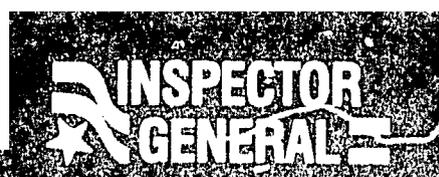


Regional Inspector General for Audit
Dakar

**Audit of USAID/Morocco's Controls
Over Host Country Contributions**

**Audit Report No. 7-608-94-03
November 17, 1993**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG/DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON, D.C. 20523

November 17, 1993

INTERNATIONAL ADDRESS
RIG/DAKAR
C/o AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

MEMORANDUM

TO: Mr. Martin Dagata, Mission Director, USAID/Morocco
Walter E. Shepherd
FROM: Walter E. Shepherd, Acting RIG/A/Dakar
SUBJECT: Audit of USAID/Morocco's Controls Over Host Country Contributions
(Audit Report No. 7-608-94-03)

Enclosed are five copies of the subject report. We have reviewed your comments in response to our draft report and have taken them into consideration in preparing this report. Your comments are included in their entirety in Appendix II.

We are pleased that USAID/Morocco recognizes the critical importance of host country contributions to project sustainability and that the implementation of the five recommendations will work towards that goal. Based on your comments and actions to date, all recommendations are resolved and Recommendation Nos. 1, 2.2, and 4 are closed. All other recommendations will be closed when the actions you have proposed are completed.

Please notify our office within 30 days of the Mission's progress towards implementing the open recommendations, including documentation supporting any completed actions so that we may consider closure.

I greatly appreciate the cooperation and courtesy extended to my staff during the audit. The audit team found you and your staff to be extremely professional and dedicated in improving your operations.

Attachments: A/S

EXECUTIVE SUMMARY

Background

Congress wanted to ensure that countries receiving U.S. Foreign Assistance were financially committed to the successful outcome of the development projects paid for by this assistance. As a consequence, it enacted Section 110 of the Foreign Assistance Act of 1961 which required these countries to finance at least 25 percent of each activity financed by the U.S. Agency for International Development (USAID). Audits performed by the USAID Office of the Inspector General and the General Accounting Office between 1982 and 1987, however, disclosed significant problems with USAID's willingness or ability to hold foreign governments accountable for this cost sharing. Since 1987, USAID has established additional procedures to correct these problems, the most recent procedures being published in 1991.

The Office of the Inspector General decided to conduct audits in several USAID Missions around the world to assess the state of cost sharing by recipient countries. The Office of the Regional Inspector General for Audit in Dakar, Senegal audited USAID/Morocco's controls over Morocco's contributions to determine whether the Mission was following USAID's new 1991 procedures for: (1) ensuring that systems were in place to obtain and record information on host government contributions; (2) establishing binding requirements for the host government to report at least annually on its contributions; (3) reviewing the adequacy of the host government contributions and testing the reliability of the reports on these contributions; and (4) computing, documenting, and supporting the value of the host government contributions (pages 2 and 3 and Appendix I).

During fiscal years 1992 and 1993 (up to March 31, 1993), USAID/Morocco managed 19 projects to which it had authorized \$389 million and for which Morocco committed itself to contribute an additional \$415 million (page 2 and Appendix III).

Results of Audit

USAID/Morocco has partially implemented the new USAID procedures for strengthening controls over host government contributions. The Mission

- established a system for tracking host country contributions (page 4),
- reviewed the status of these contributions, from a qualitative sense (page 11),
- established project files for six projects with records and reports to substantiate Moroccan contributions, to varying degrees (page 16), and
- initiated a project which included all the required controls for monitoring contributions (pages 8 and 18).

But, the Mission had not

- updated its system to include the 1991 requirements (page 5),
- required Moroccan recipients to report on their actual contributions (page 8),
- verified that Moroccan contributions had been at the levels promised (page 14), and
- defined the contributions to be made, their value, and the exchange rate for calculations in binding project agreements (page 17).

Audit Recommendations

This report makes five recommendations to correct problem areas including recommendations to (a) amend Mission procedures to ensure that all of USAID requirements for controlling, monitoring, and reporting on the status of Moroccan contributions are met (page 5); (b) amend existing project agreements to meet USAID current requirements for tracking and reporting on Moroccan contributions (page 8); (c) document the adequacy of host government contributions during Project Implementation Reviews (page 12); (d) establish procedures for including host country contribution assessments in site visit reports, evaluations, and project assistance completion reports (page 14); and (e) establish procedures for defining, in project agreements, the local currency value of the expected contributions by the Moroccan grantee (page 17).

Management Comments and Our Evaluation

USAID/Morocco managers agreed with the findings of report and have initiated actions to implement our recommendations. Mission managers pointed out that they were confident that sufficient Moroccan resources were devoted to USAID-funded projects to ensure success, even though they had not fully or promptly implemented the detailed verification and record-keeping procedures required by USAID/Washington. The Mission stated that in projects where sustainability was a function of host-country contributions, the Mission had "installed rigorous measures to assure these contributions."

The Mission managers outlined three specific actions it was taking to implement the audit recommendations: issuing a new Mission Order on host country contributions, sending an official letter to the Moroccan Ministry of Economic and Social Affairs explaining the need for new procedures for monitoring and reporting on Moroccan contributions to USAID -funded projects, and issuing Project Implementation Letters to all technical Ministries involved in project implementation, letters that explain the importance of and specific requirements for recording and regularly reporting the specific contributions actually made.

We believe that host country contributions and project sustainability go hand-in-hand and, therefore, that the Mission should install "rigorous measures" for all its projects during their design to assure not only the required contributions, but also the intended sustainability. Based on the Mission's comments and the documents they have provided us, we consider that all recommendations are resolved and Recommendation Nos. 1, 2.2, and 4 are closed as of this date.

