

PDAAU-753

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AUDIT OF LOCAL CURRENCY CONTROLS  
IN ZAIRE

AUDIT REPORT NO. 3-660-87-3  
DECEMBER 3, 1986

MEMORANDUM FOR Dennis Chandler, Director, USAID/Zaire

DATE: December 3, 1986

FROM: Richard C. Thabet, RIG/A/N

*Richard C. Thabet*

SUBJECT: Audit of Local Currency Controls in Zaire

This report presents the results of audit of USAID/Zaire's control over local currency proceeds. Please advise us within 30 days of any additional information relating to action planned or taken to implement the report's recommendation. We appreciate the cooperation and courtesy extended to our staff during the audit.

### Background

The Agency for International Development in fiscal years 1984 through 1986 signed five agreements with the Government of Zaire under which the U.S. Government provided essential food, raw materials and agricultural equipment. The food and raw materials were provided through three concessional Title I sales agreements amounting to \$55 million. Agricultural equipment was provided through two Commodity Import Program grants totalling \$20 million.

Both the Title I sales and program grants provided two immediate benefits to the Government of Zaire. First, the sales and grants provided much needed food, raw materials, and agricultural equipment on highly concessional sales terms or free of charge. Second, the Government of Zaire was able to generate revenues, by selling those products, in Zaire, to help finance development projects and activities in the agriculture, transportation, public works, health, and human resource sectors.

The revenues accruing to the Government of Zaire, were commonly referred to as local currency proceeds (sometimes called "counterpart funds"). The Title I sales agreements and Commodity Import Program agreements, signed by USAID/Zaire and the Government of Zaire, required that such proceeds be deposited in special accounts and used for development activities mutually agreed upon by both parties to the

## Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi made a financial and compliance audit of USAID/Zaire's control over and use of local currency proceeds. The audit objectives were to (1) examine USAID/Zaire's accountability for the generation and expenditure of local currency proceeds, and (2) review USAID/Zaire's involvement in the programming of local currency proceeds. The audit covered local currency proceeds generated under the following loans/grant agreements as of July 31, 1986.

<u>Type of Agreement</u>	<u>Date of Agreement</u>	<u>Dollar Amount of Agreement</u>
Title I Sales Add: Amendment No.1	12/10/83	\$10,000,000 5,000,000
Title I Sales Add: Amendment No.1	12/22/84	15,000,000 5,000,000
Title I Sales	11/27/85	20,000,000
Grant No. 660-0100 Add: Amendment No.1	7/30/84	8,000,000 2,000,000
Grant No. 660-0103	7/30/85	<u>10,000,000</u>
Total		<u>\$75,000,000</u>

As part of the audit, Title I agreements, grant agreements, Government of Zaire reports and USAID/Zaire files and records were reviewed. Interviews were conducted with responsible USAID/Zaire, Government of Zaire and private sector officials. Field work was done in Kinshasa, Zaire during the period July 31 through August 15, 1986. The audit was made in accordance with generally accepted government auditing standards.

## RESULTS OF AUDIT

USAID/Zaire and the Government of Zaire jointly programmed local currency proceeds, generated by Title I sales agreements and program grants, for economic development purposes. Similarly, USAID/Zaire had adequate systems to account for the generation and disbursement of the proceeds. However, USAID/Zaire forfeited some development impact since local

currency revenues were not placed in interest bearing accounts. We recommended that USAID/Zaire complete arrangements with the Government of Zaire to deposit local currency proceeds into commercial bank interest bearing accounts.

Interest Bearing Account Can Further Development Impact - Local currency revenues generated by Title I sales agreements and Commodity Import Program grants were not deposited into interest bearing accounts. While AID regulations do not require using interest bearing accounts, AID policy does encourage Missions to consider depositing local currency proceeds into interest bearing commercial bank accounts. During the audit, USAID/Zaire officials stated that they had not considered this alternative. Subsequent to audit field work and in response to the draft audit report, USAID/Zaire responded that they had in fact been working on this alternative before the audit and were now working on arrangements with the Government of Zaire agreement to use interest bearing accounts. Regardless, by not doing so earlier, USAID/Zaire had already forfeited additional revenues equivalent to more than \$1.5 million which could have been used for development assistance.

Discussion - In Zaire, local currency proceeds generated by Title I sales and Commodity Import Program grants were not deposited in interest bearing accounts. Rather, the proceeds were deposited in a special account maintained in the Government of Zaire's Central Bank which paid no interest.

