \$1.00.

"Regarding the Togo contribution, the GOT pledged to contribute 115,220,000 million CFA to the project. The government recently approved in its Investment Budget 133 million CFA for this purpose. The amount is more than required because it includes a small amount of personnel costs. Twenty-five million CFA programmed is for the present budget year; the remainder will be disbursed during the next two years of project implementation. Regarding Upper Volta, the EF has in its possession documentation (exchange of letters) with the Government of Upper Volta in which the GOUV explains the nature of and the amount of their contribution to the project. The Upper Volta contribution will come from a national account which combines other donor contributions. However, these resources are under GOUV control and are considered part of the national asset. The EF is satisfied that the GOUV's contribution to the project is indeed legitimate. Although it was a design flaw that contributions were required (other than in-kind) from both Togo and Upper Volta, we are gratified that both governments are trying to meet their previously agreed to contributions."

In view of the response, we deleted the recommendation from this report. Nonetheless, we do urge that REDSO/WA monitor the situation closely.

Need for Improvement in Cash Management

A number of Entente Fund cash management practices need to be improved including the development of quarterly expenditure reports, and the reporting and collecting of interest earned on grant funds.

The Entente Fund receives cash advances from REDSO/WA for its local currency disbursements. These advances are based on three-month expenditure projections developed by the Entente Fund. Replenishment of the advances is based on Entente Fund expenditure reports from the previous quarter and projections for the next quarter.

Our review indicated that these expenditure projections have continually missed the mark because the Entente Fund rarely knows when a host country sub-project manager will request funds.

This uncertainty is due to the absence of a requirement that sub-project management regularly submit a projection of future funding needs. Due to the absence of this requirement, sub-project funding requests have been submitted irregularly throughout the quarterly funding cycle. The result has been that, at times, the Entente Fund has experienced large unobligated balances, while at other times it has not had sufficient funds available to meet sub-project demands on a timely basis.

Between July 1 and November 30, 1978, the Entente Fund maintained an unexpended advance balance of CFA 59,730,200 (\$269,000) due to an overestimate of sub-project demand for funds. On the other hand, the disbursement estimate for the period December 1, 1978 to March 31, 1979 was CFA 255,000,000 (\$1,148,648). Actual expenditures for the Food

Production Project during this latter period were CFA 283,626,970 (\$1,277,598), yielding a CFA 28,626,970 (\$128,950) deficit for the period. This deficit was temporarily financed from funds provided to the Entente Fund from other AID grants.

Without regular sub-project expenditure projections, the Entente Fund's estimates of future cash needs have no documented basis. Accordingly, in our judgment, the Entente Fund should consider having host country sub-project managers submit quarterly expenditure projections to support cash needs.

Recommendation No. 1

We recommend that REDSO/WA request the Entente Fund to have sub-project managers submit quarterly expenditure projections to support its request for future cash needs.

The Government of Upper Volta had earned CFA 2,717,954 (about \$13,000) in interest on its CFA 151,811,732 (\$723,000) undisbursed Animal Traction Grant balance. The sub-project agreements with the Entente countries state that any interest earned on AID grant funds must be returned to AID. Yet we found that neither the Entente Fund nor REDSO/WA were aware of this earned interest. Therefore, in our draft report, we recommended that a procedure should be established for the reporting and repayment of interest earned on sub-project grant funds.

REDSO/WA stated in its response to this recommendation that:

"The EF has already advised the Government of Upper Volta that the interest must be returned to the USAID and an official follow-up letter to that effect is being prepared. The EF has not found other cases of interest earnings on USAID grant funds prior to use of the funds for the purposes budgeted."

Though this response indicates the immediate problem has been addressed, REDSO/WA did not indicate it would be followed-up in the future. The recommendation has accordingly been retained.

Recommendation No. 2

We recommend that REDSO/WA direct the Entente Fund to report and collect, on a regular basis, any interest earned on grant funded sub-projects prior to authorized disbursements.

Need to Monitor Non-U.S. Procurement

No centralized accounting procedures were established by the Entente Fund to control non-U.S. procurement.

The project agreements limit the amount of transportation vehicles which can be purchased from non-U.S. sources to \$500,000 and the amount of funds expended for non-U.S. contractors to \$250,000. Yet we found that

neither the Entente Fund nor REDSO/WA knew the amount expended on the total project for non-U.S. vehicles or non-U.S. consultants. This was due to the absence of centralized accounting procedures for procurements.

