

**United States Agency for International Development
Office of the Regional Inspector General**

Nyar Utca 32, Budapest, Hungary 1071

Telephone: 36-1-352-8551/8553

Facsimile: 36-1-352-8539

October 10, 1997

MEMORANDUM

TO: USAID/Bosnia-Herzegovina, Craig Buck

FROM: RIG/Budapest, James R. Bonnell

SUBJECT: Audit of USAID/Bosnia-Herzegovina's Bosnian Reconstruction Finance Facility Program for the Period April 1 through June 30, 1997

This is our final report on the subject audit. In preparing the report, we considered your comments on the draft and included them in Appendix II. The audit found that the \$54.2 million in recommended loans from the inception of the program was short of the targeted amount of \$105 million. A contractor's systems and personnel restructuring and a redesign of the loan recommendation process during this quarter contributed to this shortfall.

One preliminary audit finding was issued for this reporting period on which the Mission took corrective action (see Appendix VI for a summary). This report makes no new recommendations.

Thank you for the assistance and courtesies extended to my staff during the audit.

Background

Bosnia-Herzegovina declared its independence from the former Socialist Republic of Yugoslavia in March 1992, following the lead of Slovenia and Croatia which declared independence in 1991. The move to independence precipitated a war in Bosnia-Herzegovina that lasted from 1992 to the cease-fire agreement of October 10, 1995.

The war in Bosnia-Herzegovina was fought between three major ethnic/religious groups—Bosniacs (Muslims), Serbs (Eastern Orthodox Christians), and Croats (Roman Catholics). The 1995 Dayton Agreement defined Bosnia as a single state consisting of two entities:

- The Federation of Bosnia joining together Bosniacs and Bosnian Croats, and
- The Republika Srpska comprising the Bosnian Serbs.

Bosnia remains both politically and ethnically divided with freedom of movement across ethnic boundaries still constrained.

The Dayton Agreement viewed economic rehabilitation and reconstruction as an essential element to achieving peace. The Agreement negotiators believed that the people must have an economic stake in the process; therefore, economic reconstruction, economic institution building, and promotion of a market economy were deemed to be major factors to ensure lasting peace. In 1996, 59 donor countries and organizations pledged \$1.9 billion to the reconstruction program and by the end of the year there were many signs of economic recovery. For example, road and rail links were being restored, housing repaired, and basic services such as water and heating were reestablished. However, many key national and Federation economic institutions, such as Bosnia's central bank, were not yet fully functioning.

After the cease fire agreement, Bosnia-Herzegovina was faced with consolidating the peace and reconstructing its war-torn economy, an enormous task as evidenced by the following problems:

- At least 2.4 million people needed assistance out of Bosnia-Herzegovina's population of three million. There were more than 300,000 pensioners, 120,000 disabled, 140,000 orphans and widows, 800,000 displaced persons, and more than one million returning refugees.
- The country's banking system was technically insolvent and burdened with nonperforming loans.

In addition to financing needed to repair the infrastructure and provide social services, the government faced large private claims and large wage and pension arrears. The economy was demonetized during the war when doctors, teachers, and other public sector professionals did not receive wages for three years.

House Joint Resolution 170 (Public Law 104-122) appropriated \$198 million for assistance to Bosnia-Herzegovina on March 29, 1996. These funds are to be used for economic revitalization (\$145 million), police training and monitors (\$45 million), demining (\$5 million) and operating expenses (\$3 million).

In early May 1996, the Assistant Administrator for the Bureau of Europe and the New Independent States authorized the five-year \$278 million Bosnian Reconstruction Finance Facility (BRFF) program. These funds are to be used for financial support of post war reconstruction and economic revitalization, as well as to increase employment of the general population, refugees, and demobilizing soldiers. On May 7, 1996, a grant agreement was signed between the United States and Bosnia-Herzegovina to obligate the program's initial \$27.5 million which was transferred by USAID to Bosnia-Herzegovina in early July 1996. In November 1996 and May 1997, USAID transferred another \$12.5 million and \$19.5 million, respectively, to Bosnia-Herzegovina.

Audit Objective

The objective of this concurrent audit was to determine whether USAID/Bosnia-Herzegovina and the implementing contractors used economic revitalization assistance funds designated for the Bosnian Reconstruction Finance Facility Program for the purposes authorized under the Grant Agreement and Public Law 104-122.

