

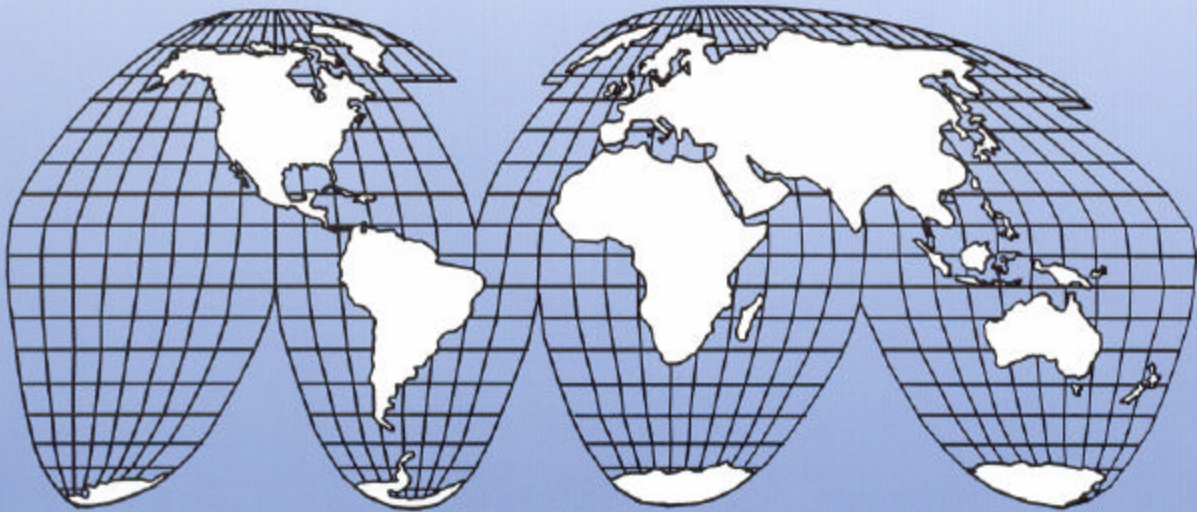
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Jordan's Cash Transfer Program

Audit Report Number 6-278-04-002-P

November 30, 2003



Cairo, Egypt



November 30, 2003

MEMORANDUM

FOR: Director, USAID/Jordan, Anne Aarnes

FROM: Regional Inspector General/Cairo, Darryl T. Burris

SUBJECT: Final Report on Audit of USAID/Jordan's Cash Transfer Program
(Report No. 6-278-04-002-P)

This memorandum transmits our final report on the subject audit for your review and comments. This report does not contain any recommendations.

Management Comments on the draft report were considered and included as Appendix II.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

At the request of USAID/Jordan, Regional Inspector General/Cairo performed this audit to determine if USAID/Jordan ensured that conditions precedent were met before releasing cash transfer funds to the Government of Jordan, and USAID/Jordan's cash transfer program progressed toward achieving its intended benefits. (See page 6)

USAID/Jordan ensured that conditions precedent were met before disbursing the cash transfer to the Government of Jordan. USAID/Jordan established effective controls to ensure that the Government of Jordan (1) furnished satisfactory evidence to support the completion of each condition precedent, and (2) met the general terms and conditions relating to use of the cash transfer in accordance with the terms of the agreement. (See page 6)

USAID/Jordan's cash transfer program progressed toward achieving its intended benefits. The cash transfer program contributed towards (1) paying the Government of Jordan's external debt, (2) influencing economic policy reforms, and (3) realigning the Government of Jordan's budget line items to support USAID initiatives through the local currency associated with the cash transfer. (See page 8)

USAID/Jordan concurred with the audit findings stating that the report accurately describes the mission's implementation of the cash transfer program. Appendix II presents management comments in their entirety. (See page 17)

Background

In June 1997, USAID approved a new strategic objective to address economic growth concerns in Jordan. Included as part of this strategic objective was a component for USAID support to improve and maintain a sustained environment for policy reform in Jordan through a multi-year balance of payments program in the form of a cash transfer. Since the inception of the strategic objective, USAID/Jordan has transferred \$1.3 billion to the Government of Jordan. Of this amount, \$225 million was disbursed during fiscal years 2000 through 2002, the period covered under this audit.

USAID/Jordan's cash transfer program was designed to meet three objectives: (1) to pay the Government of Jordan's U.S. non-military debt and debt to multilateral institutions, (2) to support economic policy reforms, and (3) to realign the Government of Jordan's budget line items to support USAID initiatives through the local currency associated with the cash transfer.