Since we did not visit all sub-projects, we could not ascertain whether vehicle purchases and/or consultant fees have exceeded these amounts. However, in the case of non-U.S. vehicle procurement, the value of non-U.S. project vehicles (cars and trucks) we observed at three sub-project sites was significant. It is thus possible that the limitation imposed on this category may have been exceeded.

In a draft of this report, we had recommended that the Entente Fund include in its quarterly reporting an accounting of non-U.S. project vehicles and non-U.S. consultant services. In responding to this recommendation, REDSO/WA stated:

"It appears that REDSO was remiss in treating disbursement procedures on a verbal plane and in making disbursements prior to issuance of the implementation letter. The written disbursement guidelines appear to have been one more victim of the massive backlog which existed in REDSO vis-a-vis the Entente program during that period. The Entente Fund agrees to include an accounting of the non-U.S. project vehicles procured, on a cumulative basis, in the quarterly reports. This will also be done for non-U.S. consultants. The first such accounting will appear in the December 31, 1979 report."

The recommendation was deleted from this report on the basis of the corrective action.

Lack of Compliance with AID's Reporting and Auditing Requirements

The Entente Fund has not complied with the auditing and reporting requirements contained in the AID loan and grant agreements as well as in the related implementation letters. Project records were not regularly audited as required. Nor has the Entente Fund submitted a procurement plan to REDSO/WA as required.

Section 7.06 of the Loan Agreement and Section 5.06 of the Grant Agreement require regular audits of sub-project books and records. We found that no such audits have been performed. Although audits are a requirement of the agreements, no plans have been made nor have any funds been budgeted to meet this requirement. Entente Fund officials stated that they do not have the resources to perform financial audits and none are scheduled.

The accounting practices at the sub-project level, as we discuss in the next section of this report, are weak. Thus, in our judgment, this situation necessitates that the Entente Fund comply with the auditing requirement.

A draft of this report had recommended that the Entente Fund develop a plan to audit sub-project books and records on a regular basis. That recommendation was deleted based on the following response from REDSO/WA:

"It is correct that insufficient attention has been paid to the audit aspect of project implementation, mainly because of a paucity of staff. As a result, the EF recruited two MBAs in mid-summer 1979, in order to improve management and administration of the on-going projects now that the technical (agronomics, etc.) inputs have been concluded. Since then the Niger projects have been audited in November by an Entente staff member and an audit is proposed for Benin in February, 1980. Other examinations, inspections and audits will be scheduled periodically during the next two years."

The May 12, 1978 Implementation Letter required the Entente Fund to submit a detailed procurement plan within 60 days. This requirement was changed in November 1978 to 60 days after the sub-project agreement was signed. Yet, at the time of our review, no procurement plans had been received by REDSO/WA for any of the sub-projects.

Commenting on the lack of procurement plans, REDSO/WA stated:

"The EF contends that procurement plans were prepared for each sub-project at the time that time-phased implementation plans were developed with each African project manager. In 1977, and again in the spring of 1978, sample implementation proposals (which included local currency costs, technical services procurement and procurement of commodities) were shown to and discussed with REDSO's Controller and REDSO's Supply Advisor. In both cases the EF considered the requirements had been met. The implementation letter requesting a procurement plan was issued several months afterwards. The purpose of the plan is to facilitate procurement. The EF contends, and REDSO agrees, the preparation of an additional document at the mid-way point of project implementation would serve no useful purpose. Procurement plans will be obtained for the three sub-projects not yet finalized."

Our review failed to indicate that any implementation plans for procurement were prepared by the Entente Fund. This was substantiated during our discussions with REDSO/WA's Supply Advisor. Admittedly, at this point in time, it may be awkward to develop such plans. However, since the amount of the remaining procurement could be significant, this question needs to be answered before dismissing the need for action.

Recommendation No. 3

We recommend that REDSO/WA take appropriate action to ensure that the Entente Fund develop a procurement plan for any remaining procurement.

Lack of Sub-Project Identification

There is an almost total lack of identification of the sub-projects financed by AID.

Section 7.07 of the Loan Agreement and Section 5.07 of the Grant Agreement require that sub-project sites and AID financed vehicles be identified with the AID handclasp symbol. During our sub-project site inspections, we noted that few of the AID-financed project vehicles, tractors, and mopeds in Togo and Benin were properly marked with the AID handclasp symbol. Nor were the sub-project sites and/or facilities in Benin identified as being AID-financed. Entente Fund officials stated that they have had an especially difficult time in Benin. AID symbols that are put up are down during the next sub-project site visit. The Government of Benin has proposed that a different symbol be used. The symbol proposed by the Government, however, mentions neither AID nor the Entente Fund.

