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03								
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	SEOP-01	SEOS-02	ENME-03	FMAD-02	IGRM-02	APEM-01	FFP-09	
	SERP-01	SECS-02	RELO-01	TELE-01	ENEA-02	ENEU-02	ENPD-	
05								
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DRAFTED BY USAID/FM/FPS: PLIEFERT/KBROWN: 1036N

APPROVED BY: USAID/A-AA/FA: JOWENS

USAID/FM/C, M. USNICK

USAID/A-AA/O, T. FRY (DRAFT)

USAID/AA/PPC, R. BROWN

USAID/FM/FPS, R. KRAMER (DRAFT)

USAID/ES, D. MEIN

USAID/AA/LEG, R. RANDLETT (DRAFT)

USAID/AA/LAC, J. MICHEL (DRAFT)

USAID/A-AA/GC, J. MULLEN (DRAFT)

USAID/AA/AFR, S. SPANGLER (DRAFT)

USAID/A-AA/FVA, J. NICKS (DRAFT)

USAID/AA/ENE, C. ADELMAN (DRAFT)

USAID/AA/APRE, H. HOLSMON FORE (DRAFT)

USAID/PPC/PDPR/RP, D. MCCLELLAND (DRAFT)

USAID/GC/CCM, G. BISSON (DRAFT)

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SUBJECT: **SUPPLEMENTAL GUIDANCE ON PROGRAMMING AND MANAGING HOST COUNTRY-OWNED LOCAL CURRENCY**REFS: (A) 87 STATE 325792; (B) 87 STATE 327494; (C) 90 STATE 392326;
(D) 186882

1.0 INTRODUCTION

1.1 PURPOSE. IN RESPONSE TO STRICTER CONGRESSIONAL REQUIREMENTS TO MAINTAIN ACCOUNTABILITY OVER ESF-, DA-, AND DFA-GENERATED HOST COUNTRY-OWNED LOCAL

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CURRENCIES, FINANCIAL MANAGEMENT IS IMPLEMENTING NEW GUIDANCE WHICH MORE CLOSELY DEFINES MISSION RESPONSIBILITY IN PROGRAMMING AND MANAGING LOCAL CURRENCY.

1.2 APPLICATION. THIS GUIDANCE APPLIES TO LOCAL CURRENCY GENERATIONS OR DEPOSITS UNDER: CIP, SECTOR ASSISTANCE, OR ESF CASH TRANSFER PROGRAMS, DA- OR DFA-FUNDED NON-PROJECT ASSISTANCE, AND P.L. 480 PROGRAMS. THIS INCLUDES LOCAL CURRENCIES MADE AVAILABLE UNDER THESE SOURCES, BUT HELD BY NGOS OR PVOS. THIS GUIDANCE ALSO COVERS THE MANAGEMENT OF LOCAL CURRENCIES HELD UNDER TRUST FUND AGREEMENTS. HOWEVER THE LATTER IS COVERED AS A SEPARATE ITEM. ONLY THE GUIDANCE UNDER PARAGRAPH 8.0 TRUST FUNDS, APPLIES TO LOCAL CURRENCIES PROGRAMMED IN THIS MANNER.

1.3 EFFECTIVE DATE. THIS GUIDANCE IS EFFECTIVE ON JULY 1, 1991. EXCEPT FOR THE PROVISIONS THAT ARE CONTAINED IN REF. B, THIS GUIDANCE IS NOT RETROACTIVE: IT APPLIES ONLY TO NON-PROJECT ASSISTANCE AGREEMENTS SIGNED AFTER THE DATE OF THIS GUIDANCE. HOWEVER, SOME MISSIONS MAY BE UNABLE TO COMPLY WITH THE POLICY ON JULY 1, BECAUSE THEY ARE IN THE MIDST OF NEGOTIATING NEW AGREEMENTS WITH THE RECIPIENT COUNTRY. GEOGRAPHIC BUREAU ASSISTANT ADMINISTRATORS (AAS) MAY WAIVE THE EFFECTIVE DATE OF THE NEW POLICY FOR FY 1991 OBLIGATIONS, AS LONG AS SUCH WAIVERS ARE NOT PROHIBITED BY STATUE. WAIVERS FOR FY 1992 (AND SUBSEQUENT) OBLIGATIONS WILL NOT BE PERMITTED.

1.4 MONITORING RESPONSIBILITIES. THE ESSENCE OF AGENCY POLICY REGARDING THE MONITORING OF LOCAL CURRENCY WILL REMAIN THE SAME. THE EXTENT TO WHICH THE MISSION WILL MONITOR AND VERIFY USES OF LOCAL CURRENCY WILL DEPEND ON THE TYPE OF PROGRAMMING EMPLOYED. THEREFORE, THE MISSION'S INVOLVEMENT IN MONITORING THE LOCAL CURRENCY WILL INCREASE AS THE LOCAL CURRENCY IS PROGRAMMED FOR MORE SPECIFIC USES. PROGRAMMING OF LOCAL CURRENCY FOR INDIVIDUAL DEVELOPMENT PROJECTS, FOR EXAMPLE, WILL REQUIRE MORE MISSION MONITORING THAN PROGRAMMING LOCAL CURRENCY FOR GENERAL SUPPORT OF A SECTOR OR MINISTRY. THE MISSION HAS THE OPTION TO SUPPLEMENT ITS MONITORING RESOURCES BY CONTRACTING FOR TECHNICAL ASSISTANCE WITH PROGRAM FUNDS. ACCOUNTABILITY REQUIREMENTS SHOULD BE INCLUDED IN THE CONTRACTOR'S SCOPE OF WORK AND THE MISSION MUST MONITOR THEIR COMPLIANCE. THE VIABILITY OF THIS OPTION AND THE OPERATIONAL RESPONSIBILITIES MUST BE ADDRESSED IN THE PAAD (SEE SECTION 5.1.A.4).

THIS GUIDANCE PROPOSES PROCEDURES FOR ASSESSING THE HOST GOVERNMENT ACCOUNTABILITY ENVIRONMENT WHICH ARE AIMED AT ENSURING THAT MISSIONS CHOOSE MODES OF PROGRAMMING WHICH ARE CONSISTENT WITH THE ENVIRONMENT AND THUS LIKELY TO LEAD TO IMPROVED ACCOUNTABILITY FOR THE LOCAL CURRENCY. THESE PROCEDURES WOULD BE FOLLOWED AS PART OF A "GENERAL ASSESSMENT", WHICH MISSIONS HAVE PREVIOUSLY PERFORMED AS PART OF PROJECT ASSISTANCE PLANNING AND WHICH WILL NOW BE PERFORMED AS PART OF THE NON-PROJECT ASSISTANCE PLANNING PROCESS.

2.0 GENERAL ASSESSMENT

2.1 BACKGROUND. SINCE 1983, MISSIONS HAVE BEEN SUBJECT TO PAYMENT VERIFICATION POLICY STATEMENTS WHICH, AMONG OTHER THINGS, REQUIRE THEM TO PERFORM A GENERAL ASSESSMENT OF THE HOST GOVERNMENT'S SYSTEMS OF FINANCIAL MANAGEMENT, CONTRACTING, ETC. THE GENERAL ASSESSMENT IS INTENDED TO IDENTIFY WHICH METHODS OF IMPLEMENTATION AND FINANCING ARE SUITABLE IN THE HOST COUNTRY ENVIRONMENT. ON A PERIODIC BASIS, MISSIONS WILL BE ASKED TO PERFORM A GENERAL ASSESSMENT, SIMILAR TO THAT PRESCRIBED IN PAYMENT VERIFICATION POLICY NO. 1 BUT EXPANDED TO INCLUDE ALL NON-PROJECT ASSISTANCE AND LOCAL CURRENCY PROGRAMMING. GUIDANCE HAS BEEN ISSUED ON PERFORMING THE GENERAL ASSESSMENT (REFTEL C).

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MISSIONS WILL BE REQUIRED TO PERFORM SUCH ASSESSMENTS AT LEAST ONCE EVERY FIVE YEARS OR MORE FREQUENTLY IF CIRCUMSTANCES IN THE HOST COUNTRY CHANGE SUBSTANTIALLY (SUCH AS WITH THE ADVENT OF A NEW ADMINISTRATION).

2.2 PURPOSE OF GENERAL ASSESSMENT. THE PURPOSE OF THE GENERAL ASSESSMENT IS TO ASSESS THE GENERAL ACCOUNTABILITY ENVIRONMENT IN THE HOST COUNTRY. THE GENERAL ASSESSMENT WILL FORM THE BASIS FOR THE REQUIRED SPECIFIC ASSESSMENTS REQUIRED IN EVERY PROJECT AND PROGRAM DESIGN DOCUMENT. THE GENERAL ASSESSMENT SHOULD BE FORWARD-LOOKING, DEVELOPING STRATEGIES FOR OVERCOMING OBSTACLES TO ACCOUNTABILITY SO THAT A.I.D.'S PROJECTS AND PROGRAMS MAY BE IMPLEMENTED WITH AS LITTLE WASTE, FRAUD AND/OR ABUSE AS POSSIBLE. THE GENERAL ASSESSMENT SHOULD BE FULLY-INTEGRATED INTO THE MISSION'S MANAGEMENT (INTERNAL) CONTROL PROCESS.

