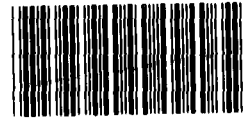


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Statement of
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Subcommittee On Legislation and National Security
of the
House Government Operations Committee
on
AID Operations



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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide the Subcommittee with comments on AID's operations relative to the foreign assistance program. In our testimony today, we are emphasizing the results of certain reviews concerning several AID management practices.

OVERVIEW OF FOREIGN ASSISTANCE

The Foreign Assistance Act stressed these major development assistance goals:

- ° assisting the governments and people in developing nations to satisfy basic human needs,
- ° improving individual standards of living and achieving economic growth with equity on a self-sustaining basis,
- ° encouraging the development processes in which individual civil and economic rights are respected and enhanced, and
- ° serving as an instrument of U.S. foreign policy by providing financial and technical resources to developing countries.

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U.S. efforts to achieve these goals have met with some success, but in our view, improvements can be made in program planning and project implementation.

We see indications that the AID project implementation process has slowed down. More projects are being started than are being completed. Also, the age of obligated, but undisbursed, funds--or the pipeline--has increased from about \$1.5 billion to about \$5.0 billion over the last 6 years. In a recent review of AID's program commitment to Egypt, we found that of the more than \$357 million committed to a selected group of projects during the past 6 years, only 17.5 percent has been spent. A further analysis showed that, at the end of 1980, about 44 percent of the funds obligated in 1975 and 1976 and only 21 percent of those obligated in 1977 had been disbursed. Graphically, only about 6 percent of the monies obligated for the selected projects in that country in 1979 and none of the 1980 obligations were disbursed as of September 30, 1980. We believe such information is symptomatic of AID management problems which could cause shortfalls in actual project financing and/or delivery of previously committed development assistance. Over the past 3 years, we have reported on some factors and problems, which have contributed to slow project implementation and the increasing pipeline. With your permission, Mr. Chairman, we will place in the record brief summaries of a number of studies we undertook during the past 3 years on segments of AID operations.

Implementation begins when agreements--either loans or grants--are officially signed by U.S.- and recipient-government representatives. U.S. funds are then obligated to finance the actions needed to deliver the development assistance. Often, 3 years or more elapse and extensive Agency resources are used

while AID--with additional major assistance from U.S. contractors and some lesser assistance from the potential recipient governments--designs and plans the projects. Once the project agreements are signed and U.S. monies are obligated, the implementation responsibility primarily shifts to the host government.

I will now comment on some difficulties we have reported.

OVEREMPHASIS ON PLANNING AND DESIGNING

The significant pipeline buildup occurs partially because of AID's tendency to overemphasize those activities which deal with planning, designing, and starting new projects which lessens emphasis on delivering assistance to recipient countries. We have discussed this overemphasis on planning, designing, and obligation of funds in many reports; however, AID has been slow in shifting attention to project implementation.

For example, our 1979 report on development assistance in West Africa noted that AID's project design process is complex and time-consuming. In some cases, AID spent 2 to 4 years in project design, often with less-than-intended results--the project proposals were not necessarily either well-designed or easily implemented. In that report, we also recommended that the Agency's geographic bureau in Washington as well as the missions in West Africa place more emphasis on implementation. We said that the Agency can improve management by assuring that more attention is given to major project implementation requirements --such as planning, contracting, monitoring, and evaluating.

In a 1980 report, we noted that although AID knew of major project implementation problems, the Agency had not concentrated on appropriate solutions. AID's own studies have shown that

because of the relative emphasis on obligating funds, project implementation has tended to suffer. One report described situations where the absence of, or incomplete, procurement plans had led to poor procurement practices which seriously delayed project implementation. Too often, the contractor was ready to start, but because vehicles and equipment were not ordered in time or the lead times were unrealistic, project implementation had to wait. AID agreed with our recommendations to reemphasize the need for adequate implementation planning and to improve the training of AID staff members who plan and implement projects. We understand that AID is currently examining ways to improve in this area.

HOST-GOVERNMENT SUPPORT

We have also observed another major factor which tends to slow project implementation and, thus, increase the overall AID pipeline. Often, recipient governments lack management and technical resources to plan and provide support for AID-sponsored projects. In 1979, we determined that long project delays in the Sahel Development Program in West Africa could be traced to inadequate project support from host-country governments. On a broader scale, we also reported that the absence of effective financial management in developing countries is a major obstacle to optimum use of internal and external resources available for development in the Third World. In 1978, an AID contractor reported that many host countries lacked the capability to support externally initiated development projects. This year, we reported that many projects in one country were delayed because the host government failed to provide either:

- full-time co-directors,
- adequate staff support, or
- sufficient logistical assistance.

These historical problems continue to slow AID project implementation.

CONTRACTING WEAKNESSES

Much of AID's project implementation in developing countries is carried out under contracts and grants with universities, non-profit institutions, private voluntary organizations, experts, consultants, and commercial contractors. We have identified many contracting weaknesses which hamper project implementation and, thus, the delivery of assistance. For example, in 1978, we reported that inappropriate or questionable practices during contract negotiations and awards were sometimes occurring. We found that AID technical personnel were too involved in the procurement process. AID also uses non-competitive contracting exceptions extensively. One-third of the contracts we reviewed were awarded non-competitively under the predominant capability exception, largely based on justifications prepared by technical offices. These exceptions were seldom challenged by officials at Agency review levels.