Office of the Inspector General

Office of the Inspector General
November 17, 1993

Morocco

- International boundary
- - - Province or préfecture boundary
- ★ National capital
- ⊙ Province or préfecture capital
- Railroad
- Road or track

Province or préfecture names are the same as their capitals

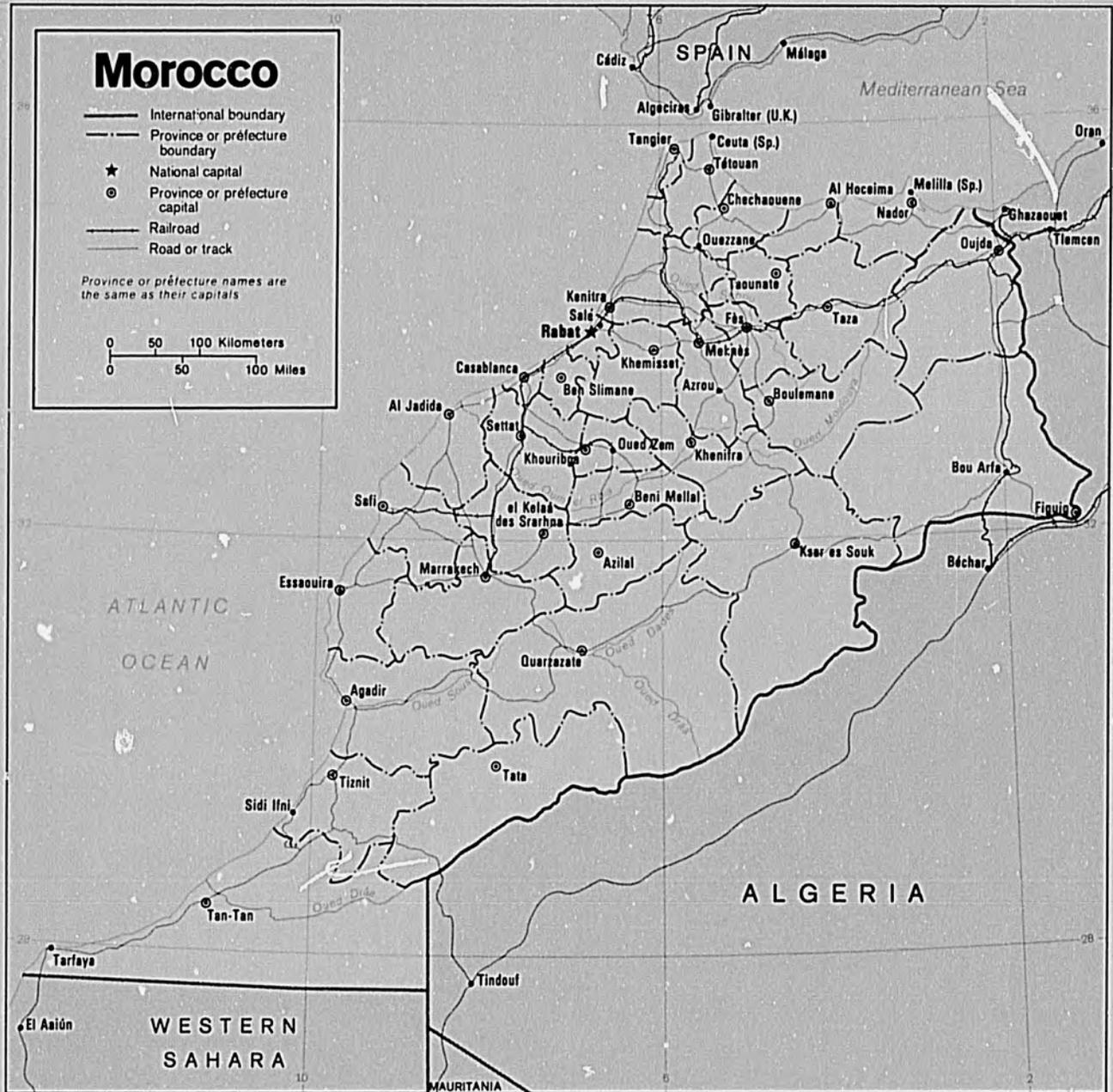
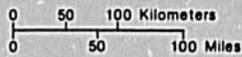


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INTRODUCTION

Background

Similar to the principles of cost sharing and matching contributions in Federal domestic aid programs, contributions by foreign governments are usually required to ensure that these governments have a vested financial interest in the success of USAID-financed activities. To ensure this vested financial interest, Section 110 of the Foreign Assistance Act of 1961 provides that:

"No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied that such country provide at least 25 percent of the costs of the entire program, project, or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind' basis."

While this section of the Act applies only to bilateral, government-to-government activities funded with development assistance appropriations and the Development Fund for Africa (Section 496d), USAID has administratively extended this requirement to activities funded with the Economic Support Fund.

Audits made by the Office of the Inspector General and the General Accounting Office have found recurrent problems with host country contributions, notably with overly optimistic project design assessments of the host government's ability to provide the necessary financial support to projects. Also, USAID Missions did not attach much importance to proper accounting for and verification of host government contributions.

In a 1987 memorandum to USAID's Assistant Administrator of the Office of Program and Policy Coordination, the Inspector General noted that, in 146 project audits, covering the years 1982 to 1987, the recommendation for managers to require host governments to provide and account for their contributions was made 59 times. However, project design, implementation, monitoring, and reporting problems persisted. The Inspector General further pointed out that the problems were worldwide in USAID's programs, affecting all Bureaus, and that the Agency needed to issue additional guidance in several areas.

Since 1987, USAID has responded to these problems with additional policies and procedures. Among these were requirements for project designers to prepare proforma host country contribution budgets early in the project design process, planning which should include specific details about the application, definition, and calculations of host country contributions. Also, in 1991, USAID established additional procedures (Department of State cable Number 138349, dated April 27, 1991) requiring Missions to:

- *Ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission;*
- *Include in agreements or Project Implementation Letters, a requirement for the host government to report at least annually on their contribution;*
- *Review the adequacy of host government contributions during project implementation reviews and test the reliability of the reports by Mission site visit reviews and evaluations; and*
- *Adhere to USAID Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used for calculating host government contributions.*

The Office of the Inspector General conducted audits in several USAID Missions around the world to assess the state of cost sharing by recipient countries. The Office of the Regional Inspector General for Audit in Dakar, Senegal decided to audit USAID/Morocco's controls over Morocco's contributions because of the size and complexity of the USAID's bilateral program with Morocco.

USAID/Morocco had 19 active projects which required host country contributions during the audited period of fiscal years 1992 and 1993. USAID authorized \$389 million for these 19 projects, and the Moroccan grantees agreed to provide additional funding of \$415 million, or more than 50 percent of total project funding. As of July 1993, the Mission reported that Morocco provided contributions to these projects valued at \$307 million (Appendix III), however, this amount has not been audited.