The cash transfer program is on a grant basis. Funds provided under the cash transfer are used to pay the Government of Jordan's debt, primarily to multilateral financial institutions. Funding is "policy based" in that disbursements are based upon achieving agreed-upon reform measures that support Jordan's broader economic restructuring process.

Audit Objectives

Regional Inspector General/Cairo conducted this audit at the request of USAID/Jordan to answer the following questions:

- Did USAID/Jordan ensure that conditions precedent were met before releasing cash transfer funds to the Government of Jordan?
- Has USAID/Jordan's cash transfer program progressed toward achieving its intended benefits?

Appendix I discusses the audit's scope and methodology.

Audit Findings**Did USAID/Jordan ensure that conditions precedent were met before releasing cash transfer funds to the Government of Jordan?**

USAID/Jordan ensured that conditions precedent were met before disbursing the cash transfer to the Government of Jordan. USAID/Jordan established effective controls to ensure that the funds were disbursed according to Mission established operating practices.

USAID/Jordan Effectively Managed the Cash Transfer Process

USAID/Jordan designed the cash transfer program to withhold disbursements to the Government of Jordan until it fulfilled policy-related and administrative conditions precedent. USAID/Jordan established effective management controls to ensure that the Government of Jordan (1) furnished satisfactory evidence to support the completion of each condition precedent, and (2) met general terms and conditions relating to the use of the cash transfer in accordance with the terms of the agreement.

Policy Reform Conditions - USAID/Jordan adhered to its operating practices for planning, negotiating, and monitoring the Government of Jordan's completion of each condition precedent prior to disbursement of funds for Amendment No. 15 to Strategic Objective Grant Agreement No. 278-005-00.

Amendment No. 15 to the Strategic Objective Grant Agreement between the Government of Jordan and the United States provided USAID grant funding of \$75 million to finance foreign exchange and local currency costs for achieving the Strategic Objective.

The Program Assistance Approval Document¹ outlined 16 policy reform conditions for which the Government of Jordan was to achieve prior to USAID/Jordan's disbursement of the \$75 million. Appendix III of the report incorporates descriptions of the conditions precedent. Our review of the documentation and interviews with key personnel from each of the strategic objective teams confirmed that:

- The negotiated conditions precedent agreed to what the Strategic Objective teams initially developed during the planning phase.
- The Government of Jordan submitted documentation and evidence defined by the Strategic Objective teams to support achievement for each condition precedent.
- The Project Officers, the Regional Legal Advisor, and the Program Management Office reviewed and cleared the evidence prior to the transfer of funds.
- The Government of Jordan met the conditions precedent (described in Appendix III) prior to the terminal date² specified in Section 5.4 of the agreement.

Use of the Cash Transfer - USAID/Jordan's operating practices for reviewing and monitoring the use of the transferred funds ensured that the Government of Jordan met the general terms and conditions relating to use of the cash transfer in accordance with the terms of the agreement.

Amendment 1, Article 8 of the Strategic Objective Grant Agreement established the general terms and conditions relating to the use of the cash transfer. The Government of Jordan was to use the cash transfer to cover payments and/or reimbursements for (1) debt owed to the U.S. Government, (2) debt owed to the U.S. Government arising from loan guarantee transactions, (3) debt owed to multilateral financial institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development, and (4) other debt as agreed to by the parties.

USAID/Jordan disbursed \$140 million during calendar year 2002 in three separate payments. Our review of the financial supporting documentation combined with interviews with USAID/Jordan personnel confirmed that:

- USAID/Jordan reviewed the Government of Jordan's supporting documentation to verify the eligibility of the loans for reimbursement/and or payment.

¹ Program Assistance Approval Document – A USAID internal document for approving non-project assistance.

² The date for satisfaction of any conditions precedent.

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- The banking information (e.g. wire transfer documents, bank statements, banking instructions) associated with the transfer of the funds was consistent throughout the transfer process assuring that funds were deposited correctly.
 - The amount of the loans reported by the Government of Jordan was accurate.

We did not identify any instances of noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of resources.

Has USAID/Jordan’s cash transfer program progressed toward achieving its intended benefits?

USAID/Jordan’s cash transfer program progressed toward achieving its intended benefits. The cash transfer grant mechanism was designed to help reduce Jordan’s debt burden and support the Government of Jordan’s policy reform efforts. USAID/Jordan’s management of the cash transfer program contributed to the accomplishment of these objectives.

