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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT FOR THE RECORD

BY

INTERNATIONAL DIVISION
U.S. GENERAL ACCOUNTING OFFICE

SUBMITTED TO THE
COMMITTEE ON APPROPRIATIONS

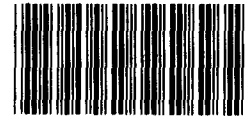
SUBCOMMITTEE ON FOREIGN OPERATIONS

UNITED STATES SENATE

ON

GAO REVIEWS OF

FOREIGN ASSISTANCE PROGRAMS



120700

Mr. Chairman and Members of the Subcommittee:

We are pleased to provide you with a review of our recently completed and ongoing work on U.S. foreign assistance programs both in the development assistance and military assistance areas.

BILATERAL DEVELOPMENT ASSISTANCE

This section provides our observations on assistance management issues, private sector assistance, agricultural development, health and refugee programs, and the Inter-American Foundation. We continue to address those areas where we believe management and administrative improvements can be made.

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Management of assistance

Contracting is a major means used by AID to package and deliver economic assistance. AID-direct and host country contracting in fiscal year 1981 was estimated at \$1.3 billion. Host country contracting, representing about \$1 billion a year, was the subject of our June 1982 report to the AID Administrator. We concluded that AID did not have adequate information on the number and value of host country contracts (1) to keep the Congress informed; (2) to give AID managers, auditors and project officers the information needed for oversight of contract costs and contractor performance; (3) to assist AID in evaluating the success of its host country contracting policy; and (4) to respond to management weaknesses reported by AID's Inspector General and confirmed by us, including the need for more audit coverage and the lack of internal controls for the payment of goods and services.

In response to our conclusions and recommendations for the establishment and maintenance of a data bank, the Agency has taken steps to inventory outstanding host country contracts and systematically report pertinent information on all new contracts of \$100,000 or more. Building on past work, we have begun a survey of AID contracting activities, focusing on AID's direct contracts. Early indications suggest that a number of previously reported deficiencies--for example, in procurement planning, implementation delays and contractor performance--continue

to exist. These weaknesses often lead to extensive contract modifications and amendments which increase contract costs. We are addressing questions such as:

- are procurement plans adequate to allow efficient contracting?
- are statements of work sufficient for contractors to know what to do and for AID to know what to expect from the contractors?
- are contractor and project officer status reports adequate to monitor progress and contractor performance?

In a report to the AID Administrator on January 3, 1983, we reviewed and reported on the Agency's efforts to categorize troubled projects and identify those project funds that should be deobligated. We concluded that criteria, guidance, and procedures for actually identifying, monitoring, and reporting on potential problem projects and deobligations varies among bureaus and may change each year. Inconsistent procedures and reporting raises questions as to the comparability of data from year to year and the nature and extent of appropriate remedial actions. We recommended that the AID Administrator establish more definitive policy guidelines and procedures for all bureaus and missions to use in identifying and reporting potential problem projects and in reviewing whether project funds should be deobligated. AID officials generally agreed with our conclu-

sions and recommendations, but believed that project redesign is the preferred remedial action for problem projects and that deobligation, if considered, requires delicate and/or complex discussions between U.S. and host-country officials.

A report to be issued soon on donor approaches to development assistance compares the approach of the United States with those of five major Western nations. Three management issues selected for comparative analysis among the donors' foreign aid programs include (1) the donor's organizational structure, (2) the donor's provision of different types of aid, and (3) the donor's administrative procedures and financial controls.

While this report will contain no recommendations, it will discuss the implications of applying the foreign aid management approaches used by the other donors into the AID program; in particular, the dilemmas and tradeoffs that would accompany such an action.

Our in-process work also includes a review of commodity import programs. Commodity import programs provide dollar exchange to developing countries experiencing serious balance-of-payments problems. Work on our review is being done in Washington and in five countries overseas, with emphasis on more efficient and economic administration and management of the programs. At about the halfway point in the assignment, we have indications that the procurement planning and delivery of commodities may need to be improved.

Private sector assistance

AID's emphasis on promoting private-sector involvement in development has resulted in the establishment of the Bureau for Private Enterprise to mobilize greater participation of the U.S. private sector in LDC development and to promote and encourage the expansion of local, indigenous private-sector activities. AID's other Bureaus and its overseas missions are also seeking initiatives which would increase private-sector involvement in the development process. While it is too early to pass judgment on these initiatives, we have, over the past year, focused on evaluating established AID programs with a private-sector emphasis.