Audit Objectives

The Office of the Regional Inspector General for Audit/Dakar audited USAID/Morocco's controls over the Moroccan Government's cost sharing contributions to answer the following audit objectives:

- **Did USAID/Morocco follow USAID’s 1991 cable guidance to ensure that systems are in place to obtain information on host government contributions and that such information is recorded in the official records/files of the Mission?**
- **Did USAID/Morocco follow USAID’s 1991 cable guidance to include in agreements or Project Implementation Letters a requirement for the host government to report at least annually on its contribution?**
- **Did USAID/Morocco follow USAID’s 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations?**
- **Did USAID/Morocco follow USAID’s 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions?**

In answering these audit objectives, we tested whether USAID/Morocco followed applicable internal controls and complied with certain legal requirements. We also included steps to detect abuse or illegal acts which could affect the audit objectives. As part of our audit, we requested Mission management to provide (upon receipt of the formal draft audit report) written representations which we consider essential to answering the audit objectives and assessing internal controls and compliance.

For problem areas, we did additional work to:

- Identify the cause and effect of the problem; and
- Make recommendations to correct the problem and the cause.

Appendix I contains a discussion of the audit scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Morocco follow USAID's 1991 cable guidance to ensure that systems are in place to obtain information on host country contributions and that such information is recorded in the official records/files of the Mission?

Since late 1987, USAID/Morocco has had a system in place to obtain information on host country contributions and to record such information in the official records/files of the Mission. However, this system did not include all of the requirements for monitoring and documenting grantee contributions detailed in the April 27, 1991 cable guidance.

On December 31, 1987, the Mission Director signed USAID/Morocco's Mission Order number 031, titled *Assessment of GOM Contributions*. (In this report, GOM means Government of Morocco.) This Mission Order cited Section 100 of the Foreign Assistance Act and USAID's Handbook 3 as authority for the procedures it contained in the new Order. This order stated that its purpose was to "outline procedures for ascertaining that the GOM provides its agreed upon contributions to AID-financed projects." In fact, Mission Order 031 contained nearly all the procedures required by the April 27, 1991 cable guidance. These procedures included in-kind and financial contributions, conditions precedent and covenants, Government of Morocco reporting requirements, and project officer monitoring duties related to host country contributions. This Mission Order also stated the project officers' reporting responsibilities during Mission Portfolio Reviews (MPR) that were to be held twice a year. Mission Order 307, date January 14, 1992, titled *Project Implementation Reviews and Reports*, also required the project officers to report on the status of host country contributions to USAID's projects. Additionally, prior to the completion of our audit, USAID/Morocco had drafted, but did not implement, a new Mission Order that was intended to provide a more complete control system covering all aspects of the 1991 guidance.

Even though USAID/Morocco has had a system in place to obtain and record information on host country contributions, Mission managers were not collecting or recording the information to the extent required by USAID. In spite of this, Mission managers were confident that Morocco was contributing its share based on visible evidence of project progress.

The Mission's System Did Not Ensure Proper Reporting and Documentation of Morocco's Contributions

USAID/Morocco had three Mission Orders that covered aspects of monitoring host country contributions. Principal among them was a 1987 Mission Order, *Assessment of GOM Contributions*, which required Project Officers to routinely monitor, document, and report on host country contributions. The 1987 Mission Order did not contain certain procedures required by the April 27, 1991 Agency guidance, such as, including in the binding project agreements

- a detailed discussion of the planned in-kind contributions and calculations of their value based on the exchange rates to be used throughout the project and
- a requirement for the grantee to report annually on the contributions it actually provided.

These changes to the existing system were not made because detailed accounting for host country contributions was not a Mission priority and Mission managers did not require project officers to follow the existing Mission procedures. Further, the Near East Bureau did not require the Mission to do detailed monitoring and reporting of these contributions. Consequently, existing and subsequent agreements with the grantees were not amended to include these requirements. Thus, USAID/Morocco managers had only a qualitative sense that Morocco was meeting its cost sharing obligations.

Recommendation No. 1: We recommend that USAID/Morocco issue:

- 1.1 an updated Mission Order on host country contributions which includes all the requirements of the Agency's April 27, 1991 cable guidance, and**
- 1.2 assess the controls over host country contributions in the annual Internal Controls Assessment process and report any uncorrected weaknesses in the next Federal Manager's Financial Integrity Act reporting cycle to the Assistant Administrator, Near East Bureau.**

Procedures for tracking host country contributions have existed at USAID/Morocco for several years. On December 31, 1987, the USAID issued Mission Order 031, *Assessment of GOM Contributions*, which established project design and monitoring parameters. The Mission Order stated that project designers should plan for contributions that can

"realistically be expected from the GOM. Generally,...items such as: counterpart staff salaries, air fares, equipment, utilities, office space, various

recurrent costs, maintenance, construction, etc., calculated so as to achieve at least the required 25 percent minimum figure."

The Mission Order also required that the project agreements and their amendments contain "a detailed description of GOM contributions...segregated into in-kind contributions and financial contributions." Further, the Project Officer was tasked to "the maximum extent possible,...describe specific, clearly identifiable items, rather than broad or generic categories." The Project Officer was also charged with certain monitoring, recording and reporting responsibilities. Specifically,

"the Project Officer will track the provision of in-kind contributions by ascertaining that these inputs are made available in agreed upon quantities and numbers. Similarly, he/she will track financial contributions by ascertaining that contracts and orders are issued in a timely fashion for specific items to be procured with GOM moneys (sic)."

And,

"Project Officers will report at each Mission Portfolio review whether or not there are problems with GOM's timely provision of agreed upon contributions. When there are problems, then the Project Officer should be prepared to present to Mission management a strategy for resolution."

USAID's April 27, 1991 cable guidance described some monitoring responsibilities for host country contributions which were not covered by the 1987 Mission Order. The specific responsibilities that were not covered follow.

- Project agreements, amendments, or Project Implementation Letters must have a requirement for the Moroccan grantee to report at least annually to USAID/Morocco on its contributions to USAID projects.
- Project Officers must adhere to provisions of Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 in computing the value of in-kind contributions and the rate of exchange used in calculating the Moroccan Government contributions.
- Project Officers must verify the validity of the reported contributions during their site visits and report and record the results.
- Project Officers must determine the reasonableness of the information reported in much the same way as vouchers paid with USAID funds are administratively approved, include a statement on the reasonableness of the information in relation to visible, observable project activity, and file the reports in the official files.