In the draft of this report, we had recommended that the Entente Fund take steps to ensure compliance with the AID marking requirement. REDSO/WA stated in its response that:

"The omission of USAID emblems on many project vehicles (in particular) and occasionally on a project site, has been a source of constant concern to the EF. Emblems have been furnished Host Country project directors and repeated instructions have been given for their use. In several cases it has been observed that emblems affixed during a technicians visit have been removed by the time a following visit was made. A renewed effort has been undertaken. The EF will continue to use its best efforts to insure compliance."

Compliance with the marking requirement will require constant follow-up. Therefore, in view of the above response, the recommendation has been deleted from this report.

B. Sub-Project Deficiencies

The implementation of the sub-projects in the various Entente countries are experiencing serious problems. In the Animal Traction sub-project in Upper Volta, inadequate accounting and management controls have been established over the Animal Traction Revolving Loan Fund. The result is that funds are being used for improper purposes e.g., operating expenses. A similar situation was found in the Insurance Revolving Fund and Veterinary Supplies Revolving Fund. The Government of Upper Volta's precarious financial condition has contributed to this situation. The sub-project problems in Togo and Benin are attributable to poor design and planning. Inadequate planning has resulted in implementation delays in Togo and the scaling down of planned sub-project outputs in Benin. A discussion of these and other findings are presented below.

The Sub-Project in Upper Volta Needs to Improve its Accounting and Management Practices

The objective of the Animal Traction sub-project in Upper Volta is to increase food production. This objective is to be achieved in large part by extending credit to small farmers thereby enabling them to acquire plows and cattle. We identified three types of complementary activities within the sub-project. The first activity is a Revolving Loan Fund. Approximately \$1.2 million or 60 percent of the \$2.0 million provided for this sub-project has been allocated for lending to farmers. Repayments of loans under this activity replenish the revolving fund and are used for additional loans. The second activity is an insurance fund to provide farmers participating in the program with some protection against the loss of animals. Capitalization in the amount of CFA 5,000,000 (\$24,000) was provided from AID funds. In addition, insurance premiums collected from farmers are deposited to this fund to meet liabilities. The third activity is a Veterinary Services Fund. About CFA 23,300,000 (\$95,000) in sub-project funds was to be used to capitalize this fund. Proceeds from veterinary supplies, vaccines, etc., charged to the farmers are deposited to this fund for use to purchase additional supplies.

The Minister of Rural Development has been designated as sub-project manager. The sub-project operates, however, through 11 autonomous agricultural districts known as Organismes Regionaux de Developpement (ORDs) which are responsible for rural development activities within their respective jurisdictions. The ORDs in turn are divided into sectors consisting of a number of villages.

The extension of credit to purchase traction animals and equipment, as stated, is a key element of the sub-project. The mechanism for providing animals and equipment operates as follows. The traction equipment is procured by the Ministry of Rural Development with sub-project funds allocated for the Animal Traction Revolving Loan Fund. The equipment is then sent to the ORDs for distribution to farmers by Sector Chiefs. The procurement of animals is arranged on a personal basis between the farmers and cattlemen. Once these arrangements have been made the

Sector Chiefs pay the cattlemen from an advance provided from funds allocated for the Revolving Loan Fund. Signed loan agreements are obtained by the Sector Chiefs when the equipment and/or animals have been delivered to the farmers.

General terms for the loans are five year (with a one year grace period) at 5.5 percent interest. The ORDs have the option of selecting a number of variations from the basic repayment plan e.g., five even payments with no grace period. All farmers within an ORD, however, are under the same plan.

To evaluate implementation, we reviewed sub-project activities in the ORD of Bobo-Dioulasso. This ORD is considered by the Ministry of Rural Development and the Entente Fund to be one of the better managed ORDs. Yet, as indicated below, this ORD is experiencing a number of serious problems.

Improvements Needed in Sub-Project Management and Accounting

The accounting records and supporting documentation at the ORD level are inadequate.

Our review of the ORD in Bobo-Dioulasso disclosed that no separate accounting records were maintained to distinguish between sub-project activities and regular operations. Funding for all such activities was commingled. The ORD Controller, therefore, could not provide us with such essential information as the amount and value of equipment purchased with sub-project funds, the amount of outstanding loans, the amount of insurance premiums collected, and the total amount of insurance premiums transferred to the Revolving Insurance Fund maintained by the Ministry of Rural Development in Ouagadougou. The Controller stated that he could not be concerned with the status of sub-project funds since the ORD was receiving funds from many other donors.