USAID/Jordan’s Management of the Cash Transfer Program Contributed to Meeting Intended Benefits

USAID/Jordan further defined the intended achievements for each cash transfer within the Program Assistance Approval Document and implementing agreements. USAID/Jordan managed the activities underlying its cash transfer program to ensure that the funds contributed towards: (1) paying the Government of Jordan’s external debt, (2) influencing economic policy reform, and (3) realigning the Government of Jordan’s budget line items to support USAID initiatives through the local currency associated with the cash transfer. Each of these intended benefits are further discussed below.

Payment of the Government of Jordan’s External Debt - As discussed above under the Use of the Cash Transfer, USAID/Jordan’s cash transfer program was designed to cover the Government of Jordan’s qualifying debt. The intended benefit was to support Jordan’s balance of payments position and government budget.

As of August 13, 2003, the date of audit fieldwork, USAID/Jordan’s cash transfer program had transferred \$570 million to the Government of Jordan to service external loans to the United States, International Monetary Fund and International Bank for Reconstruction and Development. This transfer represented 19 percent of the Government of Jordan’s outstanding external public debt.

Influence on Economic Policy Reform - Section 11.1 to Amendment No. 1 of the Strategic Objective Agreement specifically said that the use of a cash transfer

mechanism would include Conditions Precedent and/or Covenants designed to make further progress towards sustained economic reform in Jordan.

USAID/Jordan designed these conditions precedent to link with the strategic goals that the Mission was working to accomplish. For example, USAID/Jordan's Strategic Objective for water resources focused on issues related to inadequate water supplies. An intermediate result under this objective was to achieve stronger water sector institutions which would strengthen the capability of the Ministry of Water and Irrigation to plan, monitor, implement and sustain activities in the water sector.

In Amendment No. 15, conditions precedent were designed to link to the activities under this intermediate result. For example, Condition Precedent No. 13 (See Appendix III) was designed to modify the Water Authority of Jordan's by-laws on groundwater well usage to reduce and control over-drafting and illegal wells, and provide substantive penalties for illegal use. The passing of this by-law would further strengthen the Ministry of Water and Irrigation's capabilities for monitoring activities in the water sector.

USAID/Jordan managed the activities for the disbursement of \$75 million under Amendment No. 15 to ensure that:

- The project teams developed a matrix of conditions precedent in accordance with mission procedures to include into the agreement.
- The tasks and activities underlying the negotiated conditions precedent supported the Mission's strategic objective and/or intermediate results.
- The policy reform conditions negotiated contributed further to the enhancement and or sustainability of economic, water, and social development opportunities within Jordan.

Realignment of Government of Jordan's Budget - Section 9.3 of Amendment No. 1 to the Strategic Objective Grant Agreement along with a Memorandum of Understanding addressed the use of the local currency. USAID/Jordan and the Government of Jordan were to jointly program the use of Jordanian Dinars in the local currency account. This local currency could be used to: (1) provide counterpart funding for ongoing USAID activities undertaken, including those related to other strategic objectives; (2) finance economic development activities in Jordan; (3) support regional peace initiatives; and (4) fund other development and economic priorities.

Under USAID/Jordan's Implementation Letter³, the Government of Jordan agreed to program 63.3 million Jordanian Dinars (\$90 million) to support the Government of Jordan's Social and Economic Transformation Plan. This amount was required under Amendment No. 15 of the Strategic Objective Grant Agreement.

The amount programmed for local currency was allocated as follows:

Table 1 - Programmed Use of Local Currency

Activity/Sector	Allocations in '000 Jordanian Dinars	Allocation Percentage
Information Technology Sector	5,300	8
Water Sector	23,330	37
Enhanced Productivity Program	15,300	24
Youth Sector	3,000	5
Tourism Sector	2,500	4
Education Sector	13,871	22
Total	63,301	100

Review of the supporting documentation associated with the local currency corresponding to Amendment No. 15 along with interviews with USAID/Jordan representatives confirmed that:

- The local currency was deposited and disbursed in the agreed-upon manner.
- The local currency was used for the intended purposes.
- The program agreement provided for appropriate reporting by the host government agency responsible for managing the account.
- The program agreement required that reports on the status of special account activity be submitted to the Mission on a quarterly basis.
- USAID/Jordan verified the accuracy of the host government reports for the special account.

³ Implementation letters are formal correspondence between USAID and another party following a formal agreement that obligates funding.

**Management
Comments
and Our
Evaluation**

USAID/Jordan concurred with the audit results. In its response, USAID/Jordan stated that the audit findings accurately describe the mission's implementation of the cash transfer program. Appendix II contains the full text of USAID/Jordan's comments.