USAID/Morocco did not change its existing Mission Orders to include these additional monitoring requirements because detailed accounting of host contributions was not a management priority for the Mission. That is, through experience and project monitoring, Mission managers had assessed that Moroccan grantees were providing--even exceeding--the contributions they promised and that there was little risk of a deficiency. Further, the Mission managers stated that the Near East Bureau did not require the detailed tracking required in the April 1991 guidance. Thus, Mission managers focused their resources on other management and project monitoring issues which they considered to have higher priority.

However, for some projects, information on host country contributions did exist. But, the extent and quality of the record keeping varied depending on the Mission's respective project and office managers. Also, Mission managers did attempt to gather information on host country contributions for the Mission's portfolio in preparation for our audit. However, since the Mission's system was not operating well, the results were not complete. This will be discussed further under Audit Objective Three.

...Mission management did not implement the April 27, 1991 guidance. As a result, the Mission had little auditable evidence in its files to support their assessment that Morocco had met its cost sharing obligations.

It was reasonable, indeed required, for USAID managers to apply their resources as they saw fit to best accomplish their organization's goals and objectives. At the same time, however, Mission managers were required to follow Agency rules and procedures. However, Mission management did not implement the April 27, 1991 guidance. Although Project Officers' reports, minutes of project committees' meetings, report on Project Implementation Reviews, Project Evaluation reports, and our site visits indicate that Morocco is doing the tasks, providing the people and resources, and providing the types of budget support it promised, the Mission had little auditable evidence in its files to support their assessment that the Morocco had met its cost sharing obligations. Thus, we believe that the Mission needs to improve its procedures for tracking host country contributions and it needs to assess that these procedures will provided the evidence and assurances that Morocco is meeting its obligations to the USAID's projects.

Management Comments and Our Evaluation

Mission managers agreed to implement our recommendations and finalized a new Mission Order titled *Recipient Contributions to USAID Projects*, effective October 12, 1993. The Mission also agreed to incorporate an assessment of controls over host country contributions in its Internal Control Assessment. Based on these comments and actions, we consider Recommendation Nos. 1.1 and 1.2 resolved and closed.

Did USAID/Morocco follow USAID's 1991 cable guidance to include in agreements or project implementation letters a requirement for the host government to report at least annually on its contribution?

USAID/Morocco did not follow USAID's 1991 cable guidance to include in agreements or Project Implementation Letters, a requirement for Moroccan Government and private sector grantees to report at least annually on their contributions to USAID-financed projects. The Mission established this annual reporting requirement in the Project Agreements in only two of its nineteen projects which required host country contributions. For the other 17 projects, there was no reporting requirement.

USAID Managers Had Not Established Grantee Reporting Requirements

On April 27, 1991, USAID issued guidance to its Missions that host country grantees must agree in binding documents--project agreements, amendments, or project implementation letters--to report annually on their actual contributions to their USAID-financed projects. However, this agreement did not exist, in the required documents, for 17 of USAID/Morocco's 19 projects which required them. Mission officials stated that they were confident that Morocco was making, and even exceeding, the contributions to which they had agreed. Therefore, it was not a priority for them to implement the detailed guidance. Mission managers based their confidence that Moroccan grantees were meeting their obligation on their observations of project operations and the goods, services, personnel, and infrastructure support provided by the grantees. However, because the grantees were not required to report on their contributions, Mission managers did not have the documentary evidence to support their level of confidence.

Recommendation No. 2: We recommend that USAID/Morocco:

- 2.1 issue Project Implementation Letters or Project Agreement Amendments which require the Moroccan grantees to report at least annually on Moroccan contributions for all projects that do not yet have this requirement; and**
- 2.2 revise and initiate Mission procedures to ensure that future project agreements contain the annual reporting requirement from the Government to the Mission on contributions actually provided as specified in the Agency's April 27, 1991 guidance.**

On April 27, 1991, USAID sent to all its Missions a cable which established a new procedure to strengthen host country accountability for its financial commitments to USAID financed activities. According to this cable:

"Missions should include in agreements or PILs a requirement for host governments to report annually (more frequently if appropriate) on their contribution (cash and in-kind) to the AID financed program/project/activity. (USAIDs may design their own report format.) Where such requirements do not exist, an ideal time for adding this language would be when the project is amended to provide incremental funding, or when issuing the annual budget PIL if such procedures are utilized."

USAID/Morocco included the annual reporting requirement in only one new project agreement...and in one amendment to an existing project agreement....

USAID/Morocco did not follow this new guidance to require annual reporting by host country grantees on their actual contributions, for 17 of its 19 projects which required it. The guidance stated that Missions should include this requirement in new project agreements, and should amend existing agreements at the next convenient opportunity. However, between April 27, 1991 and March 31, 1993, USAID/Morocco included the annual reporting requirement in only **one** new project agreement (the Tadla Resources Management Project No. 0213) and in **one** amendment to an existing project agreement (Amendment Eleven to the Drylands and Agriculture Applied Research Project No. 0136). **Three** other new project agreements and **six** other amendments to existing project agreements were signed but did not have this requirement. Further, Mission officials failed to modify the **eight** other existing project agreements with either amendments or Project Implementation Letters (PILs) requiring annual reporting.

USAID/Morocco officials (Mission Director, Controller, and Project Officers) stated that the annual reporting requirement was not a priority for the Mission. Furthermore, most of the project officers did not know about their host-country-contribution monitoring responsibilities and procedures listed in the December 1987 Mission Order, responsibilities and procedures which were close to those in the 1991 cable guidance.

On the other hand, the Mission officials were concerned that Moroccan grantees contribute. For example, the Population and Human Resources Office was completing the design of a major health project that did include in the project agreement all required controls, reporting, and record-keeping mechanisms to comply with the 1991 guidance. Further, USAID/Morocco had drafted but not implemented a new Mission Order which was intended to include all of the 1991 cable guidance.

Mission officials stated that they were confident that Morocco was making, and even exceeding, the contributions to which they had agreed. Therefore, it was not a priority for them to implement the detailed guidance. Mission managers based this confidence on their observations of project operations and the goods, services, personnel, and infrastructure support provided by the grantees. The result of not requiring the annual reporting was that Mission managers did not have the documentary evidence to justify their confidence that Morocco had provided the level of contributions that they had agreed, an amount in excess of \$414 million over the life of the projects we examined.