The Office of the Inspector General has issued periodic reports on the Bosnian Reconstruction Finance Facility Program with this being the third one.¹ Appendix I contains a discussion of the scope and methodology for the audit.

¹ See Audit Report Nos. B-168-97-002-P issued March 26, 1997, for the period May 7 through December 31, 1996, and B-168-97-006-P issued June 27, 1997, for the period January 1 through March 31, 1997.

Audit Findings

Did USAID/Bosnia-Herzegovina and the Implementing Contractors Use Economic Revitalization Assistance Funds Designated for the Bosnian Reconstruction Finance Facility Program for the Purposes Authorized Under the Grant Agreement and Public Law 104-122?

For the items tested, USAID/Bosnia-Herzegovina and the implementing contractors were using the economic revitalization assistance funds designated for the Bosnian Reconstruction Finance Facility (BRFF) program for the purposes authorized under the grant agreement and Public Law 104-122.

BRFF Program—What can funds be used for?

Bosnia-Herzegovina's physical infrastructure sustained extensive damage during the war. Reconstructing the infrastructure requires financial resources and long-term credit to rehabilitate and revitalize Bosnian businesses which then could offer sustainable employment opportunities for the general population, especially demobilized soldiers and refugees. In response to this requirement, USAID designed the BRFF program, a \$278 million balance-of-payments initiative intended to "jump-start economic growth and generate employment opportunities for the general population" and signed the grant agreement on May 7, 1996. Through fiscal year 1997, it is planned that \$173 million will be available for the BRFF program, with \$158 million allocated for the loan program and \$15 million for technical assistance, training and support costs.

Loan Program. On May 16, 1996, USAID signed a task order with Development Alternatives, Inc., to establish and operate Business Finance.² With offices in Sarajevo and Tuzla, it would be the primary implementor of the BRFF loan program. Business Finance recommends loans to USAID/Bosnia-Herzegovina for approval. The task order set targets of \$45 million in loan recommendations which were expected to create 6,750 jobs through December 31, 1996. Although not specified in the order, USAID/Bosnia-Herzegovina expected that Business Finance would recommend \$10 million in loans per month (generating 1,500 jobs per month) after December 31, 1996. This expectation was formalized in a Development Alternatives, Inc., task order modification effective May 1, 1997. Through June 30, 1997, USAID expected that a cumulative total of \$105 million in loans would be recommended by Business Finance resulting in 15,750 new jobs.

² Formerly known as the On-Lending Management Unit.

Technical Assistance. Development Alternatives, Inc.'s, task order also provides for training of Bosnian commercial bankers to help strengthen the Bosnian banks' ability to meet the credit requirements of the emerging private commercial sector.

On June 28, 1996, USAID signed a task order with The Recovery Group to provide assistance to businesses seeking loans from the BRFF and World Bank credit programs and to assist enterprises in achieving long-term viability. The Recovery Group established the Business Consulting³ offices in Sarajevo and Tuzla to implement its objectives.

BRFF Status—What were funds used for?

Loan Program. Since the program's inception, USAID/Bosnia-Herzegovina obligated and disbursed \$59.5 million to Bosnia-Herzegovina to assist with their balance of payment needs. (See Appendix V for details on budgeted, obligated and disbursed amounts.) USAID/Bosnia-Herzegovina approved 87 loans totaling \$47.1 million and Bosnia-Herzegovina disbursed \$42.7 million for 81 of these loans. Generally, borrowers are financing building reconstruction, equipment purchases, raw material acquisitions, and some operational expenses with the loan proceeds. The \$54.2 million in loans which Business Finance recommended to USAID/Bosnia-Herzegovina since the beginning of the program fell short of the targeted amount of \$105 million. This loan volume shortfall also resulted in about 6,200 fewer estimated loan-generated jobs than planned.

During this quarter, Business Finance recommended 17 loans valued at \$8.9 million with a corresponding anticipated increase in employment of about 1,100. This fell short of the expected quarterly targets by approximately \$21.1 million and 3,500 jobs.

In previous reporting periods, shortfalls were attributed to a shortage of lending officers to analyze and process applications. During this quarter, Business Finance underwent systems and personnel restructuring to streamline loan production. At the same time, USAID/Bosnia-Herzegovina requested that all loan recommendations presented to it be accompanied by a diagnostic of the borrower prepared by Business Consulting. All loans in the pipeline were put on hold until Business Consulting could complete the diagnostics resulting in a backlog of recommended loans at Business Finance. This additional review process combined with Business Finance's restructuring contributed to the shortfall in recommendations.