In May 1982, we issued a report on the relationship between Private Voluntary Agencies (PVOs) and AID, as well as, AID's management of the PVO program. We found that the PVO's financial dependency on AID was not healthy because the PVOs could lose their independence and recommended that PVO contributions to grant-funded programs should be increased with funding priority given to PVOs which match AID support.

We issued a report on February 14, 1983, on our review of the U.S. response to the increased incidence of balance-of-payments problems in developing countries. We reviewed AID's program in three Latin American countries which are experiencing different stages of balance-of-payments problems.

We found that, while balance-of-payments problems can have an adverse effect on development assistance projects, AID finds it difficult to reorient its development assistance program to the evolving balance-of-payments problems. It also appears some AID missions may hesitate to propose action when they identify a serious deterioration in a country's balance-of-payments situation because of the difficulties the missions perceive in adjusting a development assistance program and justifying balance-of-payments tools such as the Economic Support Fund. We concluded that AID program planners and missions may lack guidance as to which countries and at what point the United States will consider assistance in deteriorating balance-of-payments situations. Accordingly, we recommended that the Administrator, AID:

--direct AID missions to develop an action plan when they determine that a country's balance-of payments situation has affected AID's ongoing development assistance effort, for AID to consider, taking into account all the factors which restrict the Agency's role. The plan could include an assessment of whether AID's ongoing projects continue to be appropriate, how they relate to other donor activities, whether the country is following appropriate economic policies, and an estimate of the country's resource needs.

We recently issued a report on our review of AID's efforts to promote private-sector development in Egypt. AID has authorized close to \$400 million for Egyptian private-sector expansion since 1976. With the United States' current emphasis on encouraging private-sector participation in the development process, the experiences gained from the Egyptian program could be useful to AID as it plans and programs future projects in the private-sector area. These lessons learned included the need to channel financial assistance for private-sector enterprises through intermediary credit institutions, to use existing organizations to implement projects as an alternative to the more time consuming process of creating new institutions, and to identify in project agreements the participating parties' monitoring and implementing responsibilities.

Agricultural development

Deforestation is one of the critical problems facing developing countries in their efforts to solve agricultural needs and environmental concerns. In September 1982, our report and testimony for a joint hearing of the House Foreign Affairs and Science and Technology Committees pointed out that developing countries were not making the necessary financial and political commitments to (1) deter the environmental problems brought on by the destruction of their forests or (2) sustain the assistance provided by AID and multilateral development banks and other international organizations. In addition, assistance

recipients were finding it difficult to implement and manage forestry projects.

We recommended that AID support forestry-related activities that countries are capable of carrying out. In cases where host government political and financial commitment is weak or non-existent, we suggested that AID work to engender more positive commitment to deforestation problems. We recommended that AID adjust projects to developing country capabilities. This will necessitate a willingness on the part of AID to plan fewer activities and accept the need for possible successive projects to help satisfy the longer-term forestry assistance requirements of developing countries. We also recommended that AID and other donors focus increased attention on strategies to slow the destruction of forests caused primarily by subsistence farmers.

AID generally agreed with our recommendations, noting the need for longer timeframes to plan, carry out and sustain forestry and related natural resource projects, and recognizing that developing countries should not be saddled with more forestry assistance than they can use. On this score, our report points out that AID should tailor its forestry assistance to what the developing countries can reasonably be expected to implement during the life of the project.

AID's agricultural assistance programs have traditionally emphasized efforts to increase food production in developing

countries. However, food worth billions of dollars is lost annually due to inefficiencies in storage, distribution, and marketing systems. Our June 1982 report on AID's food conservation programs showed that the Agency needs to give greater attention to the problem of postharvest food losses by:

- changing its agricultural policy to recognize food production and food conservation as complementing rather than competing functions;
- requiring the overseas missions to address postharvest problems in their development strategies or agricultural sector assessments;
- providing guidance to its missions in designing loss-reduction projects, including setting goals that are more subject to verification;
- and
- developing a postharvest research strategy, including more specific guidance and criteria for existing university cooperative agreements.