Responsible USAID/Morocco officials believed that there was a transitional period authorized before implementing the new guidance. Thus, these officials believed that there was no need to make amendments or issue PILs for existing projects solely for the purpose of implementing the annual reporting requirement. Nonetheless, as shown in the above quotation, the Agency's guidance was clear. Until USAID changes its procedures on controlling host country contributions, USAID/Morocco should follow them.

Besides the need to follow Agency procedures, there was a practical reason, as well. If USAID/Morocco had implemented the grantee reporting requirement, as directed in April of 1991, its Project Officers would only have had to test and verify the information reported to them by the grantees in order to know that contributions were made according to the agreements. They could have done this testing and verifying while performing their routine monitoring responsibilities. Without these provisions, Project Officers had to request and compile the data before checking it, thus adding to their full workload. Therefore, it makes good management sense for the Mission to establish agreements with the grantees to institutionalize record keeping and reporting on Moroccan contributions, and to establish internal Mission procedures to implement the controls over host country contributions already required by USAID.

Management Comments and Our Evaluation

Mission managers agreed to implement our recommendations and finalized a new Mission Order titled *Recipient Contributions to USAID Projects*, effective October 12, 1993. The Mission also drafted a letter to the Moroccan Ministry of Economic and Social Affairs describing the overall requirements for record-keeping and reporting. The Mission stated its intention to follow up this letter with individual project implementation letters to the technical ministries. Based on these comments and actions, we consider Recommendation No. 2.2 resolved and closed. Recommendation No. 2.1 is resolved and will be closed when the Mission provides us with evidence that the promised actions have been accomplished.

Did USAID/Morocco follow USAID's 1991 cable guidance to (1) review the adequacy of the host government contribution during project implementation reviews and (2) test the reliability of the reports by Mission site visit reviews and evaluations?

USAID/Morocco reviewed the status of host government contributions during the last two semi-annual project implementation reviews as required by USAID's guidance but did not test the reliability of the reports during site visits and evaluations. The discussions of host country contributions during the Mission's project implementation reviews were qualitative and contained little, if any quantitative information in terms of how much was actually provided versus how much was promised. During the four project implementation reviews conducted since that 1991 guidance was issued, Project Officers identified no problems with host country contributions. However, these project officers had not verified the value of contributions actually provided to USAID's projects during their site visits and project evaluations to justify their positive reporting.

Project Officers conducted site visits and met frequently with Moroccan counterparts. They also performed required project evaluations and project closeouts. Through this routine contact and visual observations the project officers were confident that the Moroccans were meeting the obligations and performing the tasks as agreed. However, during these activities, and in the subsequent written reports, project officers rarely discussed host country contributions. If they did, it was only in the most general terms. Thus, the project officers did not report on or verify, to the extent required by USAID, the value of the contributions to the USAID's projects that the Moroccans actually provided.

**Host Country Contribution Status
Reviews Should Be More Detailed**

The first two Project Implementation Reviews conducted after April 27, 1991 contained almost no information on grantee contributions, even though it had been required by the new guidance, the Near East Bureau instructions for Project Implementation Reviews, and the Mission's Order number 031. However, during the two most recent Project Implementation Reviews, Project Officers reported on the "status of host country contributions" for each project. However, these status reports contained little, if any, quantitative information to use as indicators of the grantee's actual contribution. Project Officers reported only whether the contributions were adequate. During all four reviews, no Project Officers reported problems with host country contributions, such as shortfalls or late contributions. Yet, there was little documentary evidence to support these assertions. This type of reporting was not a priority and not part of the process. Thus, Mission managers were not receiving quantitative information about the status of

Moroccan contributions upon which they could have based decisions to adjust or correct the projects' operations to meet goals or to avoid potential problems.

Recommendation No. 3: We recommend that USAID/Morocco revise the Mission procedures to include detailed procedures for reviewing the adequacy of the Host Country Contributions during Project Implementation Reviews by requiring information on (a) the contributions budgeted and received, (b) the reasons for shortfalls and anticipated problems, (c) the effects that any shortfall in the contributions may have on achieving projects' goals and on the ultimate sustainability of the projects, and (d) the basis or tests upon which the Project Officer is making the assessment.

USAID's procedures required that Missions review the adequacy of host country contributions during their Project Implementation Reviews to ensure that promised contributions were made. According to the April 1991 cable:

"In meeting our management responsibilities USAID should go a step farther than assurances, or waiting until the project is completed to monitor HG [host government] contributions to the USAID financed program, project, or activity. Rather, we believe there should be Mission standards to provide "auditable evidence" with respect to reporting and documenting HG financial contribution....

The adequacy of the HG contribution should be reviewed during Project Implementation Reviews (PIRs)....

It should be noted that when agreements call for contributions in excess of 25 [percent], the Mission also must ensure that the agreed total HG contribution is provided so that project/program objectives are met."

On September 24, 1991, USAID's Near East Bureau issued guidance for its Missions' 1991 Project Implementation Reviews--guidance which augmented the April requirement. It stated,

"We remain concerned about sustainability (financial, institutional, host country commitment, and other factors affecting whether the project will continue to receive host country support...).... Thus, we request that you continue to provide both qualitative and quantitative indicators, as appropriate for each project."

During USAID/Morocco Project Implementation Reviews of September 1992 and March 1993, the "Status of Host Country Contributions" was included on each project status

report. This was an improvement over the previous two Project Implementation Reviews during which few project officers reported information on Moroccan contributions, even though it had been required. However, the information provided did not give a complete picture of the status of contributions that could help a manager assess host country support or prevent problems with contributions in the future.

From the 20 Project Implementation Reports for the March 1993 Project Implementation Review, 11 implied that contributions were adequate, but they provided no quantitative details. For example, one report stated,

"...the Moroccan Government had met, if not, (sic) exceeded its required contributions in kind, and even submitted figures to verify this for FY's 87-90."

Another report stated,

"Host government (sic) has consistently provided contributions in accordance with the Project Agreement. The DPAE is scheduled to move to a new building built by the Host Government early next year."

Only four Project Officers' reports (dated 9/30/92 and 12/21/92) contained information on the amounts allegedly contributed. For example, one stated,

"This is an ESF funded activity: Host Country has provided support on limited basis, chiefly for seminars. Approximately \$100,000 to date."

Another report provided the amounts of private-sector contributions to the project in both Dirhams and U.S. Dollars, but neither report stated whether the grantee's contributions was proceeding according to plan. Thus, the way Project Officers were reporting the status of host country contributions was inconsistent and, we believe, in most cases, incomplete. The other two reports merely reported a number, the same number as the required contribution.

