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DE RUEHC #5792/01 2930834
ZNR UUUUU ZZH
R 200827Z OCT 87 ZEX
FM SECSTATE WASHDC
TO USAID WORLDWIDE
BT
UNCLAS SECTION 01 OF 05 STATE 325792

LOC: 75
20 OCT 87
CN: 63366
CHRG: USAID
DIST: USAID

USAIDAC

F.O. 12356: N/A

SUBJECT: ESF CASH TRANSFER ASSISTANCE - AMPLIFIED POLICY GUIDANCE

REFS: (A) STATE 52618 (B) STATE 129933 (NOTAL)
(C) 83 STATE 2464

1. FOLLOWING IS A REVISED AND AMPLIFIED USAID POLICY INSTRUCTION REGARDING ESF CASH TRANSFERS. IT IMPLEMENTS THE STATUTORY REQUIREMENTS REGARDING SEPARATE ACCOUNTS FOR (A) DOLLARS AND (B) ANY LOCAL CURRENCY WHICH THE RECIPIENT GOVERNMENT MAY BE REQUIRED TO DEPOSIT PURSUANT TO ESF CASH TRANSFER AGREEMENTS. (IT APPLIES ONLY TO ESF CASH TRANSFERS AND NOT OTHER FORMS OF DISBURSEMENTS UNDER ESF ASSISTANCE (CIPS, PROJECTS). EFFECTIVE IMMEDIATELY, THIS GUIDANCE SUPERSEDES REFERENCE (A) IN ITS ENTIRETY, AS WELL AS GUIDANCE ON CASH TRANSFER SEPARATE ACCOUNTS ISSUED TO DATE.

2. WHEN USING THE TERM TO CHARACTERIZE A MODE OF USAID ASSISTANCE, USAID DEFINES CASH TRANSFERS AS THE FURNISHING OF RAPID-DISBURSING BALANCE OF PAYMENTS ASSISTANCE ON A CASH BASIS TO A RECIPIENT, IN FURTHERANCE OF UNITED STATES NATIONAL SECURITY, ECONOMIC AND DEVELOPMENTAL OBJECTIVES. SPECIFIC PURPOSES VARY AMONG RECIPIENT COUNTRIES AS SET FORTH IN DOCUMENTATION, USUALLY A PAAD, ACCOMPANYING THE CASH TRANSFER REQUEST. CASH TRANSFER ASSISTANCE FOR BALANCE OF PAYMENTS SUPPORT PURPOSES IS TO BE DISTINGUISHED FROM PROGRAM SECTOR ASSISTANCE AS CHARACTERIZED IN REF (C), AS WELL AS CONTRIBUTIONS TO INTERNATIONAL FUNDS. CONGRESS HAS TRADITIONALLY RECOGNIZED THE UNIQUE AND VALUABLE CHARACTERISTICS OF CASH

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TRANSFER ASSISTANCE, AND HAS EXPLICITLY RECOGNIZED THE DISTINCTION BETWEEN THE CASH TRANSFER AND COMMODITY ASSISTANCE PROGRAM MODES. VARIOUS LEGISLATIVE REQUIREMENTS, SUCH AS CARGO PREFERENCE, NORMALLY APPLICABLE TO OTHER FORMS OF ASSISTANCE, E.G., CIPS. SECTOR PROGRAMS, AND PROJECTS, HAVE NEVER APPLIED TO CASH TRANSFERS. THE FY87 CR MAINTAINED THIS LONG-STANDING RULE WHEN IT ESTABLISHED SEPARATE ACCOUNTS BY SPECIFYING THAT FUNDS MAY BE OBLIGATED AND EXPENDED AS CASH TRANSFERS NOTWITHSTANDING OTHER PROVISIONS OF LAW SUCH ASSISTANCE. ESF CASH TRANSFER ASSISTANCE AGREEMENTS, THEREFORE, CONTINUE TO BE EXEMPT FROM THE PROCUREMENT REGULATIONS APPLICABLE TO PROJECT ASSISTANCE AND COMMODITY IMPORT PROGRAMS WHICH ARE INCONSISTENT WITH THE NATURE OF THE ASSISTANCE. AT THE SAME TIME, BOTH USAID AND THE CONGRESS ARE CONCERNED ABOUT THE POTENTIAL FOR INAPPROPRIATE USE OF FOREIGN EXCHANGE PROVIDED UNDER CASH TRANSFERS.