2.3 SCOPE OF GENERAL ASSESSMENT. THE GENERAL ASSESSMENT INCLUDES AN OVERVIEW OF THE HOST COUNTRY'S BUDGETING AND FINANCIAL MANAGEMENT SYSTEMS. IT ALSO INCLUDES AN ANALYSIS OF THE FINANCIAL SYSTEMS OF INDIVIDUAL HOST GOVERNMENT MINISTRIES OR AGENCIES, IN ORDER TO DETERMINE WHICH AGENCIES MIGHT BE MORE ABLE TO ENSURE ACCOUNTABILITY FOR HOST COUNTRY LOCAL CURRENCY. IMPLEMENTING GUIDANCE PROVIDES A LIST OF FACTORS THE MISSIONS SHOULD EXAMINE, SUCH AS THE GENERAL FINANCIAL MANAGEMENT CAPABILITIES OF THE HOST GOVERNMENT, THE QUALITY OF ACCOUNTING AND FINANCIAL MANAGEMENT PERSONNEL WITHIN THE HOST GOVERNMENT, THE SYSTEMS IN PLACE TO ALLOCATE AND EXPEND FUNDS, EXTERNAL ECONOMIC FACTORS WHICH MIGHT INFLUENCE THE USE OF LOCAL CURRENCY, AND THE MISSION'S PRIOR EXPERIENCE WITH ENSURING ACCOUNTABILITY FOR A.I.D. RESOURCES AND LOCAL CURRENCY IN THAT COUNTRY.

2.4 GENERAL ASSESSMENT CONCLUSIONS. UPON EXAMINING RELEVANT FACTORS, MISSIONS SHOULD COME TO A CONCLUSION IN THE GENERAL ASSESSMENT AS TO THE DESIRABILITY OF PROGRAMMING HOST COUNTRY-OWNED LOCAL CURRENCY FOR THE VARIOUS TYPES OF BUDGET SUPPORT PROGRAMS AND ACTIVITIES FUNDED OUTSIDE OF THE HOST COUNTRY BUDGET AS OUTLINED IN PARAGRAPH 6.0.

2.5 SPECIFIC ASSESSMENT IN PAAD. IDEALLY, MISSIONS WOULD HAVE PRELIMINARY AGREEMENT WITH THE HOST COUNTRY ON LOCAL CURRENCY PROGRAMMING AT THE PROGRAM DESIGN STAGE AND THUS BE ABLE TO DISCUSS SPECIFIC PROGRAMMING MODES IN THE PAAD. EVEN IF NEGOTIATIONS WITH THE HOST COUNTRY ON PROGRAMMING LOCAL CURRENCY HAVE NOT COMMENCED, EACH PAAD WILL INCLUDE AS PART OF THE FINANCIAL ANALYSIS SECTION A DETAILED SPECIFIC ASSESSMENT OF APPROPRIATE PROGRAMMING ALTERNATIVES AVAILABLE TO THE MISSION BASED ON THE GENERAL ASSESSMENT. (THIS WOULD BE ANALOGOUS TO A DISCUSSION IN A PROJECT PAPER OF THE APPROPRIATENESS OF USING THE HOST COUNTRY CONTRACTING METHOD OF IMPLEMENTATION IN A PROJECT.) THE APPROVAL OF THE PAAD WILL PROVIDE THE BASIC JUSTIFICATION FOR SUBSEQUENT PROGRAMMING OF LOCAL CURRENCIES.

3.0 GENERATION OF LOCAL CURRENCY

IN ACCORDANCE WITH SECTION 575 (A) OF THE 1991 FOREIGN OPERATIONS, EXPORT FINANCING AND RELATED AGENCIES APPROPRIATIONS ACT, A LOCAL CURRENCY SPECIAL ACCOUNT MUST BE ESTABLISHED WHEN AN A.I.D. AGREEMENT WILL RESULT IN THE GENERATION OF LOCAL CURRENCIES. THE AMOUNT OF LOCAL CURRENCY TO BE DEPOSITED INTO THE SPECIAL ACCOUNT WILL BE DETERMINED BY THE AGREEMENT BETWEEN THE HOST COUNTRY AND A.I.D. THE AGREEMENT MAY NOT PRECLUDE LOCAL CURRENCY DEPOSITS IF THE AGREEMENT WILL GENERATE THEM BUT SHALL REQUIRE THEM BASED UPON A REASONABLE ESTIMATE FOR THE ANTICIPATED AMOUNT TO BE GENERATED.

3.1 ESTABLISHING THE LOCAL CURRENCY ACCOUNT. IN THE AGREEMENT, A.I.D. AND

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THE HOST GOVERNMENT MUST SPECIFY THE TOTAL AMOUNT OF THE DOLLAR ASSISTANCE WHICH WILL GENERATE LOCAL CURRENCY AND THE EXCHANGE RATE THAT WILL BE USED TO EXPRESS THAT AMOUNT IN TERMS OF LOCAL CURRENCY. THIS RATE MUST BE ESTABLISHED IN ACCORDANCE WITH A.I.D. EXCHANGE RATE POLICY, REFTEL D. THE AGREEMENT SHOULD ALSO DETERMINE WHEN THE LOCAL CURRENCY DEPOSITS WILL BE MADE DURING THE LIFE OF THE AGREEMENT. THIS AUTHORITY IS INTENDED TO BE USED TO REASONABLY FIX IN ADVANCE THE AMOUNT OF LOCAL CURRENCY TO BE GENERATED DURING THE COURSE OF THE A.I.D. AGREEMENT. MAJOR FLUCTUATING IN THE HOST GOVERNMENT EXCHANGE RATE OR THE PUBLIC/PRIVATE SECTOR MIX OF THE ASSISTANCE MUST BE ACCOUNTED FOR THROUGH APPROPRIATE AGREEMENT PROVISIONS TO ALLOW REVISIONS TO THE AGREED UPON LOCAL CURRENCY AMOUNT.

3.2 EFFECT OF WAIVER OF THE REQUIREMENT TO DEPOSIT FOREIGN EXCHANGE INTO A SPECIAL ACCOUNT. NON-PROJECT SECTOR ASSISTANCE MAY BE EXEMPTED FROM THE REQUIREMENT TO DEPOSIT FOREIGN EXCHANGE INTO A SPECIAL ACCOUNT THROUGH THE CONGRESSIONAL NOTIFICATION PROCESS. SHOULD THIS EXEMPTION OCCUR, GC HAS DETERMINED THAT THERE IS NO LEGAL REQUIREMENT FOR A.I.D. TO REQUIRE LOCAL CURRENCY DEPOSITS, BUT IF A.I.D. AND THE HOST COUNTRY ENTER INTO LOCAL CURRENCY DEPOSIT AGREEMENTS, THE ACCOUNTABILITY PROVISIONS OF THIS GUIDANCE SHALL APPLY TO SUCH DEPOSITS.

4.0 ACCOUNTABILITY FOR LOCAL CURRENCY. THE CURRENT LEGISLATION CLEARLY INTENDS THAT A.I.D. WILL HAVE NOT ONLY PROGRAMMING RESPONSIBILITY FOR LOCAL CURRENCY BUT ALSO INCREASED RESPONSIBILITY FOR THE ACCOUNTABILITY (ENSURING THE USE FOR AGREED-UPON PURPOSES) OF THE LOCAL CURRENCY. THERE ARE DIFFERENT LEVELS OF ACCOUNTABILITY FOR LOCAL CURRENCY:

" THE SPECIAL ACCOUNT MUST BE MANAGED SO THAT THE LOCAL CURRENCY IS DEPOSITED AND DISBURSED IN THE AGREED-UPON MANNER (SECTION 5.0);

" THE LOCAL CURRENCIES ARE USED FOR INTENDED PURPOSES ONCE THEY ARE DISBURSED FROM THE SPECIAL ACCOUNT (SECTION 6.0); AND

" THE IMPACT OF THE LOCAL CURRENCY PROGRAMS, WHICH COULD BE CALLED PERFORMANCE INDICATORS, NEEDS TO BE EVALUATED (SECTION 7.0).

5.0 MANAGEMENT OF SPECIAL ACCOUNTS

THE FOLLOWING PROVISIONS CONSTITUTE MINIMUM STANDARDS FOR MANAGING LOCAL CURRENCY SPECIAL ACCOUNTS WHICH ADDRESSES THE FIRST LEVEL OF ACCOUNTABILITY. MISSIONS SHOULD HAVE THE HOST GOVERNMENT EXERCISE AS MUCH MANAGEMENT RESPONSIBILITY OVER THE SPECIAL ACCOUNTS AS POSSIBLE. HOWEVER, THE DEGREE OF MISSION OVERSIGHT INVOLVEMENT WITH THE SPECIAL ACCOUNTS WILL DEPEND ON THE CAPABILITIES OF THE HOST GOVERNMENT AGENCY OR AGENCIES RESPONSIBLE FOR THE MANAGEMENT OF THEM.