³ Formerly known as the Bosnia Business Assistance Center.

Since, at the completion of fieldwork, USAID/Bosnia-Herzegovina, Business Finance and Business Consulting were still restructuring the loan recommendation process, the effect of these changes could not be evaluated. Therefore, we are not making a recommendation. However, we plan to follow up on this issue during our next field visit to determine if these measures enable Business Finance to achieve the loan volume targets. (See Appendix III for detailed information on the BRFF's status.)

Technical Assistance. Business Finance stated in its June 30, 1997, report that its training division sponsored 13 seminars and work shops in Tuzla and Sarajevo with a total attendance of 343 bankers, prospective borrowers, and consultants during this quarter. Since the beginning of the program, Business Finance has sponsored 66 events with a total of 1,219 participants. The seminars included such courses as Role of the Agent Bank, Managing the Loan Portfolio, and Financing the Small Business.

Business Consulting provided a report stating it prepared 109 diagnostics (formerly known as loan application support) and completed 19 company projects, designed to help enterprises restart and strengthen operations and establish initial viability and direction, since the inception of the BRFF program. We did not compare the actual results to the targets in the task order because USAID and The Recovery Group are modifying the order. The new order was not finalized as of June 30, 1997.

Results of Audit Tests

Our audit work during this second reporting period focused on testing the project's internal controls, obtaining information on the status of loan activities, and visiting a sample of agent banks and borrowers in the Sarajevo and Tuzla areas. Appendix I contains a more detailed description of our audit scope and methodology.

During this period we tested compliance with loan procedures and the agreements with agent banks. These tests disclosed no major internal control weaknesses. We also visited five additional borrowers for a total of 29 borrowers visited out of the 81 borrowers who received loan disbursements. When appropriate, we inspected reconstruction work and equipment purchases funded by the loan proceeds at the borrower's place of business. No major problems were identified at the five borrowers visited.

We also visited four of the 15 agent banks through which loans were disbursed. To date, we have visited all active agent banks, some twice. We did not find any instances of material noncompliance with the agent bank agreements or loan agreements. (Appendix IV contains more details on the results of our site visits.) However, during fieldwork for the reporting period ending September 30, possible violations of the agent bank agreement by Hippo Banka were noted. Subsequently, Business Finance reviewed the bank's BRFF loan documentation and found numerous problems and irregularities. Consequently, Business Finance suspended Hippo Banka from the BRFF program and demanded that all undisbursed loan proceeds be returned to the Government of Bosnia-Herzegovina.

The bank returned a small portion of the proceeds and Business Finance requested The Federal Banking Agency of the Federation of Bosnia and Herzegovina to conduct an examination of the bank. We will follow up on this issue during our next field visit.

Our review of USAID/Bosnia-Herzegovina's periodic reports on the status of the BRFF program found that they were not updated to reflect current information on the expected number of jobs generated by the loan program. As a result, users of these reports have received inaccurate employment information which distorted the program's impact. A Report of Audit Finding was issued recommending that USAID/Bosnia-Herzegovina direct Business Finance to reconcile the difference in expected employment, provide a report explaining the difference and provide monthly updated employment information. USAID/Bosnia-Herzegovina took corrective action and has updated its BRFF status report to reflect current expected employment information based on Business Finance's reconciliation. USAID/Bosnia-Herzegovina will also perform a monthly comparison between Business Finance's report to its BRFF status report. (See Appendix VI.)

Management Comments and Our Evaluation

USAID/Bosnia-Herzegovina officials agreed with the content of the report and their comments are included as Appendix II to this report. In its response, USAID/Bosnia-Herzegovina expressed concern with the failure to meet the \$10 million a month lending target but were hopeful that the prime contractor's restructuring of the lending operation and increased staffing will enable it to reach that goal. However, USAID/Bosnia-Herzegovina also noted that political objectives to expand the program to the Republika Srpska has hampered the prime contractor's ability to reach the target and that it may modify the lending target if continued political requirements do not allow the prime contractor to achieve the target.