3. IN ACCORDANCE WITH STATUTORY PROVISIONS CONTAINED IN THE FY 1987 CONTINUING RESOLUTION ALL COUNTRIES RECEIVING CASH TRANSFER ASSISTANCE IN EXCESS OF DOLLARS, 5 MILLION OBLIGATED AFTER FEBRUARY 1, 1987, WILL BE REQUIRED TO ESTABLISH A SEPARATE ACCOUNT OR ACCOUNTS INTO WHICH WILL BE PLACED THE DOLLAR ASSISTANCE AND AS SEPARATE ACCOUNT OR ACCOUNTS FOR DEPOSITS OF LOCAL CURRENCY. THE LEGAL REQUIREMENT FOR SEPARATE ACCOUNTS IS MADE APPLICABLE TO FY 1988 BY THE CONTINUING RESOLUTION. (SPECIAL INSTRUCTIONS FOR DOLLAR ACCOUNTABILITY IN THE CASE OF WEST AND CENTRAL AFRICAN MONETARY UNIONS ARE INCLUDED IN REF (X) AND ARE UNDER REVIEWS, AS ARE SOUTHERN AFRICAN AND EASTERN CARIBBEAN CURRENCY UNION CASES. FURTHER GUIDANCE FOR CASES SUCH AS THESE IS BEING DEVELOPED. NOTE ALSO THAT IF THE CASH TRANSFER ASSISTANCE AGREEMENT DOES NOT PROVIDE FOR LOCAL CURRENCY DEPOSITS, SEPARATE LOCAL CURRENCY ACCOUNTS(S) ARE NOT REQUIRED.) THE HOUSE APPROPRIATIONS COMMITTEE REPORT ACCOMPANYING THE CONTINUING RESOLUTION ALSO DIRECTS THAT DEPOSITED LOCAL CURRENCY BE TRACEABLE AND NOT BE COMMINGLED. THE SENATE APPROPRIATIONS COMMITTEE REPORT EXPRESSES CONCERN OVER THIRD COUNTRY COMPETITION WITH U.S. EXPORTS WITH REFERENCE TO THE USE OF CASH TRANSFER DOLLARS.

4. DISBURSEMENT OF DOLLARS SHALL BE MADE BY USAID UPON RECIPIENT'S REQUEST AFTER SATISFACTION OF ANY CONDITIONS. PRECEDENT. RECIPIENTS OF CASH TRANSFERS WILL BE EXPECTED TO ACCOUNT FOR THE DISPOSITION OF DOLLARS AFTER DISBURSEMENT BY USAID. IN ALL CASES, THE DOLLAR

ACCOUNT, INTO WHICH THE FUNDS ARE DEPOSITED AND FROM WHICH THE FUNDS ARE RELEASED FOR AGREED-UPON USES MUST BE SEPARATE, AND THE FUNDS MAY NOT BE COMMINGLED. PRIOR TO, THE USE OF ANY DOLLARS FROM A SEPARATE ACCOUNT, USAID AND THE RECIPIENT WILL AGREE ON THE GENERAL USES OF THE DOLLARS AND SUCH USES WHEREVER POSSIBLE WILL BE IDENTIFIED IN THE CASH TRANSFER ASSISTANCE AGREEMENT. DOCUMENTATION PURSUANT TO THE AGREEMENT MAY AMPLIFY REQUIREMENTS, BUT PREFERABLY SHOULD NOT SUBSTITUTE FOR, AN UNDERSTANDING OF USES IN THE PRINCIPAL AGREEMENT. AGREEMENTS SHOULD ALSO REFLECT THAT, AS A MATTER OF USAID POLICY, DOLLAR OR LOCAL CURRENCY SEPARATE ACCOUNTS ARE TO BE INTEREST-BEARING. TO THE EXTENT SUCH ACCOUNT ARE PERMITTED UNDER HOST COUNTRY LAW OR REGULATION AND, IN THE CASE OF LOCAL CURRENCY ACCOUNTS, DO NOT UNDERMINE INTERNATIONALLY SUPPORTED STABILIZATION AGREEMENTS OR SOUND MONETARY POLICY. ANY INTEREST EARNED ON DOLLAR OR LOCAL CURRENCY ACCOUNTS MUST BE PROGRAMMED AND USED AS IF IT WERE PRINCIPAL.