5.1 ESTABLISHMENT OF SPECIAL ACCOUNTS. WHILE MISSIONS NEED NOT ESTABLISH A NEW SPECIAL ACCOUNT FOR EACH NON-PROJECT ASSISTANCE AGREEMENT AND ONE SPECIAL ACCOUNT CAN BE USED ON A NON-FISCAL YEAR BASIS, MISSIONS SHOULD NOT COMMINGLE LOCAL CURRENCIES FROM DIFFERENT U.S. ASSISTANCE SOURCES IN THE SAME SPECIAL ACCOUNT. THUS LOCAL CURRENCY REQUIRED TO BE DEPOSITED UNDER A ESF CASH TRANSFER SHOULD NOT BE COMMINGLED WITH LOCAL CURRENCIES GENERATED UNDER A CIP PROGRAM. SIMILARLY, PL 480 LOCAL CURRENCY GENERATIONS SHOULD NOT BE COMMINGLED WITH OTHER LOCAL CURRENCIES ASSOCIATED WITH U.S. ASSISTANCE. IT IS WORTH EMPHASIZING THAT THE REQUIREMENT FOR A SPECIAL ACCOUNT DOES NOT IMPLY THAT HOST

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COUNTRY-OWNED LOCAL CURRENCY MAY NEVER BE COMMINGLED. ONCE THE LOCAL CURRENCY IS DISBURSED FROM THE SPECIAL ACCOUNT FOR THE AGREED-UPON PURPOSE, IT MAY BE COMMINGLED. THE FY 1991 APPROPRIATIONS LEGISLATION STATES, IN FACT, THAT " THE EQUIVALENT OF THE LOCAL CURRENCIES DISBURSED" MUST BE USED TO CARRY OUT THE AIMS EMBODIED IN THE FOREIGN ASSISTANCE ACT.

5.1.A FINANCIAL ASSESSMENTS. IF A NON-PROJECT ASSISTANCE AGREEMENT WILL REQUIRE LOCAL CURRENCIES TO BE DEPOSITED INTO A SPECIAL ACCOUNT, THEN THE PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD) MUST IDENTIFY THE HOST GOVERNMENT AGENCY OR THE SPECIFIC UNIT WITHIN AN AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT AND MUST CONTAIN A CONCLUSION AS TO THE CAPABILITY OF THAT HOST GOVERNMENT AGENCY TO EFFECTIVELY MANAGE THE SPECIAL ACCOUNT, INCLUDING THE ABILITY OF THE HOST AGENCY TO ARRANGE FOR OR PERFORM FINANCIAL ASSESSMENTS AND AUDITS OF RECIPIENT ORGANIZATIONS IF SPECIAL ACCOUNT FUNDS WERE TO BE USED TO SUPPORT LOCAL CURRENCY PROJECTS.

5.1.A.1 BASIS FOR DETERMINING MANAGEMENT CAPABILITY. THE CONCLUSION AS TO THE CAPABILITY OF THE HOST GOVERNMENT AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT MAY BE BASED ON AN INDEPENDENT REVIEW OF THE FINANCIAL SYSTEMS OF THE AGENCY (A FORMAL ASSESSMENT) OR MAY BE BASED ON THE MISSION'S PAST EXPERIENCE WITH THE AGENCY'S PERFORMANCE (AN INFORMAL ASSESSMENT). IF AN AGENCY OR HOST GOVERNMENT UNIT WHICH HAS NOT PREVIOUSLY MANAGED A SPECIAL ACCOUNT IS TO BE RESPONSIBLE, A FORMAL FINANCIAL ASSESSMENT SHOULD BE PERFORMED. ALSO, IF THE HOST GOVERNMENT AGENCY HAS MANAGED A SPECIAL ACCOUNT PREVIOUSLY AND HAS A POOR RECORD (INDICATED BY NEGATIVE AUDITS; UNTIMELY, INCOMPLETE OR INACCURATE REPORTS; ETC.) THEN A FORMAL FINANCIAL ASSESSMENT SHOULD BE PERFORMED, THAT IS THE ACCOUNTING AND FINANCIAL SYSTEMS OF THE AGENCY OR UNIT SHOULD BE REVIEWED IN ORDER TO DETERMINE WHETHER SUFFICIENT PERSONNEL, SYSTEMS, AND INTERNAL CONTROLS EXIST TO ADEQUATELY MANAGE THE SPECIAL ACCOUNT.

5.1.A.2 FUNDING OF FINANCIAL ASSESSMENT. A FORMAL FINANCIAL ASSESSMENT MAY BE PERFORMED BY EITHER AN INDEPENDENT ENTITY OR BY MISSION PERSONNEL. LOCAL CURRENCY ASSOCIATED WITH THE PROGRAM IS THE PREFERABLE SOURCE OF FUNDING FOR ASSESSMENTS PERFORMED BY INDEPENDENT ENTITIES. WHILE LESS FAVORABLE, APPROPRIATED DOLLAR PROGRAM FUNDS, E.G., PD&S FUNDS, MAY ALSO MAY BE USED IF THE PROGRAM AGREEMENT SO ALLOWS, ANY OF THESE OPTIONS REQUIRE AGREEMENT BETWEEN THE MISSION AND THE HOST GOVERNMENT.

5.1.A.3 INFORMAL ASSESSMENTS. IF THE DESIGNATED HOST GOVERNMENT AGENCY HAS EXPERIENCE IN MANAGING SPECIAL ACCOUNTS, THEN THE MISSION MAY CHOOSE TO RELY ON ITS RECORD AS AN INDICATOR OF CAPABILITY. THE MISSION WOULD THEN STATE IN THE PAAD THE FAVORABLE EXPERIENCE WHICH IT HAS HAD WITH THE AGENCY AS A BASIS TO JUSTIFY AN INFORMAL ASSESSMENT.

5.1.A.4 TECHNICAL ASSISTANCE TO IMPROVE CAPABILITY. IF THE CONCLUSION REACHED IN THE PAAD IS THAT A HOST GOVERNMENT AGENCY HAS LESS THAN SUFFICIENT CAPABILITY TO MANAGE THE SPECIAL ACCOUNT, THE MISSION SHOULD CONSIDER TECHNICAL ASSISTANCE OR OTHER MEANS TO STRENGTHEN THE AGENCY'S FINANCIAL MANAGEMENT ABILITIES PRIOR TO DISBURSEMENT OF FUNDS FROM THE SPECIAL ACCOUNT. THE SCOPE OF WORK FOR THE TECHNICAL ASSISTANCE CONTRACT CAN BE BROAD IN SCOPE SO THAT MUCH, IF NOT ALL, OF THE MISSION'S ACCOUNTABILITY REQUIREMENTS CAN BE MET BY CAREFUL MONITORING OF THE CONTRACTOR'S PERFORMANCE. FUNDING OF SUCH CONTRACTS IS LIKELY TO REQUIRE DOLLARS AS WELL AS LOCAL CURRENCY AND A PORTION OF THE PROCEEDS FROM THE AGREEMENT COULD BE SET ASIDE FOR THIS PURPOSE. IN SUCH A CASE THE MISSION SHOULD SEEK AGREEMENT WITH THE HOST GOVERNMENT ON THE SCOPE OF WORK, FUNDING, AND THE TIMETABLE FOR IMPROVEMENTS.

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5.1.B SPECIAL ACCOUNT REPORTING. THE PROGRAM AGREEMENT MUST PROVIDE FOR APPROPRIATE REPORTING BY THE HOST GOVERNMENT AGENCY RESPONSIBLE FOR MANAGING THE SPECIAL ACCOUNT. AT A MINIMUM, THE PROGRAM AGREEMENT MUST REQUIRE THAT REPORTS ON THE STATUS OF SPECIAL ACCOUNT ACTIVITY BE SUBMITTED TO THE MISSION ON A TIMELY BASIS.

5.1.B.1 REPORTING FORMAT. REPORTING FORMAT AND CONTENT SHOULD BE OUTLINED IN A PIL SOON AFTER THE PROGRAM AGREEMENT IS SIGNED. REPORTS SHOULD PROVIDE INFORMATION ON DEPOSITS TO, WITHDRAWALS FROM, AND DISPOSITION OF LOCAL CURRENCY FROM THE SPECIAL ACCOUNT. THE PIL SHOULD ALSO IDENTIFY THE DOCUMENTATION WHICH THE HOST GOVERNMENT AGENCY MUST SUBMIT TO THE MISSION TO SUBSTANTIATE REPORTS. THE MISSION SHOULD ALSO ARRANGE TO RECEIVE STATEMENTS ON THE SPECIAL ACCOUNT DIRECTLY FROM THE BANK.