...the Near East Bureau had not required the Mission to review host country contributions in any more detail than they had been reporting.

As stated in the previous two audit objectives, Mission officials stated that they had not implemented the April 27, 1991 guidance in detail because they did not consider the guidance a priority. They were confident that Morocco was making, and even exceeding, the contributions to which they had agreed. Mission managers based this confidence on their observations of project operations and the goods, services, personnel,

and infrastructure support provided by the grantees. Further, the Near East Bureau had not required the Mission to review host country contributions in any more detail than they had been reporting. Mission managers thought that spending more time monitoring and documenting what they considered to be low-risk, was not a good use of their limited resources.

We believe that consistent reporting with quantitative information on what should have happened, what did happen, what can be expected and why would provide Mission managers with a better picture of host country contributions in order to make plans, adjustments or decisions in order to achieve objectives or avoid potential problems.

Management Comments and Our Evaluation

Mission managers agreed to implement our recommendation and stated their intention to issue appropriate guidance to project officers for them to use when preparing their status reports and assessments for future Mission project implementation reviews. Based on the Mission's comments, we consider Recommendation No. 3 to be resolved and will be closed when the Mission provides us with evidence that the promised actions have been accomplished.

USAID/Morocco Needs to Verify the Accuracy of the Contributions

Project Officers did not routinely report on host country contributions in their site-visit or monitoring reports as required in the April 1991 guidance. Also, no project evaluations or project assistance completion reports completed since April 1991 contained required assessments of the host country's contributions. As stated previously, detailed monitoring of host country contributions was not a priority in the Mission. Consequently, Project Officers did not follow the April 1991 guidance during project implementation monitoring. As a result, project officers could only confirm that the host country contributions for their projects appeared to be adequate from a qualitative sense.

Recommendation No. 4: We recommend that USAID/Morocco establish procedures that require:

- 4.1 Project Officers to verify and report on actual contributions during project site visits; and**
- 4.2 project evaluations and project assistance completion reports include qualitative and quantitative assessments of host country contributions actually provided.**

The April 1991 guidance required that the adequacy and accuracy of host country contributions be verified during project officers' site visits and in project evaluations and project activities completion reports. The Mission performed site visits, evaluations and project closeout reviews. Although Project Officers occasionally verified the existence of some donated property and other in-kind contributions during site visits, verifying the existence of supporting documentation for the reported amounts was not part of the agenda during site visits.

For example, Project Officers for USAID's largest health project were frequently involved with project monitoring activities. They made 43 site visits and attended numerous meetings with Moroccan Government counterparts between June 24, 1991 and January 27, 1993. During these visits and meetings, the officers were able to observe the existence of office space, clinics, equipment, and personnel dedicated to the project. However, the officers did not attempt to quantify the value of these resources. Nor did they specifically report and compare these resources to the specific resources promised. The Mission managers said that more detailed accountability was neither warranted nor cost effective.

Similarly, the Mission conducted project evaluations and project close out reviews generally as planned. However, host country contributions were not covered. We reviewed the scopes of work and final reports for 12 project evaluations and one (the only one) project assistance completion report conducted since April 27, 1991. Only one scope of work required an assessment of host country contributions. However, none of the final reports contained the required assessments.

Project Officers for six projects had information in their project files to substantiate, to varying degrees, Moroccan Government contributions in accordance with their agreements. These projects accounted for \$161.6 million of the \$415 million promised contributions. These were agriculture projects 608-0136 and 608-0160, health projects 608-0171 and 608-0198, and training projects 608-0178 and 608-0208. Project Officers for other projects did not have host country contribution data in their files. However, at our request, they did ask for and receive quantitative information from the appropriate grantees on status of their contributions. However, much of the information was not verified.

Mission managers expressed support for the principle of project cost-sharing but took issue with the extent of detailed documentation required by the Agency's guidance. They were confident that Moroccan grantees had been faithful to their cost-sharing commitments even though there was little documentation and little testing to support their conclusions. They believed that they could use their resources better to monitor the critical factors affecting project sustainability where they have determined there was risk of failure.

...the host country's contributions to USAID's projects demonstrate the recipient's commitment to sustain those projects after USAID's funding ends.

Risk is certainly a factor that should be considered when allocating resources. Nonetheless, USAID/Morocco should follow the Agency's regulations. After all, the host country's contributions to USAID's projects demonstrate the recipient's commitment to financially sustain those projects after USAID's funding ends. Since that is USAID's and the Congress' objective, USAID/Morocco managers should take the steps necessary to be certain that the contributions and commitments are made. Implementing the Agency's controls will do this.

Management Comments and Our Evaluation

Mission managers agreed to implement our recommendations and finalized a new Mission Order titled *Recipient Contributions to USAID Projects*, effective October 12, 1993. Based on the Mission's comments and actions, we consider Recommendation Nos. 4.1 and 4.2 resolved and closed.

Did USAID/Morocco follow USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G and Handbook 1, Part VII, 2.41 for computing the value of in-kind contributions and rate of exchange to be used in calculating host government contributions?

USAID/Morocco properly followed USAID's 1991 cable guidance to adhere to USAID Handbook 3, Chapter 2, Appendix 2G. However, USAID/Morocco did not follow Handbook 1, Part VII Section 2.41 for computing the value of in-kind contributions and the rate of exchange to be used in calculating host government contributions.

USAID/Morocco followed Handbook 3, Chapter 2, Appendix 2G for the three project agreements signed after issuance of the 1991 procedures by:

- Calculating the level of Moroccan Government contributions based upon the total cost of the projects, and

- Identifying the project operating and/or capital costs to be provided by the Moroccan Government.

USAID/Morocco, however, did not define the in-kind contributions to be provided by the Moroccan grantees or calculate the value of those contributions.

**The Mission Did Not Include Calculations
Or Descriptions Of Expected Contributions
In Binding Project Agreements**

Handbook 1, Part VII Section 2.41 required that the value of the host country's in-kind contributions be, in U.S. Dollar and local currency, and the rate of exchange to be used in calculating host government contributions, be clearly expressed in the project agreement. Paragraphs C and D of Appendix 2G of Handbook 3, required that assurances of host country contributions be made prior or simultaneous to agreement signing. Also, a USAID/Morocco Mission Order required a complete description of host country contributions in the project agreement. However, USAID/Morocco did not specify the exchange rates to be used for valuing Moroccan contributions throughout the life of its projects or the calculated value of in-kind contributions in any Project Agreements signed after April 27, 1991. As a result, it was difficult for Mission managers to know if the Moroccan grantees had assigned realistic values to host country contributions. Mission officials did not feel that this level of detail was necessary.

