

Functional Series 600 – Budget and Finance
ADS 624 – Host Country-Owned Foreign Currency

*This is a new ADS chapter

Table of Contents

<u>624.1</u>	<u>OVERVIEW</u>	<u>2</u>
<u>624.2</u>	<u>PRIMARY RESPONSIBILITIES</u>	<u>2</u>
<u>624.3</u>	<u>POLICY DIRECTIVES AND REQUIRED PROCEDURES</u>	<u>3</u>
<u>624.3.1</u>	<u>Financial Documentation Responsibilities</u>	<u>3</u>
<u>624.3.2</u>	<u>Local Currency Policy</u>	<u>3</u>
<u>624.3.3</u>	<u>Local Currency Generation</u>	<u>4</u>
<u>624.3.4</u>	<u>Joint Programming</u>	<u>4</u>
<u>624.3.5</u>	<u>Assessments</u>	<u>5</u>
<u>624.3.6</u>	<u>Accountability</u>	<u>7</u>
<u>624.3.6.1</u>	<u>Mission-Established Accounting/Tracking System</u>	<u>7</u>
<u>624.3.6.2</u>	<u>Monitoring of Local Currency Uses</u>	<u>7</u>
<u>624.3.6.3</u>	<u>Budget Support</u>	<u>8</u>
<u>624.3.6.4</u>	<u>Extra-Budgetary Activities</u>	<u>9</u>
<u>624.3.6.5</u>	<u>Audits</u>	<u>9</u>
<u>624.3.6.6</u>	<u>Agreements With the Host Government</u>	<u>10</u>
<u>624.3.6.7</u>	<u>Program Results</u>	<u>10</u>
<u>624.3.6.8</u>	<u>Reporting to M/FM/CAR</u>	<u>11</u>
<u>624.4</u>	<u>MANDATORY REFERENCES</u>	<u>11</u>
<u>624.4.1</u>	<u>External Mandatory References</u>	<u>11</u>
<u>624.4.2</u>	<u>Internal Mandatory References</u>	<u>11</u>
<u>624.5</u>	<u>ADDITIONAL HELP</u>	<u>11</u>
<u>624.6</u>	<u>DEFINITIONS</u>	<u>12</u>

ADS 624 – Host Country-Owned Foreign Currency

***This is a new ADS chapter**

624.1 OVERVIEW

Effective Date: 06/06/2002

This ADS chapter prescribes the financial management policy for host country-owned foreign currency generated, set aside, or required to be deposited under program assistance agreements such as Commodity Import Programs, Non-Project Sector Assistance Programs, Cash Transfers, and PL 480 Programs. The terms host country-owned foreign currency, local currency (LC), and host government-owned local currency are used interchangeably in this chapter.

The financial management policy in this ADS chapter is consistent with USAID Policy Determination 18, Local Currency. (See Mandatory Reference, [PD-18, Local Currency](#)) This ADS chapter does not cover management of local currency trust funds, which is covered separately in ADS 627, Local Currency Trust Fund Management. However, joint programming of host country-owned local currency generated under a Foreign Assistance Act (FAA) program for trust fund purposes must follow the deposit and release requirements set forth in the program agreement. In addition, the PD-18 guidance on using trust funds for discrete new projects must be adhered to.

624.2 PRIMARY RESPONSIBILITIES

Effective Date: 06/06/2002

- a. The USAID Chief Financial Officer (CFO) is responsible for broad oversight of all Agency financial programs, including developing financial management policy and procedures for management of host country-owned local currency generated by an FAA or PL 480 program.
- b. Mission Directors are responsible for oversight of any Mission foreign currency program, including ensuring compliance with the policy contained in PD-18 and this ADS chapter.
- c. Mission Controllers are responsible for
 - Establishing and maintaining a Mission accounting/tracking system to verify host government compliance with host government-owned local currency deposit and release requirements established in the program assistance agreement;
 - Coordinating the performance of host country internal control and financial system assessments; and
 - Providing the required reporting to Bureau for Management, Office of Financial Management, Central Accounting and Reports Division (M/FM/CAR).

d. The Chief, Bureau for Management, Office of Financial Management, Central Accounting and Reports Division (M/FM/CAR) is responsible for

- Receiving and compiling required foreign currency reporting from the Missions; and
- Compiling reports for Agency internal and external reporting.