5.1.B.2 REPORT VERIFICATION. MISSIONS MUST DEVELOP A PLAN TO VERIFY THE ACCURACY OF THE HOST GOVERNMENT REPORTS ON THE SPECIAL ACCOUNT. AT A MINIMUM, AT LEAST ONE REPORT SHOULD BE VERIFIED ON AN ANNUAL BASIS. THE FREQUENCY AND SCOPE OF VERIFICATION OF THE REPORTS SHOULD BE ADDRESSED IN THE PAAD AND SHOULD BE BASED ON THE CAPABILITY OF THE HOST GOVERNMENT AGENCY AS DETERMINED BY THE FINANCIAL ASSESSMENT. (THE MISSION SHOULD NOT RELY SOLELY ON HOST GOVERNMENT AGENCY REPORTING FOR ITS INFORMATION NEEDS. RATHER, THE MISSION SHOULD INDEPENDENTLY POST MEMORANDUM ACCOUNTING RECORDS FROM SOURCE DOCUMENTS, SUCH AS BANK STATEMENTS.)

5.1.C AUDITS. MISSIONS SHOULD ENSURE THAT SPECIAL ACCOUNTS ARE AUDITED PERIODICALLY. AT THE PAAD STAGE, MISSIONS SHOULD DISCUSS WITH THE HOST GOVERNMENT THE REQUIREMENTS WITH REGARD TO AUDITING THE SPECIAL ACCOUNT, AND THE SUBSEQUENT PROGRAM AGREEMENT SHOULD CONTAIN SPECIFIC LANGUAGE CONCERNING AUDIT RESPONSIBILITIES, FREQUENCY, AND FUNDING. (PROGRAM AGREEMENTS MUST ALSO RESERVE AUDIT RIGHTS IN THE U.S. AND STATE THAT A.I.D. AUDIT RIGHTS WILL NOT BE SUBORDINATED OR INFRINGED BY ARRANGEMENTS FOR AUDITS BY THE HOST COUNTRY OR OUTSIDE AUDITORS.)

5.1.C.1 AUDIT STANDARDS. SINCE THE LOCAL CURRENCIES ARE HOST COUNTRY-OWNED, THE AUDITS OF THESE LOCAL CURRENCIES DO NOT NECESSARILY HAVE TO ADHERE TO U.S. GAO AUDITING STANDARDS. HOWEVER, AUDITS SHOULD BE PROFESSIONALLY EXECUTED ACCORDING TO GENERALLY ACCEPTED AUDITING STANDARDS AND ACCOUNTING PRINCIPLES THAT HAVE BEEN PRESCRIBED BY THE HOST COUNTRY'S LAW, OR THAT HAVE BEEN ADOPTED BY PUBLIC ACCOUNTANTS OR ASSOCIATIONS OF PUBLIC ACCOUNTANTS IN THE HOST COUNTRY, TOGETHER WITH GENERALLY ACCEPTED INTERNATIONALLY AUDITING STANDARDS WHEN FEASIBLE. AUDITS MAY BE PERFORMED BY AN INDEPENDENT FIRM, THE HOST GOVERNMENT'S CENTRAL AUDIT AGENCY, OR OTHER ACCEPTABLE AUDIT ENTITY. THE PAAD SHOULD CONTAIN A DISCUSSION ON WHETHER PUBLIC OR PRIVATE ENTITIES WILL PERFORM THE AUDIT OF THE SPECIAL ACCOUNT AND SHOULD CONTAIN A CONCLUSION AS TO THEIR COMPETENCY AND ABILITY TO CONDUCT A PROFESSIONAL AUDIT. IF THE HOST GOVERNMENT IS TO PERFORM THE AUDIT, THEN THE PAAD SHOULD CONTAIN A DISCUSSION OF THE AUDIT AGENCY'S ABILITY TO CONDUCT AN INDEPENDENT FAIR AND IMPARTIAL AUDIT.

5.1.C.2 FUNDING AUDITS. LOCAL CURRENCY ASSOCIATED WITH THE PROGRAM IS THE PREFERABLE SOURCE OF FUNDING FOR AUDITS OF THE SPECIAL ACCOUNT. WHILE LESS PREFERABLE, APPROPRIATED DOLLAR PROGRAM FUNDS MAY ALSO BE BUDGETED FOR AUDIT. EITHER OF THESE OPTIONS REQUIRES AGREEMENT BETWEEN THE MISSION AND THE HOST GOVERNMENT. A LESS FAVORABLE SOURCE OF FUNDING FOR AUDITS IS PD&S FUNDS. FUNDING SOURCES FOR AUDITS OF SPECIAL ACCOUNTS SHOULD BE FULLY DISCUSSED IN THE PAAD, AND BE EXPLICITLY STATED IN THE SUBSEQUENT PROGRAM AGREEMENT.

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5.2 INTEREST-BEARING ACCOUNTS. JOINTLY PROGRAMMED LOCAL CURRENCY SHOULD BE DISBURSED AS QUICKLY AS IS CONSISTENT WITH SOUND PROGRAMMING AND PREVAILING ECONOMIC CONDITIONS IN THE RECIPIENT COUNTRY, TAKING INTO ACCOUNT THE CONDITIONS OF AN ECONOMIC STABILIZATION PROGRAM THAT MAY HAVE BEEN NEGOTIATED.

HOWEVER, ON OCCASION, DISBURSEMENT DELAYS DO OCCUR UNAVOIDABLY. THEREFORE, A.I.D. POLICY FAVORS THAT LOCAL CURRENCY BE PLACED INTO AN INTEREST-BEARING ACCOUNT IN A DEPOSIT-TAKING INSTITUTION, WITH ANY INTEREST PROGRAMMED AS IF IT WERE PRINCIPAL, SO LONG AS SUCH ACCOUNTS ARE PERMITTED UNDER HOST COUNTRY LAW AND REGULATION AND DO NOT UNDERMINE INTERNATIONALLY-SUPPORTED STABILIZATION AGREEMENTS AND SOUND MONETARY POLICY. A WRITTEN DETERMINATION NOT TO FOLLOW A.I.D.'S PREFERENCE FOR INTEREST-BEARING ACCOUNTS MAY BE MADE BY THE MISSION DIRECTOR. COPIES OF EACH DETERMINATION SHALL BE RETAINED BY THE MISSION.

6.0 ACCOUNTABILITY GUIDELINES FOR LOCAL CURRENCY PROGRAMS

THIS SECTION ADDRESSES THE SECOND LEVEL OF ACCOUNTABILITY FOR LOCAL CURRENCY, NAMELY THE DEVELOPMENT OF ASSURANCE THAT LOCAL CURRENCIES DISBURSED FROM SPECIAL ACCOUNTS WERE USED FOR AGREED UPON PURPOSES. THE FOLLOWING IS INTENDED TO PROVIDE MINIMUM STANDARDS FOR FINANCIAL ASSESSMENTS REPORTING AND VERIFICATION, AND AUDIT OF THE USES OF LOCAL CURRENCY FOR DIFFERENT TYPES OF PROGRAMMING.

6.1 TYPES OF LOCAL CURRENCY PROGRAMS. THERE ARE TWO PRINCIPAL TYPES OF LOCAL CURRENCY PROGRAMS WHICH CAN BE FUNDED FROM THE SPECIAL ACCOUNT. THESE PROGRAMS ARE AS FOLLOWS:

" BUDGET SUPPORT (WHICH INCLUDES GENERAL BUDGET SUPPORT, GENERAL SECTOR SUPPORT, AND SPECIFIC SECTOR SUPPORT)

" EXTRA BUDGETARY ACTIVITIES (WHICH INCLUDES PROJECTS OR ACTIVITIES FUNDED OUTSIDE OF THE HOST COUNTRY'S BUDGET)

6.2 BUDGET SUPPORT. BUDGETARY RESOURCES ARE FUNDABLE AND THEREFORE MISSIONS SHOULD BE ALERT TO ENSURE THAT ABSENT SPECIAL CIRCUMSTANCES THE HOST GOVERNMENT DOES NOT ALLOCATE FEWER RESOURCES TO SUPPORT PRIORITY ACTIVITIES FINANCED BY JOINTLY PROGRAMMED LOCAL CURRENCY. EVEN WHEN THE OVERALL GOVERNMENT BUDGET REMAINS CONSTANT OR IS REDUCED FROM PREVIOUS ANNUAL LEVELS, MISSION MONITORING CAN HELP TO ENSURE THAT THESE IMPORTANT ACTIVITIES CONTINUE TO RECEIVE AN APPROPRIATE SHARE OF THE REDUCED LEVEL OF RESOURCES, A SHARE MADE POSSIBLE BY THE LOCAL CURRENCY ASSOCIATED WITH THE U.S. FOREIGN ASSISTANCE PROGRAM.

MISSIONS SHOULD NOTE THAT WHILE A.I.D.'S RESPONSIBILITIES FOR MONITORING THE DISPOSITION OF LOCAL CURRENCY ARE LESS INTENSIVE WHEN LOCAL CURRENCY IS PROGRAMMED FOR BUDGET SUPPORT, THIS DOES NOT IMPLY THAT A LOWER STANDARD OF ACCOUNTABILITY IS REQUIRED FOR THIS TYPE OF PROGRAMMING. THE CONTRARY IS TRUE.