5. THE FAA AND FY 87 APPROPRIATIONS BILL AND THEIR LEGISLATIVE HISTORY RECOGNIZE THE DISTINCTION BETWEEN THE CASH TRANSFER ASSISTANCE MODE AND OTHER FORMS OF ESF ASSISTANCE, AND MAKE IT CLEAR THAT STATUTORY PROVISIONS THAT APPLY TO PROJECT USAID AND CIP ASSISTANCE (E.G. CARGO PREFERENCE, STRICT SOURCE ORIGIN/ COMPONENTRY RULES, THE COMPETITION IN CONTRACTING ACT, AND SO ON) DO NOT APPLY TO CASH TRANSFER USAID, SINCE THEY ARE INCONSISTENT WITH THE CASH TRANSFER NATURE OF THE ASSISTANCE. HOWEVER, JUDGMENTS DO HAVE TO BE MADE AS TO WHICH USE OF DOLLARS IN THE SEPARATE ACCOUNT SHOULD BE PERMITTED AND SPECIFICALLY APPROVED IN THE AGREEMENT. APPROPRIATE PROCEDURES FOR SPECIFYING AND TRACKING USES OF DOLLARS RELEASED FROM THE SEPARATE ACCOUNT, AND ASSOCIATED ACCOUNTABILITY ARRANGEMENTS, WILL VARY, DEPENDING UPON THE NATURE OF ASSISTANCE, THE RECIPIENT'S FOREIGN EXCHANGE AND IMPORT REGIMES, THE INTEGRITY OF ITS ACCOUNTING SYSTEMS, THE POLITICAL ENVIRONMENT, AND OTHER FACTORS. (SEE ALSO PARAGRAPH 6 BELOW.) THE BASIC SPECTRUM OF FOREIGN EXCHANGE AND ACCOUNTABILITY REGIMES IS ESSENTIALLY CHARACTERIZED IN THE FOLLOWING SUB-PARAGRAPHS. USAID'S OVERALL PREFERENCE IS FOR U.S. IMPORT FINANCING WITH ESF CASH TRANSFER DOLLARS, WHETHER THROUGH DIRECT DISBURSEMENTS, REIMBURSEMENT OR AUCTION ARRANGEMENTS. DEBT SERVICE IS AN ALTERNATIVE, AS IS A BLENDING OF IMPORT FINANCING AND DEBT SERVICE IN SOME INSTANCES. IN CONCERT WITH THE RELEVANT REGIONAL BUREAU, PREFERABLY DURING THE PAAD APPROVAL PROCESS, MISSIONS SHOULD REVIEW THESE REGIMES AND MAKE A JUDGMENT AS TO WHICH MOST CLOSELY REFLECTS THE SITUATION IN

THEIR RESPECTIVE HOST COUNTRIES, AND THEN PROCEED TO TAILOR DOLLAR USE AND ACCOUNTABILITY ARRANGEMENTS TO SUIT THE INDIVIDUAL COUNTRY CONTEXT WITHIN THE PARAMETERS OF THE BASIC REGIMES PROVIDED. NOTE THAT EACH OF THE APPROACHES REQUIRE ADEQUATE MONITORING AND AUDIT RIGHTS AGREED TO BY THE RECIPIENT, A MONITORING COMMITMENT BY USAID STAFF, PERIODIC SUBSTANTIVE REPORTING BY THE RECIPIENT, AND DOLLAR RE-DEPOSIT OR OTHER REMEDIAL ACTION IN CASES OF NON-COMPLIANCE WITH THE AGREEMENT ON USES.