Recommendation No. 5: We recommend that USAID/Morocco:

- 5.1 establish Mission procedures to define, in project agreements, the specific in-kind contributions to be made, their value in both U.S. Dollars and Moroccan Dirhams, and the exchange rate to be used throughout the life of the project for calculating and verifying the contributions actually made, as required by Handbook 1, Part VII; and**
- 5.2 issue for each active project a Project Implementation Letter or Project Agreement Amendment which specifies the in-kind contributions to be made, their value in both U.S. Dollars and Moroccan Dirhams, and the exchange rate to be used throughout the life of the project for calculating and verifying the contributions actually made, as required by Handbook 1, Part VII.**

In an attempt to clarify, reaffirm, and extend USAID exchange rate policy, in 1987, USAID issued Department of State cable number 1860822 (subsequently incorporated into USAID Handbook 1 as Part VII). This cable defined the Agency's new policy

governing the appropriate exchange rate at which USAID—among other things—accounts for host government contributions to projects. The policy requires that the dollar value of the resources to be provided by the host country be calculated by using the exchange rate existing when the project agreement is signed. This basis of calculation is to be defined in project agreements and, then, used throughout the life of the project to ensure that the agreed-upon level of contributions is not affected by fluctuations in exchange rates. Accordingly, Section 2.41 of this policy requires that:

"The value of the real resource contribution provided by a host country for a project or program generally should be obtained by first pricing the host country's real resource contribution in local currency. This figure then is converted into dollars at the HR [highest rate per U.S. dollar not unlawful that is available to anyone in a recipient country (sec.2.22)] current at the time of the project agreement so that USAID and host country contributions can be expressed in one common monetary unit and so that the real resource contribution by the host country can be expressed in percentage and dollar-equivalent terms. Thus, at the signing of an assistance agreement, the host country's real resource contribution is to be expressed both in terms of absolute dollars and a percentage of the total project based on the domestic and foreign prices and the exchange rate existing at that date."

The additional 1991 USAID procedures, governing host country contributions, reminded Missions of these policy requirements. The 1991 cable said:

"Missions should follow guidelines in referenced Handbook [3] and Handbook 1, Part VII, 2.41 for computing value of in-kind contributions and rate of exchange to be used in calculating the HG contributions."

Between April 27, 1991 and March 31, 1993, the Mission signed eight new bilateral project agreements, four of which required host country contributions. None of these new project agreements defined the basis for valuing the Moroccan contributions or the exchange rates to be used throughout the life of the projects, as required. However, one amendment to an existing project agreement (Amendment Eleven to the Drylands project) did include such statements, as well as an illustrative budget in both U.S. and local currency. Also, in July 1993, the Mission planned to sign the project agreement for the new Family Planning Maternal Child Health VI project, which included all the new host country contributions guidance.

Despite the new guidance, the prevailing practice at USAID/Morocco was to not closely monitor the details of host country contributions to the extent required by the 1991 guidance. Most of the project officers and managers agreed that the host country contributions issue was not a priority. Most of the project officers we questioned on this issue said that the exchange rate used to determine the level of host country contributions

was the rate in existence at the time of the binding project document. However, they did not provide

evidence to support their statement and the auditors were not able to verify the assertion. More importantly, if a dispute arose between USAID and the host government in such a matter, there would not be a written agreement as the basis to resolve the matter.

As a result, the Mission had inadequate information about grantee contributions and therefore, could not determine whether the grantees were contributing to the level agreed. In accordance with USAID policy, the Moroccan grantees needed to know precisely how much it had to contribute to USAID-financed activities and should not be subjected to the affects of fluctuations in exchange rates. Moreover, Project Officers need a measurable basis from which to verify contributions of real property and other in-kind contributions.

To ensure that the Moroccan grantees and the USAID have a common understanding of what is to be contributed and how much, USAID/Morocco needs to amend its project agreements and define the proper exchange rates. Mission Project Officers should then use these rates in recalculating the reported value of the Moroccan grantees' contributions, to be in compliance with the new guidance.

Management Comments and Our Evaluation

Mission managers agreed to implement our recommendations and finalized a new Mission Order titled *Recipient Contributions to USAID Projects*, effective October 12, 1993, which requires that specific in-kind contributions and exchange rates to be used during the projects, will be included in future project agreements. The Mission also stated its intention to issue individual project implementation letters to the technical ministries in order to implement the recommendation for projects already under way. Based on these comments and actions, we consider Recommendation No. 5.1 resolved and closed. Recommendation No. 5.2 is resolved and will be closed when the Mission provides us with evidence that the promised actions have been accomplished.

SCOPE AND METHODOLOGY

The Office of the Regional Inspector General for Audit in Dakar, Senegal audited USAID/Morocco's controls over Morocco's cost-sharing contributions to A.I.D.-financed projects in Morocco. We conducted the audit in accordance with generally accepted government auditing standards in the offices of USAID/Morocco in Rabat from April 19, 1993 through June 28, 1993. We also did field work at the offices of three Moroccan grantees in the Rabat area.

The audit determined whether USAID/Morocco followed USAID policies and procedures specified in the April 27, 1991 cable guidance in (1) ensuring that systems were in place to obtain and record information on host government contributions; (2) establishing binding requirements for the host government to report at least annually on its contributions; (3) reviewing the adequacy of the host government contributions and testing the reliability of the reports on these contributions; and (4) computing, documenting, and supporting the value of the host government contributions, for the 19 projects active during fiscal years 1992 and 1993. The life of project funding for these 19 projects amounted to about \$389.3 million. The contributions to these projects promised by the Moroccan Government and private sector amounted to about \$414.6 million.

To accomplish this, we reviewed applicable policies and procedures contained in USAID Handbooks and supplemental guidance; obtained documentary and testimonial evidence from USAID/Morocco and Moroccan grantees; analyzed the reliability and sufficiency of that evidence; and concluded whether or not USAID/Morocco followed the applicable policies and procedures. We also obtained written representations from USAID/Morocco management as to their disclosure of information relevant to the audit objectives.