<p>Scope and Methodology</p>

Scope

The Office of the Regional Inspector General/Budapest is conducting a concurrent audit of USAID's Bosnian Reconstruction Finance Facility (BRFF) program activities in Bosnia-Herzegovina in accordance with generally accepted government auditing standards. We conducted the audit from May 21, 1997, through July 18, 1997, at the USAID office in Sarajevo, and the Development Alternatives, Inc.'s, Business Finance offices and The Recovery Group's Business Consulting offices in Sarajevo and Tuzla. We examined whether selected internal controls were implemented as designed and also visited five borrowers in the Tuzla area and four agent banks in Sarajevo and Tuzla.

During this reporting period, we did not audit the three BRFF program bank accounts maintained by the National Bank of Bosnia-Herzegovina. Also, we did not audit the program's financial statements that are shown in Appendix V. We performed limited work on The Recovery Group's Business Consulting activities.

Methodology

Audit methodology included file reviews, interviews, field visits and data analysis. We reviewed House Joint Resolution 170 (Public Law 104-122) dated March 29, 1996; the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1996 (Public Law 104-107), dated February 12, 1996; the Grant Agreement Between Bosnia and Herzegovina and the United States of America for Reconstruction Finance Facility; program documents; and contracts to determine BRFF program objectives and restrictions. We reviewed accounting records and tested compliance with loan procedures and the agent bank agreements to assess whether internal control procedures were being followed and were adequate. We interviewed USAID, contractor, and agent bank officials as well as borrowers to obtain their views on problems being experienced in the program and the adequacy of actions taken to address these problems.

We judgmentally selected five additional borrowers, bringing to a total 29 borrowers visited, of the 81 borrowers who received loan disbursements. Our visits were to verify the businesses' existence and the use of the loan proceeds. We observed equipment and raw material purchases and reconstruction efforts funded by the loan proceeds. We visited four agent banks resulting in one or more visits to all fifteen agent banks through which loans were disbursed. We reviewed documentation to determine how the banks were monitoring the use of the proceeds and the agent banks' internal records tracking the receipt and disbursement of loan proceeds for each borrower. We also selectively reviewed invoices submitted by the borrowers for purchases made using the proceeds.



United States Agency for International Development
Sarajevo, Bosnia-Herzegovina

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

DATE: September 10, 1997

TO: James R. Bonnell, RIG/A/Budapest

FROM: Erna Kerst, Acting Director

SUBJECT: Audit of USAID/Sarajevo's Bosnian Reconstruction Finance Facility Program for the Period April 1 through June 30, 1997

We have reviewed the subject draft audit report and concur with its observations and continue to be pleased that the on-going audit activities have not uncovered any unforeseen problems with implementation of the program. We are also pleased that implementation of the program continues to move forward as intended.

We continue to be concerned with the failure to reach the program's lending volume target level of \$10 million per month. We are hopeful that the expanded staffing and the reorganized lending operations of the prime contractor will help to reach that goal. However, we should note that political imperatives to reach out to Brcko and other areas of the Republic Srpska have hampered the prime contractor's ability to reach this target. We will be monitoring this closely and may modify this goal if continued political requirements do not enable our contract team to focus on meeting this ambitious volume target we have established for this program.

As on previous occasions, the Mission would like to compliment the RIG on its dedicated efforts to support the BRF program and to assure that its implementation is not only in compliance with USAID requirements but that it achieves its objectives in the most effective manner possible. The information and advice which the RIG has generously provided to us over the past four quarters from its field visits, testing activities and analytical efforts on program operations have been invaluable for developing improved management oversight and monitoring on the part of both the contractors and the Mission. The hard work and collaborative spirit of the RIG auditors working on this project are sincerely appreciated.

**Audited Status of the
Bosnian Reconstruction Finance Facility
*as of June 30, 1997***

The Bosnian Reconstruction Finance Facility (BRFF) program, a five-year, \$278 million balance-of-payments initiative, approved by the Assistant Administrator for the Bureau of Europe and the New Independent States on May 3, 1996, is intended to “jump-start economic growth and generate employment opportunities for the general population, including refugees and demobilized soldiers.” The BRFF grant agreement, signed on May 7, 1996, provides balance-of-payments assistance to Bosnia-Herzegovina to aid postwar reconstruction, provide credit to the industrial and commercial sectors, and generate employment.