(A) IN THOSE RECIPIENT COUNTRIES WHERE IMPORTS, FOREIGN EXCHANGE ALLOCATIONS, AND, PRESUMABLY, EXCHANGE RATES ARE STRICTLY CONTROLLED BY GOVERNMENT OR MONETARY AUTHORITIES, AND WHERE SUBSTANTIAL LIBERALIZATION OF SUCH CONTROLS IS NOT UNDERWAY OR ANTICIPATED, USAID PREFERS THAT CASH TRANSFER DOLLARS BE USED TO FINANCE IMPORTS EITHER DIRECTLY OR ON A REIMBURSABLE BASIS. IN THE EVENT THIS IMPORT FINANCING ARRANGEMENT IS USED:

(I) PRIORITY SHOULD BE GIVEN TO IMPORTS FROM THE U.S. WITH IMPORTS PERMITTED BY THE MISSION FROM OTHER SOURCES ON A CASE BY CASE BASIS.

(II) DOLLAR USE SHOULD NORMALLY BE LIMITED TO RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS, AND ESSENTIAL CONSUMER GOODS IMPORTS AS APPROVED BY THE MISSION, AND DOLLARS MUST NOT BE USED TO FINANCE IMPORTS, SUCH AS MILITARY OR POLICE EQUIPMENT, THAT USAID COULD NOT PROCURE DIRECTLY.

(III) WHERE NEEDED, THE IMPORT APPROVAL AND VERIFICATION PROCESS SHOULD INCLUDE A PRICE CHECKING ARRANGEMENT TO ASSURE THAT U.S. FUNDS ARE NOT BEING USED TO EFFECT CAPITAL FLIGHT THROUGH OVER-INVOICING.

(IV) REIMBURSEMENT MUST BE FOR SPECIFIC IMPORT TRANSACTIONS AND SHOULD BE PART OF A TIMELY SEQUENCE FOR COMPLETING SUCH TRANSACTIONS. THIS TYPE OF REIMBURSEMENT IS TO BE DISTINGUISHED FROM EX POST ATTRIBUTION MADE AFTER RELEASE OF DOLLARS FROM THE SEPARATE ACCOUNTS, A PROCEDURE EMPLOYED IN SOME ESF RECIPIENT COUNTRIES.

THIS APPROACH APPROXIMATES THE ONE CURRENTLY USED IN THE EL SALVADOR PROGRAM AND MAY BE APPLICABLE TO OTHER CASH TRANSFER RECIPIENTS WITH SIMILAR FOREIGN EXCHANGE/IMPORTS CONTROL ARRANGEMENTS WHERE CASH TRANSFERS ARE A SUBSTANTIAL COMPONENT OF

AVAILABLE FOREIGN EXCHANGE. IMPLEMENTATION PROCEDURES DEVELOPED FOR THE EL SALVADOR PROGRAM MAY BE USEFUL AS GUIDANCE FOR OTHER MISSIONS, AND ARE AVAILABLE UPON REQUEST.

(B) IN THOSE RECIPIENT COUNTRIES WHERE SUBSTANTIAL LIBERALIZATION OF FOREIGN EXCHANGE AND IMPORTS CONTROLS IS UNDERWAY OR IS AT A RELATIVELY ADVANCED STAGE OF NEGOTIATION, AND USAID WISHES TO AVOID IMPEDING OR WISHES TO SUPPORT HOST COUNTRY MOVES TOWARD OPEN MARKET FORCES, USE OF AN AUCTION OR AUCTION-LIKE MECHANISM TO DISBURSE CASH TRANSFER DOLLARS MAY BE APPROPRIATE. MANY AUCTION SYSTEMS HAVE BEEN DEVELOPED AS PART OF A SUCCESSFUL MULTI-DONOR DIALOGUE WITH THE HOST GOVERNMENT, AND ARE SUPPORTED BY THOSE DONORS AND GENERAL FOREIGN EXCHANGE RESERVES OF THE RECIPIENT GOVERNMENT. USAID CASH TRANSFER DOLLARS CAN BE USED TO SUPPORT AND AUCTION OR AUCTION-LIKE SYSTEM IF:

(I) CASH TRANSFER DOLLARS CAN REMAIN SEGREGATED UNTIL UTILIZED AND CAN BE TRACKED TO IDENTIFIABLE IMPORT TRANSACTIONS.