There was an apparent lack of accounting expertise that resulted in the accounting records not reflecting a number of material transactions. According to the ORD Controller, the accounting records for the Animal Traction program are found in two accounts. In reviewing these accounts, we found that neither of them reflect a number of transactions which, based on the ORD Controller's description, should have been recorded. Missing transactions included:

- (1) Receipt of sub-project funds in the amount of CFA 5.53 million (\$26,300) advanced from Ouagadougou to the ORD on March 17, 1978;
- (2) A CFA 162,500 (\$770) payment from the ORD to Ouagadougou received February 28, 1979 for proceeds from the sale of veterinary supplies to farmers; and
- (3) Receipt of the proceeds from the sale of veterinary supplies to the farmers.

We also noted that the accounting records were being posted four to five months after the occurrence of financial transactions. For example, on September 5, 1979, we found that the ORD Controller was in the process of posting transactions for March and April 1979. The ORD attributed this late posting to insufficient personnel.

Inadequate staffing and accounting expertise have contributed to the above situation. Also, in our view, lack of accounting guidelines from the Entente Fund has exacerbated the problem.

We believe that efforts must be made to establish an accounting system which will afford better safeguards for sub-project assets under the custodial care of the ORDs. The ORD accounting system should have the capability to: (1) provide current financial information on the status of the Animal Traction program and activities in the program, (2) serve as a mechanism to prevent the unauthorized diversion of Animal Traction funds for other purposes, (3) serve as a basis of control over the inventories of veterinary supplies and farm equipment delivered to the care of the ORD, and (4) be reconcilable with the central accounting records maintained by the Ministry of Rural Development's Chief Controller in Ouagadougou. This improved accounting framework would permit the ORD controllers and management to assess the current status of various activities under the program, to promote more effective and efficient use of sub-project resources, and to prevent misuse of sub-project funds.

Recommendation No. 4

We recommend that REDSO/WA work, in conjunction with the Entente Fund, to improve the accounting controls at the ORD level in Upper Volta.

Commenting on this recommendation, REDSO stated:

"As stated previously, REDSO's EFPMS and the Controller's office, with assistance from AID/W if required, will work with the EF in inspecting accounting controls and practices for all food production and animal traction projects. In addition, as noted above, the EF has hired two additional staff members to especially monitor the financial aspects of the projects. During periodic visits to the project sites by REDSO's EFPMS, specific accounting issues will be discussed with all levels of government officials having some involvement in the project.

"Project implementation which is one hundred percent composed of nationals of Upper Volta as in other EF countries, is certainly weak by Western standards. This is not a new problem, viz institutional strengths of developing nations: it is almost always a problem when a donor is involved in transferring resources to a lesser developed country. Our efforts, although hopefully will make some small improvements, will

certainly not ameliorate a situation that has its roots in the basic and underlying problems of the entire African continent."

Improper Use of Revolving Loan Fund Repayments

Revolving Loan Fund repayments are being used for the ORD's operating funds.

The ORDs are responsible for collecting the Revolving Loan Fund repayments. These repayments should be transferred by the ORDs to the central revolving fund accounts maintained by the Ministry of Rural Development in Ouagadougou. The Ministry then reallocates these funds among the ORDs for making additional loans.

The ORDs rarely have sufficient funds to cover operating expenses. Because of this situation, the ORDs have occasionally used the Revolving Loan Fund repayments for operating costs instead of transferring them to Ouagadougou. Our review indicated that the Eastern ORD of Fada, for example, had expended CFA 10 million (about \$50,000) of AID Animal Traction loan repayments for operating expenses. This diversion of Revolving Loan Fund repayments by the ORDs, if continued, could seriously undermine the Animal Traction program. The Ministry of Rural Development's Chief Controller in Ouagadougou informed us that he has instituted a policy which bases future allocation of funds on the ORDs' past history of returning Animal Traction repayments to Ouagadougou. Whether this policy will be effective remains to be seen.

Because of inadequate financial records and the commingling of funds, sub-project funds can be misused by the ORDs. We found, for example, that a check for CFA 622,000 (\$2,960) dated August 23, 1979, pertaining to insurance premium collections from farmers within the ORD, could not be mailed to Ouagadougou because there were insufficient funds available in the bank account. Since the ORD's financial records indicated that the money had been collected, it appeared to us that there was a diversion of the cash for other purposes.

A draft of this report had recommended that the Entente Fund work with the Government of Upper Volta to assure the timely transfer of Revolving Loan Fund repayments from the ORDs to the Ministry of Rural Development. In responding to the recommendation, REDSO/WA stated that the Entente Fund has recruited a qualified individual to work on the problem. Visits to the ORDs are now in-process to correct the situation. Thus, in view of this action, we have deleted the recommendation from this report.