On May 16, 1996, USAID signed a task order with Development Alternatives, Inc., to establish and operate Business Finance⁴ and provide intensive, in-country commercial banker training. Development Alternatives’ team arrived in Sarajevo on June 13, 1996, to begin implementing the program and as of June 30, 1997, they had an expatriate staff of 13 assigned to the program.

Business Finance, composed of a team of experienced U.S. bankers, accountants, and Bosnian staff located at the National Bank of Bosnia-Herzegovina, is the primary implementor of the BRFF program. Some of Business Finance’s responsibilities include reviewing and recommending loan applications for approval; managing BRFF’s lending operations; and monitoring and managing the flow of funds between the BRFF program, the borrowing enterprises, and the agent Bosnian commercial banks. Agreements with Bosnian commercial banks licensed by the National Bank allow these banks to function as agents for Business Finance by submitting client loan applications. Business Finance also works with the Bosnian commercial banks to help educate them in market-oriented lending policies and credit evaluation techniques to assist in developing a capable financial sector.

Also, on June 28, 1996, USAID signed a task order with The Recovery Group to help Bosnian businesses prepare and present proposals to Business Finance and to assist enterprises in restarting and strengthening their operations.

⁴ Formerly known as the On-Lending Management Unit.

BRFF Program Plan

Although the BRFF program is a five-year program, its planned budget is \$278 million for a three-year period. According to the BRFF program authorization document, \$173 million was budgeted through fiscal year 1997—\$158 million for the lending program and \$15 million for technical assistance and implementation costs.

The BRFF program also provides training for Bosnian commercial bankers concentrating on loan structuring and risk assessment. This training is intended to strengthen market-oriented Bosnia commercial banks' ability to meet the credit requirements of the emerging private commercial sector.

BRFF Program Status

From the program's inception, \$75.7 million of the budget had been obligated and \$68.4 million had been disbursed. Of the \$75.7 million obligated, \$59.5 million was for loans with the remaining \$16.2 million allocated for technical assistance and program implementation. (See Appendix V.)

Loan Program. Business Finance is responsible for reviewing and assessing credit risk on all loan applications and recommending viable loans to USAID/Bosnia-Herzegovina for approval. After USAID/Bosnia-Herzegovina approves the loan, it can be disbursed by the National Bank of Bosnia-Herzegovina with USAID's approval. During the quarter ended June 30, 1997, Business Finance recommended 16 loans, valued at \$8.9 million, to USAID/Bosnia-Herzegovina. These recommendations anticipate an increase of approximately 1,000 new jobs. The National Bank disbursed 25 loans valued at \$10.7 million.

From the beginning of the BRFF program, USAID/Bosnia-Herzegovina approved 87 loans totaling \$47.1 million and the National Bank disbursed \$42.7 million for 81 of them. Loan proposals classified as "prospective" can potentially be recommended to USAID/Bosnia-Herzegovina for approval. Business Finance's cumulative lending activity is shown on the following page:

Status of Loan Application	Number of Loans	Loan Totals⁵
Disbursed	81	\$42,728,573
Approved by USAID/Bosnia-Herzegovina but not yet disbursed	6	4,347,292
Recommended by Business Finance but not yet approved by USAID/Bosnia-Herzegovina	9	4,684,843 ⁶
Recommended by Business Finance but not yet delivered to USAID/Bosnia-Herzegovina ⁷	6	2,402,331
Prospective ⁸	122	50,700,414
Rejected by Business Finance ⁸	171	58,807,466
Totals	<u>395</u>	<u>\$163,670,919</u>

Development Alternatives, Inc.'s, task order sets targets of \$45 million in loan recommendations creating 6,750 jobs through December 31, 1996. Although not specified in the order, USAID/Bosnia-Herzegovina expected that Business Finance would recommend \$10 million in loans per month (generating 1,500 jobs per month) after December 31, 1996. This expectation was formalized in a Development Alternatives, Inc., task order modification effective May 1, 1997.

⁵ Loan amounts are recorded and disbursed in Deutsche Marks, the medium of exchange in Bosnia-Herzegovina. Disbursed, approved and recommended loans were converted at the exchange rates of the three tranches using the first-in, first-out approach. Prospective and rejected loans were converted at a rate of 1.6817 Deutsche Marks to \$1.

⁶ Amount includes an incremental increase of \$192,068 for a previously approved and disbursed loan.

⁷ Delivery of four recommended loans was delayed as the responsible lending officer was not available for presentation to USAID/Bosnia-Herzegovina. Two of the recommended loans were held up as a result of Business Consulting diagnostics.