(II) AUCTION PROCEDURES PERMIT THE IMPLEMENTING AUTHORITY TO ENSURE THAT USAID CASH TRANSFER DOLLARS ARE NOT USED FOR MILITARY, PARAMILITARY, OR LUXURY IMPORTS. THIS NEGATIVE LIST SHOULD BE AT LEAST AS LIMITING AS THE USAID HANDBOOK 1, SUPPLEMENT B, CHAPTER 40, LISTING OF INELIGIBLE COMMODITIES (I.E., MILITARY EQUIPMENT, SURVEILLANCE EQUIPMENT, POLICE AND LAW ENFORCEMENT COMMODITIES AND SERVICES, ABORTION EQUIPMENT AND SERVICES, LUXURY GOODS AND GAMBLING EQUIPMENT AND WEATHER MODIFICATION EQUIPMENT).

(III) THE RECIPIENT GOVERNMENT AGREES TO USE CASH TRANSFER DOLLARS, FOLLOWING EACH INDIVIDUAL AUCTION, FOR FINANCING OF U.S. IMPORT TRANSACTIONS APPROVED AT THE AUCTION AS FIRST PREFERENCE AND OTHER FREE WORLD TRANSACTIONS AS SECOND PREFERENCE. PREFERENTIAL FINANCING OF IMPORTS WILL NOT BE USED, AND IS NOT MEANT TO, RE-DIRECT THE ALLOCATION OF FOREIGN EXCHANGE TO ANY SPECIFIC TYPES OR SOURCES OF IMPORTS IN A MANNER INCONSISTENT WITH THE MARKET-DETERMINED NATURE OF THE FOREIGN EXCHANGE AUCTION.

BECAUSE OF THE ABOVE PROVISIONS, TOTALLY UN-RESTRICTED AUCTION SYSTEMS ARE NOT APPROPRIATE MODES FOR THE USE OF CASH TRANSFER DOLLARS. ANY AUCTIONS OF USAID CASH TRANSFER DOLLARS MUST PERMIT THE USE OF SEPARATE ACCOUNTS AND PROVIDE FOR TRACEABILITY.

(C) IN CERTAIN INSTANCES WHERE RECIPIENT COUNTRY DEBT SERVICE IS A SIGNIFICANT BARRIER TO GROWTH AND DEVELOPMENT, OR WHERE INSTITUTIONAL ARRANGEMENTS MAY PRECLUDE THE TRACEABLE USE OF CASH TRANSFER DOLLARS OTHERWISE, CASH TRANSFER ASSISTANCE MAY BE USED TO EFFECT DEBT SERVICE PAYMENTS. THE USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE MAY BE PARTICULARLY JUSTIFIED WHEN SUCH SERVICING WILL HAVE A SIGNIFICANT EFFECT ON LEVERAGING ADDITIONAL FLOWS OF DEVELOPMENT FINANCE. HOWEVER, USAID DOES NOT CONSIDER APPROPRIATE THE USE OF CASH TRANSFER DOLLARS FOR SERVICING OF CERTAIN CATEGORIES OF DEBT WHICH MIGHT BE PERCEIVED AS HAVING A NON-DEVELOPMENTAL CHARACTER. THEREFORE, DEBT SERVICE IS PERMITTED SUBJECT TO THE FOLLOWING PROVISIONS:

(I) CASH TRANSFER DOLLARS MAY NOT BE USED TO COVER THE SERVICE OF LOANS FOR CREDITS THAT ORIGINALLY FINANCED MILITARY IMPORTS OF OTHER MILITARY REQUIREMENTS, E.G., FMS DEBT, UNLESS, AS DETERMINED BY THE ADMINISTRATOR, SUCH USE OF CASH TRANSFERS IN INDIVIDUAL COUNTRY CASES IS RECOGNIZED BY STATUE AS AMPLIFIED BY LEGISLATIVE HISTORY AS VALID.