The Insurance Program Needs Better Controls

A number of financial and managerial practices in the Animal Traction insurance program need to be corrected.

The Ministry of Rural Development will require all farmers participating in the Animal Traction program in 1980 to have their animals insured. The insurance program was optional in 1979.

Our review indicated that insurance premiums collected by the Sector Chiefs are being held by them and the ORDs. The premiums are thus not being sent to the Ministry in Ouagadougou, as is required, on a regular basis. Because of these delays, the Insurance Fund is being deprived of funds needed to defray the costs of claims. More importantly, the Ministry of Rural Development will not pay any claims from the Insurance Fund until premiums are received from all ORDs. The program's credibility could thus suffer if the insurance premiums are not transferred to the Insurance Fund on a timely basis.

We also found that the insured animals were not being properly identified. Insured animals are supposed to be identified with markings on the ears. This is to prevent claims from being filed on uninsured animals. Yet we found that no animals have been marked. The Bobo-Dioulasso ORD was furnished with marking equipment around June 1979, but the equipment had not been utilized. ORD officials stated that they received the equipment too late in the season to use it. The following response from REDSO/WA to a draft of this report is instructive:

"Much of the problem with this activity is the inability to properly mark the animals which is a direct result of an incredible blunder made by the AAPC and an American Supplier. Cattle tattoo equipment ordered through AAPC was not received. Instead, AAPC authorized the shipment of tattoo materials for sheep rather than cattle. Sheep tattoo's are painted on and easily erased. Cattle tattoo's are introduced under the skin and indelible."

Another problem is that the insurance forms are not sent to the ORD until the end of the growing season. Consequently, there is a possibility for farmers, in collusion with Sector Chiefs, who issue the policies, to insure animals after they have died. A related problem is that the insurance forms we examined did not have the required notations of annual vaccinations. Such notations are necessary to assure animal health and to keep the insurance policy in force.

Recommendation No. 5

We recommend that REDSO/WA direct the Entente Fund to work with the Government of Upper Volta to improve the administration of the animal insurance program including: (1) the identification of insured animals, (2) the timely submission of insurance forms to the ORD credit manager, and (3) proper documentation on the insurance form indicating the type, cost, and date of the required veterinary services.

Need For Controls Over Purchase of Animals

The expenditure of funds by the Sector Chiefs are not supported by vendor invoices. This inability to substantiate the actual purchase price for animals creates the potential for misuse of funds.

Farmers select the animals they wish to purchase (usually from a local breeder) and the ORD advances the Sector Chiefs funds to pay for the animals. The Sector Chiefs account for the money advanced to them by submitting to the ORD Controller a government voucher indicating the cost for the animals. No vendor's invoice for the purchase of the animals is sent to the ORD. Consequently, there is no independent source document which can be used by the ORD to verify the price paid to the breeders.

Recommendation No. 6

We recommend that REDSO direct the Entente Fund to require some form of vendor verification to support Sector Chief's expenditure claims for animals.

REDSO/WA, in responding to a draft of this report, stated it disagreed with the recommendation. It stated that:

"It is unrealistic to believe that illiterate herders are able to produce invoices for the purchase of the animals. On the other hand, ORD extension agents do assist farmers in filling out the loan forms for the purchase of animals and traction equipment. They are familiar with the local situation and look out for the farmer's interest. The EF project manager as well as REDSO's EFPMS agree that fair prices are being paid for the equipment. They have checked the prices of various prices of equipment during their visits and found no evidence of price gouging (the maximum prices includes a 5-8 percent markup for distributor expenses and profits)."

In our view, REDSO/WA dismisses the importance of this issue too arbitrarily on the basis of illiteracy. We believe the potential for misuse of the advances is great and have therefore retained the recommendation.

The Future of the Veterinary Supplies Revolving Fund is in Question

Controls need to be established over the Veterinary Supplies Fund portion of the Animal Traction Program.

The Ministry of Rural Development sends vaccine to the ORDs for resale to the farmers. The ORDs are supposed to reimburse the Ministry for the vaccine once it has been sold to the farmers. The receipt and sale of vaccine did not appear in the accounting records of the Bobo-Dioulasso ORD. A CFA 162,500 (\$770) transfer of proceeds from the sale of vaccine, for example, was received in Ouagadougou on February 28, 1979. This

transaction was not recorded in the ORD's books. The ORD Controller was also unable to tell us the inventory status of the veterinary supplies, including the amount received, used, and on hand.