624.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

624.3.1 Financial Documentation Responsibilities

Effective Date: 06/06/2002

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within the Controllers' or FM operations, but includes any source material causing or resulting in a financial transaction. Cognizant Technical Officers (CTOs), Loans/Grants Officers, Strategic Objective (SO) teams, etc., are responsible for retaining financial documentation and ensuring its availability for audit.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented;
- Source documentation must be readily available for audit (by either the Office of Inspector General or a responsible audit activity);
- The general rule of thumb for retention of financial documents is seven years; however, please refer to specific retention by document type in [ADS 502](#), The USAID Document Records Management Program.

624.3.2 Local Currency Policy

Effective Date: 06/06/2002

USAID recognizes that the host government assumes primary responsibility for allocating its budgetary resources. Agency policy encourages the integration of local currency with external resources to help achieve specific program and policy objectives.

Joint programming of local currency is normally undertaken when the assistance agreement with the host country is being negotiated. The assistance agreement may contemplate the commitment of the parties to joint programming of the local currency at the time the assistance agreement is signed; or a subsequent joint programming via a Memorandum of Understanding (MOU) or equivalent document.

Eligible uses for local currency are jointly approved by the Mission and the host government, in writing. The host government is also responsible for monitoring and oversight, and depositing local currency into a separate account (see Mandatory Reference, **Section 529 (a) of the FY 2002 Appropriations Bill for Foreign Operations, Export Financing, and Related Programs**). The Mission must ensure that local currency deposited into the separate account is programmed in a manner consistent with the underlying legislation.

The separate account must be in the name of the host government. Host country-owned local currency generated through FAA or PL 480 programs must not be commingled with funds from other sources. Mission and host government responsibilities must be clearly defined in the programming agreements. Host country-owned local currency must be disbursed as quickly as is consistent with sound programming and prevailing economic conditions.

624.3.3 Local Currency Generation

Effective Date: 06/06/2002

Host government-owned foreign currency is normally generated through Commodity Import, Non-Project Sector Assistance, or Cash Transfer Programs in one of two ways:

- When the Agency requires a deposit of local currency by the recipient government according to the agreement; or
- When the use of FAA dollar disbursements, as specified in the agreement, results in the receipt of local currency by the recipient government.

Local currency generations must be deposited separately to interest-bearing accounts, 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. The amount and frequency of the deposits and disbursements will normally be specified under the agreement.

Any interest generated on the interest-bearing account should be jointly programmed and managed as though such earnings were generated under the original program assistance agreement.

624.3.4 Joint Programming

Effective Date: 06/06/2002

Consistent with PD-18, host country governments and Missions jointly program FAA-generated host country-owned local currency to

- Invest in developmentally sound projects;
- Support particular sectors of the host government's budget;

- Fund the host government's deficit or reduce the host government's domestic debt; or
- Fund Agency administrative costs.

Joint programming of host country-owned local currency generated under a Foreign Assistance Act (FAA) program for trust fund purposes must follow the deposit and release requirements set forth in the program agreement. In addition, if local currency from the separate account is jointly programmed for discrete new trust fund projects, the Mission must adhere to the **PD-18** guidance on project trust funds.

Host country-owned local currency generated under PL 480 must be used for the purposes defined in the legislation and as stated in the programming agreement.

624.3.5 Assessments

Effective Date: 06/06/2002

a. General Assessment: General assessments (or reassessments) of the host government's financial management and internal control systems, including non-project assistance and local currency programming, should ordinarily be performed at least once every five years. If circumstances in the host country change (e.g., the administration changes or audit reports show that current internal control systems are no longer adequate), the Mission should do an update to the general assessment.

If the results of the general assessment indicate reasonably adequate internal control systems, and clean audit opinions are obtained annually on the local currency separate account(s), the Mission Director may extend the time interval for performing a general assessment to 10 years.