(II) SERVICE OF DEBT KNOWN TO HAVE BEEN INCURRED TO FINANCE OTHER (NON-MILITARY) ITEMS THAT USAID COULD NOT FINANCE BECAUSE OF SPECIFIC LEGAL PROHIBITIONS, E.G., ABORTION EQUIPMENT, IS PRECLUDED. THIS PROHIBITION HAS PARTICULAR APPLICATION TO CURRENTLY OR RECENTLY CONTRACTED DEBT WHERE RELEVANT INFORMATION IS OR SHOULD BE READILY AVAILABLE TO THE MISSION AND WHERE IT MIGHT BE INFERRED THAT CASH TRANSFER FINANCING OF DEBT SERVICE COULD HAVE BEEN ANTICIPATED. IT IS NOT INTENDED TO REQUIRE A REVIEW OF THE DOCUMENTS RELATED TO THE LOANS TO BE SERVICED, A REQUIREMENT WHICH WOULD NOT BE ADMINISTRATIVELY FEASIBLE.

(III) CONSISTENT WITH THE AGREED RESTRUCTURING ARRANGEMENTS AND PAYMENTS SCHEDULING OF THE PARIS AND LONDON CLUBS, WHERE APPLICABLE, SERVICE OF DEBT OWED TO THE U.S. GOVERNMENT (EXCLUSIVE OF FMS DEBT) SHALL HAVE FIRST PRIORITY.

(IV) CASH TRANSFER DOLLARS MAY BE USED FOR SERVICING OF DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS AND THE IMF, SUBJECT TO PRIOR CONCURRENCE OF THE APPROPRIATE REGIONAL ASSISTANCE ADMINISTRATOR.

(V) SERVICING OF DEBT OTHER THAN THAT COVERED IN SUB-PARAGRAPHS (I) THROUGH (IV) MAY BE APPROVED ON AN EXCEPTIONAL, CASE BY CASE BASIS, BY THE APPROPRIATE REGIONAL ASSISTANCE ADMINISTRATOR IN CONSULTATION WITH PPC.

(D) IN THE CASE OF THE RELATIVELY-ADVANCED ESF RECIPIENT COUNTRIES WHICH HAVE ESSENTIALLY MARKET-DETERMINED FOREIGN EXCHANGE ALLOCATION SYSTEMS, LIBERAL IMPORT REGIMES, AND WELL-ESTABLISHED STANDARDS OF FINANCIAL ACCOUNTABILITY, SEPARATE ACCOUNTS AND TRACEABILITY ARE STILL REQUIRED, BUT USAID SHOULD AVOID ANY ACCOUNTABILITY PROCEDURES WHICH WOULD HAVE THE EFFECT OF RE-IMPOSING FOREIGN EXCHANGE OR IMPORT CONTROLS. EXAMPLES OF SUCH COUNTRIES INCLUDE THE NATO ALLIES WHICH AFFORD THE UNITED STATES WITH BASE OR ACCESS RIGHTS AND DEVELOPING COUNTRIES WHICH HAVE LARGELY LIBERALIZED POLICES AND INSTITUTIONS AROUND MARKET-ORIENTED PRINCIPLES. PROCEDURES USED, DETERMINED ON A CASE BY CASE BASIS, SHOULD BE SIMPLIFIED AND DE MINIMIS BUT STILL PERMIT SEGREGATION AND TRACKING OF DOLLARS; USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE ON LARGE SCALE IMPORT TRANSACTIONS WOULD USUALLY BE APPROPRIATE IN THESE INSTANCES. SIMPLIFIED MONITORING PROCEDURES ARE ALSO APPROPRIATE IN THOSE COUNTRIES WHERE USAID DOES NOT HAVE A DEVELOPMENT PRESENCE.