The Veterinary Services Revolving Fund is not operating as provided for in the sub-project agreement. The Ministry has distributed veterinary supplies costing over CFA 3 million (about \$14,000) to the ORDs. Of this amount, only CFA 450,000 (about \$2,100) had been reimbursed by the ORDs. Consequently, the revolving fund has not been replenished and the future of the Fund is in question.

Recommendation No. 7

We recommend that REDSO/WA ensure that the Entente Fund works with the Ministry of Rural Development to improve the operation of the Veterinary Supplies Fund by requiring: (1) prompt ORD payments to the fund and (2) more control over the supplies at the ORDs.

Problems Caused by Inadequate Planning in Togo and Benin

Most of the difficulties we found in the Togo and Benin sub-projects could be attributed to inadequate planning. The sub-projects we visited were similar in design i.e., to develop demonstration seed farms. In Togo, a credit fund was also to be established to loan money to farmers for the purchase of seeds and fertilizer. In Benin, an animal traction program was to be established, with money being loaned for the purchase of animals. Inadequate planning has resulted in implementation delays in Togo and the scaling-down of planned sub-project outputs in Benin.

Sub-Project Delays in Togo

The Government of Togo's sub-project proposal initially submitted to the Entente Fund had been prepared under great pressure and with inadequate guidance on the availability of funding. Reworking of this proposal was necessary and time consuming. The sub-project agreement was not signed until June 3, 1978, over a year and a half after the signing of the Food Production Loan Agreement.

Togo's sub-project planning inadequately addressed some significant aspects including land clearance and the mechanics of the credit program. As a result, further delays may occur. Land is being cleared by hand at the project site because no tractors were ordered earlier in the project. In December 1978, the Government of Togo requested a procurement waiver from AID to purchase 4 tractors which were in stock locally. AID did not approve the waiver request until April 1979. At the time of approval, the tractors were no longer in stock. Only one tractor had been received for the project as of September 2, 1979. But this tractor had not been used because there was no access road to the project site.

The Togo sub-project calls for a \$233,000 credit program for farmer purchases of seeds, fertilizer and insecticides. Little attention was given to working out the details of this credit program. While the Togo Government had the responsibility of assigning personnel from the Caisse Nationale du Credit Agricole (CNCA) to handle the credit program, as late as June 1979, the expatriate advisor on the project was uncertain about such basic issues as who would have approval authority over individual loans, whether individual accounts would be kept on these loans, or whether sub-project management would have control over funds deposited with the CNCA.

While each problem may have only a minor effect on sub-project implementation, the cumulative effect of such problems can be significant.

Sub-Project Cuts in Benin

Inadequate planning of the sub-project in Benin has resulted in costs being underestimated. Extensive revisions have since been made, and adjustments for cost increases are handled by eliminating or reducing portions of the original sub-project.

Some essential items were not considered during the planning phase or performed afterwards. For example, no money was budgeted for purchasing seeds to start the seed farms. In another case a consultant was hired to prepare a list of necessary materials and associated costs for the Benin seed farms. But the study was not begun until several months after the sub-project agreement had been signed. This study led to more cost revisions. Later modifications that were found to be necessary included: (1) the cost of clearing land went from CFA 30,000 (\$142) to CFA 75,000 (\$357) per hectare; (2) the cost for the infrastructure at the Atacora sub-project site doubled from CFA 31,300,000 (\$150,000) to CFA 75,200,000 (\$360,000); (3) the purchase of two additional tractors and a maintenance facility may be necessary due primarily to the unavailability of manpower (manual labor) at the project site; (4) animals for the animal traction aspect were not available in the numbers expected, they were neither properly trained nor vaccinated (resulting in mortality rates of 22 percent and 34 percent at the two sites), and were too young or too small to pull plows; and (5) a change of location for the Oueme project site was required when it was found that the first location had inadequate soil and landowners would not participate. Clearing, seeding and fertilizing operations were delayed at least one year.

REDSO/WA was aware of some potential budgetary problems and therefore required, as a condition precedent to disbursement, that the Government of Benin agree to defray any cost overruns caused by inflation or unforeseen contingencies. The project director told us that he does not expect any additional Government contribution or any increase in project costs. Instead, he plans to reduce or eliminate certain aspects of the project. As examples, he cited the use of cheaper corn cribs rather than the planned silo facilities, and a reduction in the scope of the animal traction program. The training program, once considered one of the four

key aspects of the project, has now been left to the village authorities. It is also evident that progress on the number of hectares cultivated is slipping. Only four hectares of corn, out of the 25 planned, were planted last year at the Ketou seed farm site. The objectives for the second year of the project are now being considered as those for the first season. The first year is now referred to as "year zero" by the Director of the sub-project.