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Scope and Methodology

Scope

Regional Inspector General/Cairo conducted this audit in accordance with generally accepted government auditing standards. Our audit covered the period of fiscal year 2000 through fiscal year 2002. During this period, USAID/Jordan disbursed \$225 million to the Government of Jordan under USAID Grant No. 278-005-00. For purposes of our audit, we judgmentally selected the cash transfer activity that occurred during 2002. The scope of audit covered the following activities:

Description	Related Activity/Funds Involved With the Action
Amendment No. 15 dated September 30, 2002	Provided for \$75 million of USAID grant funding to finance foreign exchange and local currency costs of achieving the strategic objective upon completion of 16 conditions precedent. Selected Amendment No. 15 to review the conditions precedent.
Calendar Year 2002 Cash Transfer Disbursements	Three separate disbursements totaling \$140 million paid during calendar year 2002. (Of this total, \$75 million was disbursed under Amendment No. 15). Selected calendar 2002 cash transfers to review the use of the cash transfer towards USAID/Jordan's debt.
Calendar Year 2002 Local Currency Program	Provided for 63.3 million Jordanian Dinars (equivalent to \$90 million) for local programming. Selected this activity to review the use of local currency.

In planning and performing the audit, we obtained an understanding of USAID/Jordan's management controls in place for:

- Planning for the disbursement of each cash transfer, which included USAID/Jordan's process for the development and design of the conditions precedent and controls to ensure compliance with the terms of the grant for the use of the funds.
- Negotiating the terms of the grant, which included USAID/Jordan's approvals and authorizations required to finalize the strategic objective agreement.
- Monitoring and reporting, to include USAID/Jordan's process for ensuring proper transfer and accountability of funds.

We reviewed the following supporting documentation to test the process in place for planning, negotiating and monitoring the \$75 million cash transfer for Amendment No. 15.

- Program Assistance Approval Document documenting the rationale for selecting a cash transfer and the conditions precedent incorporated as part of Amendment No. 15.
- Terms and Conditions within Amendment No. 1 to Strategic Objective Grant Agreement No. 278-005-00 establishing the cash transfer and Amendment No. 15 for transferring \$75 million.
- Action memoranda approving the dollar cash transfer and transfer of local currency to the Government of Jordan's accounts.
- Supporting documents submitted by the Government of Jordan demonstrating achievement for each of the 16 conditions precedent.
- Documentation supporting the Government of Jordan's debt payment qualifying for reimbursement (e.g. correspondence from the Central Bank of Jordan and the Government of Jordan, payment vouchers).
- Implementation Letter No. 15CT authorizing the disbursement of \$75 million under Amendment No. 15.

We conducted the audit at USAID/Jordan in Amman, Jordan. The audit fieldwork was conducted from August 4 through August 20, 2003.

Methodology

To answer the first audit objective we interviewed representatives from each office responsible for developing, reviewing, approving, and negotiating conditions precedent for USAID/Jordan's cash transfer program. We judgmentally selected Amendment No. 15 of the Strategic Objective Grant Agreement because it contained conditions precedent developed by each of USAID/Jordan's strategic objective teams and it was the most recent cash transfer for the audit period covered.

We reviewed each of the conditions precedent negotiated under Amendment No. 15 for the following attributes:

- Evidence that the documentation received from the Government of Jordan was cleared by the project offices and the Regional Legal Advisor.
- Evidence that the conditions precedent incorporated into the Program Assistance Approval Document were not significantly changed without proper justification or completely eliminated.

-
- Evidence that the Ministry of Planning provided the evidence within the time-frame required to meet the elements for each condition precedent as defined within the Program Assistance Approval Document.
 - Evidence that the Government of Jordan was notified in a timely manner that the conditions were met prior to disbursement of the funds.
 - Evidence to support that USAID/Jordan verified that debt paid with the U.S. dollars met the terms and conditions the cash transfer agreement.

To answer the second objective, we judgmentally selected Amendment No. 15 of the Strategic Objective Grant Agreement and tested to determine if USAID/Jordan's cash transfer program progressed toward achieving its intended benefits. We performed the following procedures:

- Verified the impact of the cash transfer program on the Government of Jordan's external debt.
- Reviewed if there was a correlation between the conditions precedent to the Mission's strategic objectives.
- Reviewed the content of the evidence submitted by the government of Jordan to satisfy the conditions precedent.
- Reviewed if there was a correlation between the local currency projects and the Mission's strategic objectives.
- Reviewed the Mission's monitoring of the use of the local currency accounts.