⁸ Information obtained from Business Finance's June 30, 1997, report.

Through June 30, 1997, USAID anticipated that a cumulative total of \$105 million in loans would be recommended by Business Finance, resulting in 15,750 new jobs. A comparison of these agreed upon and expected targets to actual results from inception through June 1997 is shown below.

	Targeted	Actual	Shortfall
Recommendations	\$105,000,000	\$54,163,038	\$50,836,962
Associated Jobs	15,750	9,527	6,223

Business Finance recommended the approval of \$54.2 million in loans—48.5 percent short of the targeted amount of \$105 million. It is expected that 9,527 jobs will be generated by the disbursed loans compared to the targeted 15,750 jobs, a shortfall of 6,223, or, 39.5 percent. In previous reporting periods, shortfalls were attributed to a lack of lending officers to analyze and process applications. During this quarter, Business Finance underwent systems and personnel restructuring to streamline loan production. At the same time, USAID/Bosnia-Herzegovina requested that all loan recommendations presented to it be accompanied by a diagnostic of the borrower prepared by Business Consulting. All loans in the pipeline were put on hold until Business Consulting could complete the diagnostics resulting in a backlog in recommended loans at Business Finance. This, combined with Business Finance’s restructuring, contributed to the loan recommendation shortfall. Since, at the completion of fieldwork, USAID/Bosnia-Herzegovina, Business Finance and Business Consulting were still in a state of transition, the effect of these changes could not be evaluated.

Examples of disbursed loans are presented below:

- *GP ZGP SARAJEVO*, a civil engineering and construction firm, received \$329,164 to purchase a reinforced vertical support used in the construction of bridges. The company expects to hire 65 employees.
- *VEGAFRUIT, d.o.o.*, a fruit and vegetable processor, received \$855,735 for working capital and to build, equip and move into a new processing plant. VEGAFRUIT purchases produce from approximately 400 local family farms and expects to increase seasonal employment by 200 workers. It anticipates hiring 51 permanent employees.
- *DD FERING*, a manufacturer of heavy industrial equipment, primarily cranes, received \$987,492 to purchase equipment and raw materials and fund salaries. An increase of approximately 150 jobs is projected.

Business Finance sends monthly bills to both the borrowers and the agent banks. Borrowers make interest and/or principal payments to their agent bank which then wires the money to the National Bank's Bank of America repayment account. The funds in the repayment account will be used for future lending. The interest and/or principal repayments are tracked and recorded by Business Finance. According to a Business Finance June 27, 1997, delinquency report, five borrowers are delinquent. Business Finance will review each borrower's situation and attempt to work out a solution or restructure the loan. In one case, the loan is currently being restructured.

Technical Assistance. Business Finance reported that a cumulative total of 66 seminars and workshops had been completed in Tuzla and Sarajevo with a total attendance of 1,219 bankers, prospective borrowers, and consultants. Courses offered included:

- Counting on Your Banker.
- Advanced Credit Seminar.
- Managing the Loan Portfolio.
- Financial Analysis and Business Planning.
- Financing the Small Business.

These and other courses will continue to be offered through September 1997.

<p>Audit Test Results</p>

Loan Program.

USAID/Bosnia-Herzegovina approved the disbursement of \$42.7 million through 15 agent banks to 81 borrowers since the beginning of the program. The majority of the 81 loans are financing building repairs and reconstruction, machinery and equipment purchases, raw material purchases, and working capital. In May and July 1997, we visited four agent banks through which 13 loans had been disbursed. The agent banks appeared to be adequately monitoring the use of loan proceeds by borrowers.

We also visited five borrowers to verify the existence of the business and the use of loan proceeds. We did not find any major problems with the borrowers. The results of our audit tests are detailed below.

Visits to Agent Banks⁹

Agent Bank	Borrower	Loan Amount
Komercijalna Banka d.d., Tuzla	FABRIKA CEMENTA	\$987,492
	ALUMINA	250,049
Tuzlanska Banka d.d., Tuzla	TMB	394,997
	ELEKTROREMONT	197,498
	FORTUNA	674,475
	SPRECA	658,328
	TRGOINEX	646,083
	SOKOLINA	658,328
	ARHITEKT	789,630
	KONJUJH	1,645,062
FERING	987,492	

⁹ Actual records and documents reviewed did not always total the loan amount as many borrowers had not used all of the loan proceeds.