Zaire had a private sector banking system which consisted of multinational and local banking institutions. These institutions paid interest on deposits. While AID regulations did not require that local currency proceeds from Title I sales and Commodity Import Program grants be deposited in interest bearing accounts, prudent management would indicate that interest bearing accounts be used where possible to maximize financial resources for economic development. In this regard, AID Policy Determination, PD-5, dated February 22, 1983 encouraged USAID Missions to consider using interest bearing accounts and the interest earned used for approved development activities.

A responsible Government of Zaire official and a multinational bank official both agreed that local currency proceeds could be deposited in private sector interest bearing accounts. In fact, the Government of Zaire official stated that Canadian funds are deposited in such an account.

USAID/Zaire officials agreed to start using interest bearing accounts for depositing Title I and Commodity Import Program local currency proceeds. These officials stated they had not done so previously because this option had not occurred to them. Subsequent to the audit, and in response to the draft report, USAID/Zaire officials stated that they had pursued this alternative with the Government of Zaire and were now making the necessary arrangements.

Because an interest bearing account had not been used in prior years, USAID/Zaire and the Government of Zaire had forfeited the additional economic development impact that could have been achieved with the interest income. For the period, January 1, 1984 to July 30, 1986, the interest lost amounted to the Zaire currency equivalent of more than \$1.5 million.

Recommendation No. 1

We recommend that USAID/Zaire complete arrangements with the Government of Zaire to move local currency deposits generated by the Title I and Commodity Import Programs from the Central Bank to commercial bank interest bearing accounts.

Mission Comments - USAID/Zaire responded that the Mission had in fact considered and pursued using commercial bank interest bearing accounts prior to the audit; and that subsequent to the audit field work, the Government of Zaire informed USAID/Zaire that funds could be transferred to such an account. The response indicated that USAID/Zaire and the Government of Zaire were now making arrangements to effect the transfer. (See Appendix I for complete text of USAID/Zaire comments.)

Office of Inspector General Comments - Based on USAID/Zaire comments, we modified our recommendation. The recommendation will be closed once local currency proceeds are transferred from the Central Bank to commercial bank interest bearing accounts.

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NAIROBI FOR RIG/A/NAIROBI, RICHARD TEABET

L.O. 12359: N/A

SUBJECT: AUDIT OF LOCAL CURRENCY CONTROLS IN ZAIRE

REF: TEABET/CHAFFLER MEMO OF NOVEMBER 7, 1988

THE DRAFT OF THE SUBJECT REPORT ERRONEOUSLY STATES IN SEVERAL INSTANCES THAT USAID/KINSHASA OFFICIALS HAD NOT CONSIDERED DEPOSIT OF COUNTERPART FUNDS INTO INTEREST BEARING ACCOUNTS. COPIES OF CORRESPONDENCE ARE BEING FORWARDED THIS DATE TO YOUR OFFICE WHICH SHOW CLEARLY THAT THE TRANSFER OF COUNTERPART FUNDS INTO INTEREST BEARING ACCOUNTS WAS NOT ONLY CONSIDERED BUT CLEARLY SOUGHT FOR AT LEAST ONE YEAR PRECEDING THE INITIATION OF THE SUBJECT AUDIT.

FOLLOWING MEETINGS AND CORRESPONDENCE IN 1985, THE MINISTER OF THE COZ DEPARTMENT OF FINANCE, IN A LETTER DATED JANUARY 22, 1985 EXPRESSED HIS APPROVAL TO THE COZ PRIME MINISTER THAT USAID COUNTERPART FUNDS COULD BE TRANSFERRED OUT OF THE BANK OF ZAIRE INTO INTEREST BEARING ACCOUNTS. THE PRIME MINISTER'S OFFICE FINALLY NOTIFIED THE DEPARTMENT OF PLAN IN A LETTER DATED SEPTEMBER 8, 1986 THAT THE FUNDS COULD BE TRANSFERRED. A SEPTEMBER 20, 1986 LETTER FROM THE DEPARTMENT OF PLAN TO USAID INFORMING USAID OF THE PRIME MINISTER'S DECISION REFERENCES THE FACT THAT COZ ADMINISTRATIVE REGULATIONS HAD PREVIOUSLY PREVENTED THE DEPOSIT OF THESE FUNDS OUTSIDE OF THE BANK OF ZAIRE. USAID AND THE DEPARTMENT OF PLAN ARE NOW MAKING ARRANGEMENTS TO EFFECT THE TRANSFER. PLEASE REVISE THE SUBJECT DRAFT REPORT TO REFLECT THESE FACTS. GROVE

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