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**Management
Comments**



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Date: 10 November 2003

From: Anne Aarnes, Mission Director /s/

Subject: Management Comments for Draft Report on Audit of USAID/Jordan's Cash Transfer Program, (Report No. 6-278-04-00#-P)

To: Darryl T. Burris, Regional Inspector General/Cairo

We have reviewed the draft report on the Audit of USAID/Jordan's Cash Transfer program, and we concur with the audit findings. The draft report accurately describes the mission's implementation of the program. USAID/Jordan would like to thank the staff of the Office of the Regional Inspector General/Cairo for the professionalism displayed in the conduct of the audit.

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Table 2. Listing of Conditions Precedent Incorporated with Amendment No. 15**Appendix III**

Condition No.	Description of the Government of Jordan's Achievement of Conditions Precedent
1	In preparation for the open market sale of additional holdings of Jordan Telecommunication Corporation (JTC) shares, the JTC Steering Committee signed a contract with a financial advisor.
2	The Government of Jordan issued an international RFP to outsource the management of the National Aid Fund to a private sector management firm.
3	The Government of Jordan issued regulations consistent with WTO commitments in the following areas: (a) Integrated Circuits Regulation (b) Patent Regulation (c) Industrial Design Regulation (d) New Plant Varieties Regulation
4	The Cabinet approved a new Securities Law with the objective of creating a regulatory environment that is consistent with "international best practices" and will be more attractive to investors. It will include at least the following provisions: (a) clear coverage of the role and powers of the Jordan Securities Commission defining the functions of the Jordan Securities Commission as the national securities regulator, including powers of investigation and enforcement; (b) clear presentation of the Roles and Powers of the Exchange and the Depository, including the legal form to the Exchange and the Depository; (c) a clear definition of a "security" and a Public Offering; (d) clear Disclosure Requirements; (e) a mechanism moving the Settlement Guarantee Fund from the Exchange to the Depository; and (f) granting Authority of the Depository to Enforce Securities Contracts.
5	The Steering Committee for the privatization of Jordan Phosphate Mining Company signed a contract with a financial advisor to prepare a restructuring and privatization strategy for the Jordan Phosphate Mining Company.
6	The Ministry of Culture completed an assessment of the capacity of the National Library to effectively enforce Intellectual Property Rights commitments as stipulated in the Trade-Related Agreement on Intellectual Property Rights agreement.
7	The Ministry of Planning submitted to USAID written evidence that the Cabinet has appointed a Secretary General for the Higher Health Council.
8	The Ministry of Health submitted to USAID written evidence that it initiated a situation analysis report on the Ministry's continuing education system, health workers and accreditation of health facilities that includes recommended strategy options and timeline for a sustainable continuing education system including an outline of incentives linked to the system.

Condition No.	Description of the Government of Jordan's Achievement of Conditions Precedent
9	The Ministry of Health submitted to USAID a preliminary report that outlines the structure and system of the Ministry's current compensation system and incentive scheme and a proposed plan to expand it to staff at the primary health care level and link it to job performance indicators, hardships, special skills, or other criteria. The report shall describe the current conditions governing the incentive scheme, the beneficiaries of this scheme and the budgetary mechanisms of collection and distribution of funds used to run it. A proposed mechanism to expand the current system to other beneficiaries such as primary health care center staff and link it to performance indicators shall be described.
10	The Ministry of Health presented to USAID written evidence that at least 17 of the 34 Ministry of Health Focal Centers have in place at their centers all 5 elements of Quality Assurance (as defined by the primary health care initiative project).
11	The Ministry of Health: (a) added a line item for Reproductive Health in the Ministry of Health budget, and (b) approved a scope of work for technical assistance to develop a reasonable timeline for starting procurement of contraceptives leading toward contraceptive independence from donor funding.
12	The Ministry of Water and Irrigation submitted to the Jordan Institute for Standards and Metrology (JISM), and the JISM has approved, revised improved domestic wastewater effluent standards under discussion between the Wastewater Higher Technical Committee and the committee of the Jordan Institution for Standards and Metrology.
13	The Ministry of Water and Irrigation submitted to the Cabinet, and the Cabinet approved, a modification of the Water Authority of Jordan by-laws on groundwater well usage to reduce and control over-drafting and illegal wells, and provide substantive penalties for illegal use.
14	The Ministry of Water and Irrigation submitted to the Cabinet for approval a reasonable and equitable increase in well-water tariffs for agriculture, domestic and industrial uses in accordance with national priorities and the economic cost of water.
15	The Ministry of Water and Irrigation adopted strengthened, more effective penalties for municipal theft and illegal use of water.
16	The Ministry of Water and Irrigation developed and began implementation of an annual monitoring and reporting system for wastewater treatment plant operations to assure proper operation and maintenance and effluent standards are being met.