Agent Bank	Borrower	Loan Amount
Hipotekarna Banka, Sarajevo	HORS	\$296,111
Vakufska Banka d.d., Sarajevo	VEGAFRUIT	855,735

Visits to Borrowers

Borrower	Agent Bank	Loan Amount	Purpose of Loan	Comments/Exceptions Noted
KONJUH	Tuzlanska Banka, Tuzla	\$1,645,062	Replacement of a roof, working capital and purchase of equipment for furniture production lines. Expected to generate 460 jobs.	The roof was replaced and all of the working capital has been used. Some of the equipment has been purchased. The borrower has reached 64% of its business plan targets. KONJUH is working with Business Consulting on a privatization plan.
ALUMINA	Komercijalna Banka, Tuzla	250,049	Workshop expansion, purchase of equipment and working capital for raw materials. Expected to generate 50 jobs.	Workshop construction just started and a truck and equipment have been purchased. The borrower has not met targets but expects higher production upon completion of the workshop.
FABRIKA CEMENTA	Komercijalna Banka, Tuzla	987,492	Restoration of manufacturing equipment, purchase of spare parts for equipment maintenance and working capital for raw materials. Expected to generate 137 jobs.	Machinery was undergoing significant restoration temporarily halting production. Sales have been strong during the construction season.

Borrower	Agent Bank	Loan Amount	Purpose of Loan	Comments/Exceptions Noted
FERING	Tuzlanska Banka, Tuzla	987,492	Working capital for raw materials and salaries and purchase of equipment. Expected to generate 150 jobs.	Production is underway and borrower claims to be meeting business plan targets. Borrower needs to resolve an environmental production problem which will require additional funds.
ARHITEKT	Tuzlanska Banka, Tuzla	\$789,630	Purchase of manufacturing equipment, construction of a building and working capital. Expected to generate 150 jobs.	All loan proceeds have been used. Has met business plan targets. Borrower has some exports and is exploring other opportunities.

<p>Unaudited Bosnian Reconstruction Finance Facility Fund Accountability Statement <i>as of June 30, 1997</i></p>

The amounts that USAID/Bosnia-Herzegovina budgeted and obligated for the five-year Bosnian Reconstruction Finance Facility program are shown below; however, the program has a three-year budget. The amount obligated for the On-Lending Program represents the balance-of-payments support to Bosnia-Herzegovina. Of the \$59.5 million transferred to Bosnia-Herzegovina, \$42.7 million¹⁰ has been transferred as loans to borrowers. The disbursed implementation costs are amounts paid by USAID.

	3 Year Program Budget	Amount Obligated	Amount Disbursed
On-Lending	\$256,000,000	\$59,540,000	\$59,540,000
Implementation			
Contractors	17,500,000	14,986,097	8,124,473
Audit, Program and Evaluation	1,500,000	896,119 ¹¹	582,002 ¹⁰
Environmental Monitoring	600,000	0	0
USAID Program Management	0	290,990	183,542
Contingencies	2,400,000	0	0
Totals	<u>\$278,000,000</u>	<u>\$75,713,206</u>	<u>\$68,430,017</u>

¹⁰ Loans were disbursed in Deutsche Marks, the medium of exchange in Bosnia-Herzegovina. A total of 65,448,231 Deutsche Marks were disbursed and converted at the exchange rates of the three tranches using the first-in, first-out approach.

¹¹ The total amounts obligated (\$1,792,238) and disbursed (\$1,164,005) were equally divided between the Bosnian Reconstruction Finance Facility and the Municipal Infrastructure and Services programs.

**Summary of Audit Finding
Reported to USAID/Bosnia-Herzegovina**

Findin g No. And Date Issued	Summary of Audit Finding	Management Decision/Action
BRFF-8 7/30/9 7	USAID/Bosnia-Herzegovina's reports do not contain current information on the number of expected jobs generated by the loan program. As a result, users of USAID/Bosnia-Herzegovina's reports do not have current employment information which distorts the program's impact.	USAID/Bosnia-Herzegovina took corrective action. It directed Business Finance to reconcile the difference, provide a report explaining the difference and provide updated employment information monthly. As a result, USAID/Bosnia-Herzegovina has updated its report using Business Finance's reconciliation and it will compare Business Finance's reports to its own report each month.