The purpose of the general assessment is to assess the general accountability environment in the host country. The general assessment forms the basis for the specific assessments required in every project and program design document. The general assessment should be forward looking, developing strategies for overcoming obstacles to accountability. The general assessment must be fully integrated into the Mission's management internal control process.

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-owned local currency. The general assessments can be performed by Mission personnel, or by approved, qualified contractors, such as CPA firms. The list of factors that Missions must examine includes the following:

- General financial management capabilities of the host government;

- Quality of accounting and financial management personnel within the host government;
- Systems in place to allocate, expend, and account for funds;
- External economic factors that might influence the use of local currency; and
- The Mission's prior experience with ensuring accountability for USAID resources and local currency in that country.

After examining the relevant factors, Missions must draw 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. 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 and internal controls of the agency. The general assessment is for the Mission's benefit, and does not have to be submitted to Washington.

b. Financial Assessment: A formal financial assessment must be performed when

- An agency or host government unit that has not had previous experience is to be responsible for managing an account; or
- The host government agency has managed a special account previously and has a poor record, as indicated by negative audit results; untimely, incomplete, or inaccurate reports; etc.

A formal financial assessment may be performed by either an independent entity or 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 may also be budgeted for assessments. Local currency or dollars from a current non-project assistance program also may be used if the program agreement so allows. All of these options require agreement between the Mission and the host government.

If the designated host government agency has experience in managing special accounts, the Mission may choose to rely on its record as an indicator of capability. The Mission must state in the agreement the favorable experience it has had with the agency as a basis to justify an informal assessment.

624.3.6 Accountability
Effective Date: 06/06/2002

624.3.6.1 Mission-Established Accounting/Tracking System
Effective Date: 06/06/2002

Mission financial systems used to track host country owned local currency must be adequate to provide for accurate, current, and complete disclosure of all host country-owned local currency generated, deposited, and released by an individual program assistance agreement. Missions must establish and maintain adequate records and analysis capable of verifying that

- The local currency is being deposited and disbursed in the agreed-upon manner;
- The local currencies are being used for the intended purposes once they are disbursed from the special account; and
- The impact of the local currency programs or performance indicators is being evaluated.

624.3.6.2 Monitoring of Local Currency Uses
Effective Date: 06/06/2002

The extent to which the Mission must monitor and verify uses of local currency depends on the type of programming employed. The Mission's involvement in monitoring the local currency increases as the local currency is programmed for more specific uses.

Programming of local currency for individual development projects, for example, requires 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.

The program agreement must provide for appropriate reporting by the host government agency responsible for managing the 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 quarterly basis.

Reporting format and content must be outlined in an Implementation Letter (IL) soon after the program agreement is signed. Reports must provide information on deposits to, withdrawals from, and disposition of local currency from the special account. The IL must also identify the documentation that the host government agency must submit to the Mission to substantiate reports. The Mission must also arrange to receive monthly statements on the special account directly from the bank.

Missions must develop a plan to verify the accuracy of the host government reports on the special account. At a minimum, Missions must verify these reports on an annual basis. The program design document must address the frequency and scope of verification of the reports.

The two principal types of local currency programs that can be funded from the special account are

- Budget Support, and
- Extra-Budgetary Activities.

624.3.6.3 Budget Support

Effective Date: 06/06/2002

a. General Budget Support (including 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 host government budget deficits.

b. General Sector Support. This type of program involves support to a host government's budget at the functional level of a ministry or a budget line item.

c. Specific Sector Support. Jointly programmed local currency may be used to help meet the host country's contribution to USAID 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 donors. A decision to allocate local currency to USAID 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 other donor projects, funding of host government projects or a budget line item below the general sector level in connection with USAID non-project assistance, when such support is provided through normal budgetary channels, would be considered specific sector support.

d. Reporting. Any agreement between the host government and USAID concerning use of local currency for General Budget Support, General Sector Support, or Specific Sector Support must specify the format and frequency of reports to be made to USAID. Also, under all of these programming methods, the agency managing the special account is responsible for verifying that documentation exists demonstrating that the local currency was transferred from the special account to the general fund and to a host government's account or budget line item.

e. Degree of Confidence. In order to program local currencies for General Budget Support, Missions must have a 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.