Specific methodology included analyzing the Mission's entire portfolio to determine which projects were pertinent to the audit; reviewing and analyzing all the Mission's procedures to learn what systems existed for controlling host country contributions; reviewing all project agreements, amendments, and PILs for the 19 projects that constituted our audit universe; reviewing Project Officers' project monitoring files and project evaluation, close-out, and implementation review files and reports for the same 19 projects; and analyzing the project agreements, amendment, and PILs, for all projects begun or amended after April 27, 1991 for compliance with the Agency's guidance.



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APPENDIX II

October 15, 1993

MEMORANDUM

TO: Thomas E. Anklewich, RIG/A/Dakar

FROM: Martin V. Dagata, USAID/Director

SUBJ: Audit of USAID/Morocco's Controls Over Host Country
Contributions (Audit Report No. 7-608-93-xx)

I would like to preface our remarks by reiterating one of the findings in the audit report, that is, that Mission project managers are uniformly confident that sufficient resources, both from the GOM and from the private sector, are being devoted to USAID-funded projects to ensure their success. We are aware of no material weakness relative to host country contributions in our project implementation; nor were any such weaknesses found in the audit findings.

Furthermore, it should be noted that the Mission is giving high priority to project sustainability involving such factors as linkages and self-sustaining replenishment of highly trained technical staff. Where sustainability is importantly a function of host-country contributions, rigorous measures are in place to assure these contributions, as in the case of the recently signed Family Planning and Maternal and Child Health Care V Project.

USAID Morocco is completing three important steps that will, we believe, satisfy the concerns expressed in the audit.

The first, the finalization of a Mission Order on Recipient Contributions to USAID Funded Projects, is completed. The second, an official letter to be issued to our umbrella Ministry, the Ministry of Economic and Social Affairs, is in final draft. Copies will be sent to the Ministry of Finance, the Ministry of Agriculture and Agrarian Reform, the Ministry of Energy and Mines, and the Ministry of Public Works.

This letter explains the need for standardized reporting of contributions across all projects. It also indicates that individual Project Implementation Letters will be prepared and sent to all technical Ministry counterparts. This PIL will elaborate on and define precisely what is required for the project in question, both in terms of categories and amounts required and in terms of reporting. Copies of the Mission Order and the final draft of the official letter are attached.

Recommendations Number 1.1 and 1.2:

In order to assure that the provisions of the Agency's April 27, 1991 cable guidance on host country contributions are followed, the recently completed Mission Order describes in detail the categories of planned in-kind contributions and includes a requirement that an exchange rate be established at the beginning of project implementation to determine their value. The Mission Order also requires that the grantee report at least annually on the contribution actually provided.

The Mission will incorporate an assessment of controls over host country contributions in its Internal Control Assessment.

Recommendations Number 2.1 and 2.2:

As I have indicated, the Mission is about to issue an official letter to the Ministry of Economic and Social Affairs, describing the overall requirement, categories for in-kind and cash contributions, and the need to establish a life-of-project exchange rate. This official letter will be followed by individual project PILs to technical ministries that will describe project-specific host country contributions and reporting requirements.

The Mission Order requires host country contribution reporting in future project agreements.

Recommendation Number 3:

In guidance for preparation of subsequent PIRs, the Mission will elaborate criteria against which issues might be developed for discussion, e.g. shortfalls, if any, the effects that any shortfalls may have on achieving project objectives and a discussion of the basis upon which the Project Officer is making the assessment. Such discussions will take place as usual, on an exceptions basis, i.e., where there are problems. As the Audit Report indicates, none have thus far surfaced.

Recommendarions Number 4.1 and 4.2:

The Mission Order requires Project Officers to verify and report on actual contributions during site visits and also requires evaluations and project assistance completion reports to contain information regarding recipient contributions.

Recommendations Number 5.1 and 5.2:

Future project agreements, as provided in the Mission Order, will contain specific in-kind contributions, their value in U.S. dollars and Moroccan dirhams, and the exchange rate to be used for the life-of-project.

Project Implementation Letters, addressing on-going projects, will be issued soon after the official letter referred to above.

I would like to draw your attention to Appendix III of the draft audit report. The following will clarify information given in Appendix III:

Project 0136 is in the office of Agriculture

Project 0171 planned contribution should read 26,694, not 31,926

Project 0178 is in the Training Office and the planned contribution should read 8,820, not 6,515

Project 0208 is in the Training Office

A few rounding modifications:

Project 0191 planned contribution should read 2,900, not 2,868

Project 0194 planned contribution should read 1,930 not 1,900

Project 0215 is in the Office of Private Sector Development and the planned contribution is 4,924 not 4,900.

Attachments: a/s

Moroccan Contributions to USAID Projects

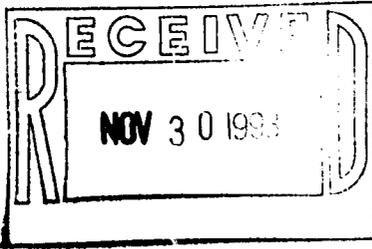
Project/ Office	Planned Contrib (\$000)	Reported Contrib (\$000)	Project Start	Project End
1. 0136 - Agriculture	20,637		8/78	8/94
2. 0160 - Agriculture	10,870	15,482	4/80	9/93
3. 0171 - Health	26,694	26,694	8/84	12/92
4. 0178 - Training	8,820		9/83	9/93
5. 0182 - Agriculture	10,307	12,549	9/83	9/93
6. 0189 - Prvt Sector	1,000		6/86	6/93
7. 0191 - Program	2,900	402	8/85	9/94
8. 0193 - Prvt Sector	4,337	177	8/88	9/95
9. 0194 - Housing	1,930	880	8/86	9/94
10. 0196 - Agriculture	90,000	53,900	5/88	9/92
11. 0197 - Agriculture	5,000		8/88	9/93
12. 0198 - Health	78,000	78,000	8/89	8/96
13. 0200 - Housing	450	450	6/89	9/94
14. PL480-II CFM	118,023	118,051	4/88	9/93
15. 0208 - Training	13,649		9/91	9/99
16. 0210 - Agriculture	9,600		8/91	7/98
17. 0213 - Agriculture	6,250		7/92	9/98
18. 0215 - Prvt Sector	4,924		7/92	9/96
19. PL480-II W&H	1,213		2/92	9/95

\$ 414,604 **\$ 306,585** (Reported but not verified)

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