In March 1981, we reported that contract delays in Egypt occurred because of

- °complicated AID procurement procedures in selecting contractors,
- °the need for host-country project implementing agencies to learn AID procurement procedures, and
- °the difficulty in recruiting U.S. contractors to conduct business there.

Also, AID has not accumulated certain information that would be useful in managing procurement activities. In 1979, our report on AID contracting for studies, research, and evaluations pointed out that AID needed better information on the amount it spends on such activities. Also, in 1980, we stated that AID's reporting system does not identify the total amount and the types of commodities purchased for financed projects. As a result, AID did not know how much it spent for project commodities. Further, AID was unable to obtain the benefits associated with standard items and the consolidation and advance-purchase of selected common-use commodities. Progress has been slow in this area because AID has said that procurement is managed separately for each project and believes that information on these activities is not needed. Specific efforts have been directed to correct some of these problems, but we believe further attention is warranted.

MONITORING

As we pointed out earlier, it is AID's policy that recipient countries undertake the implementation of development assistance projects to the maximum extent possible. Greater reliance on host-government implementation of AID-financed projects does not, however, reduce the Agency's responsibility to assure the efficient use of AID resources. Therefore, AID project managers retain the responsibility to monitor the implementation of these projects to assure that needed goods and services are delivered efficiently and on time. Various audits of AID activities conducted in recent years, however, have disclosed weaknesses in monitoring projects and in keeping abreast of the multitude of contractors and host-government agencies. I will cite a few examples.

In our March 1979 report on U.S. development assistance programs in the Sahel, we noted inadequate monitoring of projects. We recommended that AID require its bureaus and missions to improve project monitoring. We also noted (in another 1979 report) that inadequate monitoring of study contracts had led to unnecessary expenditures and the purchase of commodities which could not be used.

In July 1980, we reported again that monitoring of project implementation continued to be a problem. The problems included lack of host-country contract audits, inadequate AID post-audits of commodity transactions, and limited AID reviews of contractor vouchers prior to payment.

Our June 1981 report noted that, in some cases, disaster assistance projects were not adequately monitored with the result that recovery in certain countries suffering from disasters was hampered. Another report (in April 1981) described examples of inadequate monitoring of AID's health-care projects; and another report, in March 1981, cited shortcomings in monitoring agricultural projects in Egypt.

A cause for poor monitoring has been the long delays in providing guidance to responsible project officers. Although monitoring guidelines have been under consideration since 1975, the Agency has not yet issued complete guidelines. AID has agreed that improved monitoring of projects is needed and that improvements could not be achieved without clear and definitive guidelines. As a result, in June 1980, AID issued guidelines for project officers to manage direct AID contracts and grants. Guidelines for monitoring the significant numbers of host-country contracts are being prepared but have not been issued as of today.

We believe improved monitoring of project implementation should be a high AID priority.

STAFFING

AID attributes some of its management concerns to staffing problems both in Washington and overseas. In 1978, we reported on needed changes in AID personnel practices and recommended that the Agency evaluate its position classification and foreign service systems, and bring some discipline to its personnel rotation system. We understand that AID expects to implement a new position classification system soon; however, the Agency continues to have a unique U.S. direct-hire personnel system which includes Senior Executive Service (SES), Presidential Appointee, Chief of Mission, Foreign Service and Foreign Service Reserve, General Schedule, Administratively Determined, and Wage System personnel.

Responding to a 1980 Auditor General report on foreign service assignments and rotation, the Agency agreed to implement many of the recommendations. The Agency, however, resisted correcting the problems of long assignments in Washington for foreign service personnel, and lengthy periods of time that personnel spend on the reassignment complement.

The Agency is reviewing many personnel matters, including (1) the size of mission staffs, (2) the objective criteria for staffing decisions, (3) in-house staff training, (4) the need for technical skills, and (5) the assignment of foreign service personnel to Washington. As part of these efforts to improve personnel operations and efficiency, we believe the Agency should also focus on interagency service agreements, personnel services contracts, and contracts with private firms.

LESSONS LEARNED

In recent years, we have emphasized the need for the Agency to better use the lessons learned during the past 3 decades of designing, programing, and implementing projects in developing countries. We have suggested that AID should increase recipient government involvement in identifying, designing, implementing and evaluating U.S.-supported projects. In this context, we have suggested that AID place greater emphasis on the ability of host countries to carry projects through the implementation phase and to sustain the recurring costs of generated activities when external financing ends.

AID has established an office of evaluation which, for 2 years, has consistently reported design and implementation problems and has identified lessons AID should have learned in managing particular projects. We believe AID's evaluation office can contribute significantly to assessing the impact that U.S. assistance has on the lives of poor people in developing countries and to improving the Agency's way of delivering assistance.

* * * * *

To conclude, we believe a causal link can be drawn between AID's pipeline and the less-than-effective use of development assistance funds. The availability of people is often used for obligating funds and starting projects and not for ensuring the appropriate use of these funds. In this process, however, not enough time remains to (1) establish adequate baseline information to measure development progress and to identify and correct problems; (2) ensure that project implementation, as planned, is

adequately carried out; and (3) perform evaluations to verify development progress and to increase chances of success. Thus, these problems--which are historically not unique throughout the developing countries--continually recur. Consequently, development projects too often result in less-than-effective use of foreign assistance funds.

We believe that some encouraging progress is being made to improve the substance and administration of the foreign assistance program. We believe the managers in AID are aware of the challenges they face. We are continuing our efforts to highlight these challenges.

This completes our statement, Mr. Chairman. We will be pleased to answer any questions.