General Budget Support requires a high degree of confidence, and General Sector and Specific Sector Support require a medium to high degree of confidence. The general assessment will be the basis for these determinations.

624.3.6.4 Extra-Budgetary Activities

Effective Date: 06/06/2002

Extra-Budgetary Activities include projects or activities funded outside of the host country's budget. 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.

With regard to monitoring these local currency programs, there are minimum standards that must be met by the host government, and if not, then by the Mission. The precept behind these standards is that one agency within the host government will be responsible for disbursing funds to a recipient organization, accounting for the funds, verifying reports, and arranging for audits of the recipient organization.

As a general rule, Missions will not be required to verify reports of local currency recipient organizations. However, if the Mission determines that the host country unit responsible for the management of the special account has weak financial management controls, then the Mission must 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.

624.3.6.5 Audits

Effective Date: 06/06/2002

Missions must ensure that accounts are audited periodically in accordance with [ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities](#). During the negotiation stage, the Mission must discuss with the host government the requirements with regard to auditing the account, and the subsequent program agreement must contain specific language concerning audit responsibilities, frequency, and funding. Customarily, these local currency accounts would be audited annually.

Since the local currencies are host country owned, the audits of these local currencies do not necessarily have to adhere to auditing standards approved by the Comptroller General of the U.S. Audits must 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 international auditing standards, where feasible.

Audits may be performed by an independent firm approved by the cognizant Regional Inspector General (RIG) office, the host country's supreme audit institution, or other acceptable audit entity. The agreement must contain a discussion of whether public or private entities will perform the audit of the special account and must 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 agreement must contain a discussion of the audit agency's ability to conduct an independent, fair, and impartial audit.

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. Funding sources for audits of accounts must be fully discussed and explicitly stated in the agreement.

624.3.6.6 Agreements With the Host Government

Effective Date: 06/06/2002

Missions normally establish, in the Implementation Letter, Mission Order, or other agreement, policies and procedures governing the following:

- Management of host country-owned local currency,
- Monthly bank and ledger reconciliations,
- Clear assignments of responsibilities, and
- Circumstances particular to the country of operation.

The agreement with the host government can provide for monies to be used for audits and improvements to the host government financial and budgeting systems.

624.3.6.7 Program Results

Effective Date: 06/06/2002

Missions must develop, in collaboration with the host country, "performance indicators" to guide their programming of local currency by measuring the tangible results of the program.

The performance indicator must be written in such a way that it is 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 percent,**" for example.

Missions must decide upon appropriate performance indicators, and the agreement must identify specific performance indicators and discuss how these indicators will be measured or evaluated.

624.3.6.8 Reporting to M/FM/CAR
Effective Date: 06/06/2002

On an as-needed basis, M/FM/CAR will cable Mission Controllers to submit via e-mail to M/FM/CAR the following information:

- The value of funds on deposit in both foreign currency units and U.S. dollar equivalents;
- The currency name;
- Deposits, interest, and outlays in the last calendar year;
- The name of the depository institution and descriptive information regarding the account; and
- A description of the defined uses of the account and the vehicle for generating the currencies.

624.4 MANDATORY REFERENCES

624.4.1 External Mandatory References
Effective Date: 06/06/2002

- a. [Section 529\(a\) and \(b\) of the FY 2002 Appropriations Bill for Foreign Operations, Export Financing, and Related Programs](#)

624.4.2 Internal Mandatory References
Effective Date: 06/06/2002

- a. [ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities](#)
- b. [Policy Directive 18, Local Currency](#)

624.5 ADDITIONAL HELP
Effective Date: 06/06/2002

- a. [State Cable 329326, dated Nov 1990, General Assessment Guidance](#)

624.6 **DEFINITIONS**
Effective Date: 06/06/2002

624_060702_w030904