THE ASSUMPTION BEHIND BUDGET SUPPORT PROGRAMMING IS THAT ONCE LOCAL CURRENCIES REACH A DESIGNATED AGENCY OR PROGRAM, THEY WILL BE USED APPROPRIATELY AND WILL HAVE THE INTENDED DEVELOPMENT IMPACT. IF THIS WERE NOT TRUE, THERE WOULD BE NO JUSTIFICATION FOR THIS TYPE OF PROGRAMMING.

THUS, A DECISION IN FAVOR OF BUDGET SUPPORT PROGRAMMING IN A HOST COUNTRY WOULD BE BASED UPON EVIDENCE IN THE GENERAL ASSESSMENT OF A RATIONAL BUDGETARY ALLOCATION AND EXPENDITURE SYSTEM, ADEQUATE TO REPORT BOTH BUDGET ALLOCATIONS AND EXPENDITURES FROM THE GENERAL FUND, WITH BUILT-IN CONTROLS TO PREVENT FRAUD

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OR DIVERSION OF FUNDS. OTHER FACTORS WOULD BE AN ADEQUATE LEVEL OF HOST GOVERNMENT PERSONNEL SKILLED IN FINANCIAL MANAGEMENT, A HOST GOVERNMENT TRADITION OF ACCOUNTING FOR AND REPORTING ON THE USE OF RESOURCES, ETC.

THE GUIDANCE WITH REGARD TO PERFORMING GENERAL ASSESSMENTS WILL CLARIFY THE FACTORS TO CONSIDER IN DETERMINING IN FAVOR OF ANY TYPE OF BUDGET SUPPORT PROGRAM IN A GIVEN COUNTRY. IF A DETERMINATION IS MADE IN THE GENERAL ASSESSMENT IN FAVOR OF THIS TYPE OF PROGRAMMING, ANY SUBSEQUENT LOCAL CURRENCY DESIGN DOCUMENTS SHOULD SIMPLY REFER TO THE GENERAL ASSESSMENT AND TO THE SPECIFIC ASSESSMENT CONTAINED IN THE PAAD.

WITHIN THE CATEGORY OF BUDGET SUPPORT PROGRAMMING, THERE ARE MORE SPECIFIC WAYS OF PROGRAMMING THE LOCAL CURRENCY. WITH THEIR OWN UNIQUE ACCOUNTABILITY ISSUES, REGARDLESS OF WHICH TYPE OF PROGRAMMING IS CHOSEN, A.I.D., IN ADDITION TO RECEIVING REPORTS, SHOULD RETAIN RIGHTS ADEQUATE TO ENSURE THAT A.I.D. WITH TIMELY ACCESS CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED.

6.2.A EXCEPTIONS. IF THE GENERAL ASSESSMENT RESULTS IN A DETERMINATION AGAINST USING A BUDGET SUPPORT PROGRAM, BUT NEVERTHELESS, THE MISSION WANTS TO USE THIS TYPE OF PROGRAMMING IN AN INDIVIDUAL CASE, THEN A JUSTIFICATION WOULD HAVE TO BE PROVIDED IN EITHER THE PAAD OR LOCAL CURRENCY DESIGN DOCUMENT. FURTHER, THE DESIGN DOCUMENT MUST INCLUDE A DESCRIPTION OF THE METHODS BY WHICH THE MISSION WILL ENSURE THAT ACCOUNTABILITY FOR THE LOCAL CURRENCY IS MAINTAINED, OR IN THE CASE OF GENERAL BUDGET SUPPORT, THAT THE LOCAL CURRENCY WAS DEPOSITED TO THE GENERAL FUND (FOR EXAMPLE, MISSIONS MAY INITIATE A REPORT VERIFICATION PROCESS WHICH IS OUTLINED IN PARA. 6.4.B.1). THE REGIONAL BUREAU MAY AT ITS DISCRETION REQUIRE THAT THIS JUSTIFICATION BE SUBMITTED FOR BUREAU APPROVAL.

6.3 TYPES OF BUDGET SUPPORT PROGRAMS. THE FOLLOWING ARE THE GENERAL TYPES OF BUDGET SUPPORT PROGRAMS ALONG WITH THEIR ASSOCIATED ACCOUNTABILITY REQUIREMENTS.

6.3.A GENERAL BUDGET SUPPORT (DEFICIT/DEBT SUPPORT). GENERAL BUDGET SUPPORT IMPLIES SUPPORT TO A HOST GOVERNMENT BUDGET AT THE LEVEL OF THE GENERAL FUND. THUS, THERE IS NO SPECIFIC DIRECTION OF THE FUNDS OTHER THAN TO ENSURE THAT THE LOCAL CURRENCY, OR ITS EQUIVALENT WAS DEPOSITED WITH THE HOST GOVERNMENT'S GENERAL FUND. THIS CATEGORY INCLUDES FUNDING BUDGET DEFICITS.

6.3.A.1 DEGREE OF CONFIDENCE. IN ORDER TO PROGRAM LOCAL CURRENCIES FOR GENERAL BUDGET SUPPORT, MISSIONS MUST HAVE A HIGH DEGREE OF CONFIDENCE THAT THE HOST COUNTRY CAN ADEQUATELY MEET THE REPORTING STANDARDS FOR BUDGET ALLOCATIONS AND EXPENDITURES FROM THE GENERAL FUND AND PROVIDE EVIDENCE THAT BUILT-IN CONTROLS ARE IN-PLACE TO PREVENT FRAUD OR DIVERSION OF FUNDS. THE GENERAL ASSESSMENT WILL BE THE BASIS FOR THIS DETERMINATION.

6.3.A.2 REPORTS. ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND A.I.D. CONCERNING USE OF LOCAL CURRENCY FOR GENERAL BUDGET SUPPORT SHOULD SPECIFY THE FORMAT AND FREQUENCY OF REPORTS TO BE MADE TO A.I.D. UNDER THIS TYPE OF PROGRAMMING. THE AGENCY MANAGING THE SPECIAL ACCOUNT WILL BE RESPONSIBLE FOR VERIFYING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED TO THE GENERAL FUND FROM THE SPECIAL ACCOUNT.

6.3.B GENERAL SECTOR SUPPORT. THIS TYPE OF PROGRAM INVOLVES SUPPORT TO A GOVERNMENT'S BUDGET AT THE FUNCTIONAL LEVEL OF A MINISTRY OR A BUDGET LINE-ITEM. UNDER THIS TYPE OF PROGRAM THE MISSION MUST BE ASSURED THAT THE LOCAL CURRENCY, OR ITS EQUIVALENT, HAS BEEN DEPOSITED INTO THE GENERAL FUND AND THAT

UNCLASSIFIED

THE AGREED-UPON BUDGET ALLOCATION TO THE MINISTRY OR BUDGET LINE-ITEM HAS BEEN MADE.

6.3.B.1 DEGREE OF CONFIDENCE. IN ORDER TO PROGRAM LOCAL CURRENCY FOR GENERAL SECTOR SUPPORT, A MISSION SHOULD HAVE A MEDIUM TO HIGH LEVEL OF CONFIDENCE IN THE REPORTING MECHANISMS AND CONTROLS OF THE FINANCIAL AND BUDGETING SYSTEMS OF THE HOST GOVERNMENT AND OF THE RECIPIENT AGENCIES. THE GENERAL ASSESSMENT WILL BE THE BASIS FOR THIS DETERMINATION.

6.3.B.2 REPORTS. ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND A.I.D. CONCERNING USE OF LOCAL CURRENCY FOR GENERAL SECTOR SUPPORT SHOULD SPECIFY THE FORMAT AND FREQUENCY OF REPORTS TO BE MADE TO A.I.D. UNDER THIS TYPE OF PROGRAM, THE AGENCY MANAGING THE SPECIAL ACCOUNT WILL BE RESPONSIBLE FOR VERIFYING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED FROM THE SPECIAL ACCOUNT TO THE GENERAL FUND AND TO A MINISTRY'S ACCOUNT OR BUDGET LINE-ITEM. THE REPORTS SHOULD REFLECT BOTH BUDGET ALLOCATION AND EXPENDITURE OF FUNDS FROM THE GENERAL FUNDS.