The sub-project Technical Adviser has still not been named 18 months after the sub-project agreements have been signed. A Technical Adviser was planned for in the sub-project design, and the Beninese Project Director had, at one point, urgently requested that the Entente Fund provide such an advisor. Although the Entente Fund had put forth several nominations, the Benin Government insisted that a Beninese national be given the position. Entente Fund officials said the only candidate suggested by the Government of Benin was an official already holding a position clearly superior to the Benin project director and would also involve part-time technical advice.

In a draft of this report, we had recommended that REDSO, in conjunction with the Entente Fund, determine if the Benin sub-project warrants continued AID funding because of reductions in planned sub-project outputs. REDSO stated, in its response to this recommendation, that:

"The project was designed poorly from the outset. This did not become evident however, until implementation was underway and realistic estimates of the cost of seed, processing materials, etc. were available. Problems such as the relocation of the seed farm in Oueme province are typical of project implementation in any developing country. It is not unusual for a government to make available State-owned land for the seed farm. It became the task of the EF to prove to the GOB that they had made a poor choice because of the inaccessibility of the site.

"Although there has been a reduction in expenditures in animal traction and fertilizer, there have been increases for seed farmers and operating costs.

"The DAI evaluation team returned to Abidjan December 9 from a two week evaluation of the Food Production project in Benin. Although they noted a number of implementation problems especially in procurement and in management and finance, a series of recommendations were made for corrective action. These recommendations were accepted by the GOB during a lengthy debriefing prior to the team's departure from Benin. They have also been accepted by the EF. AID funding will continue. However, because of a slow expenditure rate during the past two years, only one-half of the funds originally budgeted have been disbursed. It was recommended, therefore, that the sub-project be extended a fourth year utilizing the unexpended funds. This will require a complete rebudgeting of the third and fourth year implementation. The EF will assist the GOE in this

exercise beginning January, 1980 as well as assist in strengthening the financial and management system."

The recommendation was deleted from this report on the basis of this action.

C. Inadequacies In REDSO/WA's Review and Monitoring

REDSO/WA's review and monitoring of the Food Production Project has been inadequate. Indicative of this is its failure to catch a \$95,000 error in the Government of Upper Volta's contribution to the Animal Traction Sub-Project and its infrequent visits to sub-project sites. Only two site visits have been performed and those were not specifically designed to address the Food Production Sub-Projects. Details on these findings are discussed below.

Inadequate Sub-Project Review

We discovered a CFA 20,000,000 (\$95,000) error in the sub-project agreement with Upper Volta. We believe that this indicates more attention should be paid to reviewing these documents prior to signing.

The project agreements required that sub-project agreements be signed by the Entente Fund and the participating countries. The format of the sub-project agreement was to follow that of a specimen agreement which required REDSO/WA approval. Consequently, the only items that had to be reviewed were sub-project descriptions, dates and amounts.

Each sub-project agreement required the participating country to contribute funds to the sub-project. We noted an error in the country contribution amount for the Upper Volta Animal Traction sub-project. In Section 1.02 of the sub-project agreement, the contribution for Upper Volta was stated as CFA 136,100,000. This amount plus the AID contribution of CFA 476,650,000, however, does not add up to the total value stated in the agreement (CFA 632,750,000). In tracing the amount to the Project Paper we discovered the amount should have been CFA 156,100,000 yielding a discrepancy of CFA 20,000,000 (\$95,000). We confirmed these figures with the sub-project manager in Ouagadougou, Upper Volta. More attention, in our view, should therefore be paid to such specifics.

In a draft of this report we had recommended that REDSO/WA, in conjunction with the Entente Fund, amend the sub-project agreement with Upper Volta to reflect the correct country contribution amount. REDSO/WA informed us that the Entente Fund is now in the process of amending the agreement to reflect the correct amount. We have therefore deleted the recommendation from this report.

Lack of Disbursement Procedures

REDSO/WA disbursed funds to the Entente Fund before it had established any procedures for such disbursements. On May 12, 1978, REDSO/WA sent an implementation letter to the Entente Fund setting forth procedures for utilizing the proceeds of the loan and grant agreements. Prior to the issuance of this letter the Entente Fund had already received over \$2 million from REDSO/WA.

The lack of disbursement guidelines before May 1978 caused confusion at both the Entente Fund and REDSO/WA. It also resulted in the Entente Fund erroneously withdrawing disbursement requests for grant funds on REDSO/WA instructions. The Entente Fund had submitted its request for grant funds to REDSO/WA. REDSO/WA thought that such requests had to go through Washington, but this was not the case.