6. THE CASH TRANSFER ASSISTANCE AGREEMENT SHOULD PROVIDE APPROPRIATE AUDIT AND RE-DEPOSIT PROVISIONS WHICH WILL SUFFICIENTLY PROTECT THE AGENCY. THE AGREEMENT SHOULD REQUIRE A RE-DEPOSIT TO THE SEPARATE ACCOUNT OF FUNDS APPLIED TO A DISALLOWED USE, THUS PERMITTING SUCH FUNDS TO BE RE-PROGRAMMED FOR A PERMITTED USE. RECIPIENTS WILL BE REQUIRED TO PERIODICALLY REPORT ON THE DISPOSITION OF DOLLAR FUNDS. TYPICALLY, THE REPORT SHOULD ATTEST THAT FINANCIAL DOCUMENTATION, BOOKS AND RECORDS COVERING THE USE OF DOLLAR FUNDS ARE BEING MAINTAINED OR CAUSED TO BE MAINTAINED, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, AND ARE AVAILABLE FOR INSPECTION BY USAID OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS USAID MAY REASONABLY REQUIRE FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF LAST DISBURSEMENT BY USAID UNDER THE CASH TRANSFER. FINANCIAL RECORDS SHALL BE SUITABLE, AT A MINIMUM, TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS FROM THE SEPARATE ACCOUNT AND THEIR TRACKING TO FINAL ACCEPTABLE USES. FOR EXAMPLE, THIS MAY INCLUDE CENTRAL BANK AND COMMERCIAL BANK DOCUMENTS DEMONSTRATING THAT

USAID FUNDS WERE TRANSFERRED FROM A HOST COUNTRY CENTRAL BANK CONTROLLED ACCOUNT TO AN ACCOUNT IDENTIFIED FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT SERVICE PAYMENTS, ACTUALLY WERE MADE WITH THE TRANSFERRED DOLLARS.

7. LOCAL CURRENCY DEPOSITS MUST BE USED IN ACCORDANCE WITH FAA SECTIONS 531(D) AND 609. SECTION 531(D) REQUIRES THAT AT LEAST 50 PERCENT OF LOCAL CURRENCY GENERATED BY ESF CIPS OR OTHER PROGRAM ASSISTANCE SUPPORT ACTIVITIES CONSISTENT WITH SECTION 103106 OBJECTIVES. SECTION 609 REQUIRES THAT LOCAL CURRENCIES ASSOCIATED WITH ESF GRANT CIPS AND -- BY THE PROVISIONS OF THE FY87 CR --CASH TRANSFER ASSISTANCE BE USED TO CARRY OUT THE PURPOSES FOR WHICH NEW FUNDS AUTHORIZED BY THE FAA WOULD THEMSELVES BE AVAILABLE.

8. THE EXTENT TO WHICH MISSIONS MUST MONITOR THE ACTUAL USES OF THE LOCAL CURRENCY WILL DEPEND ON THE AGREEMENT WITH THE RECIPIENT GOVERNMENT.

(A) IF USAID SHOULD CHOOSE TO DIRECTLY ASSOCIATE JOINTLY PROGRAMMED LOCAL CURRENCY WITH HOST GOVERNMENT PROJECTS OR PRIVATE SECTOR ACTIVITIES, THE MISSION SHOULD HAVE REASONABLE ASSURANCE THAT THE ACTIVITIES HAVE BEEN DESIGNED IN ACCORDANCE WITH SOUND TECHNICAL, FINANCIAL, AND ENVIRONMENTAL PRACTICES, THAT IMPLEMENTATION AND MONITORING CAPABILITIES OF THE IMPLEMENTING ENTITIES ARE ADEQUATE, AND THAT PERIODIC AUDITS OF RELEVANT ACTIVITIES WILL BE UNDERTAKEN. PROJECTS THAT ARE FUNDED AND MONITORED BY USAID WOULD PROVIDE SUCH EVIDENCE. PROJECTS FUNDED AND MONITORED BY OTHER DONORS ALSO USUALLY PROVIDE SUCH ASSURANCES; THE SAME APPLIES TO PROJECTS UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS. OTHERWISE, MISSIONS SHOULD BE PREPARED TO TAKE A MORE ACTIVE ROLE IN IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING THE PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING FOR THE ACTIVITY. IF AND WHEN SUBSEQUENT ALLOCATIONS OF JOINTLY PROGRAMMED LOCAL CURRENCY FOR PROJECT LEVEL ACTIVITIES ARE BEING CONSIDERED, THE MISSION SHOULD TAKE THIS OPPORTUNITY TO REVIEW PROGRESS IN MOVING TOWARD PROJECT COMPLETION. PERIODIC REPORTING BY THE HOST GOVERNMENT SHOULD BE REQUIRED, AND FIELD VISITS MAY BE USEFUL IN MONITORING.