6.3.C SPECIFIC SECTOR SUPPORT. JOINTLY PROGRAMMED LOCAL CURRENCY MAY BE USED TO HELP MEET THE HOST COUNTRY'S CONTRIBUTION TO A.I.D. DA AND ESF PROJECTS, IN A PARTICULAR SECTOR, INCLUDING THE MANDATORY 25 PERCENT CONTRIBUTION REQUIRED UNDER FAA SECTION 110. LOCAL CURRENCY MAY ALSO BE USED TO SUPPORT ACTIVITIES FUNDED BY OTHER OECD AND MULTILATERAL DONORS. A DECISION TO ALLOCATE LOCAL CURRENCY TO A.I.D. AND OTHER DONORS' PROJECTS, IN FACT, MAY BE ESPECIALLY WISE WHEN THE MISSION DETERMINES THAT A MORE DIRECT INVOLVEMENT AT THE PROJECT OR LINE ITEM LEVEL IS APPROPRIATE. IN ADDITION TO FUNDING A.I.D. OR OTHER DONOR PROJECTS, FUNDING OF HOST GOVERNMENT SECTOR LEVEL IN CONNECTION WITH A.I.D. NON-PROJECT ASSISTANCE, WHEN SUCH SUPPORT IS PROVIDED THROUGH NORMAL BUDGETARY CHANNELS WOULD BE CONSIDERED SPECIFIC SECTOR SUPPORT.

6.3.C.1 DEGREE OF CONFIDENCE. IN ORDER TO PROGRAM LOCAL CURRENCY FOR SPECIFIC SECTOR SUPPORT, A MISSION SHOULD HAVE A MEDIUM TO HIGH LEVEL OF CONFIDENCE ASCERTAINED FROM THE GENERAL ASSESSMENT, IN THE REPORTING AND CONTROL MECHANISMS OF THE FINANCIAL AND BUDGETARY SYSTEMS OF THE HOST GOVERNMENT.

6.3.C.2 CAPABILITIES OF RECIPIENT HOST GOVERNMENT AGENCY OR OTHER DONOR. IF A HOST GOVERNMENT AGENCY OTHER THAN THE AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT IS TO MONITOR SPECIFIC SECTOR SUPPORT ACTIVITIES, THEN THE LOCAL CURRENCY PROGRAM DESIGN DOCUMENT SHOULD IDENTIFY THIS AGENCY AND DESCRIBE HOW RESPONSIBILITY FOR MONITORING THESE ACTIVITIES WILL BE SHARED. IN SUCH A CASE, THE AGENCY MANAGING THE SPECIAL ACCOUNT SHOULD PERFORM OR ARRANGE FOR THE PERFORMANCE OF A FINANCIAL ASSESSMENT OF THAT AGENCY OR AGENCIES TO ESTABLISH REASONABLE ASSURANCE THAT IT WILL BE ABLE TO MONITOR THE LOCAL CURRENCY EXPENDITURES, AUDIT THE PROJECTS(S), AND REPORT ON EXPENDITURES AND PROGRESS IN MEETING PROJECT OBJECTIVES TO THE AGENCY MANAGING THE SPECIAL ACCOUNT. THE HOST COUNTRY AND A.I.D. SHOULD ASSURE THEMSELVES THAT PROJECTS TO BE FINANCED BY LOCAL CURRENCY THROUGH THE HOST COUNTRY BUDGET MEET ACCEPTABLE TECHNICAL, FINANCIAL AND ADMINISTRATIVE STANDARDS AND THAT LOCAL CURRENCY ALLOCATIONS TO SUPPORT THESE PROJECTS ARE THEREFORE LIKELY TO BE EFFECTIVELY UTILIZED. PROJECTS THAT ARE FUNDED AND MONITORED BY A.I.D. WOULD PROVIDE SUCH EVIDENCE. SIMILARLY, THE FACT THAT PROJECTS WERE FUNDED AND MONITORED BY OTHER DONORS OR UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS WOULD GENERALLY PROVIDE SUCH ASSURANCES.

6.3.C.3 REPORTS. ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND A.I.D.

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CONCERNING USE OF LOCAL CURRENCY FOR SPECIFIC SECTOR SUPPORT SHOULD SPECIFY THE FORMAT AND FREQUENCY OF REPORTS. THE REPORTS SHOULD REFLECT BOTH BUDGET ALLOCATION AND DISBURSEMENT OF FUNDS FROM THE GENERAL FUND. REPORTING ON LOCAL CURRENCY FUNDED PROJECTS SHOULD, AT A MINIMUM, BE SUFFICIENT TO DEMONSTRATE ALLOCATION OF THE LOCAL CURRENCY TO THE PROJECT(S). THE MISSION SHOULD CONSIDER WHETHER TO REQUIRE THAT REPORTS TO THE AGENCY MANAGING THE SPECIAL ACCOUNT ALSO CONTAIN INFORMATION ABOUT EXPENDITURES OF THE LOCAL CURRENCY WITHIN THE PROJECT. THE RECIPIENT ORGANIZATIONS SHOULD REPORT AS TO WHETHER THE "PERFORMANCE INDICATOR" WERE ACHIEVED. REPORTS CONCERNING LOCAL CURRENCY FUNDS PROGRAMMED IN SUPPORT OF A.I.D. PROJECTS SHOULD BE SUBMITTED ON A QUARTERLY RECURRING BASIS AND SHOULD BE FORMATTED SO AS TO ENSURE THAT THESE FUNDS ARE USED TO SUPPORT PROJECT OBJECTIVES.

6.3.C.4 AUDIT. ANY AGREEMENT BETWEEN THE HOST GOVERNMENT AND A.I.D. CONCERNING USE OF LOCAL CURRENCY FOR SPECIFIC SECTOR SUPPORT SHOULD SPECIFY THE REQUIREMENT CONCERNING AUDIT. TO ENSURE APPROPRIATE AUDIT COVERAGE, THE MISSION MAY DECIDE TO RESERVE FUNDS IN THE SPECIAL ACCOUNT TO COVER THE COST OF INDEPENDENT AUDITS. THIS STEP SHOULD BE TAKEN IF THE MISSION ANTICIPATES THAT HOST COUNTRY AUDIT EFFORTS WILL LAG UNACCEPTABLY.

6.4 EXTRA-BUDGETARY SUPPORT. IF LOCAL CURRENCIES ARE PROGRAMMED FOR DISCRETE PROJECTS OR ACTIVITIES OUTSIDE OF THE HOST GOVERNMENT'S BUDGET, THE DEGREE OF MISSION INVOLVEMENT IN MONITORING THESE ACTIVITIES WILL DEPEND ON THE CAPABILITY OF THE HOST GOVERNMENT UNIT RESPONSIBLE FOR THE SPECIAL ACCOUNT. THERE ARE MINIMUM STANDARDS WHICH MUST BE MET BY THE HOST GOVERNMENT, AND IF NOT, THEN BY THE MISSION, WITH REGARD TO MONITORING THESE LOCAL CURRENCY PROGRAMS. THE PRECEPT BEHIND THESE REQUIREMENTS IS THAT ONE AGENCY WITHIN THE HOST GOVERNMENT WILL BE RESPONSIBLE FOR DISBURSING FUNDS TO A RECIPIENT ORGANIZATION. A.I.D. SHOULD RETAIN THE RIGHT TO RECEIVE REPORTS, MONITOR AND APPROVE ACTIVITIES, ADEQUATE TO ENSURE THAT A.I.D. WITH TIMELY ACCESS, CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED.

6.4.A. FINANCIAL ASSESSMENTS. IF THE MISSION DETERMINES THAT THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT HAS THE CAPABILITY TO PERFORM OR ARRANGE FOR PERFORMANCE OF FINANCIAL ASSESSMENTS OF RECIPIENT ORGANIZATIONS, THEN THE MISSION SHOULD RELY ON THE AGENCY TO DO THIS. IF NOT, THEN ALTERNATIVE WAYS TO ASSESS RECIPIENT ORGANIZATIONS SHOULD BE DEVELOPED. A FINANCIAL ASSESSMENT WOULD BE NECESSARY IF THERE WAS NOT REASONABLE ASSURANCE THAT THE ORGANIZATIONS HAS ADEQUATE FINANCIAL MANAGEMENT SYSTEMS IN PLACE TO ACCOUNT FOR THE LOCAL CURRENCY. PRIOR EXPERIENCE WITH THE ORGANIZATION COULD PROVIDE REASONABLE ASSURANCE. IF A U.S. PVO OR ANOTHER DONOR'S PROJECT IS BEING FUNDED, E.G., THE MISSION MAY ADVISE, IF APPROPRIATE, THE HOST COUNTRY THAT A FORMAL FINANCIAL ASSESSMENT IS NOT REQUIRED, LIKEWISE, IF THE MISSION AND THE HOST GOVERNMENT HAVE HAD FAVORABLE EXPERIENCE WORKING WITH A RECIPIENT ORGANIZATION, THEY MAY MAKE A DETERMINATION THAT A FINANCIAL ASSESSMENT IS NOT NECESSARY BASED ON PREVIOUS GOOD PERFORMANCE. PROGRAM DESIGN DOCUMENTATION SHOULD CONTAIN A FULL DISCUSSION AND DETERMINATION OF HOW ASSESSMENT OF RECIPIENT ORGANIZATIONS WILL PROCEED. THE MISSION'S REPORT VERIFICATION PLAN ALSO SHOULD BE ADDRESSED IN THE PROGRAM DESIGN DOCUMENTATION.