REDSO/WA officials acknowledged that they were remiss in not issuing disbursement procedures earlier. They stated that the writing of disbursement procedures was one of the items that did not get done during the large paperwork backlog in 1978. This situation should not occur again since they now have additional staff to handle the workload.

Infrequent Site Visits

In the past 10 months, the program manager at REDSO/WA has made only two inspection trips to sub-project sites. A trip was made to Togo and Benin in January 1979, and another to Niger and Upper Volta in February 1979. These trips were not only intended to inspect the Food Production Sub-Projects, but all Entente Fund activities in those countries.

AID Delegation of Authority No. 140 dated October 18, 1978 gives REDSO/WA program responsibility for certain regional programs including the Entente Fund. REDSO/WA, therefore, has the responsibility for monitoring the implementation of the Food Production Sub-Projects.

The program manager stated that he would like to have someone visiting the sub-project sites more frequently. But he has been unable to do so because of inadequate staff to handle office responsibilities during the inspection trips.

The preceding section of this report indicates that a number of implementation problems are arising. In our view, the seriousness of these problems dictate that more frequent site trips be made.

Recommendation No. 8

We recommend that REDSO/WA increase the number of visits to the sub-project sites to adequately monitor project implementation.

In responding to a draft of this report, REDSO/WA had these comments to make:

"REDSO/WA's EFPMS was understaffed almost continuously from its January 1977 inception until the August 1979 arrival of Mr. Rogers. Since management of the EF program involves a great deal of paperwork which must be kept flowing to keep implementation from bogging down, and since there were several months of backlog when the present Program Manager arrived in October 1978, the only opportunity he had to make a field trip

was the one-month period from mid-January thru mid-February when he was able to obtain 30 days of TDY assistance from AID/W. Since Mr. Rogers' August 19, 1979 arrival the PM has already made two field trips to Togo, and one to the NE Ivory Coast project area. Mr. Rogers travelled to Niger in late September and is scheduled for a weeks visit to Benin and Togo in mid-January. Mr. Jack Shea (the PSC) represented REDSO at the EF evaluation seminar in Benin during October 1-5.

"While we agree that project site visits have been inadequate in past, this lack was probably less detrimental than it would be now and in the future since only three of the sixteen rural development sub-projects had met their CPs prior to 6/16/78. Hence, there was in fact little field activity to monitor until this year. This monitoring workload will, however, continue to increase for the next two years before it peaks out at a high level and then begins gradually to taper off. EFPMS will be fully staffed during the crucial monitoring period."

LIST OF REPORT RECOMMENDATIONS

Page

Recommendation No. 1

We recommend that REDSO/WA request the Entente Fund to have sub-project managers submit quarterly expenditure projects to support its request for future cash needs.

9

Recommendation No. 2

We recommend that REDSO/WA direct the Entente Fund to report and collect, on a regular basis, any interest earned on grant funded sub-projects prior to authorized disbursements.

9

Recommendation No. 3

We recommend that REDSO/WA take appropriate action to ensure that the Entente Fund develop a procurement plan for any remaining procurement.

11

Recommendation No. 4

We recommend that REDSO/WA work, in conjunction with the Entente Fund, to improve the accounting controls at the ORD level in Upper Volta.

15

Recommendation No. 5

We recommend that REDSO/WA direct the Entente Fund to work with the Government of Upper Volta to improve the administration of the animal insurance program including: (1) the identification of insured animals, (2) the timely submission of insurance forms to the ORD credit manager, and (3) proper documentation on the insurance form indicating the type, cost, and date of the required veterinary services.

17

Recommendation No. 6

We recommend that REDSO direct the Entente Fund to require some form of vendor verification to support Sector Chief's expenditure claims for animals.

18

Recommendation No. 7

We recommend that REDSO/WA ensure that the Entente Fund works with the Ministry of Rural Development to improve the operation of the Veterinary Supplies Fund by requiring: (1) prompt ORD payments to the fund and (2) more control over the supplies at the ORDs.

19

Recommendation No. 8

We recommend that REDSO/WA increase the number of visits to the sub-project sites to adequately monitor project implementation.

24

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Regional Economic Development Services Office/West Africa (REDSO/WA)	5
Assistant Administrator/Africa (AA/AFR)	1
Office of Legislative Affairs (AA/LEG)	1
Office of Financial Management, Controller (FM)	1
Office of General Counsel (GC)	1
DS/DIU/DI	4
Auditor General (AG)	1
AAG/EAFR	1
AAG/EA	1
AAG/Egypt	1
AAG/LA	1
AG/IIS	1
AG/PPP	1