(B) IF USAID AND THE RECIPIENT GOVERNMENT PROGRAM THE LOCAL CURRENCY FOR MORE GENERAL PURPOSES, FOR EXAMPLE, AN AGREEMENT THAT

LOCAL CURRENCY WILL BE USED TO MEET DEVELOPMENT BUDGET REQUIREMENTS OF, SAY, THE MINISTRY OF AGRICULTURE, THE ROLE OF USAID MAY BE LIMITED TO ENSURING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED TO THE MINISTRY'S DEVELOPMENT ACCOUNT. THE MISSION NEED NOT TRACE THE FUNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS SINCE USAID'S DEVELOPMENT GOAL IS A LEVEL OF OVERALL FINANCIAL SUPPORT TO A PROGRAM OR INSTITUTION; INDEED, ONCE TRANSFERRED FROM A SEPARATE ACCOUNT TO A PROGRAM OR INSTITUTION, THE FUNDS WILL GENERALLY HAVE BEEN COMBINED WITH OTHER BUDGETARY FUNDS AND WILL NOT BE TRACEABLE. HOWEVER, THE MISSION SHOULD GENERALLY BE SATISFIED ON THE QUALITY OF OVERALL PROGRAM ACTIVITIES AND THE TECHNICAL AND ADMINISTRATIVE CAPABILITY OF THE IMPLEMENTING ENTITY OR ENTITIES TO CARRY OUT THE PROGRAM. FURTHERMORE, PERIODIC REPORTS ON BUDGETARY ALLOCATIONS SHOULD BE REQUIRED OVER THE PERIOD OF THE AGREEMENT TO ENABLE THE MISSION TO ASSESS COMPLIANCE WITH AGREED PRIORITIES. FINALLY, THE MISSION SHOULD ASSURE ITSELF POST HOC THAT THE GOVERNMENT HAS ACCORDED AN APPROPRIATE EMPHASIS TO PRIORITY PROGRAMS. THIS CAN THEN BE USED AS A BASIS FOR MAKING JUDGMENTS ABOUT FUTURE LOCAL CURRENCY ALLOCATION DECISIONS.

9. TO REITERATE, USAID'S RETENTION OF MONITORING AND APPROVAL RIGHTS, AS WELL AS THE RIGHT TO RECEIVE REPORTS, IS DIRECTLY RELATED TO THE PROGRAMMING BURDEN THAT USAID ASSUMES FOR ITSELF IN THE AGREEMENT DESCRIBING HOW LOCAL CURRENCY WILL BE USED. RETENTION OF THESE RIGHTS IN THE AGREEMENT SHOULD BE CONSISTENT, THEN, WITH THE AGREED UPON PROGRAMMING RESPONSIBILITIES OF USAID BUT, AT A MINIMUM, SHOULD BE ADEQUATE TO ENSURE THAT USAID 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.

10. AS NECESSARY, REGIONAL BUREAUS WILL FOLLOW UP WITH COUNTRY-BY-COUNTRY GUIDANCE. USAID/W AS A WHOLE WILL ALSO CONTINUE TO EVALUATE THE IMPLEMENTATION OF THIS GUIDANCE TO ENSURE CLARITY, CONSISTENCY, AND CONSONANCE WITH LEGISLATIVE INTENT, AND WILL AMEND OR UPDATE GUIDANCE CIRCUMSTANCES WARRANT. MISSIONS ARE INVITED TO PROVIDE COMMENTS ON THE CONTENT OF THIS GUIDANCE. USAID/W WILL RESPOND EXPEDITIOUSLY TO INQUIRIES. WHITEHEAD

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