6.4.B REPORTS. REPORTING ON LOCAL CURRENCY FUNDED ACTIVITIES SHOULD, AT A MINIMUM, BE SUFFICIENT TO DEMONSTRATE ALLOCATION OF THE LOCAL CURRENCY TO THE ACTIVITIES. THE MISSION SHOULD CONSIDER WHETHER TO REQUIRE THAT REPORTS TO THE AGENCY MANAGING THE SPECIAL ACCOUNT ALSO CONTAIN PROJECT EXPENDITURE INFORMATION. WHEN LOCAL CURRENCY IS PROGRAMMED FOR SPECIFIC ACTIVITIES OUTSIDE OF THE HOST COUNTRY BUDGET, THE MISSIONS SHOULD ENSURE THAT FORMAL REPORTING

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MECHANISM EXIST OR WILL BE INSTITUTED FROM THE RECIPIENT ORGANIZATIONS TO THE RESPONSIBLE HOST COUNTRY AGENCY, AND FROM THE HOST COUNTRY AGENCY TO THE MISSION. MISSIONS SHOULD ENSURE THAT THE REPORTING REQUIREMENTS ARE CONTAINED IN ALL AGREEMENTS BETWEEN THE HOST COUNTRY AGENCY AND RECIPIENT ORGANIZATIONS, AND CONTAIN SPECIFIC REMEDIAL ACTIONS TO BE TAKEN IN CASES OF REPORTING NON-COMPLIANCE. REPORT FREQUENCY, FORMAT, AND DOCUMENTATION REQUIREMENTS WILL DEPEND ON THE TYPES OF ACTIVITIES BEING FUNDED.

6.4.B.1 REPORT VERIFICATION. IT IS CRITICAL THAT THE HOST GOVERNMENT AGREE TO VERIFY REPORTS FROM RECIPIENT ORGANIZATIONS WHICH RECEIVE LOCAL CURRENCIES FROM SPECIAL ACCOUNTS. IF THE HOST GOVERNMENT FAILS TO APPROVE VERIFICATION OF REPORTS, THEN THE MISSION SHOULD DEVELOP ALTERNATIVE APPROACHES FOR REPORT VERIFICATION SUCH AS MORE FREQUENT AUDITS. AS A GENERAL RULE, MISSIONS WILL NOT BE REQUIRED TO VERIFY REPORTS OF LOCAL CURRENCY RECIPIENT ORGANIZATIONS. HOWEVER, IF IT IS FOUND THAT THE HOST COUNTRY UNIT RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT HAS WEAK FINANCIAL MANAGEMENT CONTROLS, THEN THE MISSION SHOULD PLAN NOT ONLY TO VERIFY THE REPORTS FROM THE HOST COUNTRY AGENCY TO THE MISSION, BUT ALSO TO ARRANGE FOR THE VERIFICATION OF A SAMPLE OF RECIPIENT ORGANIZATIONS' REPORTS. IF THE HOST COUNTRY AGENCY IS FOUND TO HAVE ADEQUATE FINANCIAL MANAGEMENT CONTROLS, THEN REPORT VERIFICATION CAN BE PERFORMED AT A MINIMUM LEVEL. NORMALLY, REPORT VERIFICATION WILL REQUIRE A MISSION INSPECTION OF THE RESPONSIBLE HOST COUNTRY AGENCY'S ACCOUNTING RECORDS PERTAINING TO THE SPECIAL ACCOUNT ACTIVITIES, INCLUDING A RECONCILIATION OF REPORTS FROM RECIPIENT ORGANIZATIONS ON USES OF LOCAL CURRENCY. IN DETERMINING THE NUMBER OF RECIPIENT ORGANIZATIONS TO RECEIVE SPECIAL ACCOUNT FUNDS, THE MISSION AND THE HOST GOVERNMENT SHOULD CONSIDER THE ABILITY OF THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE SPECIAL ACCOUNT TO MONITOR THESE RESOURCES.

6.4.B.2 INACCURATE REPORTS. IF, AS A RESULT OF VERIFICATION, REPORTS ARE FOUND TO BE INACCURATE OR WITHOUT BASIS, THE MISSION SHOULD TAKE IMMEDIATE ACTION TO ENSURE COMPLIANCE. THIS MAY ENTAIL CONTRACTING TECHNICAL ASSISTANCE TO CORRECT DEFICIENCIES AND/OR THE MISSION ASSUMING A GREATER RESPONSIBILITY IN MANAGING THE SPECIAL ACCOUNT UNTIL DEFICIENCIES ARE CORRECTED. IF PROBLEMS PERSIST AND THE HOST GOVERNMENT IS NOT COOPERATIVE IN ATTEMPTING TO CORRECT THEM, THE MISSION SHOULD CONSIDER APPROPRIATE RESPONSES RELATED TO THE MISSION'S PORTFOLIO OF PROGRAMS AS A WHOLE.

6.4.C AUDIT. MISSIONS, IN COORDINATION WITH THE HOST COUNTRY MUST ENSURE THAT LOCAL CURRENCY RECIPIENT ORGANIZATIONS ARE AUDITED ON A PERIODIC BASIS. IF CAPABLE OF DOING SO, THE HOST COUNTRY AGENCY RESPONSIBLE FOR THE MANAGEMENT OF THE SPECIAL ACCOUNT SHOULD ARRANGE FOR THESE FINANCIAL AUDITS UTILIZING LOCAL CURRENCY. IF THE HOST COUNTRY AGENCY IS NOT CAPABLE OF DOING SO, THEN THE MISSION MUST TAKE A MORE ACTIVE ROLE TO ARRANGE FOR THESE AUDITS. THE ROLE OF THE MISSION AND THE DEGREE OF ITS INVOLVEMENT IN ARRANGING FOR AUDITS SHOULD BE ADDRESSED IN THE PAAD OR LOCAL CURRENCY PROGRAM DESIGN DOCUMENTATION. IN ADDITION TO ALL AGREEMENTS TO UTILIZE SPECIAL ACCOUNT LOCAL CURRENCIES MUST SPECIFY AUDIT REQUIREMENTS, AUDIT RESPONSIBILITIES AND SOURCE OF FUNDING FOR AUDIT OF THE ACTIVITIES TO BE FUNDED.

7.0 PROGRAM RESULTS

7.1 PROGRAM PERFORMANCE INDICATORS. MISSIONS ARE EXPECTED TO DEVELOP, IN COLLABORATION WITH THE HOST COUNTRY "PERFORMANCE INDICATORS" TO GUIDE THEIR PROGRAMMING OF LOCAL CURRENCY BY MEASURING THE TANGIBLE RESULTS OF THE PROGRAM. THIS ADDRESSES THE THIRD TYPE OF ACCOUNTABILITY, WHICH IS PERFORMANCE INDICATORS. THE PERFORMANCE INDICATOR MUST BE WRITTEN IN SUCH A WAY THAT IS

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VERIFIABLE. IT COULD BE A STATEMENT, E.G., THAT CERTAIN GOODS OR SERVICES WILL BE PROVIDED USING THE LOCAL CURRENCY, OR A STATEMENT THAT "THE AGRICULTURAL INVESTMENT BUDGET WILL INCREASE BY 15", FOR EXAMPLE. MISSIONS MUST DECIDE WHAT ARE APPROPRIATE PERFORMANCE INDICATORS AND EITHER THE PAAD, THE PROGRAM AGREEMENT OR OTHER SUBSEQUENT AGREEMENTS SHOULD IDENTIFY SPECIFIC PERFORMANCE INDICATORS AND DISCUSS HOW THESE INDICATORS WILL BE MEASURED OR EVALUATED.

7.2 NATURE OF PERFORMANCE INDICATORS. PERFORMANCE INDICATORS, LIKE MONITORING RESPONSIBILITIES, REFLECT THE COMPLEXITY OF THE PROGRAM. THUS, PERFORMANCE INDICATORS FOR PROJECTS WILL LIKELY BE VERY SPECIFIC MEASURE OF PROJECT OUTPUTS, WHILE THOSE FOR GENERAL SECTOR SUPPORT MAY SIMPLY DEMONSTRATE AN INCREASE IN A LEVEL OF FUNDING FOR A SECTOR. PERFORMANCE INDICATORS SHOULD BE THOSE WHICH INDICATE THAT THE PURPOSE OF THE CHOSEN USE OF THE LOCAL CURRENCY HAS BEEN ACHIEVED. AGAIN, MISSIONS SHOULD DEVELOP PERFORMANCE INDICATORS TO SUIT THE HOST COUNTRY ENVIRONMENT AND THE GOALS WHICH THEY ARE TRYING TO ACHIEVE THROUGH THE USE OF LOCAL CURRENCY, KEEPING IN MIND THAT THESE INDICATORS MUST BE VERIFIED.