In addition to these recommendations, our report addressed the need for better project management in existing projects. In Senegal, AID contributed \$4.9 million toward the \$11 million cost of 23 government-controlled grain storage facilities. Yet, these facilities largely had been unused and their potential use remains uncertain because of government financial and management problems. In line with our recommendations, AID has changed its

agricultural assistance policy to better recognize the complementary nature of food production and food loss reduction measures.

Another important area of agricultural assistance deals with research. In a February 1982 report to the AID Administrator, we identified ways in which the Agency can exercise better control over the use of its research funds. We identified the need for a research strategy and classification system, the need to place greater attention on research relevance and use, and the need for more agriculturally trained staff members. AID told us they were addressing these needs through a number of mechanisms, including a research task force for defining research and sector councils for reviewing research activities.

In one of our ongoing assignments, we are exploring the seriousness of operation and maintenance problems that affect the sustainability of U.S.-financed irrigation systems in developing countries. Irrigation systems, costing billions of dollars invested directly through AID and indirectly through the multilateral banks, are affected by poor operation and maintenance practices. Operation and maintenance problems grow and become even more complex because of inflationary effects on recurring costs, the magnitude of new projects continually being encouraged by recipients and donors, and the number of non-revenue generating projects being undertaken.

Health and refugee programs

Since the early 1950s the United States has contributed nearly \$1 billion to combat malaria. The World Health Organization recently estimated that 214 million people were infected with malaria at the time of its study. We reported that externally funded malaria control programs in countries with, among other constraints, inadequate national commitment or resources for fighting the disease, do not usually have continued progress. Among the recommendations for better project management was one that AID, in designing malaria-control projects, more fully address the constraints that hamper successful anti-malaria activities in order to prevent the commitment of scarce foreign assistance resources to projects which offer little hope of sustained progress. In response to this report, AID agreed to convene a committee to study the Agency guidelines for malaria control programs. The revised guidelines are expected to include new criteria for anti-malaria program support.

We continued in 1982 to review the U.S. direct assistance to refugee programs as well as Department of State and AID management responsibilities to coordinate the U.S. contributions to refugee activities of various international organizations. Our December 1982 report on U.S. and international programs to assist African refugees contained recommendations directed to State and AID to improve the accountability of U.S. funds provided the U.N. High Commissioner for Refugees (UNHCR) for the

care and protection of refugees. The United States provides one-third of the total UNHCR budget for Africa. In 1981, about \$47.4 million of the U.S. contributions were for unrestricted UNHCR uses--that is, the U.S. funds were not earmarked for use in specific projects, programs, or African countries.

We expressed concern in our report that, due to UNHCR's lack of accountability for unrestricted funds, the State Department was not able to assess the effectiveness of the use in Africa of the large amounts of U.S. contributions. In commenting on the report, UNHCR stated its awareness of needed accountability for donor contributions and cited efforts underway to improve fund control and the flow of project information into periodic performance and financial reports to be available to UNHCR management as well as to donors.

The Inter-American Foundation

In a July 1982 report, we discuss the experiences of the Inter-American Foundation (IAF) in providing aid to Latin America. Because IAF emphasizes support of experimental, innovative projects, dissemination of its experiences, inside and outside of the organization, is a key factor to improving the effectiveness of its own program and providing the maximum benefits possible from its development effort. We found, however, that dissemination efforts have been generally irregular and limited. To its credit, IAF has recognized this and recent improvements have been made.

In our report, we also noted that, although a number of IAF projects reviewed had met their objectives, some were having significant problems doing so. We concluded that, if monitoring efforts were more supportive of grantee efforts, these problems could be overcome. In line with these basic observations and conclusions, we made specific recommendations for improved IAF project and staff performance.

The Foundation agreed with our findings and recommendations, and we have confirmed that measures have been implemented to correct the deficiencies reported.

MILITARY ASSISTANCE

Our work on the U.S. security assistance program continues to focus on specific aspects of the program and also on selected countries. We would like to discuss some results from our more recent, or soon forthcoming, reports.

Financing military sales

In financing Foreign Military Sales (FMS), the United States has shifted from an on-budget grant and low-interest direct loan program to an off-budget high-interest loan program. Our January 1983 report on the "Unrealistic Use Of Loans To Support Foreign Military Sales" pointed out that each year, large FMS loan programs are being provided for countries which may not be able to repay these loans. Some countries are accumulating large debts which are just starting to come due now that

the grace periods for principal repayments are lapsing. Meanwhile, the Guaranty Reserve Fund used to guarantee these off-budget loans, financed through the Federal Financing Bank, is undercapitalized in relation to the risks undertaken. Thus, a future Congress may need to appropriate billions of dollars to cover any shortage of funds.