8.0 TRUST FUNDS

8.1 A.I.D. HAS AUTHORITY TO ESTABLISH TRUST ACCOUNTS FOR HOST COUNTRY-OWNED LOCAL CURRENCIES. IF A.I.D. MANAGES OR ADMINISTERS LOCAL CURRENCY FUNDS OWNED BY THE HOST GOVERNMENT FOR ANY REASON, THIS CAN BE DONE ONLY PURSUANT TO A TRUST FUND AGREEMENT. THE TRUST FUND AGREEMENT ENTERED INTO BETWEEN A.I.D. AND THE HOST GOVERNMENT DEFINES THE USES TO WHICH TRUST FUNDS MAY BE PUT. THE USES MUST ALSO BE CONSISTENT WITH ANY SPECIFIC STATUTORY REQUIREMENTS (E.G., SECTION 609 OF THE FAA) WHICH MAY BE APPLICABLE TO LOCAL CURRENCIES WHICH HAVE BEEN GENERATED OR HAVE OTHERWISE ACCRUED AS A RESULT OF A FOREIGN ASSISTANCE PROGRAM AND DEPOSITED IN THE TRUST ACCOUNT. SINCE THESE LOCAL CURRENCIES ARE ADMINISTERED BY A.I.D. AS A TRUSTEE AND ARE NOT JOINTLY PROGRAMMED WITH THE HOST GOVERNMENT, A.I.D. OWES A DUTY TO THE HOST GOVERNMENT TO ACCOUNT FOR AND REPORT PERIODICALLY TO THE HOST GOVERNMENT ON THE USES OF THE TRUST FUNDS. THIS REPORTING AND ACCOUNTING REQUIREMENT IS DESCRIBED IN CHAPTER 5, HANDBOOK 19.

8.2 TRUST FUNDS ARE PRIMARILY USED BY A.I.D. TO HELP MEET THE ADMINISTRATIVE COSTS OF ITS OVERSEAS MISSIONS. IN ADDITION, THEY HAVE PROVEN TO BE A USEFUL TOOL FOR EXAMPLE. WHEN USED LIKE PD&S FUNDS TO FACILITATE PROJECT DESIGN AND IMPLEMENTATION OF PROJECTS. IF IS EXPECTED THAT TRUST FUNDS WILL CONTINUE TO BE MADE AVAILABLE PRIMARILY FOR THESE PURPOSES.

8.3. TRUST FUNDS UTILIZED TO FINANCE DISCRETE NEW PROJECTS OR ACTIVITIES ARE GENERALLY NOT FAVORED BUT IT IS RECOGNIZED THAT UNDER EXCEPTIONAL CIRCUMSTANCES THEIR USE FOR THIS PURPOSE MAY BE WARRANTED. THE USE OF TRUST FUNDS TO FINANCE PROJECTS MUST BE PERMISSIBLE UNDER THE TERMS OF THE TRUST FUND AGREEMENT BETWEEN THE HOST GOVERNMENT AND A.I.D. GIVEN THE SIGNIFICANT BURDEN ON LIMITED MISSION STAFFS ASSOCIATED WITH SUCH TRUST FUND PROJECTS, TRUST FUNDS MAY BE UTILIZED FOR THIS PURPOSE ONLY WITH THE APPROVAL OF THE HIGHEST A.I.D. OFFICIAL AT POST PRIOR TO PROCESSING SEPARATE PROJECT AGREEMENTS.

8.4 LOCAL CURRENCIES HELD IN TRUST, WHETHER USED FOR ADMINISTRATIVE OR PROGRAM PURPOSES, ARE NOT U.S.-OWNED LOCAL CURRENCIES AND THEREFORE STATUTORY RESTRICTIONS (EXCEPT AS NOTED IN THE FORTHCOMING FM BULLETIN NO. 5, LOCAL CURRENCY TRUST FUNDS) THAT APPLY TO APPROPRIATED FUNDS DO NOT AS A MATTER OF LAW APPLY TO THEIR USE UNLESS SPECIFICALLY APPLICABLE TO LOCAL CURRENCY PROGRAMMING. BECAUSE A.I.D. EXERCISES VIRTUALLY COMPLETE CONTROL OVER THE USE

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OF TRUST FUNDS, WHILE STILL OWING A FIDUCIARY RESPONSIBILITY TO THE HOST GOVERNMENT, A.I.D. WILL APPLY CERTAIN PROCEDURAL REQUIREMENTS ON THEIR USE. THE REPORTS THAT WERE AGREED TO BY THE MISSION AND THE HOST COUNTRY WILL BE FILED WITH THE APPROPRIATE HOST COUNTRY AUTHORITIES. IF THERE ARE ANY OLD TRUST FUND AGREEMENTS THAT ARE STILL ACTIVE AND WHICH ARE SILENT ON REPORTING, THE MISSION WILL ADOPT THE REPORTING REQUIREMENTS OUTLINED IN THE MODEL AGREEMENT INCLUDED WITH THE FORTHCOMING CONTROLLER BULLETIN ON TRUST FUNDS. IN ADDITION, AS A MATTER OF POLICY, A.I.D. WILL APPLY THE FEDERAL ACQUISITION REGULATIONS (FAR) AND A.I.D. ACQUISITION REGULATIONS (AIDAR) TO ANY CONTRACT ACTION PERFORMED BY A.I.D. WITH SUCH FUNDS. WHEN TRUST FUNDS ARE UTILIZED TO SUPPORT DISCRETE NEW PROJECTS OR ACTIVITIES, MISSIONS MUST DEVELOP, ANALYZE, JUSTIFY, AND IMPLEMENT THE ACTIVITY AS IF IT WERE AN A.I.D. PROJECT, INCLUDING THE USE OF A PP-LIKE AUTHORIZATION DOCUMENT. IT IS NOT THE INTENTION OF THIS GUIDANCE TO MAKE APPLICABLE TO TRUST FUNDS THE ENTIRE RANGE OF LIMITATIONS AND RESTRICTIONS CONTAINED IN UNDERLYING LEGISLATION.

8.5 HOWEVER, IN UTILIZING TRUST FUNDS FOR PROJECT ACTIVITIES, MISSIONS MUST BE AWARE OF STATUTORY LIMITATIONS WHICH MAY APPLY TO THE USE OF APPROPRIATED FUNDS FOR A COUNTRY OR PURPOSE AND A.I.D. POLICY IMPLEMENTING SUCH LEGISLATION, AND ARE ENCOURAGED TO EXERCISE CARE IN ASSURING THAT THE USES OF TRUST FUNDS ARE CONSISTENT WITH THE LEGISLATION AND POLICY.

8.6 TRUST FUNDS MAY BE DEPOSITED IN INTEREST BEARING ACCOUNTS. TREASURY APPROVED A WAIVER TO THEIR CASH MANAGEMENT PROCEDURES ON LOCAL CURRENCY BASED ON THE PROGRAMMATIC JUSTIFICATION PRESENTED BY A.I.D. AND GRANTED A.I.D. AUTHORITY TO ESTABLISH INTEREST BEARING ACCOUNTS FOR TRUST FUND MONIES WHEN THE HOST COUNTRY AGREES TO SUCH A PROCEDURE. THE WAIVER AUTHORIZING INTEREST BEARING ACCOUNTS FOR HOST COUNTRY DEPOSITS HAS BEEN A MATERIAL FACTOR IN OUR SUCCESS IN OBTAINING SIGNIFICANT DEPOSITS OF TRUST FUND MONIES. MISSIONS MUST ENSURE THAT TRUST FUNDS PLACED IN INTEREST BEARING ACCOUNTS HAVE WRITTEN HOST COUNTRY APPROVAL FOR THE DEPOSIT AND FOR THE USE OF THE INTEREST PROCEEDS. THE AGREEMENT FOR INVESTING TRUST FUNDS CAN BE CONTAINED IN BUDGETS COVERED IN BILATERAL NON-PROJECT ASSISTANCE DOCUMENTS, ANNUALLY NEGOTIATED TRUST FUND BUDGETS COVERED IN A MEMORANDUM OF UNDERSTANDING OR OTHER WRITTEN AGREEMENT. IN ALL CASES OF INTEREST BEARING TRUST FUND ACCOUNTS, THE HOST GOVERNMENTS WILL BE GIVEN PERIODIC REPORTS SHOWING THE AMOUNT OF INTEREST GENERATED AND THE USES MADE OF THE TRUST FUNDS.

9.0 ENVIRONMENTAL SAFEGUARDS UNDER LOCAL CURRENCY PROGRAMMING

9.1 RESPONSIBLE SAFEGUARDS ENSURING THAT ENVIRONMENTAL CONCERNS WILL BE TAKEN INTO ACCOUNT IN THE DESIGN AND IMPLEMENTATION OF PROJECTS AND PROGRAMS SUPPORTED BY JOINTLY PROGRAMMED LOCAL CURRENCY AND TRUST FUNDS ARE APPROPRIATE. MISSIONS ARE URGED TO PAY PARTICULAR ATTENTION TO HOST COUNTRY ENVIRONMENTAL PROTECTION AND MITIGATION PROCEDURES IN THE LOCAL CURRENCY PROGRAMMING PROCESS.
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