The need to possibly reschedule billions of dollars of loans will have political, economic, and foreign policy repercussions for the United States as funds required to replenish the Guaranty Reserve Fund are tied to future budgets. We recommended that: FMS financing be put on budget; financing programs be tailored to the countries' ability to repay their loans; and funding levels of the Guaranty Reserve Fund be commensurate with the size and nature of its contingent liability.

The financing pipeline has also been further extended for a few countries--Egypt, Israel and, more recently, Turkey--through the administration's use of "cash flow" method of financing. This method allows the countries to set aside only the amount of money needed to meet the current year's cash requirement for multi-year production contracts rather than the full amount. This has allowed the countries to stretch buying power and place more orders than the available credit guarantees authorized in a given year. It appears to us that this implies a commitment for the Congress to approve large financing programs in future years to ensure that signed contracts are honored.

As we reported in January 1982, the full ramifications and implications of the cash flow authorizations for Egypt and Israel were not presented to the appropriate committees and thus may not have been subject to close congressional scrutiny.

Security assistance for Israel

As has been the case in recent years, the largest recipient country for U.S. assistance is Israel and we have in process a report on U.S. assistance for the defense of Israel. Considering the significance of this program, we would like to make a few comments about the results of our review.

As mentioned earlier, certain countries are likely to have difficulties in repaying their defense loans under current conditions. Israel is among these countries since much of its FMS assistance has been provided under long term loans for which principal repayments are just now starting to come due. For Israel to be able to maintain and pay for its defense needs, it most likely will continue to ask the United States to take more liberal financing steps to make this possible.

As an example of this evolving situation, it is important to note that the cash payments that Israel receives under the Economic Support Fund (ESF) are now less than the repayments it is obligated to make for principal and interest on its FMS debts. In other words, there is now a net flow of cash to the United States rather than Israel within the security assistance programs. Furthermore, it is likely that the rate of this flow

will increase during the period of the 1980s. In view of this circumstance, the Senate last year considered linking these amounts to ensure that ESF would be sufficient to cover the payments but legislation was not passed. If Congress were to approve such linkages, it could set a precedent for other countries who are incurring debt problems to ask for the same treatment. If this occurs, U.S. program costs will increase significantly.

Israel has asked the United States for, and has already received to some degree assistance under liberalized methods. The precedents being set by those liberalized methods agreed to could also increase program costs if other recipient countries start asking for similar concessions. For example, the cash flow financing method, which we discussed earlier, was initiated for Israel and now other countries are involved.

Appropriateness of military equipment

The question of how the security assistance programs are implemented is also of continuing concern to us because of the importance of getting the most of each dollar spent.

Our June 1, 1982 report on "U.S. Security Assistance to the Republic of Korea" highlights a concern over the use of a substantial part of the program for sales of F-16 aircraft. The United States prefers that the South Koreans build up their ground force capabilities. However, as is the case for many recipients, they like to obtain more sophisticated aircraft.

These quickly use up the available funding to the detriment of such things as ground force needs. We recommended that basic program goals might be better met through developing a more definitive and mutually acceptable assistance plan.

A similar case is from our February 1982 report on "Forging a New Defense Relationship With Egypt." The decision to provide the Egyptians with sophisticated aircraft was more political than military. While Egypt's needs were so great that any new equipment was welcome, the security assistance provided by the United States was used to provide F-4s in 1979. Egypt wanted these planes after seeing Israel successfully use them in the 1973 war. However, F-4s are difficult to maintain and require sophisticated supply and maintenance capabilities. As expected, Egypt has had difficulty maintaining acceptable operational rates.

Leasing DOD property to
foreign governments

Finally we would like to briefly comment on the leasing of military equipment to foreign countries. In a 1981 report, we recommended that rent-free or nominal-cost leases be prohibited and procedures be established to require monitoring of lessee compliance with lease terms and payment schedules. In November 1982, we issued a follow up report discussing whether the leases complied with provisions of chapter 6 of the Arms Export Control

Act. We found that financial management and monitoring of leased property is still inadequate and congressional notification requirements are not being fully met.